Registered number: 05699544

SPIRIT PUB COMPANY (LEASED) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the 52 weeks ended 2 January 2022

SPIRIT PUB COMPANY (LEASED) LIMITED

COMPANY INFORMATION

Directors	R Smothers M Starbuck W Shurvinton N Elliot A Bush N Mackenzie K Bosher A Wilson M Sebastian C Preston
Company secretary	Mrs L A Keswick
Registered number	05699544
Registered office	Westgate Brewery Bury St Edmunds Suffolk IP33 1QT
Auditor	Deloitte LLP Statutory Auditor 1 New Street Square London EC4A 3HQ

SPIRIT PUB COMPANY (LEASED) LIMITED

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SPIRIT PUB COMPANY (LEASED) LIMITED

STRATEGIC REPORT
For the 52 weeks ended 2 January 2022

Introduction

The directors present their strategic report for the 52 weeks ended 2 January 2022.

Business review

The principal activity of the company is the operation of public houses, by leasing to independent publicans, and the associated wholesale supply of beer products.

The COVID-19 pandemic has continued to restrict hospitality's trading during 2021. Given the various restrictions and closures during the prior and current period the company breached the Free Cash Flow Debt Service Coverage Ratio "FCF DSCR" covenants relating to the Spirit debenture bonds in respect of the July 2020 and all subsequent covenant test dates resulting in multiple borrower-level events of default. In August 2020 the company sought, but failed to obtain, a bondholder waiver in respect of certain of these events of default, and in light of the failure to obtain that initial waiver the company has not sought further waivers in respect of subsequent covenant breaches. As a result, the Spirit debenture remained in a state of technical default at the year end. This gives the trustee of the Spirit debenture the ability at the ultimate direction of bondholders to accelerate the outstanding debt. No such acceleration had taken place as of the year end.

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 prior financial statements were 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.

COVID-19

The COVID-19 pandemic continued to restrict hospitality's trading in the UK during 2021. Throughout the year, governments across the devolved nations enforced different social restrictions. These ranged from closing pubs, limiting trading to outdoors or table service only, introducing a rule of six, curfews, vaccine passports and other restrictions to socialising and business, both nationally and regionally, to control the spread of the virus.

At the start of the pandemic, the Greene King Limited group had three objectives to ensure the financial stability of the business, to exit the crisis as the strongest in the sector and be ready to bounce-back, and as far as possible protect our employees and leased and tenanted partners from the worst impact of the crisis.
As we came out of the third lockdown in 2021, we moved to three new objectives:
• Bounce back into action - stronger for our customers, partners, people and our owners
• Finish the strong foundations we are building in Culture, Organisation and Strategy
• Maximise the performance of the business in a balanced way

We used these objectives as we navigated through the pandemic during the second half of 2021.

Throughout the period we conducted significant liaison with government departments, ministers, trade bodies and other key players in the sector, to ensure that our interests and those of our sector were well represented at government level and that key issues and concerns were heard.

A full account of the group's response to the crisis is documented in Greene King Limited's financial statements, with the key elements as follows:-

Partners

Greene King continued to discount tenants' rent by 90% even when pubs were able to open outdoors in the spring of 2021, reducing to 40% concession for the period April to July whilst restricted trading was permitted. The 40% concession was re-introduced in December 2021 for sites in Scotland and Wales that were forced to again trade under restriction in response to the Omicron variant.

Greene King's Pub Partners division won the Best Leased & Tenanted pub company award at the Publican Awards. Judges praised Pub Partners for looking after tied pub tenants during the COVID-19 pandemic, which judges said was especially impressive 'given the size and scale of the task'. Through 2021, we provided financial support to our tenants' worth £18m, mainly through rent concessions.

Impact on the financial statements

The lockdown at the start of the year which required the closure of pubs had a material impact on revenue, profit and free cash flow for the period to 2 January 2022.

During the year the company has repaid all the deferred January to March 2020 quarterly VAT liability in the year.

As a consequence of the COVID-19 pandemic, in the prior period the company breached its Free Cash Flow Debt Service Coverage Ratio (FCF DSCR) covenants, resulting in multiple borrower-level events of default. In August 2020 the company sought, but failed to obtain, a bondholder waiver in respect of certain of these events of default, and in light of the failure to obtain that initial waiver the company has not sought further waivers in respect of subsequent covenant breaches. As a result, the Spirit debenture remained in a state of technical default at the year-end. Management consider the risk of enforcement to be very low.

Although it is certain that the Greene King Limited group's, and therefore the company's, credit metrics have deteriorated as a result of the reduced trade arising from the COVID-19 pandemic, its liquidity position remains strong reflecting the resilience of the Greene King Limited group's capital structure. The Greene King Limited group's average cash cost of debt reduced to 3.5% from 4.1% last year, and at the year-end 93.2% of the Greene King Limited group's net debt was at a fixed rate. The Greene King secured vehicle had a two-quarter lookback FCF DSCR of 1.3x at the year end, giving 17% headroom to the covenant limit of 1.1x. The Spirit debenture vehicle had a FCF DSCR ratio of -2.8x, which is below the covenant limit of 1.3x.

COVID-19 has continued to have an impact on the accounting estimates and judgements taken in the financial statements. During the period a net credit of £673,000 was recognised on bad debt provision reversals on trade debt reflecting the additional information available on debt collection.

Financial and non-financial key performance indicators

The key financial and other performance indicators during the period were as follows:

	52 weeks ended 2 January 2022 £000	36 weeks ended 3 January 2021 £000	Change %
Turnover (1)	**26,040**	10,021	159.9%
Adjusted operating profit/(loss) (1,2)	**4,492**	(3,168)	-241.8%
Operating profit (1)	**12,639**	4,002	215.8%
Adjusted operating margin (1,3)	**17.3%**	-31.6%	
EBITDA (1,4)	**8,901**	712	1,150.1%
Outstanding bond issuance	**78,590**	78,758	-0.2%
Number of pubs at period end	**217**	226	-4.0%

The KPIs have been selected to understand the performance of the pubs owned and operated by the company. The KPIs are a mixture of statutory and underlying measures.

1. These KPIs have been materially impacted by COVID-19.
2. Adjusted operating profit/(loss) is operating profit excluding adjusting items provided in note 11.
3. Adjusted operating margin is calculated as adjusted operating profit/(loss), as explained above, as a percentage of Turnover as given on the face of the statement of comprehensive income.
4. EBITDA represents a loss of £147,433,000 before interest of £156,274,000, tax of £3,798,000, depreciation of £4,409,000, amortisation of £nil and adjusting item credits of £8,147,000.

Existing KPIs have been measured on the same basis as in previous financial periods and there have been no changes to methodology of collection or manner of calculation, whether impacted by COVID-19 or otherwise.

Due to the change in financial year end during the prior period, as discussed in the business review section, the comparative figures quoted are not comparable. Turnover for the 52 week period was £26,040,000 compared to prior period turnover for 36 weeks of £10,021,000 and adjusted operating profit was £4,492,000 compared to prior period adjusted operating loss of £3,168,000. As discussed in more detail in the section above in Business Review, the COVID-19 pandemic has continued to have a significant impact on the company. Operating profit of £12,639,000 was 215.8% better than the prior period operating profit of £4,002,000. The company incurred adjusting item credits of £8,147,000 with £618,000 relating to revaluation of tangible fixed assets, £4,700,000 relating to net impairment reversals of tangible fixed assets and right-of-use assets; £2,013,000 relating to profit on disposal of tangible fixed assets; and £816,000 of credits relating to COVID-19 (see note 11 for further details).

Principal risks and uncertainties

During the year the COVID-19 pandemic was constant in disrupting trade and the normal operation of the business. Throughout the year, trade was either prohibited by law with the forced closure of hospitality nationally or regionally, or trade was severely restricted by social distancing or self-isolation requirements brought about by high levels of COVID-19 infection circulating in the general population.

The COVID-19 pandemic has impacted many of the other risks already facing the business, and accordingly existing mitigation plans designed to deal with those risks have been adapted, amended and upweighted as necessary. For further details of the impact on the company of the COVID-19 pandemic, and how the Greene King Limited group has responded to the threats thereof, please see the separate COVID-19 section of the strategic report.

The principal risks and uncertainties facing the business were largely similar in nature to those reported last year, with the evolution of one key risk from adopting the right strategy to executing it.

Formal risk management processes are in place across the Greene King Limited group to identify and evaluate risks, taking into account the likelihood of their occurrence and the scale of potential impact on the business.

The principal risks and uncertainties facing the company are broadly grouped as strategic risks, economic and market risks, financial risks, regulatory risks and operational and people risks. These risks are managed at a group level and details can be found in the Greene King Limited group accounts which are publicly available.

Financial risks

The company's financing structure requires it to be able to repay capital borrowed and interest on time and to ensure that the company operates within certain financial covenants. Following the breach of the financial covenants as a result of the COVID-19 pandemic and mandated closure of the pubs, restrictions have been placed on the company which have a limited impact on the financial statements.

The company's long term strategy and yearly business plans are formulated to ensure that financial covenants can be met and management monitor this on a regular basis. The COVID-19 pandemic has had a significant impact on the company's ability to continue to meet its financial covenants (see Business Review section for further details). Given the length of time the pubs were closed in the prior and current period the company has breached Free Cash Flow Debt Service Coverage Ratio "FCF DSCR" covenants relating to the Spirit debenture bonds since July 2020.

Liquidity risk

The company is primarily financed by subordinated intercompany loans and to a lesser extent secured loan notes, of which 100% of the capital balance on the loan note is held as due within one year following the breach of covenants in the prior period. Further details can be found in note 17.

The Directors' report and note 17 describe the financial position of the company, its liquidity position and borrowing facilities, and include the company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk.

The company's borrowings are subject to restrictions on the release of excess cash and a variety of financial covenants. Failure to comply with the terms of the loan agreement could restrict the ability of the company to provide funds to meet Greene King Limited's business strategy, particularly around dividends and investments, by restricting the uses to which cash could be put.

Cash flow volatility (driven by the seasonality of cash inflows) could also result in a liquidity risk.

Interest rate risk

Exposure to changes in interest rates on the company's borrowings is reviewed with regard to the maturity profile and cash flows of the underlying debt. The company uses a mixture of fixed and floating interest rate debt with exposure to market interest rate fluctuations primarily arising from the floating rate instruments. The company's policy is to keep 100% of its variable rate bond finance at fixed rates of interest to mitigate the interest rate risk, this is done through the use of interest rate swaps. At the period end 100% of variable rate bond finance were fixed after taking account of interest rate swaps.

Certain of the company's financial instruments reference LIBOR and, as LIBOR ceased to be available from the end of 2021, the company is working to transition to alternative Risk Free Rates. Further details are in note 17.

Credit risk

Financial assets include term loans, cash and cash equivalents, intercompany debtors, trade debtors and interest receivable. Credit risk is the risk of default by the counterparty to discharge their obligation and the maximum exposure of the company is the carrying amount of these instruments. The credit risk on cash and cash equivalents is limited by investment with banks and financial institutions with high credit ratings assigned by international credit agencies. The credit risk on amounts owed by group undertaking is limited as these consist of amounts receivable from other significant subsidiaries of Greene King Limited group. The policy for third party trading is that all customers who wish to trade on credit terms are subject to regular credit verification procedures. Receivable balances are also monitored on an ongoing basis and provided against where deemed necessary to limit the exposure to bad debts to a non-significant level.

Directors' statement of compliance with duty to promote the success of the company

Under section 172 of the Companies Act 2006 the directors of the company are required to act in a way which promotes the long-term success of the company and in doing so to consider the interests of the company's stakeholders. This section of the report is designed to set out how the directors have complied with their obligations in this regard.

The directors of the company have at all times during the year under review (and at all other times) acted in the way that they considered, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so had regard (amongst other matters) to:

- the likely consequences of any decision in the long term,
- the need to foster the company's business relationships with suppliers, customers and others,
- the impact of the company's operations on the community and the environment,
- the desirability of the company maintaining a reputation for high standards of business conduct, and
- the need to act fairly between members of the company.

Engaging with stakeholders

The success of our business is dependent on the support of all of our stakeholders. Building positive relationships with stakeholders that share our values is important to us and working together towards shared goals assists us in delivering long-term sustainable success.

The company is a wholly owned subsidiary of the Greene King Limited group and therefore the company's key stakeholders are largely the same as those of Greene King Limited group and all decisions affecting the company are filtered down from group, based on the group-wide strategy. As the directors of the company are different from those of Greene King Limited group, they are kept informed of all decisions made at group-level, that will affect the company and its trading.

The Greene King Limited group's ("the group") key stakeholders are as follows:

Shareholders: The company is a wholly owned subsidiary of the CK Asset Holdings Limited ("CKA") group, a limited liability company incorporated in the Cayman Islands, registered in Hong Kong, and listed on the Main Board of the Hong Kong Stock Exchange. The Greene King Limited board ("the board") has continued to ensure that there is appropriate engagement by the company with CKA. Certain members of the board of CKA receive copies of the company's board meeting packs and are invited to attend and ask questions at the company's board meetings to ensure that there is direct contact between the two boards and that the company's parent is fully informed of the company's activities.

Tenants: The success of Greene King's Pub Partners division, which manages our tenanted and leased pubs, is dependent on the success of our licensees. We have several different agreement types in place designed to best align the interests of

Greene King with those of its licensees and support long and successful tenures.

The board has been supportive of the actions taken by management during the COVID-19 pandemic to support our tenants and lessees, details of which are set out in the COVID-19 section of the strategic report.

Debt holders: The company, along with Spirit Pub Company (Managed) Limited, is a borrower in a whole business securitisation financing arrangement whereby the proceeds of bond issuances by Spirit Issuer plc have been on-lent to the company by way of term advances. The bond issued by Spirit Issuer plc is listed on the Luxembourg Stock Exchange. During the period, as in the prior period and as a direct consequence of the pub closures due to the COVID-19 pandemic, the company was unable to meet certain of its financial covenants. With the support of the board, the company sought but did not obtain a waiver of the covenants from the bondholders. The outstanding debt has not been accelerated and we continue to operate the Spirit debenture in accordance with the agreements governing its operation.

Landlords of leasehold properties: Whilst the majority of our pubs and restaurants are freehold properties, we do operate a number of leasehold sites owned by a range of landlords. Engagement with such landlords primarily concerns rent and repairs. Discussions with landlords stepped up during the COVID-19 crisis to assist the company's cash conservation efforts, with many landlords agreeing to defer rental payments whilst our pubs and restaurants are closed.

Case studies
The COVID-19 pandemic: As explained elsewhere in the strategic report, the COVID-19 pandemic has been the defining issue for the majority of the year. Management of the crisis was a matter for the executive board, which set up a crisis group, led by the chief financial officer, to oversee the company's response to the crisis. Both the board and the board committee were kept fully informed of the management team's handling of the crisis and were given opportunities to provide their feedback. Reporting to the board and committee set out in detail the various actions taken vis a vis all of the company's key stakeholders, with particular focus on the impact of the crisis on the company's financial position and its prospects.

Strategy and budget: The Greene King Limited group's strategic goal, set in 2020, is to be the pride of British hospitality, famous for outstanding customer experiences and a balanced portfolio of high growth, consistently profitable brands. Much of the last two years have been focused on dealing with the COVID-19 pandemic but during 2021 work began in earnest to prepare a longer term strategic plan. A number of foundational projects commenced during the year to underpin the group's brand development strategy, including work on customer segmentation, the Greene King brand and a customer engagement programme. At the same time work on culture and values continued (see case study below). With the support of the board, all divisions and functions undertook a bottom-up five-year strategic planning exercise. These were then reviewed by the executive board which undertook a prioritisation exercise based on a number of key principles for 2022, and recognising the capital constraints facing the business as it recovers from the pandemic. As a result, the priorities for 2022 will include:

- Finalising and implementing the cultural change programme
- Rolling out proven brands and also trialling new formats to rebalance our portfolio
- Investing in a step change in our digital capabilities
- Building the capabilities of our people and an improved people management infrastructure
- Strengthen our IT security and core systems infrastructure
- Investing to deliver operational efficiency and cost mitigation in future years.

Each of these is reflected in the 2022 budget which was approved by the board committee in 2021.

Culture and values: Significant progress has been made during the year with regard to 'Greene King Unleashed', the Greene King Limited group's programme of cultural and strategic transformation. Supported by both the board and the board committee, the following elements of the programme were delivered during the year:
- Engagement programmes with all teams on the company's purpose, goal and values, which culminated in a conference attended by more than 2,000 managers in October.
- The roll out of an intensive leadership development programme for all of the company's leaders, to build the skills and capabilities to embed the cultural change programme.
- The launch of the "Dartboard" balanced scorecard to measure and assess performance against strategy in a more rounded way.
- The implementation of a new performance management and talent process which started at the beginning of 2022.

STRATEGIC REPORT (CONTINUED)
For the 52 weeks ended 2 January 2022

Inclusion and diversity: During the year management created a new strategy, supported by the board, that clearly sets out our plans and commitments to achieve our diversity and inclusion aspirations based on education, awareness and activity.

A particular focus was on the publication of the company's race manifesto, Calling Time on Racism, which set out our ambition to embrace and value our Black, Asian and Minority ethnic team members and the wider community and to increase their representation within the hospitality sector as a leading and truly anti-racist organisation. Further details are set out in the corporate social responsibility section of the Greene King Limited group's financial statements.

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

R Smothers
Director
Date: 26 April 2022

DIRECTORS' REPORT
For the 52 weeks ended 2 January 2022

The directors present their report and the financial statements for the 52 weeks ended 2 January 2022.

Results and dividends

The loss for the 52 weeks, after taxation, amounted to £147,433,000 (36 weeks ended 3 January 2021: loss £95,577,000).

No dividends were paid or proposed during the period (36 weeks ended 3 January 2021: £nil).

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 period of at least 12 months from the date of the approval of the financial statements.

The directors of Greene King Limited have assessed the continued 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 a reasonable worst-case scenario of a further sustained Omicron-style COVID-19 variant impacting the UK through the winter of 2022. The directors have also modelled what they believe to be a remote scenario, a two-month lockdown without government support during the peak months. Under both scenarios the group continues to have access to the adequate funding to support the business through a period of at least 12 months from the date of the approval of the financial statements, including the repayment of the Spirit debenture debt of c.£100m should this debt be accelerated while the platform remains in technical default. However, in the absence of any government support this reduction in trade would likely result in further breaches of both the two-quarter and four-quarter lookback FCF DSCR covenant in the Greene King securitisation without mitigating actions. In either scenario the directors could elect to prevent the breach by providing financial support to the Greene King securitisation through lower operating cost re-charges from other group companies, or alternatively seek a further waiver from bondholders. The directors of Greene King Limited have a reasonable expectation that the group has adequate resources to continue in operational existence for at least the next 12 months from the date of the approval of the financial statements.

The directors of the company have 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.

Directors

The directors who served during the 52 weeks and to the date of the report were:

R Smothers
M Starbuck
W Shurvinton
N Elliot
A Bush
N Mackenzie
P Kerrigan (resigned 31 March 2022)
K Bosher
A Wilson
M Sebastian
C Preston

None of the directors held any interest in the share capital of the company during the period.

Future developments

The company intends to continue operating public houses, by leasing to independent publicans, and the associated wholesale supply of beer products for the foreseeable future.

The directors sought, but did not obtain, a waiver in respect of the July 2020 Free Cash Flow Debt Service Coverage Ratio "FCF DSCR" covenants from the bondholders. The directors do not anticipate the debt being re-called and we continue to operate the Spirit debenture in accordance with the agreements governing its operation.

The board of Greene King Limited group will continue to support the business through this difficult trading period.

Financial instruments

The primary treasury objectives of the company are to identify and manage the financial risks that arise in relation to underlying business needs, and provide secure and competitively priced funding for the activities of the company. If appropriate, the company uses financial instruments and derivatives to manage these risks.

The principal financial instruments held for the purpose of raising finance for operations are secured loan notes, amounts owed to group undertakings, cash and short term deposits. Other financial instruments arise directly from the operations of the company, such as trade and other debtors and creditors.

Derivative financial instruments, principally interest rate swaps, are used to manage the interest rate risks related to the company's operations and financing sources. No speculative trading in derivative financial instruments is undertaken.

Further details on risks and uncertainties on the use of financial instruments are set out in the Strategic report and note 17 to the financial statements.

Directors' and officers' indemnity insurance

Greene King Limited group ("the group") has taken out insurance to indemnify the directors 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.

Matters covered in the Strategic report

The company has chosen in accordance with section 414C(11) of the Companies Act 2006 to include matters of strategic importance in the strategic report which otherwise would be required to be dislocsed in the directors' report: Section 172 statement, principal risks and financial risk management.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director 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

The auditor, Deloitte LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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

R Smothers
Director
Date: 26 April 2022

DIRECTORS' RESPONSIBILITIES STATEMENT
For the 52 weeks ended 2 January 2022

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have 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 directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPIRIT PUB COMPANY (LEASED) LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion
In our opinion, the financial statements of Spirit Pub Company (Leased) Limited (the 'company'):
- give a true and fair view of the company's affairs as at 2 January 2022 and of its loss for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accouning 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 25.

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 PUB COMPANY (LEASED) 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. These included data protection regulations, licensing regulations, the pub code, occupational health and safety regulation, employment legislation, responsible drinking regulations and planning and building legislation.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, pensions, IT & financial instruments 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.

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 internal audit reports, 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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 strategic report or 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.

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.

Timothy Steel (Senior statutory auditor)

for and on behalf of
Deloitte LLP, Statutory Auditor
London, UK

26 April 2022

STATEMENT OF COMPREHENSIVE INCOME
For the 52 weeks ended 2 January 2022

	Note	52 weeks ended 2 January 2022 £000	36 weeks ended 3 January 2021 £000
Turnover	4	**26,040**	10,021
Cost of sales		**(10,793)**	(4,892)
Gross profit		**15,247**	5,129
Administrative expenses	5	**(10,755)**	(8,297)
Adjusting items	11	**8,147**	7,170
Operating profit	5	**12,639**	4,002
Interest receivable and similar income	8	**1,039**	-
Interest payable and similar expenses	9	**(157,313)**	(100,223)
Loss before tax		**(143,635)**	(96,221)
Taxation	10	**(3,798)**	644
Loss for the period		**(147,433)**	(95,577)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
(Losses)/gains on revaluation of land and buildings		**(775)**	2,551
Tax effect on revaluation of land and buildings		**(665)**	(385)
		(1,440)	2,166
Total comprehensive loss for the period		**(148,873)**	(93,411)

The notes on pages 18 to 46 form part of these financial statements.

SPIRIT PUB COMPANY (LEASED) LIMITED
Registered number:05699544

BALANCE SHEET
As at 2 January 2022

	Note	2 January 2022 £000	3 January 2021 £000
Fixed assets			
Tangible assets	12	**188,022**	193,601
Current assets			
Debtors	13	**108,717**	105,254
Cash at bank	14	**9,224**	3,459
		117,941	108,713
Current liabilities			
Creditors: amounts falling due within one year	15	**(116,705)**	(109,916)
Net current assets/(liabilities)		**1,236**	(1,203)
Total assets less current liabilities		**189,258**	192,398
Creditors: amounts falling due after more than one year	16	**(1,667,714)**	(1,526,468)
		(1,478,456)	(1,334,070)
Provisions for liabilities			
Deferred taxation	18	**(12,561)**	(7,943)
Other provisions	20	**(200)**	(331)
		(12,761)	(8,274)
Net liabilities		**(1,491,217)**	(1,342,344)
Capital and reserves			
Called up share capital	21	**-**	-
Revaluation reserve	22	**11,869**	14,148
Other reserves	22	**61,290**	61,290
Profit and loss account	22	**(1,564,376)**	(1,417,782)
Equity		**(1,491,217)**	(1,342,344)

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

R Smothers
Director
Date: 26 April 2022

The notes on pages 18 to 46 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the 52 weeks ended 2 January 2022

	Called up share capital	Revaluation reserve	Other reserves	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 27 April 2020	-	12,222	61,290	(1,322,445)	(1,248,933)
Loss for the period	-	-	-	(95,577)	(95,577)
Revaluation of land and buildings	-	2,551	-	-	2,551
Tax effect on revaluation of land and buildings	-	(385)	-	-	(385)
Transfer to/from profit and loss account	-	(240)	-	240	-
At 4 January 2021	-	14,148	61,290	(1,417,782)	(1,342,344)
Loss for the period	-	-	-	(147,433)	(147,433)
Revaluation of land and buildings	-	(775)	-	-	(775)
Tax effect on revaluation of land and buildings	-	(665)	-	-	(665)
Transfer to/from profit and loss account	-	(839)	-	839	-
At 2 January 2022	-	11,869	61,290	(1,564,376)	(1,491,217)

The notes on pages 18 to 46 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the 52 weeks ended 2 January 2022

1. GENERAL INFORMATION

Spirit Pub Company (Leased) 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, as modified by the revaluation of tangible fixed assets and derivative financial instruments that have been measured at fair value and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

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 prior financial statements were 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 paragraph 33(c) of IFRS 5 Non Current Assets Held For Sale and Discontinued Operations
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total
- 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;
    - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
- 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 of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Financial reporting standard 101 - reduced disclosure exemptions (continued)

Estimates and Errors

- 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
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

This information is included in the consolidated financial statements of Greene King Limited or Spirit Pubs Debenture Holdings Limited as at 2 January 2022 and these financial statements may be obtained from Westgate Brewery, Bury St Edmunds, Suffolk, IP33 1QT.

2.3 Impact of new International Reporting Standards, amendments and interpretations

The following new standards, interpretations and amendments to standards are mandatory for the company for the first time for their annual reporting period commencing 4 January 2021.

Those standards and interpretations include:
• Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16)
• COVID-19 Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16).

The company has early adopted COVID-19 Related rent concessions beyond 30 June 2021 (Amendment to IFRS 16).

The company has considered the above new standards and has concluded that only the COVID-19 related rent concessions has an impact on the company's financial statements and the impact of Interest Rate Benchmark Reform - Phase 2 is not material.

COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)
The company has early adopted COVID-19 Related Rent concessions beyond 30 June 2021 – Amendment to IFRS 16 issued on 31 March 2021. The amendment extends the optional practical expedient for lessees not to treat eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic as lease modifications. The impact of rent concessions have been shown in note 19.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Going concern

Greene King Limited has agreed to provide continuing financial support to enable the company to meet its
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 period of at least 12 months from the date of the approval of the financial statements.

The directors of Greene King Limited have assessed the continued 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 a reasonable worst-case scenario of a further sustained Omicron-style COVID-19 variant impacting the UK through the winter of 2022. The directors have also modelled what they believe to be a remote scenario, a two-month lockdown without government support during the peak months. Under both scenarios the group continues to have access to the adequate funding to support the business through a period of at least 12 months from the date of the approval of the financial statements, including the repayment of the Spirit debenture debt of c.£100m should this debt be accelerated while the platform remains in technical default. However, in the absence of any government support this reduction in trade would likely result in further breaches of both the two-quarter and four-quarter lookback FCF DSCR covenant in the Greene King securitisation without mitigating actions. In either scenario the directors could elect to prevent the breach by providing financial support to the Greene King securitisation through lower operating cost re-charges from other group companies, or alternatively seek a further waiver from bondholders. The directors of Greene King Limited have a reasonable expectation that the group has adequate resources to continue in operational existence for at least the next 12 months from the date of the approval of the financial statements.

The directors of the company have 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.

2.5 Tangible fixed assets

Freehold land and buildings held as tangible fixed assets are recognised initially at cost less accumulated depreciation and are subject to periodic revaluations (see note 2.6).

Other tangible fixed assets which include right of use assets (see note 2.13), are held at cost less impairment..

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Tangible fixed assets (continued)

Land is not depreciated. Depreciation on other assets 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 bases:

Freehold property	- depreciated to their estimated residual values over periods of up to fifty years
Long-term leasehold property	- depreciated to their estimated residual values over periods of up to fifty years
Short-term leasehold property	- depreciated to their estimated residual values over the remaining lease term.
Fixtures and fittings	- depreciated over their estimated useful lives which range from three to twenty years

Where the carrying value of properties may not be recoverable an impairment in the value of tangible fixed assets is charged to the profit and loss account.

Residual value is reviewed at least at each financial year end and there is no depreciable amount if residual value is the same as, or exceeds, book value.

Residual values, useful lives and methods of depreciation are reviewed for all categories of property, plant and equipment and adjusted, if appropriate, at each financial year end.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use. Profit or loss on de-recognition is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, and is included in the income statement in the year of de-recognition.

2.6 Revaluation of freehold tangible fixed assets

Freehold land and buildings held as tangible fixed assets are recognised initially at cost and thereafter carried at fair value less depreciation. Fair value is based on periodic valuations of the entire estate by an external independent valuer and is determined from market-based evidence with at least 20% of properties in the Spirit Debenture estate selected for a site visit each year to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recorded in OCI and credited to the revaluation reserve in equity except to the extent that it reverses a decrease in the carrying value of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent of any existing surplus in respect of that asset in the revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal any revaluation reserve relating to the particular asset being sold is transferred to the profit and loss account.

2. ACCOUNTING POLICIES (CONTINUED)

2.7 Impairment

Leasehold tangible fixed assets held under the historic cost model and right-of-use assets are subject to impairment.

Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows independent of the cash inflows of other groups of assets.

An assessment is made at each reporting date as to whether there is an indication of impairment. If an indication exists, the company makes an estimate of the recoverable amount of each asset group. An asset's or cash generating unit's recoverable amount is the higher of its fair value less costs of disposal and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

An impairment loss is recognised where the recoverable amount is lower than the carrying value of assets. If there is an indication that any previously recognised impairment losses may no longer exist or may have decreased, a reversal of the loss may be made only if there has been a change in the estimates used to determine the recoverable amounts since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount only up to the carrying amount that would have resulted, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairment losses and any subsequent reversals are recognised in the income statement.

Details of the impairment losses recognised in respect of tangible fixed assets and right-of-use assets are provided in note 12.

2.8 Fixed assets held for sale

Fixed assets are classified as held for sale only if it is available for sale in its current condition, management is committed to the sale and a sale if highly probable and expected to be completed within one year from the date of classification. Fixed assets classified as held for sale are measured at the lower of carrying amount and fair value less costs of disposal and are no longer depreciated or amortised.

2.9 Trade debtors

Trade debtors are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade debtors are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The company holds trade debtors with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

For trade debtors, the company adopts a simplified approach in calculating expected credit losses. Therefore, the company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The company utilises a provision matrix that has been designed based on historically observed default rates adjusted by a forward looking estimate that includes the probability of a worsening economic environment within the next year.

2.10 Trade creditors

Trade creditors are non-interest bearing and are stated at their nominal value.

2. ACCOUNTING POLICIES (CONTINUED)

2.11 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).

2.12 Derivative financial instruments

The company uses interest rate swaps to hedge its exposure to interest rate fluctuations on its variable secured loan notes. The swap has been deemed an ineffective hedge and therefore does not qualify for hedge accounting, with movements in its fair value being recognised in the income statement.

Interest rate swaps are initially measured at fair value, if any, and carried on the balance sheet as an asset or liability. Subsequent measurement is at fair value and the movement is recognised in profit and loss unless hedge accounting is adopted. Cash payments or receipts made are recognised in interest payable on secured loan notes so as to show the cash fixed rate on the secured loan notes, with the remaining fair value movement (which is generally the change in the carrying amount of the swaps) presented separately.

The consolidated financial statements of Greene King Limited contain financial instrument disclosures which comply with IFRS 7 'Financial Instruments: Disclosures'. Consequently, the company has taken advantage of the exemption in IFRS 7 not to present separate financial instrument disclosures for the company.

2.13 Leases

The company as a lessee

For any new contracts entered into on or after 29 April 2019, the company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration'. To apply this definition, the company assesses whether the contract meets all of the following criteria:

- the contract contains an identified asset, which is either explicitly identified in the contact or implicitly specified by being identified at the time the asset is made available to the company
- the company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the company has the right to direct the use of the identified asset throughout the period of use. The company assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the company. Each lease payment is allocated between repayment of the lease liability and finance cost. The finance cost is charged to the income statement over the lease term to produce a constant periodic rate of interest on the outstanding lease liability balance. The right-of-use asset is depreciated over the shorter of the asset's expected useful life and the lease term on a straight-line basis

2. ACCOUNTING POLICIES (CONTINUED)

2.13 Leases (continued)

unless the lease is expected to transfer ownership of the underlying asset to the company in which case the asset is depreciated to the end of the useful life of the asset.

The lease liability is initially measured as the present value of future lease payments, discounted using the interest rate implicit in the lease. Where this rate is not determinable, the incremental borrowing rate is used, which is the interest rate the entity would have to pay to borrow the amount necessary to obtain an asset of similar value, in a similar economic environment with similar terms and conditions.

The right-of-use asset is initially measured at cost, comprising the initial value of the lease liability, any lease payments made (net of any incentives received from the lessor) before the commencement of the lease, any initial direct costs and any restoration costs.

For changes to existing contracts such as fair market rent reviews or other modifications, a remeasurement is recorded in both right-of-use asset and lease liability based upon the net present value of the incremental change of cashflows discounted at the Incremental Borrowing Rate (IBR).

Payments in respect of leases of either short-term, low-value or based on variable rental payments continue to be charged to the income statement on a straight-line basis over the lease term.

The company as a lessor

Leases in which the company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease term other than variable/contingent rent and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Under IFRS 16 lessor accounting is broadly unchanged and therefore the majority of leases under which the company is the lessor continue to be accounted for as operating leases.

2.14 Provisions for liabilities

Provisions are made where an event has taken place that gives the company 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 profit and loss account in the year that the company becomes aware of the obligation, and are measured at the best estimate at the Balance sheet 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 Balance sheet.

Provisions are discounted to present value, where the effect of the time value of money is material, using a pre-tax discount rate that reflects current market estimates of the time value of money and the risks specific to the liability. The amortisation of the discount is recognised as interest payable and similar charges.

2. ACCOUNTING POLICIES (CONTINUED)

2.15 Turnover

Turnover represents external sales (excluding taxes) of goods and services, net of discounts. Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and is measured at the fair value of consideration receivable, excluding discounts, rebates and other sales taxes or duty relating to brewing and packaging of certain products.

Drink/product sales
The company supplies tenants with a variety of products recognising the sale upon delivery to the pub. As this point the tenant is solely responsible for stock management and no refunds are given for out of date products, passing all risks and rewards of ownership to the tenant.

The tenancy agreement may also include volume incentives in the form of retros, which are deemed to be related transactions and therefore the cost of retro is recognised simultaneously, provided that the cost can be measured reliably. The net of the proceeds from sale and the expected retro is disclosed as revenue. The accrued value for rebates payable is included within other creditors.

Rental income
The company recognised rental income other than variable rent on a straight line basis over the term of the lease, as the performance obligation is satisfied over time, based on the contractual terms of the lease agreement.

Machine income
Machine income is recognised, in the company's capacity as agent, where net takings are recognised as earned on the company's proportion of machine proceeds in the period of sale.

2.16 Interest

Interest income is recognised in profit or loss using the effective interest method.

2.17 Cash at bank

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

2.18 Secured loan notes

Secured loan notes issued to Spirit Issuer plc, a fellow Greene King Limited group undertaking are initially recognised at fair value, plus transaction costs. After initial recognition, secured loan notes are measured at amortised cost using the effective interest method.

2.19 Loans and borrowings

All loans and borrowings are initially recognised at fair value, net of issue costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method.

2. ACCOUNTING POLICIES (CONTINUED)

2.20 Current and deferred taxation

The tax expense for the 52 weeks comprises current and deferred tax. 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.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet 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; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

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 balance sheet date.

2.21 Adjusting items

Adjusting items are classified as those which are separately identifiable by virtue of their size, nature or expected frequency and therefore warrant separate presentation or allow a better understanding of the underlying performance of the business.

In the prior period certain items were deemed to be exceptional items, in the current period management have reassessed the application of the definition in order for them to be to shown as adjusting items.

Items that are considered to be adjusting and that are therefore separately identified in order to aid comparability may include the following:

• Impairment charges/reversals in respect of tangible fixed assets as a result of restructuring, business closure, underperformance of sites or fire damage;
• Profit or loss on the disposal of tangible fixed assets, where the company disposes of properties that it no longer considers meet the ongoing needs of the business. These profits or losses could be significant and volatile and are not reflective of the company's ongoing trading results;
• Insurance compensation received to meet the costs of restoring sites damaged by fire. Such compensation may be receivable over a lengthy time period and be of a large total amount;
• One-off costs relating to the outbreak of a pandemic, to include the increase in the expected credit loss of trade debtors, and other costs directly attributable to either the closure of pubs during the outbreak period or preparing the sites for reopening;
• finance costs or income resulting from gains or losses upon the settlement of interest rate swap and bond liabilities where the swaps have been terminated. These amounts may be significant and are separately identified as the instruments they relate to would no longer form part of the company's ongoing capital structure;

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:

Adjusting items
Management uses a range of measures to monitor and assess the company's financial performance. These measures include statutory measures calculated in accordance with IFRS but are adjusted to exclude items that management considers would prevent comparison of the company's performance from one reporting period to another.

The classification of items excluded from profit before adjusting items requires judgment including consideration of the nature, circumstances, scale and impact of the transaction.

COVID-19 tenant support
As explained in the Strategic report, the company has provided extensive support to its tenants due to the impact of COVID-19 and management have made a judgment that such support represents variable rent which is recognised in the income statement as the support is given.

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:

Impairment of tangible fixed assets and right-of-use assets
IFRS requires management to perform impairment tests annually, if events or changes in circumstances indicate that their carrying amounts may not be recoverable.

Impairment testing requires management to judge whether the carrying value of assets can be supported by the net present value of future cash flows that they generate. Calculating the net present value of the future cash flows requires estimates to be made in respect of long-term growth rates, and the adoption of a suitable discount rate. The long-term growth rate is based on expected industry returns which is slightly below the forecast long-term UK inflation rate. The discount rate is based on the Greene King Limited group's WACC.

Changes to the long-term growth rate or discount rate used, could significantly affect the company's impairment charge (and reversal) recognised in the income statement and the overall value of assets held at the balance sheet date. Management has provided analysis of the sensitivity to these key assumptions in note 12.

The cashflows used in the impairment exercise have been aligned to the Greene King Limited group's 5-year strategic plan adopting a portfolio basis across our different customer propositions based on geography, location and trading profile, as the business returns to pre-COVID-19 level sales in FY23 and pre-COVID-19 profitability over the medium to longer term. Further details are provided in note 12.

Useful economic life of tangible fixed assets
The depreciation charge for an asset is derived using estimates of its expected residual value and useful economic life.

Residual values of property are determined with reference to current market property trends. If residual values were lower than estimated, an impairment of asset value and reassessment of future depreciation charge may be required.

3. JUDGMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

Property valuations
The company carries its freehold property portfolio at open market valuation. The valuations, which are supported by market evidence and a rolling five-year programme of site visits by independent property surveyors, are prepared with regard to factors such as current and future projected income levels taking account of the location, quality of the pub, and recent market transactions in the sector. Changes in these assumptions such as the valuation basis applied in comparable market transactions, or the income level generated by a pub, could materially impact the valuation of these properties. The carrying value of the tangible fixed assets held under the revaluation model is disclosed in note 12.

Recognition of deferred tax assets and liabilities
The company has exercised significant accounting estimation and judgment in the recognition of deferred tax assets in respect of tangible fixed assets. Significant accounting estimates and judgments include those used to determine the amount of net book value of tangible fixed assets to which the initial recognition exemption applies, the tax effect of the changes to tenure and the unrecognised deferred tax liabilities on the inherent loss where tax losses are expected to be utilised against future profits and gains.

Determination of the Incremental Borrowing Rate - company as a Lessee
IFRS 16 requires lease liabilities to be discounted at the interest rate implicit in the lease, however if this cannot be readily determined, the lessee shall use the lessee's Incremental Borrowing Rate (IBR). As management have elected for the modified retrospective approach, the IBR is required to be calculated at the date of initial application of IFRS 16 rather than at each lease commencement date. Management have also elected to view the assets within portfolios for the calculation of IBR rather than applying this to every lease.

Management have used the following methodology to calculate the applicable IBR:
• determined the risk-free interest rate taking into account relevant factors such as term of the lease and economic environment;
• adjusted the risk-free interest rate to reflect the level of indebtedness of the entity and, where available, reflected recent third-party financing used in the entity;
• finally, the length of the lease was factored into the correlation between the term of the risk-free rate and term of the lease.

4. TURNOVER

An analysis of turnover by class of business is as follows:

	52 weeks ended 2 January 2022 £000	36 weeks ended 3 January 2021 £000
Drink revenue	**18,562**	7,335
Other revenue	**7,478**	2,686
	26,040	10,021

All turnover arose within the United Kingdom.

Other revenue includes rental and machine income. Other revenue includes rent receivable from licenced properties of £6,922,000 (36 weeks ended 3 January 2021: £2,417,000).

5. OPERATING PROFIT

The operating profit is stated after charging:

	52 weeks ended 2 January 2022 £000	36 weeks ended 3 January 2021 £000
Depreciation of tangible fixed assets	**1,281**	1,553
Depreciation of right-of-use assets	**3,128**	2,327
Net impairment reversal on tangible fixed assets	**(4,700)**	(1,770)
Revaluation of tangible fixed assets	**(618)**	(3,949)
Profit on disposal of tangible fixed assets	**(1,942)**	(778)
Net impairment losses on financial assets	**76**	134
Expenses relating to short-term leases and low-value assets	**126**	42

6. STAFF COSTS

The company has no employees as all staff that are utilised in the operation of the company are employed by Greene King Retail Services Limited and Greene King Services Limited. Staff costs are included in the total overhead recharge paid by the company to Spirit Pub Company (Services) Limited with the proportion relating to staff costs not being separately identifiable.

The directors who held office during the period were also directors of fellow group undertakings. Total emoluments, including any company pension contributions, received by these directors totals £5,179,000 (36 weeks ended 3 January 2021: £2,419,000) paid by other companies in the Greene King Limited group. The directors do not believe that it is practicable to apportion this amount between qualifying services as directors 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 (36 weeks ended 3 January 2021: nil).

7. AUDITOR'S REMUNERATION

The auditor's remuneration in respect of the audit of the financial statements for the period of £19,000 (36 weeks ended 3 January 2021: £16,000) 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.

8. INTEREST RECEIVABLE AND SIMILAR INCOME

	52 weeks ended 2 January 2022 £000	36 weeks ended 3 January 2021 £000
Movement in fair value of interest rate swaps payable to Spirit Issuer plc	**1,039**	-

9. INTEREST PAYABLE AND SIMILAR EXPENSES

	52 weeks ended 2 January 2022 £000	36 weeks ended 3 January 2021 £000
Interest payable on secured loan notes owed to Spirit Issuer plc	4,490	3,107
Interest on lease liabilities	4,948	3,556
Subordinated loan interest payable to group undertakings	147,875	93,532
Movement in fair value of interest rate swaps payable to Spirit Issuer plc	-	28
	157,313	100,223

10. TAXATION

	52 weeks ended 2 January 2022 £000	36 weeks ended 3 January 2021 £000
Corporation tax		
Current tax on profits for the year	220	-
Adjustments in respect of previous periods	(375)	-
Total current tax	(155)	-
Deferred tax		
Origination and reversal of timing differences	473	(587)
Changes to tax rates	3,014	-
Adjustments in respect of prior periods	466	(57)
Total deferred tax	3,953	(644)
Taxation on profit/(loss) on ordinary activities	3,798	(644)

10. TAXATION (CONTINUED)

FACTORS AFFECTING TAXATION FOR THE PERIOD

The tax assessed for the period is higher than (2021:higher than) the standard rate of corporation tax in the UK of 19.0% (2021:19.0%). The differences are explained below:

	52 weeks ended 2 January 2022 £000	36 weeks ended 3 January 2021 £000
Loss on ordinary activities before tax	**(143,635)**	(96,219)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.0% (2021:19.0%)	**(27,291)**	(18,282)
Effects of:		
Expenses/(income) not deductible for tax purposes	**17**	(311)
Capital allowances	**(14)**	-
Adjustments to tax charge in respect of prior periods	**91**	(57)
Group relief for nil consideration	**-**	641
Transfer pricing adjustments	**29,022**	18,441
Movement in deferred tax asset not recognised	**(493)**	(1,418)
Deferred tax in respect of licenced estate	**(548)**	342
Effects of tax rates and laws	**3,014**	-
Total taxation for the period	**3,798**	(644)

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

Under Finance Act 2021 enacted on 10 June 2021, the Corporation Tax rate for the 12 months from 3 January 2021 remains at 19% but will increase to 25% as the planned main rate of corporation tax from 1 April 2023. The net deferred tax liability has been calculated using the rates at which each temporary difference is expected to reverse.

11. ADJUSTING ITEMS

	52 weeks ended 2 January 2022 £000	36 weeks ended 3 January 2021 £000
Revaluation of tangible fixed assets	**(618)**	(3,949)
Net impairment reversal of tangible fixed assets	**(4,700)**	(1,770)
Profit on disposal of tangible fixed assets	**(2,013)**	(777)
COVID-19 related credit	**(816)**	(674)
	(8,147)	(7,170)

During the period the company recognised revaluation adjustments on freehold land and buildings held as tangible fixed assets of £618,000 (36 weeks ended 3 January 2021: £3,949,000).

The net impairment reversal on leased tangible fixed assets and right-of-use assets of £4,700,000 (36 weeks ended 3 January 2021: reversal of £1,770,000) comprises of impairment charges of £131,000 (36 weeks ended 3 January 2021: £nil) and reversals of £4,831,000 (36 weeks ended 3 January 2021: £1,770,000).

The profit on disposal of fixed assets of £2,013,000 (36 weeks ended 3 January 2021: profit of £777,000) comprises a total profit on disposal of £2,363,000 (36 weeks ended 3 January 2021: £1,018,000) and a total loss on disposal of £350,000 (36 weeks ended 3 January 2021: £241,000).

A credit of £816,000 (36 weeks ended 3 January 2021: credit of £674,000) has been incurred as a result of the COVID-19 pandemic. The credit comprises a credit of £143,000 (36 weeks ended 3 January 2021: £134,000) relating to lease concessions (net of fees) from landlords that qualified under the COVID-19 Related Rent Concessions - Amendment to IFRS 16; and a credit of £673,000 (36 weeks ended 3 January 2021: £540,000) to decrease provisions required for trade debtors.

12. TANGIBLE FIXED ASSETS

	Land and buildings £000	Fixtures and fittings £000	Total £000
Cost or valuation			
At 4 January 2021	190,521	6,896	197,417
Additions	1,661	1,358	3,019
Disposals	(9,154)	(231)	(9,385)
Reclassification	8,142	4,693	12,835
Revaluations	(423)	-	(423)
At 2 January 2022	190,747	12,716	203,463
Depreciation			
At 4 January 2021	3,816	-	3,816
Charge for the 52 weeks on owned assets	469	812	1,281
Charge for the 52 weeks on right-of-use assets	3,128	-	3,128
Disposals	(614)	(39)	(653)
Reclassification	8,142	4,693	12,835
Impairment charge	131	1	132
Impairment losses written back	(2,675)	(2,157)	(4,832)
On revalued assets	(266)	-	(266)
At 2 January 2022	12,131	3,310	15,441
Net book value			
At 2 January 2022	178,616	9,406	188,022
At 3 January 2021	186,705	6,896	193,601

The net book value of owned and leased assets included as "Tangible fixed assets" in the Balance sheet is as follows:

	2 January 2022 £000	3 January 2021 £000
Tangible fixed assets owned	137,240	137,563
Right-of-use tangible fixed assets	50,782	56,038
	188,022	193,601

12. TANGIBLE FIXED ASSETS (CONTINUED)

Information about right-of-use assets is summarised below:

Net book value

	2 January 2022 £000	3 January 2021 £000
Property	**50,782**	56,038

Depreciation charge

	2 January 2022 £000	3 January 2021 £000
Property	**3,128**	2,327

Additions to right-of-use assets

	2 January 2022 £000	3 January 2021 £000
Additions to right-of-use assets (inc remeasurements)	**553**	554

The net book value of land and buildings may be further analysed as follows:

	2 January 2022 £000	3 January 2021 £000
Freehold property	**112,783**	122,385
Long leasehold property	**4,793**	4,791
Short leasehold property	**61,040**	59,529
	178,616	186,705

12. TANGIBLE FIXED ASSETS (continued)

During the period a review of the fixed asset register has lead to the reclassification of balances between categories and between cost and accumulated depreciation. The reclassification has increased cost by £12,835,000 and increased accumulated depreciation by £12,835,000 with no impact on net book value nor on the depreciation charge for the period.

The entire estate is leased to tenants under operating leases with none used by the company.

Charge over assets

There is a first charge in favour of the securitised debt holders of the Spirit secured financing vehicle over the total net book value of the tangible fixed assets held by the company.

Revaluation of freehold tangible fixed assets

The valuation at the balance sheet date was performed in accordance with market practice by Colliers International, independent chartered surveyors, acting as external valuers.

The entire estate was valued in December 2021 with trading properties selected for a desk top review or site visit on a five-year rolling basis, with at least 20% of properties in the Spirit Debenture estate selected for a site visit each year..

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments on freehold land and buildings held as tangible fixed assets have been taken to the revaluation reserve or income statement as appropriate.

The sample of properties was valued at market value, in accordance with the provisions of Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards ('The Red Book') assuming each asset is sold as part of the continuing enterprise in occupation individually as a fully operational trading entity.

The valuation techniques applied are consistent with the principles in IFRS 13 Fair Value Measurement. As they use significant unobservable inputs they are classified within Level 3 of the fair value hierarchy.

The valuation considers assumptions such as current and future projected income levels, which take account the location and quality of the pub. In addition recent market transactions in the sector and potential alternative use values have been considered.

At the balance sheet date, the properties that were revalued resulted in an decrease in net assets of £157,000, representing a 0.1% decrease (2021: £6,499,000 increase representing a 4.5% increase) on those properties.

The historic cost of all tangible fixed assets had revaluation not been applied would have been £121,348,000 (2021: £120,065,000).

12. TANGIBLE FIXED ASSETS (continued)

Impairment of leasehold tangible fixed assets
During the period £4,831,000 of net impairment reversals (2021: reversal £1,768,000) on leasehold tangible fixed assets were recognised in profit and loss as adjusting items.

The company considers that each of its individual pubs is a cash generating unit (CGU). Each CGU is reviewed annually for indicators of impairment. When indicators of impairment are identified the carrying value of the CGU is compared to its recoverable amount. The recoverable amount for assets impaired were based on a combination of value in use or fair value less cost to sell.

The company estimates value in use using a discounted cash flow model. The key assumptions used are expected cash flow projection, the discount rate applied to those cash flows of 6.8% (2021: 6.7%) and the long-term growth rate of 1.8% which is below the long-term UK inflation rate and reflects anticipated future trends in trading performance.

The cashflows relating to individual CGUs used in the impairment exercise have been aligned to the Greene King Limited group's 5-year strategic plan adopting a portfolio basis across our different customer propositions based on geography, location and trading profile, as the business returns to pre-COVID-19 level sales in FY23 and pre-COVID-19 profitability over the medium to longer term.

The entire estate was subject to an external valuation in December 2021. The valuation considers assumptions such as current and future projected income levels. which take account of the location and quality of the pub. In addition recent market transactions in the sector and potential alternative use values have been considered.

The valuation techniques applied are consistent with the principles in IFRS 13 Fair Value Measurement. As they use significant unobservable inputs they are classified within Level 3 of the fair value hierarchy.

Sensitivities to change in assumptions - leasehold tangible fixed assets
The level of impairment is predominantly dependent upon judgments used in arriving at fair values, future growth rates and the discount rate applied to cash flow projections. The impact on the impairment charge of applying different assumptions to fair values, the growth rates used to calculate cash flow projections and in the pre-tax discount rates would be as follows:

	2 January 2022 £000	3 January 2021 £000
Increased impairment resulting from a 10% reduction in fair value less cost of disposal	**(171)**	-
Increased impairment resulting from a 0.5% increase in discount rate	-	-
Increased impairment resulting from a 25% reduction in growth rate	-	-

Impairment of right-of-use assets
During the period £131,000 of net impairment charges (2021: reversals of £2,000) were recognised in profit and loss as adjusting items.

The impairment of right-of-use assets is based on the same assumptions and valuation techniques as the impairment of leasehold tangible fixed assets. Further details can be found in the impairment of leasehold tangible fixed assets section above.

12. TANGIBLE FIXED ASSETS (continued)

Sensitivities to change in assumptions - right-of-use assets
The level of impairment is predominantly dependent upon judgments used in arriving at fair values, future growth rates and the discount rate applied to cash flow projections. The impact on the impairment charge of applying different assumptions to fair values, the growth rates used to calculate cash flow projections and in the pre-tax discount rates would be as follows:

	2 January 2022 £000	3 January 2021 £000
Increased impairment resulting from a 10% reduction in fair value less cost of disposal	**-**	-
Increased impairment resulting from a 0.5% increase in discount rate	**10**	-
Increased impairment resulting from a 25% reduction in growth rate	**9**	-

13. DEBTORS: Amounts falling due within one year

	2 January 2022 £000	3 January 2021 £000
Trade debtors	**3,851**	12
Amounts owed by group undertakings	**101,218**	101,308
Other debtors	**918**	1,343
Prepayments and accrued income	**106**	122
Corporation tax recoverable	**2,624**	2,469
	108,717	105,254

The company has recognised a reduction in bad debt provisions of trade debtors of £673,000 (2021: £540,000) as a result of COVID-19 pandemic.

Other debtors are non-interest bearing and includes amounts owed by tenants and VAT recoverable in the prior period.

Amounts owed by group undertakings are unsecured, bear no interest, have no fixed date of repayment and are repayable on demand. Expected credit losses of £423,000 (2021: £347,000) have been recognised against the carrying value.

14. CASH AT BANK

	2 January 2022 £000	3 January 2021 £000
Cash at bank	**9,224**	3,459

15. CREDITORS: Amounts falling due within one year

	2 January 2022 £000	3 January 2021 £000
Amounts owed to group undertakings	**23,540**	24,360
Other taxation	**1,227**	-
Lease liabilities	**8,155**	3,953
Other creditors	**17**	12
Accruals and deferred income	**3,839**	1,340
Secured loan notes owed to Spirit Issuer plc	**79,927**	80,251
	116,705	109,916

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

Further details of lease liabilities can be found in note 19.

The entire carrying value of outstanding secured loan notes owed to Spirit Issuer plc is held as due within one year following the breach of financial covenants. Further details can be found in note 17.

16. CREDITORS: Amounts falling due after more than one year

	2 January 2022 £000	3 January 2021 £000
Lease liabilities	**75,561**	80,330
Subordinated loans owed to group undertakings	**1,586,303**	1,439,234
Derivative financial instruments owed to Spirit Issuer plc	**5,850**	6,904
	1,667,714	1,526,468

Further details of lease liabilities can be found in note 19.

Subordinated loans owed to group undertakings due in more than one year of £1,586,303,000 (2021: £1,439,234,000) comprises seven individual loans.

The company has a subordinated loan from Spirit Managed Funding Limited of £363,923,000 (2021: £364,729,000) and accrued subordinated loan interest of £1,019,719,000 calculated using the effective interest rate method (2021: £887,659,000). Interest on the subordinated loan balance accrues at a rate of 16% per annum and interest accrues on unpaid subordinated loan interest at a rate of 15.01% per annum. The total amount of accrued subordinated loan interest per the contract terms outstanding at the balance sheet date is £1,670,835,000 (2021: £1,490,906,000). Repayment of the subordinated loan is only permissible following repayment of all of the secured loan notes.

The company also has a further three, interest free, subordinated loans from Spirit Pub Company (Managed) Limited, Spirit (SGL) Limited and Spirit Group Retail Limited. The carrying value of these loans, after applying the effective interest rate method are £10,742,000, £2,929,000 and £217,000 respectively (2021: £9,549,000, £2,603,000 and £193,000 respectively). Repayment of these loans is only permissible following repayment of all the secured loan notes. At that time the amounts repayable will be £49,520,000, £13,500,000 and £1,000,000 respectively (2021: £49,520,000, £13,500,000 and £1,000,000 respectively).

The company has a further two subordinated loans from Spirit Managed Funding Limited and one loan from Spirit Pub Company (Managed) Limited of £6,283,000, £2,950,000 and £133,196,000 respectively (2021: £6,283,000, £2,950,000 and £133,196,000 respectively) and accrued subordinated loan interest of £2,372,000, £360,000 and £43,612,000 respectively (2021: £1,761,000, £109,000 and £30,202,000 respectively). Interest accrues at 16% per annum. The total amount of accrued subordinated loan interest per the contract terms outstanding at the balance sheet date is £4,449,000, £698,000 and £71,104,000 respectively (2021: £3,432,000, £220,000 and £49,553,000 respectively). Repayment of these loans are only permissible following repayment of all the secured loan notes.

Derivative financial instruments are owed to Spirit Issuer plc, see note 17 for further details.

17. FINANCIAL INSTRUMENTS AND SECURED LOAN CAPITAL

	2 January 2022 £000	3 January 2021 £000
Secured loan notes maturity analysis		
In less than one year	**78,590**	78,758
Impact of effective interest rate method	**1,337**	1,493
	79,927	80,251
Included in creditors: amounts falling due within one year	**79,927**	80,251

During the prior period Spirit Pub Company (Leased) Limited and Spirit Pub Company (Managed) Limited breached various covenants as a result of the COVID-19 pandemic, resulting in multiple borrower-level events of default. In August 2020 the company sought, but failed to obtain, a waiver in respect of certain events of default which were expected to occur, and in light of the failure to obtain that initial waiver the company has not sought further waivers in respect of subsequent covenant breaches. As a result, the two entities were in a state of technical default at the prior year-end and remained in a state of technical default at the current year-end. This gives the trustee of the Spirit secured financing vehicle the ability at the ultimate direction of bondholders to accelerate the advances made to Spirit Pub Company (Leased) Limited and Spirit Pub Company (Managed) Limited by Spirit Issuer plc, which in turn would trigger the mandatory redemption of the Class A5 secured loan note issued by Spirit Issuer plc. No such acceleration had taken place as of the year-end, however the entire carrying value of the Class A5 secured loan note has been presented as a current liability in the balance sheet on the basis that the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Secured loan notes owed to group undertakings represent amounts owed to Spirit Issuer plc, a fellow group undertaking. The terms of the secured loan notes are such that the interest rate, carrying value and repayment schedule is identical to that of Spirit Issuer plc's secured loan notes payable.

The primary risk management policies and the objectives of the company are to manage the financial risks that arise in relation to the underlying business needs of the Spirit Pubs Debenture Holdings Limited group and to provide secure and competitively priced funding for the activities of that group. This is performed via the issue of external loan notes and the onward lending of the proceeds to other members of the Spirit group for the purpose of securitising a proportion of the group's licensed estate. Where appropriate, the company uses financial instruments and derivatives to manage these risks.

The main risk from the company's financial instruments are interest rate risk, liquidity risk and credit risk. The policies managing each of these risks is set out in the Strategic report.

The principal financial instruments held for the purpose of raising finance for operations are securitised bonds.

Derivative financial instruments, interest rate swaps, are used to manage the interest rate risks related to the company's operations and financing sources. No speculative trading in derivative financial instruments is undertaken.

17. FINANCIAL INSTRUMENTS AND SECURED LOAN CAPITAL (continued)

Secured loan notes
The loan notes are secured by way of fixed and floating charges over various property assets of other companies in the Spirit Pubs Debenture Holdings Limited group.

The company's principal financial instruments other than derivative financial instruments comprise borrowings, loans to group undertakings and cash. The main purpose of these financial instruments is to raise finance for the Spirit Pubs Debenture Holdings Limited group's operations.

With the exception of the company's secured loan notes, there are no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the company's secured loan notes at the balance sheet date is £79,927,000 (2021: £80,251,000), the nominal value is £78,590,000 (2021: £78,758,000) and the fair value measured at market value or the market value of equivalent loans at that date is £88,618,000 (2021: £86,788,000).

	2 January 2022 £000	3 January 2021 £000
Detail of the secured loan notes are as follows:		
Class A5 fixed / floating rate secured loan notes due 2032 at 5.472% per annum to December 2028 and LIBOR plus 0.75% per annum thereafter	**78,590**	78,758
Impact of effective interest rate method	**1,337**	1,493
	79,927	80,251

Repayment of nominal is made by quarterly installments, in accordance with the repayment schedule, within the dates shown above. Interest is paid quarterly in arrears on all loan notes.

The secured loan notes rank pari passu in point of security and as to payment of interest and principal.

The debenture structure is governed by various covenants, warranties and events of default. These include covenants regarding the maintenance and disposal of debenture properties and restrictions on its ability to move cash to other group companies and utilisation of disposal proceeds.

The Spirit Debenture Holdings group has available a £15,000,000 (2021: £15,000,000) liquidity facility which can only be used for the purpose of meeting the debenture's debt service obligations should there ever be insufficient funds available from operations to meet such payments. There were no draw-downs under this facility during the year and the drawn down amount at the year end was £nil (2021: £nil).

Optional redemption
On giving not fewer than five business days' prior written notice, one or more classes of the loan notes may, at the option of the company, be redeemed in whole or in part (provided that the minimum amount of any such redemption will be £1,000,000 in principal amount of a class of loan notes and thereafter in multiples of £100,000 in principal amount) on any interest payment date subject to certain conditions as set out in the terms and conditions of the loan notes.

17. FINANCIAL INSTRUMENTS AND SECURED LOAN CAPITAL (continued)

Derivative financial instruments

Spirit Issuer plc, a fellow group undertaking, uses interest rate swaps to replace the LIBOR rates on the floating rate loan notes with fixed rates. Spirit Issuer plc has also entered into equal and opposite interest rate swap arrangements with the company and Spirit Pub Company (Managed) Limited in respect of the secured loan notes issued by those companies. The terms, values and maturity analysis of these swaps directly mirror the swaps entered into by Spirit Issuer plc.

At the balance sheet date Spirit Issuer plc holds 1 (2021: 1) forward starting swap commencing when A5 loan note switches from fixed rate interest to floating rate in December 2028. The swap will receive a variable rate of interest based on LIBOR and pay a fixed rate of 4.529%. The swap is held on the balance sheet as a fair value liability of £7,200,000 (2021: £8,478,000) and the contract maturity date falls in December 2032. The cashflows occurred quarterly based on a variable rate of interest based on LIBOR.

Where the nominal value of the derivative exceeds that of the related loan note (for example, due to early repayment of floating rate notes) the company will seek to eliminate the over-hedging where this is financially practicable. At the balance sheet date, the nominal value of interest rate swaps outstanding on cancelled floating rate notes was £nil (2021: £nil).

The fair value liability of the derivative allocated to the company amounts to £5,850,000 (2021: £6,904,000). The fair value of the financial liability is included at the amount at which the instrument could be exchanged in a current transaction:

- Interest rate swaps - calculated by discounting all future cash flows by the market yield curve at the balance sheet date and adjusting for, where appropriate, the company's and counterparty credit risk.

IBOR reform

In accordance with the UK Financial Conduct Authority's announcement on 5 March 2021, Sterling LIBOR benchmark rates have been discontinued after 31 December 2021. The financial instruments held by the company will switch to variable GBP LIBOR after December 2028. At 2 January 2022 the company held the following contracts which reference GBP LIBOR and have not been yet transitioned to SONIA or an alternative interest rate benchmark.

The company is working on the implementation of changes to the contracts.

	2 January 2022 £000
Non-derivative liabilities exposed to GBP LIBOR	
Secured loan notes owed to Spirit Issuer plc	**79,927**
Derivative liabilities exposed to GBP LIBOR	
Interest rate swaps owed to Spirit Issuer plc with a nominal amount of £96,700,000	**5,850**

18. DEFERRED TAXATION

	2 January 2022 £000	3 January 2021 £000
At beginning of year	**(7,943)**	(8,201)
Charged to profit or loss	**(3,953)**	644
Charged to other comprehensive income	**(665)**	(386)
At end of year	**(12,561)**	(7,943)

The provision for deferred taxation is made up as follows:

	2 January 2022 £000	3 January 2021 £000
Fixed assets	**(2,226)**	(272)
Subordinated loans	**(12,533)**	(9,818)
Interest rate swaps	**1,438**	1,291
Secured loan notes	**717**	709
Provisions	**43**	147
	(12,561)	(7,943)

At the balance sheet date the company has a deferred tax asset in relation to the licensed estate of £3,404,000 which is unrecognised. This asset cannot be offset against other deferred tax liabilities.

19. LEASES

Company as a lessee

The company has lease contracts for property used in its operations. Rental contracts are on average for a lease term of 37 years. The company's obligations under its leases are secured by the lessor's title to the lease assets. Generally, the company is restricted from assigning and subleasing the leased assets and some contracts require the company maintain certain financial ratios. The company has no lease contracts that include extension or termination options and variable lease payments.

The total cash outflow for leases in the 52 weeks to 2 January 2022 was £1,320,000 (36 weeks ended 3 January 2021: £2,545,000).

Lease liabilities are due as follows:

	2 January 2022 £000	3 Janaury 2021 £000
Due within one year	**8,155**	3,953
Due more than one year	**75,561**	80,330
	83,716	84,283

The following amounts in respect of leases, where the company is a lessee, have been recognised in profit or loss:

	52 weeks ended 2 January 2022 £000	36 weeks ended 3 January 2021 £000
Interest expense on lease liabilities	**4,948**	3,556
Expenses relating to short-term leases and low-value assets	**126**	42
Income from sub-leasing right-of-use assets	**(2,546)**	(2,353)
COVID-19-related rent concessions	**(143)**	(134)

Rent concessions
The company negotiated rent concessions with its landlords for some of its property leases as a result of the severe impact of the COVID-19 pandemic during the year. The company applied the practical expedient for COVID-19-related rent concessions consistently to eligible rent concessions relating to its property leases.

The company provided rent concessions as a result of the COVID-19 pandemic for their tenants totalling £3,615,000 (36 weeks ended 3 January 2021: £3,540,000).

20. OTHER PROVISIONS

	Dilapidation provision £000
At 4 January 2021	331
Released	(131)
At 2 January 2022	**200**

The provision has been set up to cover dilapidation requirements of property leases.

21. CALLED UP SHARE CAPITAL

	2 January 2022 £	3 January 2021 £
Allotted, called up and fully paid		
2 (2021:2) Ordinary shares of £1.00 each	2	2

22. RESERVES

Revaluation reserve

The revaluation reserve is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity. The balance held in the revaluation reserve is recycled to profit and loss account on disposal on the individual property.

Other reserves

Other reserves is a capital contribution reserve that has arisen as a consequence of applying the effective interest rate method when recognising the fair value of certain subordinated loans which have a contractual interest rate of 0%.

Profit and loss account

Profit and loss account reserve represents accumulated retained earnings.

23. COMMITMENTS UNDER OPERATING LEASES

At the balance sheet date the company had future minimum lease rentals receivable under non-cancellable operating leases as shown in the table below.

	2 January 2022 £000	3 January 2021 £000
Not later than 1 year	**7,951**	8,635
Later than 1 year and not later than 5 years	**22,508**	24,011
Later than 5 years	**22,258**	27,177
	52,717	59,823

24. 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.

Interest receivable from and payable to and balances owed to Spirit Issuer plc, an entity that is controlled by the CK Asset Holdings Limited group but not a wholly owned subsidiary of that group, are disclosed in notes 8, 9, 15 and 16.

Amounts shown as owed to and by group subsidiaries are all held with other group undertakings.

25. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

At the balance sheet date, the directors consider the immediate parent undertaking and immediate controlling party of Spirit Pub Company (Leased) Limited to be Spirit Pubs Parent 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.

Spirit Pubs Debenture Holdings 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.