



# ROCOCO LOUNGE

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## LION/JENGA TOPCO LIMITED

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ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE 52 WEEK PERIOD ENDED 21 APRIL 2019  
(LION/JENGA TOPCO IS THE TRADING GROUP OF LOUNGERS PLC)

Jersey company number 122778



**Strategic Report,  
Report of the Directors and  
Financial Statements**

**For the 52 week period ended 21 April 2019**

**for**

**Lion/Jenga Topco Limited**

**(Lion/Jenga Topco is the trading group of Loungers plc)**

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LION/JENGA TOPCO LIMITED

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**LION/JENGA TOPCO LIMITED**

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**COMPANY INFORMATION**

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<b>Directors</b>	A M Reilley N C E Collins G Grant
<b>Registered number</b>	122778
<b>Registered office</b>	Aztec Group House 11-15 Seaton Place St Helier Jersey JE4 0QH
<b>Independent auditors</b>	PricewaterhouseCoopers LLP 2 Glass Wharf Bristol BS2 0FR
<b>Bankers</b>	Santander Corporate Banking 1st Floor Alliance House 12 Baldwin Street Bristol BS1 1SD

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## LION/JENGA TOPCO LIMITED

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### STRATEGIC REPORT

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#### Lion/Jenga Topco Limited

As at 21 April 2019, the Loungers Group (the “Group”) consisted of Lion/Jenga Topco Limited (“Topco”) and its direct subsidiaries Lion/Jenga Midco Limited (“Midco”), Lion/Jenga Bidco Limited (“Bidco”), Loungers Holdings Limited and Loungers UK Limited, the main operating subsidiary of the Group. Topco, Midco and Bidco were incorporated in December 2016 to facilitate the acquisition of a majority stake in Loungers Holdings Limited by funds managed by Lion Capital LLP. Topco is the parent company for the Group as at 21 April 2019.

Loungers plc was newly incorporated to effect the IPO of the Group (the “IPO”). With effect from the admission to trading on AIM of its ordinary shares on 29 April 2019 Loungers plc became the parent company of the Group.

As a result of the IPO completing shortly after the Group’s 21 April 2019 financial year end (“FY19”) the Directors are required to present the consolidated financial statements of Topco Limited to the shareholders of Loungers plc. Had the IPO completed prior to the FY19 year end then the Directors would have presented the consolidated financial statements of Loungers plc as if Loungers plc had owned the Group throughout FY19.

The consolidated financial statements of Topco reflect the operating financial performance of the Group. Accordingly, the reported adjusted EBITDA for FY19 of £20.6m is consistent with the adjusted EBITDA that Loungers plc would have reported had the IPO completed prior to the FY19 year end.

However, the consolidated statement of financial position as at 21 April 2019 reflects a typical private equity capital structure and differs significantly in terms of capital structure and financing costs to that in existence post the IPO. Reported borrowings at the year-end of £172.1m are a combination of third-party bank debt, shareholder loan notes and preference shares. The Group’s IPO process included a capital re-organisation which saw Topco’s preference shares swapped for ordinary shares in Loungers plc, the shareholder loan notes repaid and the third-party bank debt repaid and replaced with a new £32.5m term facility and £10m revolving credit facility (undrawn at IPO).

Loungers plc will report half year financial results for the 24 weeks to 6 October 2019 in its own name.

#### Background and Highlights

- **August 2002:** Alex Reilley, Jake Bishop and Dave Reid opened the first Lounge in North Street, Bristol
- **September 2010:** First Cosy Club opened in Corporation Street, Taunton
- **April 2012:** Piper Private Equity acquired a minority stake in Loungers and Dave Reid left the Group
- **December 2016:** Lion Capital acquired a majority stake in the Group and Piper Private Equity exited their investment in Loungers. Alex Reilley became Chairman
- **April 2017:** The Group achieved annual sales in excess of £100 million
- **December 2017:** 20<sup>th</sup> Cosy Club opened in Leeds
- **April 2018:** 100<sup>th</sup> Lounge opened (Sorrento Lounge in Moseley, Birmingham)
- **April 2019:** IPO of Loungers plc
- **June 2019:** 150<sup>th</sup> site opened (Fosso Lounge in Wells Somerset)

#### What We Do

##### **Market overview**

Loungers operates through its two complimentary brands – Lounge and Cosy Club – in the UK hospitality sector. Whilst it competes with coffee shops, pubs, restaurants and local independent operators, 72 per cent of Lounge customers see it as a unique proposition, rather than categorise it solely as a restaurant, pub or coffee shop. Independent analysis undertaken for the Group in 2018 concluded that the Group has no single competitor and that it can co-exist with all other operators. The Group competes with every element of the trade of a pub chain, coffee shop, or restaurant, whereas each of those operators only competes for a part of Loungers’ sales. It is this level of differentiation that has enabled the Group to deliver significant and consistent like for like (“L4L”) sales out-performance, and in turn, it is this sales out-performance and the growing scale of the Company that have provided the scope to better withstand the cost pressures that afflict the broader hospitality sector.

STRATEGIC REPORT

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## Lounges

A Lounge is a neighbourhood café/bar combining elements of a restaurant, the British pub and coffee shop culture. As at the FY19 year end, there were 122 Lounges nationwide. Lounges are principally located in secondary suburban high streets and small town centres. The sites are characterised by informal, unique interiors with an emphasis on a warm, comfortable atmosphere, often described as a “home from home”. The Lounge estate has a consistent look and feel but each Lounge is individually named and tailored to the site and local area, and the design of each Lounge is continually evolving, meaning no two sites are the same.

The Lounge brand aims to have hospitality and familiarity at its core, driven by an independent culture and focus on the local community. Each site has its own social media presence and staff are encouraged to engage with the local community through events, charity and community groups. Eighty per cent of customers live locally, underlining each Lounge’s local neighbourhood credentials.

Every Lounge offers all-day dining, with the same menu served from 9am to 10pm, every day. Sales are well diversified across all day parts and all days of the week as well as across all food types. In addition to helping to drive repeat custom and maximise the trading efficiency of the sites, the all-day offering gives the Group experience in managing operational complexity, particularly in the kitchens, which the Directors believe is a meaningful barrier to entry for other operators.

## Cosy Club

Cosy Clubs are more formal bars/restaurants offering reservations and table service but share many similarities with the Lounges in terms of their broad, all-day offering and their focus on hospitality and culture. Cosy Clubs are typically located in city centres and large market towns. Interiors tend to be larger and more theatrical than for a Lounge, and heritage buildings or first-floor spaces are often employed to create a sense of occasion. The Cosy Club brand enables the Group to operate in areas where there is a more occasion-led demographic and offers an opportunity for greater coverage within cities. Sales, EBITDA and capital expenditure are typically higher for a Cosy Club than for a Lounge. As at the FY19 year end, there were 24 Cosy Clubs nationwide.

Whilst during the daytime, customers use Cosy Clubs much like they use Lounges (for instance, for coffee or a quick lunch), in the evenings they are used more formally for drinks and dinner and frequently host larger tables celebrating a special occasion.

## Chief Executive’s Statement

### Introduction

The 52 weeks to 21 April 2019 were another year of significant development for the Group, with highlights including:

- Sales growth of 26.4% to £153.0m (2018: £121.1m)
- Like for like sales growth of 6.9% (2018: 6.0%)
- Adjusted EBITDA growth of 23.7% to £20.6m (2018: £16.6m)
- 25 site openings to take the Group to 146 sites at year end, comprising 122 Lounges and 24 Cosy Clubs (2018: 121 sites comprising 100 Lounges and 21 Cosy Clubs).
- Continued investment in and development of the Group’s infrastructure to provide the platform for future growth.

The continuing and successful implementation of the Group’s strategy, as exemplified by the FY19 highlights above, provided the platform for the Group’s successful IPO just after the year end. The IPO of the business is testament to the quality of the Loungers’ business, its level of differentiation, the loyalty of our customer base and the dedication of all our team members.

### Brand development

Critical to delivering the sustained like for like sales growth in the mature estate has been our focus on evolving and developing the Lounge and Cosy Club brands and their customer proposition. Neither brand is wedded to a particular cuisine and this year has seen continued evolution and innovation in our broad all-day menus. The business has had a strong reputation for vegetarian, vegan and gluten free dining since inception and we continue to build on these foundations to respond to changing consumer dynamics. The roll-out of the “Beyond Meat” plant based vegan burger during the year, initially trialed as a special but now a core menu item, is an example of our continual evolution.

A current focus is on our drinks ranges and we see significant opportunity to refresh and enhance our drinks offer in the coming months. Coffee has been another area of focus, with emphasis on training, equipment and consistency as we seek to stay ahead of other national brands.

STRATEGIC REPORT

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We commenced our kitchen re-set programme during the year and to date have completed work at 47 sites. The objective of the re-set is to improve the efficiency of our kitchens and the working environment of our back of house teams. The relatively modest capital investment at each site addresses kitchen lay-out, additional equipment and the deployment of kitchen display screens. The latter element of the investment is providing invaluable data in terms of ticket times, efficiency and guest experience.

Our focus on the look and feel of our sites has been maintained, in particular on ensuring each site is unique. Particular attention has been placed on our furniture styles, to allow us to maximise food covers whilst not impacting wet-led bar trade in the evenings, and on our external areas. During the year we undertook eight “splash and dash” refurbishments at a total cost of £0.9m (2018: eight at a cost of £0.8m).

#### **Roll-Out**

Core to our growth strategy is the roll-out of the Group’s two brands. During FY19 we opened a further 25 sites, 22 Lounges and three Cosy Clubs (2018: 22 sites). In addition, we relocated one of our early Lounges – Ocho Lounge in Penarth, Wales – to a new site, making a total of 26 completed new sites in the year. The total investment in new site openings during the course of the year, net of landlord contributions, was £18.5m (2018: £14.8m).

Our new site openings have covered a broad geography across England and Wales, albeit with a slight emphasis on the North East Midlands, in line with our expansion strategy. The performance of our new sites has been in line with expectations.

The Group’s highly refined rollout model includes a dedicated property function which supports the senior management with site selection, evaluation and contract negotiation. The Group has four dedicated in-house build-teams which manage the entire fit out process for each new site. The familiarity, efficiency, cost-effectiveness and reliability of these in-house teams have been an important factor in the successful acceleration of the rollout in recent years, and the ongoing ability of the Group to manage circa 25 openings per year.

#### **Property and pipeline**

As we noted at the time of the IPO the roll-out strategy is dependent upon our ability to identify and secure suitable sites. Whilst the well-documented travails of the high street are undoubtedly throwing up opportunities it is equally true that many of the regional high streets we have identified remain very well supported and consequently any sites that become available are relatively highly valued. A pillar of the Group’s success to date has been a refusal to overpay for new sites, reflected in our rent to revenue ratio of 5.2% (2018: 5.2%). This rental discipline remains a core focus.

As at the date of this report the Group has opened eight new sites since the year end, comprising six Lounges and two Cosy Clubs, and is on-site on a further four sites. The Group expects to open ten new sites in its first half (24 weeks ending 6 October 2019) and is on track to deliver 25 new site openings in the full year. The pipeline remains strong.

#### **People**

The success of the Group is in large part due to the commitment of our people. We believe a key differentiator of Loungers is our desire and ability to deliver genuine hospitality to the communities in which we operate. I would like to thank our teams for the great hospitality they provide. As the business has grown, maintaining the unique, independent culture inherent in the business has consistently been one of our top priorities and this will always be the case.

A key benefit of our IPO has been the opportunity it provides to broaden share ownership throughout the Group. On IPO we were delighted to issue shares with a value of £1,000 to almost 600 team members. It is very much the Board’s desire that this broader share ownership is built upon in the coming years.

We have recently held our seventh Loungefest, our one-day festival which was attended and very much enjoyed by some 2,300 members of the Loungers family. It is a truly amazing sight to see our teams, resplendent in their fancy dress, come together from all over the country, and to have the opportunity to thank them for their hard work and commitment over the year.

#### **Systems and Infrastructure**

We have continued to develop and enhance our infrastructure to ensure we are capable both of delivering our roll-out and extracting the benefits that come with increased scale. The past year has seen particular investment in our people, IT and property teams through senior hires. We have implemented new property maintenance software and we continue to work closely with our EPOS providers to enhance our systems and the way in which our teams use them. In addition, we commenced the implementation of new labour scheduling and HR software to deliver a seamless system from recruitment through to payroll, this project was successfully completed post year end.



## Key Strengths

The Directors believe that the Group has the following key strengths and competitive advantages:

- **Broad, nationwide demographic appeal**

We offer something for everyone regardless of age, demographic or gender and operates successfully in a diverse range of site types and locations across England and Wales.

- **Value for money all-day offer**

We are the only growing all-day operator of scale in the UK with a strong reputation for value for money which offers proven resilience in a tighter and more competitive consumer spending environment. The strength of our all-day trade and repeat custom enables us to trade successfully in smaller, secondary locations which typically have lower rents and less competition.

- **Two distinct but complementary brands**

Our dual brand approach, with Lounges and Cosy Clubs, allows us to maximise our geographic and demographic reach. We can open Lounges in a broad range of smaller secondary locations in suburban high streets and market towns, as well as opening Cosy Clubs in larger market towns and city centres.

- **Resilient and consistent outperformance, returns and economics**

Like-for-like sales have consistently and significantly outperformed the Coffey Peach Business Tracker which is seen as the benchmark for the UK hospitality sector. This like-for-like sales outperformance to date has been primarily driven by volume, rather than price. Our sites have delivered consistently strong returns and site economics across vintages and locations.

- **Clear, proven growth potential**

Independent analysis has identified the potential for more than 400 Lounges and more than 100 Cosy Clubs in England and Wales. This is supported by a consistent track record of successful openings and a strong pipeline of sites.

- **Strong pipeline of new sites and track record of successful openings**

We opened 20, 22 and 25 sites in FY17, FY18 and FY19 respectively. As at the date of this report, the Group has opened eight new sites in the current financial year, comprising six Lounges and two Cosy Clubs and is on-site on a further four sites.

- **Well invested central infrastructure to support growth**

We have invested significantly over the past three years to build an operational and head office structure capable of supporting our growth plans, in addition to having a well-developed roadmap for continued investment.

- **Experienced management team**

The Group's senior management team combines entrepreneurial spirit with significant sector experience and has a track record of meeting openings, sales and profitability targets. Two of the original founders, Alex Reilley and Jake Bishop, remain active in the Group while myself and CFO Gregor Grant each have over 15 years of experience within the hospitality industry.

## Current Trading and Outlook

The new financial year has started well and the Group continues to out-perform the wider hospitality market. Eight new sites have opened in the current financial year and the Group remains on track to deliver its target of 25 new openings in the full year.

N C E Collins  
Chief Executive Officer  
27 August 2019

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## LION/JENGA TOPCO LIMITED

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### STRATEGIC REPORT

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#### Financial Review

##### Financial position and performance

The financial results for FY19 reflect another year of significant sales and adjusted EBITDA growth for the Group, with growth of 26.4% and 23.7% respectively.

Sales growth from new site openings was underpinned by strong like for like sales growth of 6.9% in our mature sites (2018: 6.0%). Mature sites are defined as sites that have been trading for 18 months.

A key measure of Group performance is adjusted EBITDA. Adjusted EBITDA is calculated as follows:

	<b>FY19</b>	<b>FY18</b>
	<b>£'000</b>	<b>£'000</b>
Operating profit	9,797	6,996
Exceptional items	462	542
Share-based payment	(87)	533
Site pre-opening costs	2,251	2,001
Depreciation	8,147	6,567
Loss on disposal of fixed assets	12	–
<b>Adjusted EBITDA</b>	<b>20,582</b>	<b>16,639</b>
<b>Adjusted EBITDA margin %</b>	<b>13.5%</b>	<b>13.7%</b>

Against the well-documented cost base challenges of the sector in which the Group operates (not least the National Living Wage increase of 4.4% in April 2018) the Group has worked hard to drive cost efficiency without negatively impacting the quality of our product, our value for money credentials, or the guest experience. These efforts have enabled the Group to broadly maintain its adjusted EBITDA margin for the year at 13.5% (2018: 13.7%).

Exceptional items of £0.5m (2018: £0.5m) wholly relate to costs incurred in the planning and preparation for the IPO. Additional costs were incurred by Loungers plc in FY20. The share-based payment (credit)/charge relates to a cash settled incentive scheme, the liability at year end was based upon the post year pay-out. Site pre-opening costs are essentially property and payroll costs incurred prior to a new site opening.

Our statutory operating profit margin improved from 6.4% in FY19 (2018: 5.8%). The improvement was largely a result of the share-based payment charge in FY18 reversing to a small credit in FY19. Excluding the impact of this the operating profit margin improved from 6.2% to 6.3%.

The tax charge for the year of £0.8m (2018: £0.6m) resulted from the dis-allowance of the preference share dividend charge included in financing costs in the tax computation.

##### Finance costs and net debt

The reported finance costs of £14.8m (2018: £13.6m) reflect the pre-IPO capital structure of the Group under private equity ownership. This finance charge comprised:

	<b>£m</b>
Bank interest	4.3
Loan stock interest	2.1
Preference share dividends	8.4
<b>Total</b>	<b>14.8</b>

As part of the IPO process, a share for share exchange saw the preference shares and accrued dividends in Topco reclassified as ordinary shares in Loungers plc. Net proceeds of £56.4m raised from the IPO and a new term loan facility of £32.5m were utilised to repay outstanding loan stock (£17.9m) and bank debt (£71.0m).

Accordingly, a pro-forma balance sheet of Loungers plc as at 21 April 2019, prepared on the basis that Admission to trading to AIM occurred on 21 April and not 29 April 2019, would have net debt of £26.7m.

The facilities entered into at the time of the IPO provide for a term loan of £32.5m and revolving credit of £10.0m. The term loan is a five-year non-amortising facility with a margin of 2% above LIBOR. A three-year interest rate swap has been entered into that fixes LIBOR on this facility at 0.7%.

STRATEGIC REPORT

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### Cash flow

Cash generated from operations increased 13.5% to £22.4m (2018: £19.8m) and represented 109% of adjusted EBITDA (2018: 119%). The reduction in the cash conversion from FY18 largely arose from the timing of the payment of the monthly payroll taxes at the year end.

The Group's cash conversion continues to benefit from the negative working capital generated by the roll-out programme and strong underlying sales growth. During FY19 cash generated from operations covered 99% of our capital expenditure (2018: 106%).

During FY19 a net drawdown of £4.0m was made under the Group's facilities (2018: £4.7m) and net bank interest of £4.1m was paid (2018: £4.8m).

### Dividend Policy

As disclosed at the time of the IPO, in the short term, Board intends to retain the Group's earnings for re-investment in the roll-out of new Lounge and Cosy Club sites. It is the Board's ultimate intention to pursue a progressive dividend policy, subject to the need to retain sufficient earnings for the future growth of the Group.

### IFRS16

IFRS16 "Leases" establishes principles for the recognition, measurement, presentation and disclosure of leases. IFRS16 is effective for accounting periods starting on or after 1 January 2019. The Group has taken the decision not to adopt this standard early. The new standard will be applied in the year ending 19 April 2020, adopting the fully retrospective method. The impact on the statement of financial position at 21 April 2019 and on the consolidated statement of comprehensive income in the 52 week period to 21 April 2019 is disclosed in note 2.22 to the consolidated financial statements.

### Key Performance Indicators ("KPI's")

The KPI's, both financial and non-financial, that the Board reviews on a regular basis in order to measure the progress of the Group are as follows:

	FY19	FY18
New site openings (net)	25	22
Capital expenditure	£23.2m	£18.6m
Like for like sales growth	6.9%	6.0%
Total sales growth	26.4%	31.9%
Adjusted EBITDA margin	13.5%	13.7%

### Going concern

In adopting the going concern basis for preparing the financial statements, the Board has considered the business activities as set out within the Strategic Report along with the principal risks and uncertainties of the Group. Based on its current financial projections to 1 November 2020 and having considered the facilities available, the Board is confident that the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board consider it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

### Principal risk and uncertainties

The Directors consider the following to be the principal risks faced by the Group:

#### **Economic environment and consumer confidence**

The Group derives all of its profits from the United Kingdom and is therefore sensitive to fluctuations in the UK economy. The Group's performance depends to a certain extent on a number of factors outside of the control of the Group which impact on consumer sentiment and the cost of supply in the UK, including political and economic conditions. The Group's existing offer has value for money as a core principle and the Directors believe this will provide a level of resilience in the event of a consumer slow down.

STRATEGIC REPORT

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### **Brexit**

Brexit has the potential to adversely impact the business in a number of ways, notably:

- weaker economic performance in the UK that may impact consumer demand,
- further depreciation of sterling that may drive cost inflation,
- cross border supply issues that may impact availability of imported goods, and
- the recruitment and retention of team members in our sites.

### **Cost inflation**

The Group operates in a sector that has been subject to significant cost pressures in recent years, notably staff costs, utilities, business rates and food and drink cost inflation. The value for money principles of the Group's offer require the Group to manage cost inflation tightly, to this end the increasing scale of the Group and its attractiveness to suppliers has assisted.

### **Health and safety and food safety**

The health and safety of the Group's employees and guests is of key concern and the Group is required to comply with health and safety legislation that includes fire safety, food hygiene, and allergens. The Group invests significantly in the training of its employees and in third party specialists to ensure adherence to legislation and the safety of our employees and guests.

### **Recruitment and retention**

The success of the business to date and our ability to maintain our roll-out programme is in large part down to our ability to recruit and retain the best teams in our sites. Recruitment of the best staff remains competitive and the potential for restrictions on the free movement of EU nationals has the potential to increase this level of competition, and with it bring additional pressure on wage inflation. Employee engagement and satisfaction is a key focus of management and the recent IPO will provide another mechanism by which the Group can incentivise and reward team members.

### **Availability of new sites**

The Group's growth strategy includes an expectation that we can continue to open approximately 25 new sites per annum. The Board only approves new site investment where strict economic criteria are met. The availability of sites, with the correct rent levels, cost of investment, and demographics, are critical to the delivery of the roll-out programme.

### **Information technology and data security**

The Group is increasingly reliant on information technology and the risk of failure leading to disruption of trading, loss of data and reputational damage. The Group continues to invest in its IT platforms to ensure that upgrades are implemented on a timely basis and that appropriate data protection measures are in place.

This strategic report was approved by the Board of Directors and signed on its behalf.

Gregor Grant  
Chief Financial Officer  
27 August 2019

CORPORATE GOVERNANCE REPORT

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**Chairman's Corporate Governance Statement**

During the year under review the Group has adopted corporate governance processes appropriate for and consistent with being a private equity backed privately owned business.

As of the date of admission to AIM (29 April 2019), Loungers plc has been required to adopt a recognised corporate governance code in accordance with rule 26 of the AIM rules. The Board of Loungers plc ("the Board") adopted the Quoted Company Alliance Corporate Governance Code (the "QCA Code") with effect from Admission.

**Compliance with the QCA Code**

As Loungers' Chairman, one of my responsibilities is to ensure that the Company adheres to and applies the standards of corporate governance the Board has adopted. This corporate governance statement sets out how Loungers plc will be applying the QCA Code principles in its first year as an AIM listed Company.

The Board believes that it applies the principles of the QCA Code, but recognises the need to continue to review and develop our governance practices and disclosures in order to ensure they support the growth and strategic progress of the business and the effective application of the principles going forwards.

**Delivering Growth**

The Board has collective responsibility for setting the strategic aims and objectives of the Group. These aims are articulated in the Strategic Report on pages 4 to 10. The Board will hold at least one session each year dedicated to strategy, which will include input from senior members of the management team and any necessary external advisers. In the course of implementing these strategic aims, the Board will take into account the expectations of the Company's shareholder base and also its wider stakeholder and social responsibilities.

The Board is committed to an open and ongoing engagement with the Company's shareholders. It takes collective responsibility for ensuring a satisfactory dialogue with shareholders takes place and will review and discuss the make-up of the Company's shareholder base at Board meetings.

The Group takes its corporate social responsibilities very seriously. The Board recognises that the Group's long-term success will necessitate the maintenance of effective working relationships across a wide range of stakeholders, as well as shareholders, being primarily its employees, existing and new customers, suppliers and others that it collaborates with as part of its business strategy.

Effective risk management is critical to meeting the strategic objectives of the Group. The Group operates a risk framework. The Board has overall responsibility for the determination of the Group's risk management objectives and policies. The principal risks can be found on page 9. The Board will continue to monitor the risks facing the Group on a regular basis and will take appropriate action to ensure that it is able to manage and limit any adverse effects from these risks and to confront day-to-day challenges.

**Maintaining a Dynamic Management framework**

As Chairman, I consider both the operation of the Board as a whole and the performance of individual Directors regularly. We have not carried out a formal Board performance evaluation this year as Loungers plc was only admitted to AIM in April 2019. We therefore have not yet complied with the principle 7 of the QCA Code, which requires a full Board performance evaluation. We will consider whether it is appropriate to do so during the forthcoming year.

The Board, as a whole, represents a suitable balance of independence and detailed knowledge of the Company and is well positioned to fulfil its roles and responsibilities as effectively as possible. Future Board appointments will continue to consider diversity, including gender, alongside commercial and experience-based suitability criteria, to complement the current balance of skills on the Board.

The Group promotes a culture of integrity, honesty, trust and respect and all employees are expected to operate in an ethical manner in all their internal and external dealings. The Group's staff handbook and policies promote this culture and include such matters as whistleblowing, social media, anti-bribery, communication and general conduct of employees.

CORPORATE GOVERNANCE REPORT

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### **Building Trust**

The Board recognises the importance of understanding the expectations of our shareholders. The Chief Executive Officer is the primary contact for shareholders and is responsible for ensuring that the links between the Board and the shareholders are strong and efficient. The Board as a whole is responsible for the good management of the Company and its principal aim is to enhance the Group's long-term value for the benefit of shareholders.

During the first year as a listed company Loungers plc with continue to review its governance processes. The Board expects to provide at least annual updates on the Company's compliance in the manner recommended by the QCA Code.

Alex Reilley  
Chairman  
27 August 2019

### **The Board**

Following admission, the Board has comprised seven directors, three of whom are Executive Directors and four of whom are Non-Executive Directors, reflecting a blend of different experience and backgrounds. Three of the Non-Executive Directors, Nick Backhouse, Adam Bellamy and Jill Little are considered to be independent.

The Board has written terms of reference which have a clear and specific schedule of matters that are reserved for the Board which include corporate governance, strategy, major investments, financial reporting and internal controls. The Board has an agreed schedule of activity covering regular business updates, financial, operational and governance matters and will review this at least annually to ensure that key matters and developments are discussed at the appropriate time.

The Board meets regularly and is responsible for strategy, performance, approval of any major capital expenditure and the framework of internal controls. Briefing papers are distributed to all Directors in advance of Board meetings and all Directors have access to the advice and services of the Chief Financial Officer and Company Secretary, who are responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with, in accordance with the QCA Code.

### **Board Committees**

The Board has delegated specific responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee, details of which are set out below.

Each Committee has written terms of reference setting out its duties, authority and reporting responsibilities. The terms of reference of each Committee will be reviewed on an annual basis going forward to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice.

### **Audit Committee**

The Group has established an Audit Committee, which comprises the three independent Non-Executive Directors. An Audit Committee Report is included at the end of this report.

### **Remuneration Committee**

The Group has established a Remuneration Committee, which comprises the three independent Non-Executive Directors, which will review the performance of the Executive Directors and set the scale and structure of their remuneration and the basis of their service agreements with due regards to the interests of Shareholders. In determining the remuneration of Executive Directors, the Remuneration Committee will seek to enable the Group to attract and retain executives of the highest calibre. The Remuneration Committee also makes recommendations to the Board concerning the allocation of awards under the Share Plans and for the administration of the Share Plans. No Director is permitted to participate in discussions or decisions concerning their own remuneration.

CORPORATE GOVERNANCE REPORT

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### **Nomination Committee**

The Group has established a Nomination Committee which comprises the three Non-Executive Directors and will be responsible for reviewing the structure, size and composition of the Board, preparing a description of the role and capabilities required for a particular appointment and identifying and nominating candidates to fill Board positions as and when they arise.

### **External advisers**

The Board seeks advice and guidance on various matters from its Financial and Nominated Advisor, GCA Altium, its Joint Brokers, Liberum and Peel Hunt and its Financial Public Relations Adviser, Instinctif Partners. The Board also uses the services of an external company secretarial provider, Prism Cossec.

### **Conflicts of interest**

At each meeting of the Loungers plc Board or its Committees, the Directors are required to declare any interests in the matters to be discussed and will be regularly reminded of their duty to notify any actual or potential conflicts of interest. The Board has effective procedures in place to monitor and manage conflicts of interests.

### **Internal controls**

The Board has ultimate responsibility for the Group's system of internal controls and for the ongoing review of their effectiveness. Systems of internal control can only identify and manage risks and not eliminate them entirely. As a result, such controls cannot provide an absolute assurance against misstatement or loss. The Board considers that the internal controls which have been established and implemented are appropriate for the size, complexity and risk profile of the Group.

### **Relations with shareholders and stakeholders**

The Board places a strong emphasis on the standards of good corporate governance and maintaining an effective engagement with its shareholders and key stakeholders, which it considers to be integral to longer term growth and success.

The principal methods of communication with shareholders will be the Annual Report, the half year and full-year results announcements, trading updates (where required or appropriate), the Annual General Meetings and the investor relations section of the Company's website (in particular the "AIM Rule 26" page).

The website will be updated regularly with information regarding the Company's activities and performance. Reports and presentations and notices of Annual General Meetings will be made available on the website when available, as will the results of voting at shareholder meetings.

### **Audit Committee Report**

An Audit Committee of Loungers plc has been established, which comprises Adam Bellamy as Chairman, Nick Backhouse and Jill Little. It will meet at least three times each year and at any other time when it is appropriate to consider and discuss audit and accounting related issues. These meetings are scheduled at appropriate intervals in the reporting and audit cycle. Although only members of the Committee have the right to attend meetings, standing invitations are extended to the Executive Directors who will attend meetings as a matter of practice. The external auditors will also usually attend and have the opportunity to meet with the Committee without the executive management present.

### **Duties**

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported on and monitored. Its role includes monitoring the integrity of the Group's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Group's internal control and risk management systems and overseeing the relationship with the external auditors (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings). It is also responsible for establishing, monitoring and reviewing procedures and controls for ensuring compliance with the AIM Rules. The detailed duties of the Audit Committee are set out in its Terms of Reference. The Terms of Reference will be reviewed by the Committee on an annual basis. The principal areas of focus for the Committee since the Company listed have been as follows:

- Review of the external auditors' report and significant issues from the audit report;
- Review of the Annual Report and financial statements;
- Approval of the management representation letter.

CORPORATE GOVERNANCE REPORT

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**Role of the external auditors**

The Audit Committee will monitor the relationship with the external auditors, Pricewaterhouse Coopers LLP, to ensure that the auditors' independence and objectivity are maintained. The Committee will assess the independence of the external auditors and the effectiveness of the external audit process before making recommendations to the Board in respect of their appointment or reappointment. In assessing independence and objectivity, the Committee will consider the level and nature of services provided by the external auditors as well as the confirmation from the external auditors that they have remained independent within the meaning of the APB Ethical Standards of Auditors.

**Risk management and internal controls**

The Group has established a system of risk management and internal controls. The Audit Committee is responsible for reviewing the internal financial control systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems and will do so during the year.

**Share dealing, anti-bribery and whistleblowing**

Loungers plc has adopted, with effect from Admission, a share dealing code for the Directors and all employees, which is appropriate for a company whose shares are admitted to trading on AIM and which is in accordance with Rule 21 of the AIM Rules. The Company takes all reasonable steps to ensure compliance by the Directors and any other applicable employees with the terms of this code. The Company promotes a culture of integrity, honesty, trust and respect and all employees are expected to operate in an ethical manner in all their internal and external dealings. The Company's staff handbook and policies promote this culture and include such matters as whistleblowing, social media, anti-bribery, communication and general conduct of employees.

Adam Bellamy  
Chairman of the Audit Committee  
27 August 2019



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## LION/JENGA TOPCO LIMITED

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### DIRECTORS' REPORT

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The directors present their report and the consolidated financial statements for the 52 week period ended 21 April 2019.

#### **Principal activity**

The principal activity of the Group is the operation of café bars and café restaurants.

#### **Results and dividends**

The consolidated statement of comprehensive income is set out on page 19 and shows the comprehensive loss for the period.

There were no dividends paid or proposed in the year under review.

#### **Strategic report**

Information in respect of the Business Review, Future Outlook of the Business and Principal Risks and Uncertainties are not shown in the Directors' Report because they are presented in the Strategic Report.

#### **Directors**

The Directors who served during the year were as follows:

J Cocker  
R Lewis  
A M Reilley  
M Wilson

J Cocker, R Lewis, and M Wilson resigned as Directors and N C Collins and G Grant were appointed Directors of the Company on 29 April 2019.

#### **Going Concern**

The directors believe that preparing the financial statements on a going concern basis is appropriate. As at the Consolidated Statement of Financial Position date the Lion/Jenga Topco Limited group of companies were funded through bank facilities and shareholder loans. The bank facilities comprise a combination of term loan, capex facility and revolving credit facility. These facilities are subject to covenants tested on a quarterly basis.

The admission of the Loungers plc Group to AIM on 29 April 2019 involved a share for share exchange that saw the exchange of preference shares for ordinary shares and deferred shares, a primary capital raise of £61.6m and the entering into of a new £32.5m term loan facility. Proceeds from the primary raise and the new term loan facility were used to repay bank debt of £71.0m and shareholder loan stock of £17.9m.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and consolidated financial statements.

#### **Directors' liability insurance and indemnity**

The Group has arranged insurance cover in respect of legal action against its Directors. To the extent permitted by UK law, the Group also indemnifies the Directors. These provisions were in force throughout the year and in force at the date of this report.

#### **Employment policy**

Our policy is to promote equal opportunity in employment regardless of gender, race, colour or disability, subject only to capability and suitability for the task and legal requirements. Where existing employees become disabled, it is our policy to provide continuing employment under equivalent terms and conditions, and to provide equal opportunity for promotion to disabled employees wherever appropriate.

We keep our team members regularly updated with issues affecting the running of the business and obtain their views on any key matters, all of which is in accordance with our obligations under the Information and Consultation Regulations 2004. The dissemination of information is achieved in many ways including weekly and quarterly newsletters, regular regional and area meetings, our company intranet and Directors and Managers briefings. These are opportunities for team members to express their views and ask questions. Outside of these specific events, we welcome any questions that team members may have about the business.

DIRECTORS' REPORT

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**Financial Risk Management**

The Group finances its operations through a combination of intra-group funding and bank debt. The Group uses various financial instruments in the form of cash, third-party bank debt, loan notes and other items, such as trade payables, that arise directly from its operations. The main purpose of these financial instruments is to fund the Group's operations. These financial instruments expose the Group to several financial risks, principally liquidity and interest rate risks.

The Group seeks to meet liquidity risk through assessment of short-, medium- and long-term cash flow forecasts to ensure the adequacy of committed debt facilities. The new banking facilities referred to above include a £10m revolving credit facility.

Interest rate risk is managed by the use of interest rate swaps to fix the Group's interest rate on its term loan debt. The Group has entered into a three-year interest rate SWAP to fix LIBOR at 0.7% on the new £32.5m term loan facility.

**Political Donations**

During the year ended 21 April 2019 the Group made no political donations (2018 £nil).

**Post Balance Sheet Events**

On 29 April 2019 Loungers plc (the parent company of the Lion/Jenga Topco Group) was admitted to AIM. Further details are provided in note 31.

**Directors' Responsibilities Statement**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Companies (Jersey) Law 1991 ("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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Group and parent Company and the profit and loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

So far as each of the Directors is aware, there is no relevant audit information that has not been disclosed to the Group's auditors and each of the Directors believes that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the Group's auditors have been made aware of that information.

**Independent Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

This report was approved by the Board of Directors and signed on its behalf.

G Grant  
Director  
27 August 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LION/JENGA TOPCO LIMITED

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## Report on the audit of the financial statements

### Opinion

In our opinion, Lion/Jenga Topco Limited's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 21 April 2019 and of its loss and cash flows for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated statement of financial position as at 21 April 2019; the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the 52 week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LION/JENGA TOPCO LIMITED

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**Responsibilities for the financial statements and the audit**

*Responsibilities of the directors for the financial statements*

As explained more fully in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

*Auditors' responsibilities for the audit of the financial statements*

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

*Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Other required reporting**

**Companies (Jersey) Law 1991 exception reporting**

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept by the company, or returns proper for our audit have not been received from branches not visited by us; or
- the consolidated financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

**Other matter**

The financial statements for the period ended 22 April 2018, forming the corresponding figures of the financial statements for the 52 week period ended 21 April 2019, are unaudited.

Colin Bates  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants  
Bristol  
27 August 2019

LION/JENGA TOPCO LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE 52 WEEK PERIOD ENDED 21 APRIL 2019

	Note	Period ended 21 April 2019 £000	Period ended 22 April 2018 £000
Revenue	4	152,999	121,067
Cost of sales		(89,485)	(70,479)
<b>Gross profit</b>		63,514	50,588
Administrative expenses		(53,717)	(43,592)
<b>Operating profit</b>	5	9,797	6,996
Finance costs	7	(14,786)	(13,644)
<b>Loss before taxation</b>		(4,989)	(6,648)
Tax on loss	8	(750)	(601)
<b>Loss for the period</b>		(5,739)	(7,249)
<b>Other comprehensive (expense)/income:</b>			
Cash flow hedge – change in value of hedging instrument		(333)	323
<b>Other comprehensive (expense)/income for the period</b>		(333)	323
<b>Total comprehensive expense for the period</b>		(6,072)	(6,926)

Non GAAP alternative performance measure

	Note	Period ended 21 April 2019 £000	Period ended 22 April 2018 £000
Operating profit		9,797	6,996
Exceptional items	9	462	542
Share based payment (credit)/charge		(87)	533
Site pre-opening costs		2,251	2,001
<b>Adjusted operating profit</b>		12,423	10,072
Depreciation		8,147	6,567
Loss on disposal of fixed assets		12	–
<b>Adjusted EBITDA</b>		20,582	16,639

The accompanying notes form an integral part of these consolidated financial statements

**LION/JENGA TOPCO LIMITED**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 21 APRIL 2019**

	Note	At 21 April 2019 £000	At 22 April 2018 £000
<b>Assets</b>			
<b>Non-current</b>			
Intangible assets	10	113,227	113,227
Property, plant and equipment	11	74,073	59,006
<b>Total non-current assets</b>		<u>187,300</u>	<u>172,233</u>
<b>Current</b>			
Inventories	12	1,500	1,065
Trade and other receivables	13	6,289	5,182
Derivative financial instruments	17	–	323
Cash and cash equivalents	14	6,500	7,669
<b>Total current assets</b>		<u>14,289</u>	<u>14,239</u>
<b>Total assets</b>		<u>201,589</u>	<u>186,472</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	(33,095)	(27,723)
Derivative financial instruments	17	(10)	–
<b>Total current liabilities</b>		<u>(33,105)</u>	<u>(27,723)</u>
<b>Non-current liabilities</b>			
Borrowings	16	(172,112)	(157,368)
Accruals and deferred income	15	(9,312)	(8,183)
Deferred tax liabilities	18	(2,348)	(2,465)
Provisions	19	(118)	(130)
<b>Total liabilities</b>		<u>(216,995)</u>	<u>(195,869)</u>
<b>Net liabilities</b>		<u>(15,406)</u>	<u>(9,397)</u>
Called up share capital	21	53	53
Share premium	22	4,184	4,172
Hedge reserve	22	(10)	323
Capital contribution reserve	22	51	–
Accumulated losses	22	(19,684)	(13,945)
<b>Total equity</b>		<u>(15,406)</u>	<u>(9,397)</u>

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

**G Grant**  
Director

27 August 2019

**LION/JENGA TOPCO LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE 52 WEEK PERIOD ENDED 21 APRIL 2019**

	Share Capital £000	Share Premium £000	Hedge Reserve £000	Capital Contribution Reserve £000	Accumulated Losses £000	Total Equity £000
<b>At 23 April 2017</b>	52	4,151	–	–	(6,696)	(2,493)
Shares issued during the 52 week period	1	21	–	–	–	22
<b>Total transactions with owners</b>	1	21	–	–	–	22
Loss for the period	–	–	–	–	(7,249)	(7,249)
Other comprehensive income	–	–	323	–	–	323
<b>Total comprehensive expense for the 52 week period</b>	–	–	323	–	(7,249)	(6,926)
<b>At 22 April 2018</b>	53	4,172	323	–	(13,945)	(9,397)
Share transactions during the period	–	12	–	51	–	63
<b>Total transactions with owners</b>	–	12	–	51	–	63
Loss for the period	–	–	–	–	(5,739)	(5,739)
Other comprehensive expense	–	–	(333)	–	–	(333)
<b>Total comprehensive expense for the 52 week period</b>	–	–	(333)	–	(5,739)	(6,072)
<b>At 21 April 2019</b>	53	4,184	(10)	51	(19,684)	(15,406)

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**LION/JENGA TOPCO LIMITED**

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**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE 52 WEEK PERIOD ENDED 21 APRIL 2019**

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	Note	Period ended 21 April 2019 £000	Period ended 22 April 2018 £000
<b>Net cash generated from operating activities</b>	23	21,419	19,201
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(22,585)	(18,595)
<b>Net cash used in investing activities</b>		<u>(22,585)</u>	<u>(18,595)</u>
<b>Cash flows from financing activities</b>			
Issue of ordinary shares		12	–
Capital contribution		51	–
Bank loans advanced		6,000	65,000
Bank loans repaid		(2,000)	(21,050)
Repayment of other loans		–	(39,272)
Interest paid		(4,066)	(4,786)
<b>Net cash used in financing activities</b>		<u>(3)</u>	<u>(108)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(1,169)	498
Cash and cash equivalents at beginning of the period		7,669	7,171
<b>Cash and cash equivalents at end of the period</b>	24	<u>6,500</u>	<u>7,669</u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE 52 WEEK PERIOD ENDED 21 APRIL 2019**

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**1. General information**

Lion/Jenga Topco Limited is a private limited company, limited by shares, incorporated in Jersey. The address of the registered office is Aztec Group House, 11-15 Seaton Place, St Helier, Jersey, JE4 0QH

On 19 December 2016, Lion/Jenga Topco Limited acquired, indirectly, a controlling shareholding in Loungers Holdings Limited, whose subsidiary, Loungers UK Limited, constitutes the main operating business of the group. The nature of the Group's operations and its principal activities are outlined in the Strategic Report.

**2. Accounting policies**

**2.1 Basis of preparation of financial statements**

The consolidated financial statements of the Lion/Jenga Topco Limited group have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivatives) at fair value through profit and loss. The financial statements are presented in thousands of pounds sterling ('£000') except where otherwise indicated.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all periods presented, unless otherwise stated.

Judgements made by the Directors in the application of the accounting policies that have a significant effect on the consolidated financial statements and estimates with significant risk of material adjustment in the next year are discussed in note 3.

**2.2 Going concern**

The Directors have reviewed the cash projections and funding requirements of the Group for a period of not less than 12 months from the date of approval of these financial statements and believe that the Group can meet their day-to-day cash flow requirements and operate within all the terms of their banking facilities. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

**2.3 Basis of consolidation**

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

**2.4 Revenue**

The Group has recognised revenue in accordance with IFRS 15. The standard requires revenue to be recognised when goods or services are transferred to customers and the entity has satisfied its performance obligations under the contract, and at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The Group has one revenue stream which comprises food and beverage sales at restaurants and therefore represent one performance obligation that is satisfied when control is transferred to the customer at the point of sale when payment is received and therefore no contracts assets or contract liabilities are created.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Group's activities. Revenue is shown net of sales/value added tax, returns and discounts.

**2.5 Finance costs**

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE 52 WEEK PERIOD ENDED 21 APRIL 2019

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**2. Accounting policies (continued)**

**2.6 Intangible assets Goodwill**

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of the identifiable assets and liabilities of the acquiree at the date of acquisition.

Goodwill is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicated that they may be impaired.

**2.7 Property, plant and equipment**

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Depreciation is provided on the following basis:

Leasehold building improvements	–	straight-line over the life of the lease
Motor vehicles	–	25% straight-line
Fixtures and fittings	–	6.67%–33% straight-line or over the life of the lease

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

During the course of the reporting period ended 22 April 2018, the Directors undertook a detailed review of the estimated useful life of the Group's fixtures and fittings. As a result of this review, the decision was taken to revise the estimated useful life of the original artwork, which is contained within fixtures and fittings, from 5 years to 15 years. The impact of this change in estimate was to reduce the depreciation charged in the period to 21 April 2018 by £561,000.

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

**2.8 Inventories**

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

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

**2.9 Trade and other receivables**

Short-term trade and other receivables are measured at transaction prices, less any impairment.

The Group applied the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and days past due.

**2.10 Impairment**

Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicated that they might be impaired.

Goodwill is not allocated to individual CGUs but to a group of CGUs. As the business has a single operating segment as disclosed in note 4, and goodwill is not disaggregated for internal management purposes, goodwill impairment testing is performed for the business as a whole, in accordance with IAS 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE 52 WEEK PERIOD ENDED 21 APRIL 2019

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**2. Accounting policies (continued)**

**2.10 Impairment (continued)**

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

**2.11 Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. Payments taken from customers on debit and credit cards are recognised as cash.

In the Consolidated Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

**2.12 Financial instruments**

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

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at the present value of the future cash flows and subsequently at amortised cost using the effective interest rate method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received.

Fees paid on the establishment of loan facilities are recognised as transactional costs of the loan and the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

**2.13 Derivative financial instruments and hedge accounting**

The Group uses interest rate swaps to hedge its exposure to interest rate fluctuations on its variable rate bank loans. Interest rate swaps are initially measured at fair value, if any, and carried on the balance sheet as an asset or liability. The Group has adopted cash flow hedge accounting and subsequent measurement is at fair value, with the effective portion of the gain or loss on an interest rate swap recognised in other comprehensive income, whilst any ineffective portion is recognised immediately in finance costs. When a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, amounts previously recognised in other comprehensive income are held there until the previously hedged transaction affects the Statement of Comprehensive Income. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in other comprehensive income is immediately transferred to finance costs.

**2.14 Trade and other payables**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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2. Accounting policies (continued)

2.15 Leased assets: the Group as lessee

At inception the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

*Finance leases*

Leases of assets that transfer substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset. Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

*Operating leases*

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

*Lease incentives*

Incentives received to enter into an operating lease, either in the form of landlord contributions to fit-out costs or rent free periods, are credited to the Statement of Comprehensive Income, to reduce the lease expense, on a straight-line basis over the period of the lease. The landlord contribution or rent-free accrual are recognised within accruals and deferred income.

2.16 Pensions

**Defined contribution pension plan**

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

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

2.17 Provisions

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

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

Onerous contracts are contracts in which the unavoidable costs of meeting obligations under the contract exceed the economic benefits expected to be received under it, where the unavoidable costs are defined as the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfill it. As soon as a contract is assessed to be onerous, a provision is recognised in the Balance Sheet and charged as an expense to the Statement of Comprehensive Income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE 52 WEEK PERIOD ENDED 21 APRIL 2019

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**2. Accounting policies (continued)**

**2.18 Share based payments**

The Group provides share-based payment arrangements to certain employees.

*Equity-settled arrangements*

Equity-settled arrangements are measured at fair value (excluding the effect on nonmarket-based vesting conditions) at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest.

Where equity-settled arrangements are modified, and are of benefit to the employee, the incremental fair value is recognised over the period from the date of modification to date of vesting. Where a modification is not beneficial to the employee there is no change to the charge for share-based payment. Settlements and cancellations are treated as an acceleration of vesting and the unvested amount is recognised immediately in the Statement of Comprehensive Income.

*Cash-settled arrangements*

Cash-settled share options are measured at fair value at the Consolidated Statement of Financial Position date. The Group recognises a liability at the Statement of Financial Position date based on these fair values, taking into account the estimated number of options that will actually vest and the current proportion of the vesting period. Changes in the value of this liability are recognised in the Statement of Comprehensive Income.

**2.19 Current and deferred taxation**

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

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

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

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

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

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same tax authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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2. Accounting policies (continued)

2.20 Non GAAP measures

The directors use Adjusted EBITDA as a primary KPI in managing the business. This measure excludes exceptional items and site pre-opening costs, as defined below, and non-cash share-based payment charges. The directors believe this measure gives a more relevant indication of the underlying trading performance of the group and is also the measure used by the banks for the purposes of assessing covenant compliance.

**Exceptional items**

The Group classifies certain one-off charges or credits that have a material impact on the Group's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Group. Management splits out these costs for internal purposes when reviewing the business.

**Site pre-opening costs**

Site pre-opening costs refer to costs incurred in getting new sites fully operational, and primarily include costs incurred before opening and in preparing for launch. These costs are disclosed separately in the presentation of Adjusted EBITDA to provide a more accurate indication of the Group's underlying financial position.

2.21 Related party transactions

The Group discloses transactions with related parties which are not wholly owned within the Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Group Financial Statements.

2.22 New standards, amendments and interpretations not yet adopted

The group has applied the following standards in the preparation of these consolidated financial statements:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*

Both these standards have been adopted retrospectively in all periods presented but these new standards did not have any impact on the amounts recognised.

IFRS 16 'Leases' establishes principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. IFRS 16 will become effective for accounting periods starting on or after 1 January 2019, and the Group do not intend to early adopt. It will therefore become applicable to the Group for the 52 week period ending 19 April 2020. Management intend to apply the fully retrospective method of adoption. Management have performed a review to quantify the impact that this standard will have on the group, which will result in the recognition of a lease liability and a corresponding asset on the Group's balance sheet for a majority of leases, which predominantly represent buildings currently being treated as operating leases.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessment of whether a lease is onerous
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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**2. Accounting policies (continued)**

**2.22 New standards, amendments and interpretations not yet adopted (continued)**

The estimated balance sheet impact is as follows:

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
Right of use asset	79,640	65,574
Lease liability	(89,138)	(73,164)
Fixed assets	(4,452)	(3,324)
Finance lease receivable	906	974
Deferred tax asset	754	464
Accruals and deferred income	10,085	8,321
Prepayments	(1,481)	(1,110)
	<u>(3,686)</u>	<u>(2,265)</u>

The estimated impact on the income statement is as follows:

	<b>Period ended</b>	<b>Period ended</b>
	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
Reversal of rent charge	8,365	6,606
Depreciation on right of use asset	(5,459)	(4,369)
Operating profit	2,906	2,240
Interest expense	(4,617)	(3,760)
Profit before taxation	<u>(1,711)</u>	<u>(1,523)</u>

There are no other new standards, amendments or interpretations not yet adopted by the Group that are expected to have a material impact on these consolidated financial statements.

**3. Critical accounting judgements and estimation uncertainty**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key judgements made by the directors in preparing these consolidated financial statements were as follows:

*Intangible assets*

On 19 December 2016, Loungers Holdings Limited was acquired by a subsidiary of Lion/Jenga Topco Limited. As required under IFRS 3, management undertook an assessment of intangible assets, at the acquisition date, and concluded that the only intangible item arising was goodwill. There are no other separately identifiable intangible assets.

*Operating Segments*

The directors have taken a judgement that individual sites meet the aggregation criteria in IFRS 8 and hence have concluded that the Group only has a single reporting segment, as discussed in note 4.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

*Impairment of property plant and equipment*

Annually, the Group considers whether tangible assets are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the recoverable value of the cash generating units (CGUs). This requires estimation of the future cash flows from the CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

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**3. Critical accounting judgements and estimation uncertainty (continued)***Useful economic lives of property, plant and equipment*

The depreciation charge in each period is sensitive to the assumptions used regarding the economic lives of assets. During the 52 week period ended 22 April 2018, the useful economic lives of certain categories of assets were revised and the impact is shown in note 2.7. A 10% increase in the average useful economic lives results in approximately an 11% decrease in depreciation.

*Share-based payments*

Cash-settled share-based payment arrangements are valued at fair value at date of grant, and at subsequent period ends, using management's best estimate of the future value of the business. The share-based payments are valued at the amounts that were paid out after the year end, accordingly an assessment of sensitivity of key inputs and assumptions used is not required.

*Recognition of deferred tax assets*

The group has unrecognised deferred tax assets in respect of interest losses carried forward. An asset has not been recognised as there is insufficient certainty as to whether the level of future profits, and the application of the UK Corporate Interest Restriction rules, will allow these losses to be utilised, given the group's current capital structure. The potential asset that could be recognised in future periods if this assessment were to change is given in note 18.

**4. Segmental reporting**

IFRS 8 "Operating Segments" requires operating segments to be based on the Group's internal reporting to its Chief Operating Decision Maker ("CODM"). The CODM is regarded as the Chief Executive together with other Board Members who receive financial information at a site-by-site level. The Group trades in one business segment (operating café bars and café restaurants) and these sites meet the aggregation criteria set out in paragraph 12 of IFRS 8. Economic indicators assessed in determining that the aggregated operating segments share similar economic characteristics include expected future financial performance, operating and competitive risks and return on investment.

The CODM uses Adjusted EBITDA as the primary measure for assessing the Group's results on an aggregated basis.

**Revenue**

Revenue arises from the sale of food and drink to customers in the Group's sites for which payment in cash or cash equivalents is received immediately. The Group operates in a single geographical region (the UK) and hence all revenues are impacted by the same economic factors. Accordingly, revenue is presented as a single category and further disaggregation is not appropriate or necessary to gain an understanding of the risks facing the business.

**5. Operating profit**

The operating profit is stated after charging/(crediting):

	Note	Period ended 21 April 2019 £000	Period ended 22 April 2018 £000
Staff Costs (excluding share based payments)	6	57,377	47,033
Share based payments	6	(87)	533
Depreciation of tangible fixed assets	11	8,147	6,567
Operating lease rentals:			
Land and buildings		8,262	6,782
Inventories – amounts charged as an expense		38,968	30,987
Auditors' remuneration			
– for statutory audit services		80	48
– for other assurance services		75	21
– for tax compliance services		24	24
– for tax advisory services		28	52
Pre-opening costs		2,251	2,001
Exceptional costs	9	462	542



**LION/JENGA TOPCO LIMITED**

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**6. Employees and directors**

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

	<b>Period ended 21 April 2019</b>	<b>Period ended 22 April 2018</b>
Management, administration and maintenance	132	112
Site	3,524	2,890
	<u>3,656</u>	<u>3,002</u>

Staff costs were as follows:

	<b>Period ended 21 April 2019 £000</b>	<b>Period ended 22 April 2018 £000</b>
Wages and salaries	53,443	44,018
Social security costs	3,397	2,789
Share based payments	(87)	533
Other pension costs	537	226
	<u>57,290</u>	<u>47,566</u>

There were four directors who served throughout the year. The directors' remuneration for the highest paid director was as follows:

	<b>Period ended 21 April 2019 £000</b>	<b>Period ended 22 April 2018 £000</b>
Wages and salaries	95	103
Social security costs	13	13
	<u>108</u>	<u>116</u>

The remaining three directors of Lion/Jenga Topco Limited who served during the year were appointed by Lion Capital LLP to sit on the Lion/Jenga Topco Limited Board. These three directors did not receive any emoluments from the company during any of the periods presented and no payments were made for director's services within the management charge to Lion Capital LLP. The services provided to Lion/Jenga Topco Limited are not separable from those duties performed in their roles at Lion Capital LLP.

**Key management compensation**

Key management includes the directors and members of senior management. The compensation paid or payable to key management for employee services is shown below:

	<b>Period ended 21 April 2019 £000</b>	<b>Period ended 22 April 2018 £000</b>
Salaries and other short-term benefits	615	626
Group contributions to defined contribution pension scheme	1	1
	<u>616</u>	<u>627</u>

LION/JENGA TOPCO LIMITED

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**7. Finance Costs**

	<b>Period ended 21 April 2019 £000</b>	<b>Period ended 22 April 2018 £000</b>
Bank interest payable	4,327	4,096
Other loan interest payable	2,058	1,969
Preference share interest	8,401	7,579
	<u>14,786</u>	<u>13,644</u>

**8. Tax on loss**

The income tax charge is applicable on the Group's operations in the UK. The Group is subject to tax at a rate of 0% in Jersey.

	<b>Period ended 21 April 2019 £000</b>	<b>Period ended 22 April 2018 £000</b>
<b>Taxation charged to the income statement</b>		
<b>Current income taxation</b>	918	755
Amounts (under)/over provisioned in earlier years	(51)	(15)
<b>Total current income taxation</b>	<u>867</u>	<u>740</u>
<b>Deferred Taxation</b>		
Origination and reversal of temporary timing differences		
Current period	(130)	(119)
Prior period	8	(20)
Adjustment in respect of change of rate of corporation tax	5	–
<b>Total deferred tax</b>	<u>(117)</u>	<u>(139)</u>
<b>Total taxation expense in the consolidated income statement</b>	<u>750</u>	<u>601</u>
The above is disclosed as:		
Income tax expense – current period	801	636
Income tax expense – prior period	(51)	(35)
	<u>750</u>	<u>601</u>

Further information on the movement on deferred taxation is given in note 18.

**Factors affecting the tax charge for the period**

	<b>Period ended 21 April 2019 £000</b>	<b>Period ended 22 April 2018 £000</b>
Loss before tax	(4,989)	(6,648)
At UK standard rate of corporation taxation of 19% (2018: 19%)	(948)	(1,263)
Expenses not deductible for tax purposes		
– Preference share interest	1,596	1,440
– Other	369	488
Fixed asset differences	(229)	(29)
Adjustments to tax charge in respect of prior periods	(43)	(35)
Adjustment in respect of change of rate of corporation tax	5	–
<b>Total tax charge for the period</b>	<u>750</u>	<u>601</u>

**LION/JENGA TOPCO LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**9. Exceptional items**

	<b>Period ended 21 April 2019 £000</b>	<b>Period ended 22 April 2018 £000</b>
Change of ownership	462	203
Closed sites	–	107
Other	–	232
	<u>462</u>	<u>542</u>

The change of ownership costs in the year ended 21 April 2019 relate to costs incurred in the preparation for the IPO of the business which completed on 29 April 2019. Additional IPO costs were incurred by Loungers plc. The costs incurred in the year ended 22 April 2018 largely represent professional fees incurred in respect of the sale of the majority stake in the business to Lion Capital in December 2016.

The cost relating to closed sites represent one-off costs associated with closed sites in the period ending 22 April 2018.

The costs relating to the other category largely represent costs associated with the one-off strategic review of the supply chain and employee compensation costs.

**10. Intangible Assets**

	<b>21 April 2019 £000</b>	<b>22 April 2018 £000</b>
Goodwill	113,227	113,227
	<u>113,227</u>	<u>113,227</u>

Goodwill of £113,227,000 arose on the acquisition of a majority stake in the Group by Lion Capital LLP on 19 December 2016.

An impairment test is performed annually by comparing the carrying amount of the goodwill to its recoverable amount. The recoverable amount is represented by the greater of the business's fair value less costs of disposal and its value in use.

Goodwill is monitored at the operating segment level identified in note 4. For assessing impairment at 22 April 2018 and 21 April 2019 a value in use calculation has been performed using a discounted cash flow method based on the forecast cash flows, a CGU specific discount rate and a terminal growth rate. The cash flows used in this assessment are based on a three year business plan extended out for another year. The discount rate used to determine the present value of projected future cash flows is based on the Group's Weighted Average Cost of Capital (WACC). The terminal growth rate is based on the current market assessment of Gross Domestic Product (GDP) for the United Kingdom. The pre-tax discount rate and terminal growth rate used in the discounted cash flow model were 9.1% and 1.5% respectively.

The estimation of value in use involves significant judgement in the determination of inputs to the discounted cash flow model and is most sensitive to changes in future cash flows, discount rates and terminal growth rates applied to cash flows beyond the forecast period. The sensitivity of key inputs and assumptions used was tested by recalculating the recoverable amount using reasonably possible variances to those assumptions. The discount rate was increased by 1%, the terminal growth rate was decreased by 1%, and future cash flows were reduced by 10%. As at 21 April 2019, no reasonably possible change in an individual key input or assumption, as described, would result in the carrying amount exceeding its recoverable amount based on value in use.

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**11. Property, plant and equipment**

	Leasehold Building Improvements £000	Motor Vehicles £000	Fixtures and Fittings £000	Total £000
<b>Cost</b>				
At 24 April 2017	30,266	33	18,790	49,089
Additions	9,147	71	9,377	18,595
At 22 April 2018	39,413	104	28,167	67,684
<b>Depreciation</b>				
At 24 April 2017	841	4	1,266	2,111
Provided for the period	2,507	25	4,035	6,567
At 22 April 2018	3,348	29	5,301	8,678
<b>Net book value</b>				
At 22 April 2018	36,065	75	22,866	59,006
<b>Cost</b>				
At 23 April 2018	39,413	104	28,167	67,684
Additions	11,083	37	12,106	23,226
Disposals	(287)	(58)	(312)	(657)
At 21 April 2019	50,209	83	39,961	90,253
<b>Depreciation</b>				
At 23 April 2018	3,348	29	5,301	8,678
Provided for the period	2,967	27	5,153	8,147
Disposals	(286)	(56)	(303)	(645)
At 21 April 2019	6,029	–	10,151	16,180
<b>Net book value</b>				
At 21 April 2019	44,180	83	29,810	74,073

**12. Inventories**

	21 April 2019 £000	22 April 2018 £000
Food and beverages for resale	1,500	1,065
	1,500	1,065

There is no material difference between the replacement cost of inventories and the amounts stated above.

Inventories are charged to cost of sales in the consolidated statement of comprehensive income.

**13. Trade and Other Receivables**

	21 April 2019 £000	22 April 2018 £000
<b>Included within current assets</b>		
Trade receivables	78	188
Other receivables	310	90
Prepayments	5,901	4,904
	6,289	5,182

Receivables are denominated in sterling.

The Group held no collateral against these receivables at the balance sheet dates. The Directors consider that the carrying amount of receivables are recoverable in full and that any expected credit losses are immaterial.

At each period end, there were no overdue receivable balances.

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**14. Cash and cash equivalents**

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
Cash at bank and in hand	6,500	7,669
	6,500	7,669
	6,500	7,669

Cash and cash equivalents comprise cash at bank and in hand. The fair value of cash and cash equivalents is the same as the carrying value of £6,500,000 (22 April 2018 £7,669,000).

**15. Trade and Other Payables**

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
Included in current liabilities:		
Trade payables	16,703	13,777
Corporation tax	294	445
Other taxation and social security	5,970	5,598
Other payables	5,698	4,236
Accruals and deferred income	4,430	3,667
	33,095	27,723
	33,095	27,723
Included in non-current liabilities:		
Accruals and deferred income	9,312	8,183
	9,312	8,183
	9,312	8,183

Trade payables were all denominated in sterling and comprise amounts outstanding for trade purchases and ongoing costs and are non-interest bearing.

The Directors consider that the carrying amount of trade payables approximate to their fair value.

Non-current accruals and deferred income relates to the deferred benefit of rent free periods including landlord contributions.

**16. Borrowings**

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
Long term borrowings:		
Secured bank loans	69,553	65,268
Loans from related parties	17,932	15,874
Preference shares	84,627	76,226
	172,112	157,368
	172,112	157,368

**Secured bank loans**

Further to a re-financing in May 2017, the Group's financing facilities include a £60,000,000 term loan, a £15,000,000 capex facility to assist in funding the Group's expansion programme and a £5,000,000 revolving credit facility to cover working capital and liquidity commitments.

The term loan bears interest at LIBOR plus 5.25%, with the margin subject to a downwards ratchet dependent upon financial performance. The loan is repayable in a single payment in May 2024. The loan was fully drawn at 21 April 2019.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**16. Borrowings (continued)**

The Group has entered into an interest rate swap whereby LIBOR on the £60,000,000 term loan is fixed at 0.7965% until August 2020.

The capex facility and revolving credit facility bear interest at LIBOR plus a margin of 4.75% on the drawn down amounts. Dependent upon financial performance, the margin is subject to a downwards ratchet. A commitment fee of 35% of the margin is charged on the undrawn amount. Both facilities are due for repayment in May 2023. At 21 April 2019 £11,000,000 was drawn under the capex facility and £nil under the revolving credit facility.

**Loans from related parties**

The Group issued investor loan notes ("ILNs") with a value of £25,000,000 in December 2016. These ILN's are unsecured 13% fixed rate PIK loan notes. At the time of the refinancing in May 2017, ILNs with a principal value of £11,546,000 and accrued interest of £613,000 were redeemed. At 21 April 2019, ILNs with a principal value of £13,454,000 and accrued interest of £4,478,000 are outstanding.

**Preference shares**

The preference shares consist of two classes of share, the P1 preference shares and the P2 preference shares. The P1 preference shares do not carry voting rights. They carry the entitlement to an annual dividend of 10.9%. On a return of capital (including on winding up) they rank ahead of the A, B, C and D ordinary shares but behind the P2 preference shares. The shares are cumulative and are redeemable in certain circumstances or on maturity in December 2026.

The P2 preference shares do not carry voting rights. They carry the entitlement to an annual dividend of 13.0%. On a return of capital (including on winding up) they rank ahead of the A, B, C and D ordinary shares and the P1 preference shares. The shares are cumulative and are redeemable in certain circumstances or on maturity in December 2026.

**17. Financial Instruments**

The Group is exposed to the risks that arise from its use of financial instruments. Derivative instruments may be transacted solely for risk management purposes. The management consider that the key financial risk factors of the business are liquidity risks, interest rate risk and market risks. The group operates solely within the UK and therefore has limited exposure to foreign exchange risk. The Group's exposure to credit risk is limited due to insignificant receivables balances.

The Group enters into interest rate swap transactions, which create derivative assets and liabilities, their purpose being to manage the interest rate risk arising from the Group's borrowings.

This note describes the objectives, policies and processes of the Group for managing those risks and the methods used to measure them.

**Interest rate risk**

The Group's exposure to the variable interest element of its term loan is fully hedged by an interest rate swap.

**Commodity price risk**

The Group is exposed to movements in the wholesale prices of foods and drinks. Although the group sources a majority of products in the UK, there is a risk that Brexit will cause a significant increase in wholesale food and drink prices. Prices are typically fixed for periods of 3–6 months to address seasonality, with suppliers hedging foreign exchange risk across these prices. The group uses external consultants to benchmark and verify any potential cost changes from suppliers and also has the ability to flex its menu items to mitigate specific product related pressures.

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**17. Financial Instruments (continued)**

**Liquidity risk**

The Group's primary objective is to ensure that it has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning borrowing facilities with forecast cash flows.

**Capital Risk**

The Group manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders through optimising the debt and equity balance.

The Group monitors cash balances and prepares regular forecasts, which are reviewed by the board. In order to maintain or adjust the capital structure, the Group may, in the future, return capital to shareholders, issue new shares or sell assets to reduce debt.

**Financial Assets and Liabilities**

Financial assets and liabilities consist of the following:

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
<b>Financial Assets</b>		
Financial assets that are debt instruments measured at amortised cost	6,888	7,947
Financial assets held at fair value	–	323
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost	(194,513)	(175,381)
Financial liabilities held at fair value	(10)	–

Financial assets held at amortised cost include trade and other receivables and cash.

Financial liabilities held at amortised cost include trade and other payables, borrowings and preference share liabilities.

Financial assets and liabilities held at fair value represent interest rate swaps.

There are no material differences between the carrying values of financial assets and liabilities held at amortised cost and their fair values, other than in relation to the preference shares. It is not practical to identify the fair value of the preference shares as they can only be held by the holders of the ordinary share capital.

**Hedging**

The Group has entered into an interest rate swap as described above which qualifies as a cashflow hedge. The movements in fair value have been recognised as follows:

	<b>£000</b>
Derivative asset at 23 April 2018	323
Recognised through other comprehensive income	(333)
Derivative liability at 21 April 2019	(10)

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**17. Financial Instruments (continued)**

**Maturity Analysis**

The maturity analysis table below analyses the Group's contractual undiscounted cash flows (both principal and interest) for the Group's financial liabilities, after taking into account the effect of interest rate swaps.

	<b>Less than 1 year £000</b>	<b>Between 1 and 5 years £000</b>	<b>More than 5 years £000</b>	<b>Total £000</b>
<b>For the 52 week period ended 21 April 2019</b>				
Secured bank loans	(4,224)	(27,351)	(60,302)	(91,877)
Loans from related parties	–	–	(45,698)	(45,698)
Preference shares	–	–	(188,869)	(188,869)
Trade and other payables	(22,401)	–	–	(22,401)
	<u>(26,625)</u>	<u>(27,351)</u>	<u>(294,869)</u>	<u>(348,845)</u>
<b>For the 52 week period ended 22 April 2018</b>				
Secured bank Loans	(3,994)	(15,975)	(71,222)	(91,191)
Loans from related parties	–	–	(45,698)	(45,698)
Preference shares	–	–	(188,869)	(188,869)
Trade and other payables	(18,013)	–	–	(18,013)
	<u>(22,007)</u>	<u>(15,975)</u>	<u>(305,789)</u>	<u>(343,771)</u>

The secured bank loans include the impact of cash flow hedges.

**18. Deferred Taxation**

	<b>21 April 2019 £000</b>	<b>22 April 2018 £000</b>
Balance sheet		
Liabilities		
Arising on acquisition accounting	(1,417)	(1,672)
Accelerated capital allowances	(1,067)	(898)
Deferred taxation liabilities	<u>(2,484)</u>	<u>(2,570)</u>
Assets		
Short-term timing differences	136	105
Deferred taxation assets	<u>136</u>	<u>105</u>
Net deferred taxation liabilities	<u>(2,348)</u>	<u>(2,465)</u>
	<b>21 April 2019 £000</b>	<b>22 April 2018 £000</b>
Income statement		
Accelerated capital allowances	169	217
Accelerated capital allowances – Fair Value	(255)	(255)
Short-term timing differences	(31)	(101)
Statement of Comprehensive Income	<u>(117)</u>	<u>(139)</u>

The Group had unrecognised deferred tax assets as follows:

	<b>21 April 2019 £000</b>	<b>22 April 2018 £000</b>
Unrecognised deferred tax assets	<u>521</u>	<u>455</u>



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**19. Provisions – Onerous leases**

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
Opening provision	130	216
Released in operating items	(12)	(86)
Closing provision	<u>118</u>	<u>130</u>

The onerous lease provision represents the expected cost to the Group of future rentals under an onerous lease contract discounted to present value.

**20. Share based payments**

The Company operates a cash settled Employer's Management Bonus Scheme. This requires the Company to make a cash payment upon change of ownership or IPO ("an exit event"), based on the value of the Company's shares at that time. This liability is remeasured at each balance sheet date, with the directors' best estimate of cost being spread over the expected period prior to the exit event. Awards are forfeited if the employee leaves the company prior to the exit event taking place.

For the purposes of computing the liability at 22 April 2018 the directors assumed a 4 year vesting period and estimated the fair value of the business using EBITDA based valuation multiple. It was assumed that no awards are forfeited. At 21 April 2019 the directors have calculated the liability based upon the valuation achieved in the Company's IPO.

The (credit)/charge recorded in the financial statements of the Group in respect of share-based payments was:

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
Employer's Management Bonus Scheme	<u>(87)</u>	<u>533</u>

**21. Called-up share capital**

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
Allotted, called-up and fully paid	<u>53</u>	<u>53</u>

	<b>21 April 2019</b>	<b>22 April 2018</b>
Ordinary A shares at £0.01 each	2,737,281	2,737,281
Ordinary B shares at £0.01 each	946,052	946,052
Ordinary C shares at £0.09 each	129,999	129,999
Ordinary D shares at £0.01 each	417,086	411,669

**Rights of shareholders**

The A, B and C ordinary shares carry full voting rights of 1, 1 and 6 votes per share respectively and the D ordinary shares do not carry voting rights. The A, B, C and D ordinary shares rank equally in relation to their entitlement to dividends. On a return of capital (including on winding up) A, B, C and D ordinary shares rank equally. They are not subject to rights of redemption.

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**22. Equity**

The Group's Equity comprises the following:

**Called-up share capital**

Called-up share capital represents the nominal value of the shares issued.

**Share premium account**

The share premium account records the amount above the nominal value received for shares sold.

**Hedge reserve**

The hedge reserve represents the cumulative profits or losses on the mark-to-market at the balance sheet of the Group's interest rate hedge.

**Capital contribution reserve**

The capital contribution reserve represents additional contributions from shareholders.

**Profit and loss account**

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

**23. Note to cash flow statement**

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
<b>Cash Flows from operating activities</b>		
Operating Profit	9,797	6,996
Taxation	(750)	(601)
Finance Costs	(14,786)	(13,644)
<b>Loss After Tax</b>	<b>(5,739)</b>	<b>(7,249)</b>
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment	8,147	6,567
Share based payment transactions	(87)	533
Loss on disposal of tangible assets	12	–
Changes in inventories	(435)	(133)
Interest payable	14,786	13,644
Taxation expense	750	601
Changes in provisions	(12)	(86)
Changes in trade and other receivables	(1,074)	(876)
Changes in trade and other payables	6,089	6,771
<b>Cash generated from operations</b>	<b>22,437</b>	<b>19,772</b>
Tax paid	(1,018)	(571)
<b>Net cash generated from operating activities</b>	<b>21,419</b>	<b>19,201</b>



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**26. Commitments under operating leases**

The Group had future minimum lease payments under non-cancellable operating leases as follows:

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
Within one year	9,885	7,822
In two to five years	39,137	30,696
After five years	79,242	63,324
	<u>128,264</u>	<u>101,842</u>

**27. Lessor**

The Group leases out un-utilised property space under non-cancellable operating leases. The Group is due to receive minimum lease payments under non-cancellable operating leases as follows:

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
Within one year	235	222
In two to five years	918	886
After five years	769	981
	<u>1,922</u>	<u>2,089</u>

**28. Related party transactions**

A Reilley and J Bishop, directors of the Company's subsidiary, Loungers Holdings Limited, are directors of Flatcappers Limited and Goldbrick House Limited. Additionally, they are partners in Colombe D'or Property LLP (formerly Loungers Property LLP). The Group undertook the following transactions, stated net of VAT:

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
Sales to related parties:		
Flatcappers Limited	90	85
Colombe D'or Property LLP	167	139
Purchases from related parties:		
Flatcappers Limited	–	8
Goldbrick House Limited	–	–
Amounts owed by related parties:		
Flatcappers Limited	–	–
Goldbrick House Limited	–	–
	<u>–</u>	<u>–</u>

The Group paid the following amounts to Reilley Properties Limited in respect of rent for a site opened by the Group. A Reilley, is a director and shareholder of Reilley Properties Limited.

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
Reilley Properties Limited	<u>171</u>	<u>51</u>

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**28. Related party transactions (continued)**

The Group paid the following amounts to Lion Capital LLP in repayment of loans as follows:

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
Amounts paid to Lion Capital	14	28,043

The Group paid the following amounts to Lion Capital LLP and management in repayment of unsecured loan stock as follows:

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
Amounts paid to Lion Capital	–	12,159
Amounts paid to Management	–	3,123

The Group accrued the following amounts to Management and Lion Capital LLP in relation to accrued dividends on the preference shares as follows:

	<b>21 April 2019</b>	<b>22 April 2018</b>
	<b>£000</b>	<b>£000</b>
Amounts due to Lion Capital	16,587	9,029
Amounts due to Management	1,847	1,004

The related party transactions include loans from related parties and preference shares held by related parties, as disclosed in note 17. Interest expense on these items is shown in note 7.

**29. Legal Entities**

The following table presents the investments in which the Group owns a portion of the nominal value of any class of share capital:

Direct Subsidiary Holding		
Lion/Jenga Midco Limited	Ordinary 100%	Holding company
Indirect Subsidiary Holding		
Lion/Jenga Bidco Limited	Ordinary 100%	Holding company
Loungers Holdings Limited	Ordinary 100%	Holding company
Loungers UK Limited	Ordinary 100%	The development, operation and management of all day neighbourhood café/bars and bar/restaurants.

The registered office of all four subsidiaries is 15-16 Lower Park Row, Bristol, BS1 5BN.

**30. Controlling Party**

Prior to the IPO of Loungers plc on 29 April 2019 the ultimate parent company and controlling party was Lion Capital Fund GP IV Limited, a company incorporated in England and Wales, whose registered office is 21 Grosvenor Place, London, SW1X 7HF. Subsequent to the IPO the ultimate parent company is Loungers plc, a company incorporated in England and Wales, whose registered office is 15-16 Lower Park Row, Bristol, BS1 5BN, and there is no ultimate controlling party.

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**31. Post Balance Sheet Events Note**

On 29 April 2019 Loungers plc, the newly incorporated parent company of the Lion/Jenga Topco Group was admitted to trading on the AIM market. The IPO involved the following changes to the Group's capital structure:

- A share for share exchange whereby the preference shares and accrued dividends were swapped for ordinary shares and deferred shares in Loungers plc.
- A primary share issue to raise gross proceeds (pre-IPO costs) of £61.6m through the issue by Loungers plc of 30,798,097 1p ordinary shares of at a premium of £1.99 per share.
- The entering into of a new five-year term loan facility of £32.5m and a revolving credit facility of £10m.
- The repayment of the unsecured loan stock of £17.9m.
- The repayment of bank borrowings of £71m.

On 25 July 2019 the Group entered into a three-year interest rate SWAP to fix the LIBOR rate payable on its £32.5m term loan, LIBOR was fixed at 0.7% under this SWAP.

On 15 August 2019 Loungers plc commenced a capital reduction exercise by application to the High Court to reduce the amount standing to the credit of share premium account by £61.8m and the amount standing to the credit of deferred shares by £74.0m.



