

Registered number: 05266806

SPIRIT MANAGED FUNDING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the 36 weeks ended 3 January 2021



SPIRIT MANAGED FUNDING LIMITED

COMPANY INFORMATION

Director	R Smothers
Company secretary	Mrs L A Keswick
Registered number	05266806
Registered office	Westgate Brewery Bury St Edmunds Suffolk IP33 1QT
Auditor	Deloitte LLP Statutory Auditor 1 New Street Square London EC4A 3HQ

SPIRIT MANAGED FUNDING LIMITED

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SPIRIT MANAGED FUNDING LIMITED

DIRECTOR'S REPORT For the 36 weeks ended 3 January 2021

The director presents his report and the financial statements for the 36 weeks ended 3 January 2021.

Principal activity

The principal activity of the company is that of a financing company.

Following the acquisition of the Greene King Limited group by CK Noble (UK) Limited on 30 October 2019, the financial year end of the company was changed to 31 December so as to be coterminous with the year end of the ultimate parent undertaking, CK Asset Holdings Limited. Accordingly, the current financial statements are prepared for 36 weeks from 27 April 2020 to 3 January 2021 and as a result, the comparative figures stated in the statement of comprehensive income, statement of changes in equity and the related notes are not comparable.

Going concern

Greene King Limited has agreed to provide continuing financial support to enable the company to meet its obligations as and when they fall due for a minimum period of at least 12 months from the date of approval of these financial statements.

The directors of Greene King Limited have assessed the impact of the COVID-19 pandemic as part of their going concern assessment of the Greene King Limited group. In doing so, the Greene King Limited directors have modelled both a prudent view of the next 12 months based on the latest set of government announcements relating to both re-opening and continued assistance but with no further enforced closures and a worst-case scenario that assumes the Greene King Limited group's pubs remain closed for the entire 12 month going concern period, the repayment of the Spirit debenture debt of c. £100m given the position of technical default as a result of the breach of covenants, and the business does not receive any incremental funding. Under both scenarios the Greene King Limited group is forecast to continue to have access to sufficient cash funds to be in operational existence for a period of at least 12 months from the date of approval of the financial statements.

In forming their conclusion in relation to going concern, the directors of Greene King Limited made a significant judgement in respect of the continued availability of the Greene King securitisation long-term asset-backed financing vehicle in the knowledge that the Greene King Limited group expected to be reliant upon waiver of debt covenants. On 9 April 2021 a waiver request was launched in relation to the four quarter lookback FCF DSCR covenant for the five quarters ending April 2021 through to April 2022 and the two quarter lookback FCF DSCR covenant for the three quarters ending April 2021 through to October 2021 in respect of the Greene King securitisation but given the result was not known at the time of the approval and signing of the Greene King Limited accounts on 29 April 2021 this judgement represented a material uncertainty on the Greene King Limited group's ability to continue as a going concern. On 3 May 2021 the waiver request was approved at a bond-holder meeting and this was announced via the Irish Stock Exchange on 4 May 2021. The waiver request received votes from 97.8% of the bond-holders and all votes were in favour which indicates the continued strength of bond-holder support.

As part of the consent solicitation the directors only requested waivers for covenant test periods which included a known closed or severely impacted trading period i.e. from January to June 2021. There are four future covenant test periods which are not covered as part of the waiver and fall within the 12-month going concern period. These are the two-quarter lookback FCF DSCR covenants for the test dates falling in January 2022, April 2022 and July 2022 and the four-quarter lookback FCF DSCR covenant for the test date falling in July 2022. The directors have prepared forecasts for these four test periods which assume that pubs are fully open with trade improving through the second half of 2021 before reaching close to 2019 levels during the first half of 2022. These forecasts indicate that all of the Greene King securitisation covenants will be passed although the two-quarter lookback FCF DSCR covenants will have a low level of headroom for certain periods. However, if required, the Directors can support both their securitised vehicles through lower re-charges for operating costs incurred by other group companies which would provide additional headroom. Based on this assessment and the waivers received, the Directors have concluded the risk of covenant breaches no longer creates material uncertainty about the ability of Greene King Limited to continue as a going concern.

The director of the company has made appropriate enquiries of the directors of Greene King Limited to confirm that they are satisfied that the financial support will be available and accordingly continue to prepare the financial statements on a going concern basis.

As a result the director of the company continues to prepare the financial statements on a going concern basis and as a result does not include any adjustments to the carrying amount or classification of assets and liabilities that would result if

SPIRIT MANAGED FUNDING LIMITED

DIRECTOR'S REPORT (CONTINUED) **For the 36 weeks ended 3 January 2021**

the company were unable to continue as a going concern.

Director

The director who served during the 36 weeks and to the date of this report was:

R Smothers

The director did not hold any interest in the share capital of the company during the period.

Future developments

No significant changes are anticipated to the activities of the company in the foreseeable future.

Directors' and officers indemnity insurance

Greene King Limited group ("the group") has taken out insurance to indemnify the director of the company against third party proceedings whilst serving on the board of the company and of any subsidiary. This cover indemnifies all employees of the group who serve on the boards of all subsidiaries. These indemnity policies subsisted throughout the year and remain in place at the date of this report.

Disclosure of information to auditor

The director at the time when this director's report is approved has confirmed that:

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

Post balance sheet events

There are no post balance sheet events requiring disclosure in the financial statements.

Auditor

Deloitte LLP were appointed as the company's auditors during the year. They will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

In preparing this report, the director has taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

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



R Smothers

Director

Date: 12 August 2021

SPIRIT MANAGED FUNDING LIMITED

DIRECTOR'S RESPONSIBILITIES STATEMENT

For the 36 weeks ended 3 January 2021

The director is responsible for preparing the director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the director must not approve the financial statements unless he is satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the director is required to:

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPIRIT MANAGED FUNDING LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, the financial statements of Spirit Managed Funding Limited (the 'company'):

- give a true and fair view of the company's affairs as at 3 January 2021 and of its profit for the 36 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- and the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

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

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPIRIT MANAGED FUNDING LIMITED

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, UK tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPIRIT MANAGED FUNDING LIMITED

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, and reviewing correspondence with HMRC.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit, or
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Use of our report

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



Paul Cooper (Senior statutory auditor)

for and on behalf of
Deloitte LLP, Statutory Auditor
Cambridge

13 August 2021

SPIRIT MANAGED FUNDING LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the 36 weeks ended 3 January 2021

		36 weeks ended 3 January 2021 £000	52 weeks ended 26 April 2020 £000
	Note		
Net impairment losses on financial assets	6	(142)	(64)
Operating loss		<u>(142)</u>	<u>(64)</u>
Interest payable and similar expenses	7	(12,183)	(17,598)
Fair value movements	8	831,601	(129,826)
Profit/(loss) before tax		<u>819,276</u>	<u>(147,488)</u>
Taxation	9	1,006	(1,005)
Profit/(loss) for the period		<u><u>820,282</u></u>	<u><u>(148,493)</u></u>

There was no other comprehensive income for the 36 weeks ended 3 January 2021 (2020: £nil).

The notes on pages 10 to 20 form part of these financial statements.

SPIRIT MANAGED FUNDING LIMITED

Registered number:05266806

BALANCE SHEET

As at 3 January 2021

	Note	3 January 2021 £000	26 April 2020 £000
Current assets			
Debtors: amounts falling due after more than one year	11	2,602,005	1,767,454
Debtors: amounts falling due within one year	11	102,435	102,577
		<u>2,704,440</u>	<u>1,870,031</u>
Current liabilities			
Creditors: amounts falling due within one year	12	(362,734)	(348,607)
		<u>2,341,706</u>	<u>1,521,424</u>
Net current assets			
		<u>2,341,706</u>	<u>1,521,424</u>
Total assets less current liabilities			
		<u>2,341,706</u>	<u>1,521,424</u>
Net assets			
		<u>2,341,706</u>	<u>1,521,424</u>
Capital and reserves			
Called up share capital	14	7,000	7,000
Share premium account	15	43,688	43,688
Capital redemption reserve	15	923,474	923,474
Profit and loss account	15	1,367,544	547,262
		<u>2,341,706</u>	<u>1,521,424</u>
Equity			
		<u>2,341,706</u>	<u>1,521,424</u>

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



R Smothers

Director

Date: 12 August 2021

The notes on pages 10 to 20 form part of these financial statements.

SPIRIT MANAGED FUNDING LIMITED

STATEMENT OF CHANGES IN EQUITY
For the 36 weeks ended 3 January 2021

	Called up share capital	Share premium account	Capital redemption reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 29 April 2019	7,000	43,688	923,474	728,371	1,702,533
Loss for the period	-	-	-	(148,493)	(148,493)
Dividends: Equity capital	-	-	-	(32,616)	(32,616)
At 27 April 2020	7,000	43,688	923,474	547,262	1,521,424
Profit for the period	-	-	-	820,282	820,282
At 3 January 2021	7,000	43,688	923,474	1,367,544	2,341,706

The notes on pages 10 to 20 form part of these financial statements.

SPIRIT MANAGED FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS **For the 36 weeks ended 3 January 2021**

1. GENERAL INFORMATION

Spirit Managed Funding Limited is a private company limited by shares incorporated and domiciled in England & Wales.

The company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where indicated.

2. ACCOUNTING POLICIES

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and applicable accounting standards.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note 3).

Following the acquisition of the Greene King Limited group by CK Noble (UK) Limited on 30 October 2019, the financial year end of the company was changed to 31 December so as to be coterminous with the year end of the ultimate parent undertaking, CK Asset Holdings Limited. Accordingly, the current financial statements are prepared for 36 weeks from 27 April 2020 to 3 January 2021 and as a result, the comparative figures stated in the statement of comprehensive income, statement of changes in equity and the related notes are not comparable.

The following principal accounting policies have been applied:

2.2 Financial Reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

SPIRIT MANAGED FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the 36 weeks ended 3 January 2021

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Going concern

Greene King Limited has agreed to provide continuing financial support to enable the company to meet its obligations as and when they fall due for a minimum period of at least 12 months from the date of approval of these financial statements.

The directors of Greene King Limited have assessed the impact of the COVID-19 pandemic as part of their going concern assessment of the Greene King Limited group. In doing so, the Greene King Limited directors have modelled both a prudent view of the next 12 months based on the latest set of government announcements relating to both re-opening and continued assistance but with no further enforced closures and a worst-case scenario that assumes the Greene King Limited group's pubs remain closed for the entire 12 month going concern period, the repayment of the Spirit debenture debt of c. £100m given the position of technical default as a result of the breach of covenants, and the business does not receive any incremental funding. Under both scenarios the Greene King Limited group is forecast to continue to have access to sufficient cash funds to be in operational existence for a period of at least 12 months from the date of approval of the financial statements.

In forming their conclusion in relation to going concern, the directors of Greene King Limited made a significant judgement in respect of the continued availability of the Greene King securitisation long-term asset-backed financing vehicle in the knowledge that the Greene King Limited group expected to be reliant upon waiver of debt covenants. On 9 April 2021 a waiver request was launched in relation to the four quarter lookback FCF DSCR covenant for the five quarters ending April 2021 through to April 2022 and the two quarter lookback FCF DSCR covenant for the three quarters ending April 2021 through to October 2021 in respect of the Greene King securitisation but given the result was not known at the time of the approval and signing of the Greene King Limited accounts on 29 April 2021 this judgement represented a material uncertainty on the Greene King Limited group's ability to continue as a going concern. On 3 May 2021 the waiver request was approved at a bond-holder meeting and this was announced via the Irish Stock Exchange on 4 May 2021. The waiver request received votes from 97.8% of the bond-holders and all votes were in favour which indicates the continued strength of bond-holder support.

As part of the consent solicitation the directors only requested waivers for covenant test periods which included a known closed or severely impacted trading period i.e. from January to June 2021. There are four future covenant test periods which are not covered as part of the waiver and fall within the 12-month going concern period. These are the two-quarter lookback FCF DSCR covenants for the test dates falling in January 2022, April 2022 and July 2022 and the four-quarter lookback FCF DSCR covenant for the test date falling in July 2022. The directors have prepared forecasts for these four test periods which assume that pubs are fully open with trade improving through the second half of 2021 before reaching close to 2019 levels during the first half of 2022. These forecasts indicate that all of the Greene King securitisation covenants will be passed although the two-quarter lookback FCF DSCR covenants will have a low level of headroom for certain periods. However, if required, the Directors can support both their securitised vehicles through lower re-charges for operating costs incurred by other group companies which would provide additional headroom. Based on this assessment and the waivers received, the Directors have concluded the risk of covenant breaches no longer creates material uncertainty about the ability of Greene King Limited to continue as a going concern.

The director of the company has made appropriate enquiries of the directors of Greene King Limited to confirm that they are satisfied that the financial support will be available and accordingly continue to prepare the financial statements on a going concern basis.

As a result the director of the company continues to prepare the financial statements on a going concern basis and as a result does not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the company were unable to continue as a going concern.

SPIRIT MANAGED FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS **For the 36 weeks ended 3 January 2021**

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Intercompany balances

Amounts owed by or to group undertakings are classified as short term assets or liabilities unless there is a formal loan arrangement in place that specifies repayment over a period longer than one year at the balance sheet date.

The company recognises a loss allowance for expected credit losses on amounts due from group undertakings. The methodology used to determine the amount of the expected credit loss is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset.

For those financial assets where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses are recognised. Interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset. For those financial assets where the credit risk has increased significantly (or determined to be credit impaired), lifetime expected credit losses are recognised. Interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset (or for credit impaired assets, to the net carrying amount of the financial asset).

2.5 Intercompany subordinated loans

Subordinated loans owed by group undertakings are classified as fair value through profit or loss where they do not meet the solely payments of principal and interest test in IFRS 9. The company fair values the instrument, recognising a gain or loss through interest in the statement of comprehensive income.

When subordinated loans meet the solely payments of principal and interest test in IFRS 9 they are classified as held at amortised cost using the effective interest method.

2.6 Share capital treated as debt

An equity instrument is a contract that evidences a residual interest in the assets of the entity after deducting all its liabilities. Accordingly, financial instruments issued by the company are presented as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Finance payments associated with financial instruments that are classified as equity are dealt with as appropriations in the reconciliation of movements in shareholder's funds. Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges.

2.7 Taxation

Tax is recognised in profit or loss 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 balance sheet date in the countries where the company operates and generates income.

SPIRIT MANAGED FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS **For the 36 weeks ended 3 January 2021**

2. ACCOUNTING POLICIES (CONTINUED)

2.8 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the board. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

3. JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

SIGNIFICANT ACCOUNTING JUDGMENTS

In the course of preparing the financial statements, the key judgment made in the process of applying the company's accounting policies is detailed below:

Financial assets – subordinated loans

The company has applied judgment in determining that certain subordinated loans do not meet the solely payments of principal and interest test in IFRS 9 and has classified the loans as fair value through profit or loss. For those loans that do meet the solely payments of principal and interest test in IFRS 9 the company has classified the loans at amortised cost.

SIGNIFICANT ACCOUNTING ESTIMATES

The areas of estimation that have a significant risk of resulting in material adjustment to carrying amounts of assets and liabilities are detailed below:

Financial assets - fair value through profit or loss

The subordinated loans are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs. The valuation technique used to value the financial instruments was discounted cash flow analysis. Fair values of subordinated loans are calculated by discounting estimated future cash flows by an implied yield determined with reference to observable market data adjusted to take account of economic differences between the subordinated loans and the reference security. These adjustments reflect the length, lack of marketability and subordination of the loan. The cash flows have been assumed to take place at the maturity date. The discount rate applied is 8.61% (2020: 10.83%). Management has provided analysis of the sensitivity to key assumptions in note 13.

4. STAFF COSTS

The company has no employees (2020: none) and did not incur any staff costs during the period (2020: £nil).

The director who held office during the period was also a director of fellow group undertakings. Total emoluments, including any company pension contributions, received by this director totals £337,000 (2020: £517,000) paid by other companies in the Greene King Limited group. The director does not believe that it is practicable to apportion this amount between qualifying services as director to the company and to fellow group undertakings. The number of directors who received or exercised share options in a fellow group company during the period was nil (2020: 1).

SPIRIT MANAGED FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the 36 weeks ended 3 January 2021

5. AUDITOR'S REMUNERATION

The auditor's remuneration in respect of the audit of the financial statements for the period of £1,500 (2020: £1,500) has been borne by another group company.

The company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group financial statements of the ultimate parent company.

6. OPERATING LOSS

The operating loss is stated after charging:

	36 weeks ended 3 January 2021 £000	52 weeks ended 26 April 2020 £000
Net impairment losses on financial assets	142	64

7. INTEREST PAYABLE AND SIMILAR EXPENSES

	36 weeks ended 3 January 2021 £000	52 weeks ended 26 April 2020 £000
Interest payable to group undertakings	12,183	17,598

8. FAIR VALUE MOVEMENTS

	36 weeks ended 3 January 2021 £000	52 weeks ended 26 April 2020 £000
Movement in fair value of subordinated loans	831,601	(129,826)

SPIRIT MANAGED FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the 36 weeks ended 3 January 2021

9. TAXATION

	36 weeks ended 3 January 2021 £000	52 weeks ended 26 April 2020 £000
Current tax on profits for the year	-	1,006
Adjustments in respect of previous periods	(1,006)	(1)
TOTAL CURRENT TAX	(1,006)	1,005

FACTORS AFFECTING TAXATION FOR THE PERIOD

The tax assessed for the period is lower than (2020: higher than) the standard rate of corporation tax in the UK of 19.0% (2020: 19.0%). The differences are explained below:

	36 weeks ended 3 January 2021 £000	52 weeks ended 26 April 2020 £000
Profit/(loss) on ordinary activities before tax	819,276	(147,488)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.0% (2020: 19.0%)	155,662	(28,023)
EFFECTS OF:		
Expenses not deductible for tax purposes	2,342	3,356
Adjustments to tax charge in respect of prior periods	(1,006)	(1)
Group relief for nil consideration	(678)	-
Transfer pricing adjustments	(157,326)	25,673
TOTAL TAXATION FOR THE PERIOD	(1,006)	1,005

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

Under Finance Act 2020 enacted on 22 July 2020, the Corporation Tax rate for the 12 months from 1 April 2021 remains at 19%, therefore the enacted rate at the balance sheet date is unchanged at 19%.

Under Finance Act 2021 which was enacted on 10 June 2021, the main rate of Corporation Tax will increase to 25% from 1 April 2023.

SPIRIT MANAGED FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the 36 weeks ended 3 January 2021

10. DIVIDENDS

	3 January 2021 £000	26 April 2020 £000
Ordinary	-	32,616

In the prior period dividends of £4.66 per share were paid.

11. DEBTORS

	3 January 2021 £000	26 April 2020 £000
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DUE AFTER MORE THAN ONE YEAR

Subordinated loans owed by group undertakings held at fair value through profit and loss

2,602,005	1,767,454
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3 January 2021 £000	26 April 2020 £000
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DUE WITHIN ONE YEAR

Amounts owed by group undertakings

102,435	102,577
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Subordinated loans owed by group undertakings held at fair value through profit and loss of £2,602,005,000 (2020: £1,767,454,000) comprise seven individual subordinated loans (2020: five loans). On 22 June 2020 the company entered into a new subordinated loan agreements with Spirit Pub Company (Managed) Limited and Spirit Pub Company (Leased) Limited (each a borrower), whereby the company has agreed on an uncommitted basis to advance to the borrowers up to a total aggregate principal amount of £100,000,000 in a series of advances from time to time. Interest on any subordinated loan advances will accrue at a rate of 16% per annum, and repayment of any subordinated loan advances is only permissible following repayment of all the secured loan notes that the borrowers hold with Spirit Issuer plc, a fellow group undertaking, in 2032. As at the balance sheet date, only Spirit Pub Company (Leased) Limited has drawn down £2,950,000 on the new loans.

Three of the loans are due from Spirit Issuer plc, Spirit Pub Company (Managed) Limited and Spirit Pub Company (Leased) Limited and the carrying values are £217,408,000, £825,591,000 and £1,543,247,000 respectively (2020: £147,858,000, £559,753,000 and £1,051,285,000 respectively). Interest accrues at 16% per annum and interest also accrues on unpaid interest at a rate of 15.01% per annum. Repayment of the loans are only permissible following repayment of all of the secured loan notes that Spirit Pub Company (Managed) Limited and Spirit Pub Company (Leased) Limited holds with Spirit Issuer plc, a fellow group undertaking, in 2032.

The remaining four loans (2020: two loans) are due from Spirit Pub Company (Managed) Limited and Spirit Pub Company (Leased) Limited and the carrying values are £6,517,000 and £9,242,000 respectively (2020: £4,276,000 and £4,282,000 respectively). Interest accrues at 16% per annum. Repayment of the loans are only permissible following repayment of all the secured loan notes that Spirit Pub Company (Managed) Limited and Spirit Pub Company (Leased) Limited holds with Spirit Issuer plc, a fellow group undertaking, in 2032.

Amounts owed to group undertakings due within one year are unsecured, bear no interest, have no fixed date of repayment, are repayable on demand and are held at amortised cost. Expected credit losses of £351,000 (2020: £209,000) have been recognised against the carrying value.

SPIRIT MANAGED FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the 36 weeks ended 3 January 2021

12. CREDITORS: Amounts falling due within one year

	3 January 2021 £000	26 April 2020 £000
Amounts owed to group undertakings	82,410	79,461
Corporation tax payable	-	1,005
Share capital treated as debt	252,090	252,090
Accrued preferential dividends	28,234	16,051
	362,734	348,607

Amounts owed to group undertakings are unsecured, bear no interest, have no fixed date of repayment, are repayable on demand and are held at amortised cost.

252,090,000 redeemable, cumulative, non voting, 7% preference shares of £1 each are held by the company's sole shareholder, Spirit Pub Company (SGE) Limited. The preferential dividend becomes due and payable on 30 May and 30 November each year. The preference shares are redeemable at the option of Spirit Pub Company (SGE) Limited, on giving notice to the company. No premium is payable on redemption.

Preferential dividends become due and payable to the company on 30 May and 30 November each year.

As at the balance sheet date accrued dividend payments are as follows:

	3 January 2021 £000	26 April 2020 £000
Dividend due 30 November 2019	8,896	8,896
Dividend due 30 May 2020	8,799	7,155
Dividend due 30 November 2020	8,896	-
Dividend due 30 May 2021	1,643	-
	28,234	16,051

SPIRIT MANAGED FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the 36 weeks ended 3 January 2021

13. FINANCIAL INSTRUMENTS

Fair values

Set out below is a comparison of carrying amounts and fair values of certain of the company's financial instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The following methods and assumptions were used to estimate the fair values:

Subordinated loans due from group undertakings held at fair value through profit or loss: classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs. The valuation technique used to value the financial instruments was discounted cash flow analysis. Fair values of subordinated loans are calculated by discounting estimated future cash flows by an implied yield determined with reference to observable market data adjusted to take account of economic differences between the subordinated loans and the reference security. These adjustments reflect the length, lack of marketability and subordination of the loan. The cash flows have been assumed to take place at the maturity date.

	Hierarchical classification	Fair value 3 January 2021 £000	Carrying value 3 January 2021 £000	Fair value 26 April 2020 £000	Carrying value 26 April 2020 £000
Financial assets					
Subordinated loans held at fair value through profit or loss	Level 3	2,602,005	2,602,005	1,767,454	1,767,454

The discount rate used to calculate the fair value of the subordinated loans was 8.61% (2020: 10.83%). A 1% increase in this discount rate would decrease the fair value to £2,261,601,000 (2020: £1,526,127,000).

Included in the discount rate of 8.61% is a spread over the A5 bond yield of 4.5% which is an unobservable input used in the level 3 fair value measurement. The impact on the fair value of the subordinated loans from using the lowest and highest spread range points of 3.9% to 6.6%, would be £212,723,000 increase in fair value and £662,006,000 decrease in fair value respectively (2020: £150,414,000 and £468,549,000 respectively).

Hierarchical classification of financial assets and liabilities measured at fair value.

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive fair value.

The classification uses the following three-level hierarchy:

Level 1 - unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2 - other techniques for which all inputs have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3 - techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

During the periods ending 3 January 2021 and 26 April 2020 there were no transfers between fair value levels 1, 2 or 3.

SPIRIT MANAGED FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the 36 weeks ended 3 January 2021

I . FINANCIAL INSTRUMENTS (continued)

The following table is a reconciliation of fair value measurements categorised within level 3 of the fair value hierarchy.

	3 January 2021 £000	26 April 2020 £000
Opening balance	1,767,454	1,938,646
Fair value gains/(losses)	831,601	(129,826)
Advances	2,950	-
Settlements	-	(41,366)
	<u>2,602,005</u>	<u>1,767,454</u>

14. SHARE CAPITAL

	3 January 2021 £000	26 April 2020 £000
Shares classified as equity		
Allotted, called up and fully paid		
7,000,003 (2020:7,000,003) Ordinary shares of £1.00 each	<u>7,000</u>	<u>7,000</u>
	3 January 2021 £000	26 April 2020 £000
Shares classified as debt		
Allotted, called up and fully paid		
252,090,000 (2020:252,090,000) Preference shares of £1.00 each	<u>252,090</u>	<u>252,090</u>

15. RESERVES

Share premium account

Share premium represents the excess of proceeds received over the nominal value of new shares issued.

Capital redemption reserve

Capital redemption reserve arose from the purchase and cancellation of own share capital, and represents the nominal amount of the share capital cancelled.

Profit and loss account

Profit and loss account reserve represents accumulated retained earnings.

SPIRIT MANAGED FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the 36 weeks ended 3 January 2021

16. RELATED PARTY TRANSACTIONS

During the period the company entered into transactions, in the ordinary course of business, with other related parties. The company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with related parties that are wholly owned subsidiaries of the CK Asset Holdings Limited group. Amounts shown as owed to and by group subsidiaries are all held with fellow group undertakings. There were no transactions entered into during the financial year or trading balances outstanding at the balance sheet date with other related parties.

17. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

At the balance sheet date, the directors consider the immediate parent undertaking and immediate controlling party of Spirit Managed Funding Limited to be Spirit Pub Company (SGE) Limited, a company incorporated in England and Wales.

The ultimate parent undertaking and ultimate controlling party is CK Asset Holdings Limited, a company registered in the Cayman Islands and registered in Hong Kong with its shares listed on the Main Board of the Hong Kong Stock Exchange.

Greene King Limited is the smallest group which includes the results of the company and for which group financial statements are prepared. Copies of its group financial statements are available from Westgate Brewery, Bury St Edmunds, Suffolk, IP33 1QT.

CK Asset Holdings Limited is the largest group which includes the results of the company and for which group financial statements are prepared. Copies of its group financial statements are available from 7th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.