

Company Registration No. 06045354 (England and Wales)

FRANKE COFFEE SYSTEMS UK LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

FRANKE COFFEE SYSTEMS UK LIMITED

COMPANY INFORMATION

Directors	Mr J P Nicholson Mr M Zancolo
Secretary	Mr D Orwin
Company number	06045354
Registered office	6A Handley Page Way Colney Street St. Albans Hertfordshire United Kingdom AL2 2DQ
Auditor	Azets Audit Services 1 Nelson Street Southend-On-Sea Essex United Kingdom SS1 1EG

FRANKE COFFEE SYSTEMS UK LIMITED

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FRANKE COFFEE SYSTEMS UK LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present the strategic report for the year ended 31 December 2021.

Fair review of the business

The principal activity of the company is the sale, distribution and maintenance of coffee machines.

Strategic Outlook

The loss after taxation for the year was £975,247 (2020: profit after tax of £2,369,148).

Turnover decreased in the year by £1,590,800 (7.9%) to £18,541,184 (2020: £20,131,984).

Gross margin has increased to 57.58% (2020: 54.4%)

Administrative expenses remained the same as 2020, mainly due to decreases in wage costs as the coronavirus job retention scheme is used to mitigate a downward trend in trade during the pandemic. It is expected that trade will return to historic levels once the UK has been fully inoculated, providing strong returns in the year to come thus allowing further healthy turnover growth.

The company plans to continue to expand its customer base with the hope of winning large contracts with café & restaurant chains.

The directors are satisfied that the company is well placed to manage its financial position.

Principal risks and uncertainties

Principal risks and uncertainties relate to fluctuations in raw material prices, increase in competition and the ongoing impact of the current economic climate on the company's operating sector.

On behalf of the board

Mr J P Nicholson

Director

13 March 2022

FRANKE COFFEE SYSTEMS UK LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The directors present their annual report and financial statements for the year ended 31 December 2021.

Principal activities

The principal activity of the company continued to be that of the sale, distribution and maintenance of coffee machines.

Results and dividends

The results for the year are set out on page 7.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

No preference dividends were paid. The directors do not recommend payment of a final dividend.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr J P Nicholson

Mr M Zancolo

Auditor

In accordance with the company's articles, a resolution proposing that Azets Audit Services be reappointed as auditor of the company will be put at a General Meeting.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom. 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, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

FRANKE COFFEE SYSTEMS UK LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

Statement of disclosure to auditor

Each director in office at the date of approval of this annual report confirms 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 he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

On behalf of the board

Mr J P Nicholson

Director

14 March 2022

FRANKE COFFEE SYSTEMS UK LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FRANKE COFFEE SYSTEMS UK LIMITED

Opinion

We have audited the financial statements of Franke Coffee Systems UK Limited (the 'company') for the year ended 31 December 2021 which comprise the income statement, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the United Kingdom; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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.

Opinions on other matters prescribed by the Companies Act 2006

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

FRANKE COFFEE SYSTEMS UK LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF FRANKE COFFEE SYSTEMS UK LIMITED

Matters on which we are required to report by exception

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 material misstatements in the strategic report and the directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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 is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

FRANKE COFFEE SYSTEMS UK LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF FRANKE COFFEE SYSTEMS UK LIMITED

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 and on the Financial Reporting Council's website, to detect material misstatements in respect of irregularities, including fraud.

We obtain and update our understanding of the entity, its activities, its control environment, and likely future developments, including in relation to the legal and regulatory framework applicable and how the entity is complying with that framework. Based on this understanding, we identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. This includes consideration of the risk of acts by the entity that were contrary to applicable laws and regulations, including fraud.

In response to the risk of irregularities and non-compliance with laws and regulations, including fraud, we designed procedures which included:

- Enquiry of management and those charged with governance around actual and potential litigation and claims as well as actual, suspected and alleged fraud;
- Assessing the extent of compliance with the laws and regulations considered to have a direct material effect on the financial statements or the operations of the company through enquiry and inspection;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- Performing audit work over the risk of management bias and override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for indicators of potential bias.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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.

Julian Golding (Senior Statutory Auditor)
For and on behalf of Azets Audit Services

14 March 2022

Chartered Accountants
Statutory Auditor

1 Nelson Street
Southend-On-Sea
Essex
United Kingdom
SS1 1EG

FRANKE COFFEE SYSTEMS UK LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £	2020 £
Revenue	4	18,541,184	20,131,984
Cost of sales		(7,864,840)	(9,180,918)
Gross profit		10,676,344	10,951,066
Distribution costs		(603,171)	(314,530)
Administrative expenses		(11,107,435)	(7,537,322)
Operating (loss)/profit	5	(1,034,262)	3,099,214
Investment revenues	8	-	185
Finance costs	9	(121,132)	(114,052)
(Loss)/profit before taxation		(1,155,394)	2,985,347
Income tax income/(expense)	10	180,147	(616,199)
(Loss)/profit and total comprehensive income for the year		(975,247)	2,369,148

The income statement has been prepared on the basis that all operations are continuing operations.

FRANKE COFFEE SYSTEMS UK LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Notes	2021 £	2020 £
Non-current assets			
Goodwill	12	-	2,015,000
Intangible assets	12	202,020	-
Property, plant and equipment	13	2,639,704	2,103,007
Deferred tax asset	19	181,882	-
		<u>3,023,606</u>	<u>4,118,007</u>
Current assets			
Inventories	14	6,421,224	5,634,261
Trade and other receivables	15	4,628,729	6,931,808
Cash and cash equivalents		5,372,482	1,971,175
		<u>16,422,435</u>	<u>14,537,244</u>
Total assets		<u>19,446,041</u>	<u>18,655,251</u>
Current liabilities			
Trade and other payables	17	3,206,007	1,730,978
Current tax liabilities		(91,470)	579,153
Lease liabilities	18	496,738	408,050
		<u>3,611,275</u>	<u>2,718,181</u>
Net current assets		<u>12,811,160</u>	<u>11,819,063</u>
Non-current liabilities			
Lease liabilities	18	1,910,469	1,035,791
Deferred tax liabilities	19	-	1,735
		<u>1,910,469</u>	<u>1,037,526</u>
Total liabilities		<u>5,521,744</u>	<u>3,755,707</u>
Net assets		<u>13,924,297</u>	<u>14,899,544</u>
Equity			
Called up share capital	22	100	100
Share premium account	23	2,149,900	2,149,900
Retained earnings		11,774,297	12,749,544
Total equity		<u>13,924,297</u>	<u>14,899,544</u>

FRANKE COFFEE SYSTEMS UK LIMITED

STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2021

The financial statements were approved by the board of directors and authorised for issue on 14 March 2022 and are signed on its behalf by:

Mr J P Nicholson
Director

Company Registration No. 06045354

FRANKE COFFEE SYSTEMS UK LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital	Share premium account	Retained earnings	Total
	£	£	£	£
Balance at 1 January 2020	100	2,149,900	10,380,396	12,530,396
Year ended 31 December 2020:				
Profit and total comprehensive income for the year	-	-	2,369,148	2,369,148
Balance at 31 December 2020	100	2,149,900	12,749,544	14,899,544
Year ended 31 December 2021:				
Loss and total comprehensive income for the year	-	-	(975,247)	(975,247)
Balance at 31 December 2021	100	2,149,900	11,774,297	13,924,297

FRANKE COFFEE SYSTEMS UK LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 £	£	2020 £	£
Cash flows from operating activities					
Cash generated from operations	28	4,727,461		2,354,590	
Interest paid		(121,132)		(114,052)	
Tax paid		(674,093)		(648,274)	
Net cash inflow from operating activities		3,932,236		1,592,264	
Investing activities					
Purchase of intangible assets		(5,031)		-	
Purchase of property, plant and equipment		(2,483,475)		(39,659)	
Proceeds on disposal of property, plant and equipment		994,211		35,610	
Interest received		-		185	
Net cash used in investing activities		(1,494,295)		(3,864)	
Financing activities					
Payment of lease liabilities		963,366		(558,926)	
Net cash generated from/(used in) financing activities		963,366		(558,926)	
Net increase in cash and cash equivalents		3,401,307		1,029,474	
Cash and cash equivalents at beginning of year		1,971,175		941,701	
Cash and cash equivalents at end of year		5,372,482		1,971,175	

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

Company information

Franke Coffee Systems UK Limited is a private company limited by shares incorporated in England and Wales. The registered office is 6A Handley Page Way, Colney Street, St. Albans, Hertfordshire, United Kingdom, AL2 2DQ. The company's principal activities and nature of its operations are disclosed in the directors' report.

1.1 Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the United Kingdom and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS, except as otherwise stated.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

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

1.2 Going concern

The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

The directors have also considered the potential impact of the COVID-19 virus on the future viability of the company. At the date of preparing these financial statements, the directors have reviewed the forecasts and are confident that the company remains a going concern. The directors continue to take all available steps to maintain sufficient resources in order that the company can continue to trade in line with historic results.

1.3 Revenue

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

The company recognises revenue from the following major sources:

- Machine Sales
- Support and maintenance

The nature, timing of satisfaction of performance obligations and significant payment terms of the company's major sources of revenue are as follows:

Machine Sales

Machine sales are recognised upon the date the machine is delivered, and if applicable installed, at the delivery address.

Support and maintenance

Support and maintenance income is recognised evenly over the term of the contract.

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

1.4 Goodwill & impairment of assets

Goodwill arising on the acquisitions is stated at cost less any accumulated impairments. Goodwill is allocated to assets that are grouped at the lowest level for which there are separately identifiable cashflows (cash-generating units), and is not subject to amortisation but is tested at least annually for impairment.

If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in unit. Impairment losses recognised for goodwill are not reversed in a subsequent period.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

1.5 Intangible assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date where it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the fair value of the asset can be measured reliably; the intangible asset arises from contractual or other legal rights; and the intangible asset is separable from the entity.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

- Software - amortised over 5 years

1.6 Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Leasehold improvements	- 10% on cost
Fixtures and fittings	- 15% on cost, 20% on cost & 33% on cost
Motor vehicles	- 25% on cost

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the income statement.

1.7 Borrowing costs related to non-current assets

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

1.8 Impairment of tangible and intangible assets

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.9 Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Warranty Costs

Expenses in relation to warranties issued as part of machine sales are recognised as and when incurred by the company.

1.10 Fair value measurement

IFRS 13 establishes a single source of guidance for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The resulting calculations under IFRS 13 affected the principles that the company uses to assess the fair value, but the assessment of fair value under IFRS 13 has not materially changed the fair values recognised or disclosed. IFRS 13 mainly impacts the disclosures of the company. It requires specific disclosures about fair value measurements and disclosures of fair values, some of which replace existing disclosure requirements in other standards.

1.11 Cash and cash equivalents

Cash and cash equivalents comprises solely cash in hand. There are no other short-term, highly liquid investments within the Company.

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

1.12 Financial instruments

Financial assets and liabilities are recognised in the company's statement of financial position when the company becomes a party to the contractual provisions of the instrument. The company's financial instruments comprise trade and other receivables and trade and other payables.

Loans and Receivables

Loans and receivables are initially stated at their fair value plus transaction costs, then subsequently at amortised cost using the effective interest method, if applicable, less impairment losses. Provisions against trade receivables are made when there is objective evidence that the company will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write down is determined as the difference between the asset's carrying amount and the present value of the estimated future cash flows.

Trade Payables

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the company becomes a party to the contractual provisions of the instrument. All financial liabilities are recorded at amortised cost using the effective interest rate method, with interest related charges recognised as an expense in the finance cost in the statement of comprehensive income.

1.13 Equity instruments

Share capital represents the nominal (par) value of shares that have been issued.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Retained earnings include all current and prior period retained profits.

1.14 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

1 Accounting policies

(Continued)

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.15 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.16 Leases

Assets obtained under hire purchase contracts or finance leases are capitalised in the statement of financial position. Those held under hire purchase contracts are depreciated over their estimated useful lives. Those held under finance leases are depreciated over their estimated useful lives or the lease term, whichever is shorter.

The interest element of these obligations is charged to the statement of comprehensive income over the relevant period. The capital element of the future payments is treated as a liability.

1.17 Foreign exchange

Foreign currency transactions are translated into the functional currency of the entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when the fair value was determined.

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

2 Adoption of new and revised standards and changes in accounting policies

In 2020, the Company applied for the first-time certain standards, amendments and interpretations which are effective for annual periods commencing on or after 1 January 2019. The company have not early adopted any other standards, amendments or interpretations that have been issued but are not yet effective.

a) Definition of a Business (amendments to IFRS 3)

Amendments to IFRS 3 were mandatorily effective for reporting periods beginning on or after 1 January 2020. The company has applied the revised definition of a business for acquisitions occurring on or after 1 January 2020 in determining whether an acquisition is accounted for in accordance with IFRS 3 Business Combinations.

b) Covid-19 Related Rent Concessions (Amendments to IFRS 16)

Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- The reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- There is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in IFRS 16 in accounting for the concession.

3 Critical accounting estimates and judgements

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

Revenue Recognition:

Revenue is recognised according to the accounting policies set out below and is recognised depending upon the type of income. Where contracts included different elements of revenue, these elements are recognised in line with these policies, with fair values being attributed to each component part.

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

4 Revenue

	2021	2020
	£	£
Revenue analysed by class of business		
Coffee Machines	6,306,842	9,214,091
Spare Parts	5,422,138	3,620,691
Service Contracts	2,567,107	2,219,352
Labour	3,692,950	5,001,091
Miscellaneous Income	552,147	76,759
	<u>18,541,184</u>	<u>20,131,984</u>

5 Operating (loss)/profit

	2021	2020
	£	£
Operating (loss)/profit for the year is stated after charging/(crediting):		
Exchange losses/(gains)	19,525	(2,722)
Fees payable to the company's auditor for the audit of the company's financial statements	18,000	18,000
Depreciation of property, plant and equipment	651,268	809,665
Profit on disposal of property, plant and equipment	(8,486)	(6,366)
Amortisation of intangible assets (included within administrative expenses)	112,796	-
Cost of inventories recognised as an expense	<u>7,864,840</u>	<u>9,180,918</u>

6 Employees

The average monthly number of persons (including directors) employed by the company during the year was:

	2021	2020
	Number	Number
Service and service admin	107	116
Sales	13	13
Finance	6	6
Total	<u>126</u>	<u>135</u>

Their aggregate remuneration comprised:

	2021	2020
	£	£
Wages and salaries	4,655,431	4,545,342
Social security costs	644,608	544,736
Pension costs	95,093	97,178
	<u>5,395,132</u>	<u>5,187,256</u>

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

7 Directors' remuneration

	2021 £	2020 £
Remuneration for qualifying services	305,986	277,200

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2020 - 1).

Remuneration disclosed above include the following amounts paid to the highest paid director:

Remuneration for qualifying services	305,986	277,200
--------------------------------------	---------	---------

8 Investment income

	2021 £	2020 £
Interest income		
Financial instruments measured at amortised cost:		
Bank deposits	-	185

Income above relates to assets held at amortised cost, unless stated otherwise.

9 Finance costs

	2021 £	2020 £
Interest on lease liabilities	121,132	93,361
Other interest payable	-	20,691
Total interest expense	121,132	114,052

10 Income tax expense

	2021 £	2020 £
Current tax		
UK corporation tax on profits for the current period	-	683,156
Adjustments in respect of prior periods	3,473	-
Total UK current tax	3,473	683,156

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

10 Income tax expense		(Continued)	
	2021	2020	
	£	£	
Deferred tax			
Origination and reversal of temporary differences	(183,620)	(66,957)	
	<u></u>	<u></u>	
Total tax charge/(credit)	<u>(180,147)</u>	<u>616,199</u>	

The charge for the year can be reconciled to the (loss)/profit per the income statement as follows:

	2021	2020	
	£	£	
(Loss)/profit before taxation	(1,155,394)	2,985,347	
	<u></u>	<u></u>	
Expected tax (credit)/charge based on a corporation tax rate of 19.00% (2020: 19.00%)	(219,525)	567,216	
Effect of expenses not deductible in determining taxable profit	223	13,883	
Unutilised tax losses carried forward	173,126	-	
Under/(over) provided in prior years	3,473	29,354	
Depreciation in excess of capital allowances	124,296	131,195	
Deferred tax	(183,620)	(66,957)	
IFRS 16 lease adjustment	(78,120)	(58,492)	
	<u></u>	<u></u>	
Taxation (credit)/charge for the year	<u>(180,147)</u>	<u>616,199</u>	

11 Impairments

Impairment tests have been carried out where appropriate and the following impairment losses have been recognised in profit or loss:

	2021	2020	
	£	£	
In respect of:			
Goodwill	2,015,000	-	
	<u></u>	<u></u>	
Recognised in:			
Administrative expenses	2,015,000	-	
	<u></u>	<u></u>	

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

12 Intangible assets

	Goodwill £	Software £	Total £
Cost			
At 1 January 2020	2,015,000	-	2,015,000
At 31 December 2020	2,015,000	-	2,015,000
Additions - purchased	-	5,031	5,031
Other movements	-	681,798	681,798
At 31 December 2021	2,015,000	686,829	2,701,829
Amortisation and impairment			
Charge for the year	-	112,796	112,796
Impairment loss	2,015,000	-	2,015,000
Other movements	-	372,013	-
At 31 December 2021	2,015,000	484,809	2,499,809
Carrying amount			
At 31 December 2021	-	202,020	202,020
At 31 December 2020	2,015,000	-	2,015,000
At 31 December 2019	2,015,000	-	2,015,000

More information on impairment movements in the year is given in note 11.

13 Property, plant and equipment

	Leasehold improvements £	Fixtures and fittings £	Motor vehicles £	Total £
Cost				
At 1 January 2020	1,716,113	1,666,032	1,242,457	4,624,602
Additions	1,785	17,924	19,950	39,659
Disposals	-	(443,792)	(191,995)	(635,787)
At 31 December 2020	1,717,898	1,240,164	1,070,412	4,028,474
Additions	2,021,666	4,811	456,998	2,483,475
Disposals	(1,310,228)	-	(76,918)	(1,387,146)
Other	-	(681,798)	-	(681,798)
At 31 December 2021	2,429,336	563,177	1,450,492	4,443,005

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

13 Property, plant and equipment

(Continued)

	Leasehold improvements	Fixtures and fittings	Motor vehicles	Total
	£	£	£	£
Accumulated depreciation and impairment				
At 1 January 2020	200,383	928,134	593,828	1,722,345
Charge for the year	204,412	236,270	368,983	809,665
Eliminated on disposal	-	(444,364)	(162,179)	(606,543)
At 31 December 2020	404,795	720,040	800,632	1,925,467
Charge for the year	233,335	108,320	309,613	651,268
Eliminated on disposal	(327,559)	-	(73,862)	(401,421)
Other	-	(372,013)	-	(372,013)
At 31 December 2021	310,571	456,347	1,036,383	1,803,301
Carrying amount				
At 31 December 2021	2,118,765	106,830	414,109	2,639,704
At 31 December 2020	1,313,103	520,124	269,780	2,103,007
At 31 December 2019	1,515,730	737,898	648,629	2,902,257

14 Inventories

	2021 £	2020 £
Finished goods	6,421,224	5,634,261

15 Trade and other receivables

	2021 £	2020 £
Trade receivables	4,504,936	6,620,607
Other receivables	1,700	15,293
Prepayments	122,093	295,908
	4,628,729	6,931,808

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

16 Trade receivables - credit risk

Fair value of trade receivables

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

16 Trade receivables - credit risk (Continued)

No significant receivable balances are impaired at the reporting end date.

17 Trade and other payables

	2021 £	2020 £
Trade payables	897,042	754,025
Amount owed to parent undertaking	1,351,360	-
Accruals	434,408	364,018
Social security and other taxation	523,197	612,935
	<u>3,206,007</u>	<u>1,730,978</u>

18 Lease liabilities

	2021 £	2020 £
Maturity analysis		
Within one year	496,738	408,050
In two to five years	962,854	1,035,791
In over five years	947,615	-
Total undiscounted liabilities	<u>2,407,207</u>	<u>1,443,841</u>

Lease liabilities are classified based on the amounts that are expected to be settled within the next 12 months and after more than 12 months from the reporting date, as follows:

	2021 £	2020 £
Current liabilities	496,738	408,050
Non-current liabilities	1,910,469	1,035,791
	<u>2,407,207</u>	<u>1,443,841</u>

	2021 £	2020 £
Amounts recognised in profit or loss include the following:		
Interest on lease liabilities	<u>121,132</u>	<u>93,361</u>

The company has fixed and floating charges over all property and assets present and future including goodwill, book debts uncalled, capital buildings, fixtures and plant, in respect of a £200,000 overdraft facility and the hire purchase agreements with Clydesdale Bank PLC.

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

19 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon during the current and prior reporting period.

	ACAs £	Tax losses £	Total £
Deferred tax liability at 1 January 2020	68,692	-	68,692
Deferred tax movements in prior year			
Charge/(credit) to profit or loss	(66,957)	-	(66,957)
Deferred tax liability at 1 January 2021	1,735	-	1,735
Deferred tax movements in current year			
Charge/(credit) to profit or loss	44,177	(227,797)	(183,620)
Deferred tax liability at 31 December 2021	45,912	-	45,912
Deferred tax asset at 31 December 2021	-	(227,797)	(227,797)

Deferred tax assets and liabilities are offset in the financial statements only where the company has a legally enforceable right to do so.

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

20 Financial Instruments

The financial instrument accounting policy provides a description of each category of financial asset and financial liability and the related accounting policies. The carrying amounts for each category are as follows:

	Note	2021 £	2020 £
Financial assets that are debt instruments measured at amortised cost			
Trade debtors	15	4,504,936	6,620,607
Other debtors	15	1,700	15,293
Prepayments and accrued income	15	122,093	295,908
Cash and cash equivalents		5,372,482	1,971,175
		10,001,211	8,902,983
Financial assets that are equity instruments measured at cost less impairment			
		-	-
Financial liabilities measured at amortised cost			
Trade creditors	17	2,248,402	754,025
Hire purchase	18	2,407,207	1,443,841
Accruals and deferred income	17	434,408	364,018
		5,090,017	2,561,884

A description of the Company's financial instrument risks, including risk management objectives and policies is given in a later note.

The methods used to measure financial assets and liabilities reported at fair value are described in a later note.

21 Retirement benefit schemes

Defined contribution schemes

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

The total costs charged to income in respect of defined contribution plans is £95,093 (2020 - £97,178).

22 Share capital

	2021 Number	2020 Number	2021 £	2020 £
Ordinary share capital				
Authorised				
Ordinary of £1 each	100	100	100	100
	=====	=====	=====	=====
Issued and fully paid				
Ordinary of £1 each	100	100	100	100

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

23 Share premium account

	2021	2020
	£	£
At the beginning and end of the year	2,149,900	2,149,900
	<u><u> </u></u>	<u><u> </u></u>

24 Ultimate Controlling Party

As at 31st December 2021 ultimate control of the company was held by Franke Kaffeemaschinen AG, a company registered in Switzerland.

Franke Kaffeemaschinen AG acquired 100% of the share capital in Franke Coffee Systems UK on 4th January 2021.

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

25 Financial Instruments Risk

Risk management objectives and policies

The company is exposed to various risks in relation to financial instruments. The company's financial assets and liabilities by category are summarised in Note 20. The main types of risk are market risk, credit risk and liquidity risk.

The company's risk management is coordinated by the board of directors, and focuses on actively securing the company's short to medium-term cash flows by minimising the exposure to volatile financial markets.

The company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

Market risk analysis

The Company is exposed to market risk through its use of financial instruments specifically to currency risk.

Most of the Company's transaction are carried out in GBP. Exposure to currency exchange rates arise from Group's overseas sales and purchases, which are primarily denominated in CHF and GBP.

The Company does not enter into currency contracts to mitigate the exposure to foreign currency.

Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Group is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits etc. The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 December as summarised in Note 20.

The company's management considers that all financial assets are not impaired or past due at 31 December and are of good credit quality.

The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings.

Liquidity risk analysis

Liquidity risk is that the Company might be unable to meet its obligations. The Company manages its liquidity needs by monitoring schedules of debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. Liquidity needs are monitored on a week-to-week basis.

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

26 Fair Value Measurement

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability

27 Capital management policies and procedures

The Company's capital management objective are:

- To ensure the Company's ability to continue as a going concern.
- To provide an adequate return to shareholders by pricing services in a way that reflects the level of risk involved in providing those services.

The Company monitors capital on the basis of the carrying amount of equity, less cash and cash equivalents as presented in the statement of financial position.

The Company's goal in capital management is to maintain a capital to overall financing ratio of in excess of 1:1.

Management assess the Company's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. This takes into account the subordination levels of the Company's various classes of debt. The Company manages the capital structure and makes adjustment to it in the light of changes in economic conditions and the characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debts.

FRANKE COFFEE SYSTEMS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

28 Cash generated from operations

	2021 £	2020 £
(Loss)/profit for the year after tax	(975,247)	2,369,148
Adjustments for:		
Taxation (credited)/charged	(180,147)	616,199
Finance costs	121,132	114,052
Investment income	-	(185)
Gain on disposal of property, plant and equipment	(8,486)	(6,366)
Amortisation and impairment of intangible assets	2,127,796	-
Depreciation and impairment of property, plant and equipment	651,268	809,665
Movements in working capital:		
(Increase)/decrease in inventories	(786,963)	585,486
Decrease/(increase) in trade and other receivables	2,303,079	(1,303,233)
Increase/(decrease) in trade and other payables	1,475,029	(830,176)
Cash generated from operations	4,727,461	2,354,590

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.