# xpfactory plc

ANNUAL REPORT AND ACCOUNTS 2022

ESCAPE HUNT

BOOM BATTLE BAR

# CONTENTS

# FINANCIAL AND OPERATIONAL HIGHLIGHTS

## FINANCIAL HIGHLIGHTS

- £22.8m Group revenue – up 228% vs prior year (2021: £7.0m)
- £2.6m adjusted EBITDA pre IFRS16 (2021: loss £0.6m)
- £9.8m Escape Hunt owner-operated revenue up 62% vs prior year (2021: £6.0m)
- £0.7m Escape Hunt franchise EBITDA up 75% vs prior year (2020: £0.4m)
- £9.5m Boom Battle Bar owner-operated revenue of in its first full year of operation
- £2.9m Boom Battle Bar franchise revenue
- £1.3m Group operating profit (2021: loss of £0.5m)
- 35% return on capital across Escape Hunt owner operated estate
- £3.2m cash at year end (2021: £8.2m) and £4.0m on 30 April 2023

## OPERATIONAL AND STRATEGIC HIGHLIGHTS

- Successfully integrated Boom Battle Bar into XP Factory Group
- Opened 27 Boom sites by the end of 2022 – 11 owner operated and 16 franchised
- Acquired Boom franchise sites in Norwich and Cardiff
- Opened 4 new Escape Hunt sites and relocated 1 other, expanding estate to 23 venues (2021: 19)
- Achieved 97% customer satisfaction ratings across both brands
- Secured £3.3m credit facility with fit-out providers for new Boom owner operated sites

## POST YEAR END

- 3 Boom sites and 1 Escape Hunt currently in build, with a developed pipeline underpinning site roll-out targets for the year
- 44% LFL sales growth delivered across Q1 2023 in the Boom sites that were trading last year, with operating metrics maturing as expected
- Boom franchise sites performing in line with the Board's expectations
- 32% LFL sales growth across the Escape Hunt owner operated estate, with overall trading ahead of the Board's expectations in Q1 2023

# CHAIRMAN'S STATEMENT

I am delighted to be reporting on a transformational and successful year for the group. We set ambitious targets at the start of 2022 to significantly expand our then newly acquired Boom Battle Bar estate from seven sites open when we acquired the business in November 2021 to having 27 Boom sites open by the end of 2022, whilst also expanding our Escape Hunt network. Through an enormous effort by the whole team, our target was achieved. Today we have a business which has critical mass and can justifiably claim to a leading experiential leisure business in the UK.

Whilst attention has been focused on integrating and expanding the Boom Battle Bar business, Escape Hunt has had an exceptional year. The strong performance delivered in the second half of 2021 after the long periods of lockdown during covid continued into 2022. Escape Hunt's performance has been steadily maturing and the site level margins being delivered has exceeded our original expectations. Investment into the intellectual property of the brand, being games and operating know how, has created a truly unique business operating a leisure concept that is increasingly recognised by the consumer. We believe there is significant further scope for growth and we will continue to nurture and develop Escape Hunt accordingly.

The Boom Battle Bar concept is still relatively new, but the early signs of success suggest there is a very attractive opportunity to grow and generate substantial shareholder value. The targets we set for growing the Boom business in 2022 posed a significant challenge for the team to build the organisational capability whilst maintaining the pace of expansion. Both our marketing and operations capabilities have been boosted during the year and we have successfully created the platform we had aimed to achieve. Margins from the Boom owner operated estate have been steadily improving and it is pleasing to see the positive customer reviews being achieved.

The Board remains resolved to capitalise on the continued growth of experiential leisure, and we believe the foundations that have now been built will enable XP Factory to become a leader in developing the industry. In the short term, the group's strategy remains focused on building our UK presence, whilst we take some initial steps to test international markets. The return on capital opportunity for both our brands presents a significant shareholder value creation dynamic. For Boom in particular, returns can be further boosted by landlord contributions towards the fit out. Having achieved what we set out to do in 2022, our challenge now is to optimise the pace of roll-out within the constraints of the capital we have available. Escape Hunt has developed strong defensible characteristics through its proprietary games, operations and customer service. Our aim is to do the same within Boom so our focus in Boom will shift towards more owner operated sites whilst we continue to develop the operations, games management and customer service. This means investment into systems and processes and will also allow us to scale more easily. We believe that will set the business well for the future enabling us to more easily replicate owner operated success and also to create an attractive proposition for larger scale franchisees both in the UK and in international markets.

During the year we took the opportunity to buy back two franchised Boom sites in Cardiff and Norwich respectively. The returns profile from these acquisitions has to date been attractive with the acquisition of Boom Norwich already paid back. These opportunistic acquisitions follow similar successful acquisitions of our Escape Hunt Dubai master franchise in 2020 and the Escape Hunt French and Belgium master franchises in 2021, both of which have also delivered very attractive returns. Where these types of opportunities arise on favourable terms, we expect to take them up.

As the business grows, we are also mindful of our wider ESG objectives. The group's purpose is to bring people closer together through shared experiences as we believe that enriches lives. Consistent with this objective, it has been pleasing to see the seeds of a strong and growing corporate culture within the enlarged business. We have implemented a number of initiatives internally to support our people and our goal is to offer our workforce an enriching and supportive work environment. Our recruitment approach to create a more inclusive workforce is working as is evident from the rich mix of cultures and backgrounds across the organisation. There is also ongoing focus to implement local initiatives to improve our environmental habits and we work closely with our major suppliers with these objectives in mind.

During the year we made a number of changes to the board. Having served on the board since the company's formation, Karen Bach left in June 2022. Her support and insight in the early Escape Hunt journey and through the difficult period over the pandemic was much appreciated. At the same time we were delighted to welcome Martin Shuker and Philip Shepherd to the board. Martin brings a wealth of experience in the consumer leisure sector and brings considerable franchising know-how from his time at KFC. Philip, who is our audit committee chairman, likewise brings considerable experience in the experiential leisure sector. More details on each of the board members is set out on pages 32 - 33 of this report.

Finally, I wanted to thank all our people in the group without whose efforts and dedication the business could not have survived the pandemic nor successfully built the platform we have today.

# CHAIRMAN'S STATEMENT

## OUTLOOK

The opportunity presented by the growth of experiential leisure remains as attractive today as it was when XP Factory (then Escape Hunt) started its journey. The addition of Boom Battle Bar to the group has significantly enhanced the scale and prospects for the group and we are well placed to continue to benefit from attractive property opportunities. Escape Hunt's financial performance has settled into an attractive rhythm, producing high site level margins and highly attractive return on capital, whilst Boom's performance has proven that our initial expectations of the opportunity were well founded.

Trading in the first quarter of 2023 has been strong, with the group as a whole performing ahead of management expectations. Escape Hunt had an exceptionally strong first quarter with like for like revenues, adjusted for the VAT benefit in 2022, up by 32%. Within this, it has been particularly satisfying to see the oldest seven sites in the UK estate delivering like for like growth of 18%. Margins continue to meet or beat our internal targets. The franchise estate has delivered modest year on year growth.

Boom is still a very new business with very little historic trading against which to compare. The four owner operated sites which traded the full Q1 in 2022 delivered like for like growth of 44%. The rest of the estate has also shown strong growth and continued progression towards the operating metrics we expect at maturity. The franchise estate has performed in line with expectations.

Overall, whilst mindful of the ongoing pressures on the consumer and on our cost base, the performance in Q1 of 2023 gives us cause for optimism.

**Richard Rose**

***Chairman***

23 May 2023

## Our 69 venues offer a wide variety of entertainment experiences together with licensed bars delivered with world class hospitality in prime retail or leisure locations.

ESCAPE HUNT

**46**
**Venues**

**Experience led venues home to team based gaming adventures**

**MARKET LEADER**



**BOOM BATTLE BAR**

# 27

**Venues**

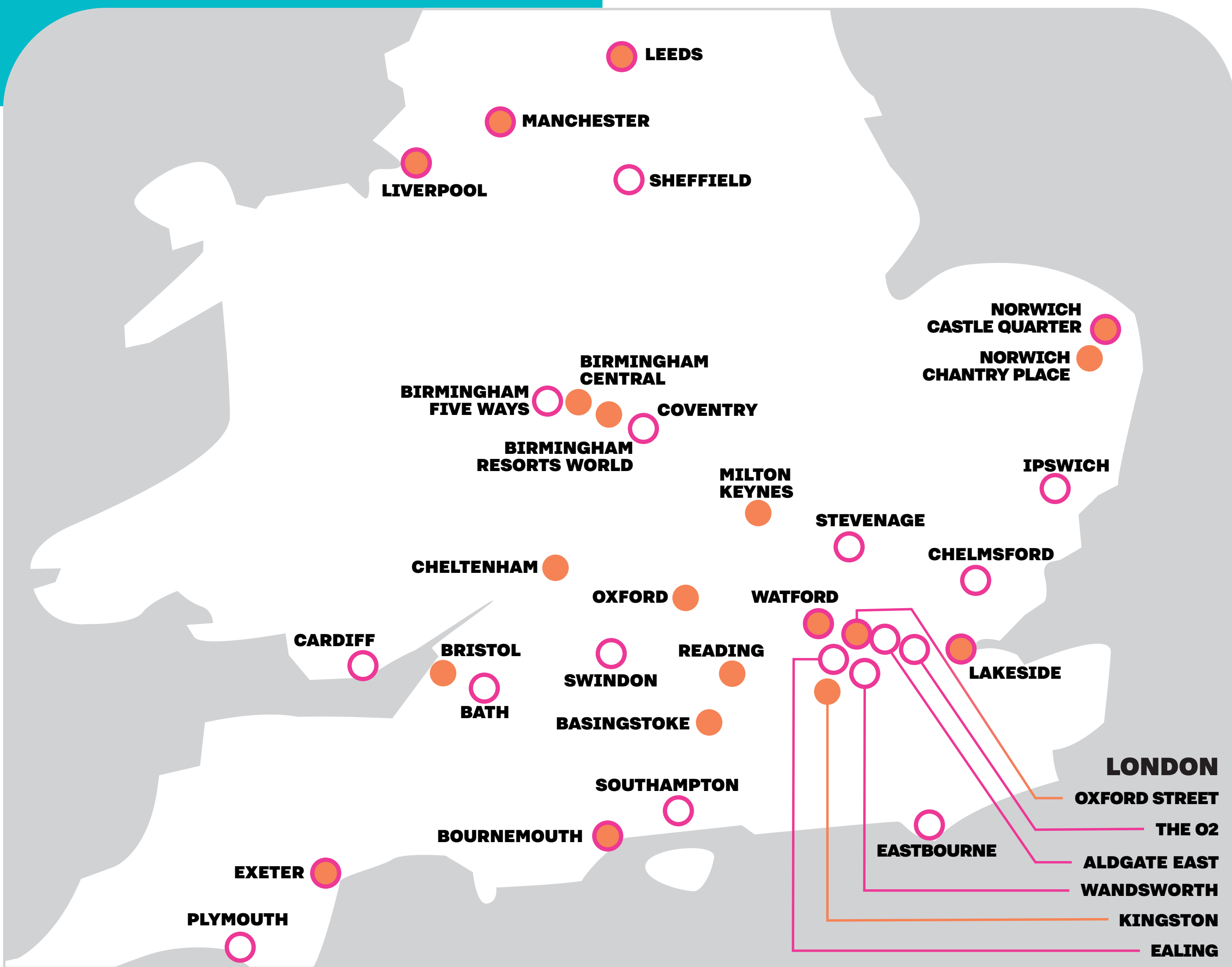
**Wet led venues home to multiple entertainment experiences all under one roof**


**MARKET LEADER**

# UK

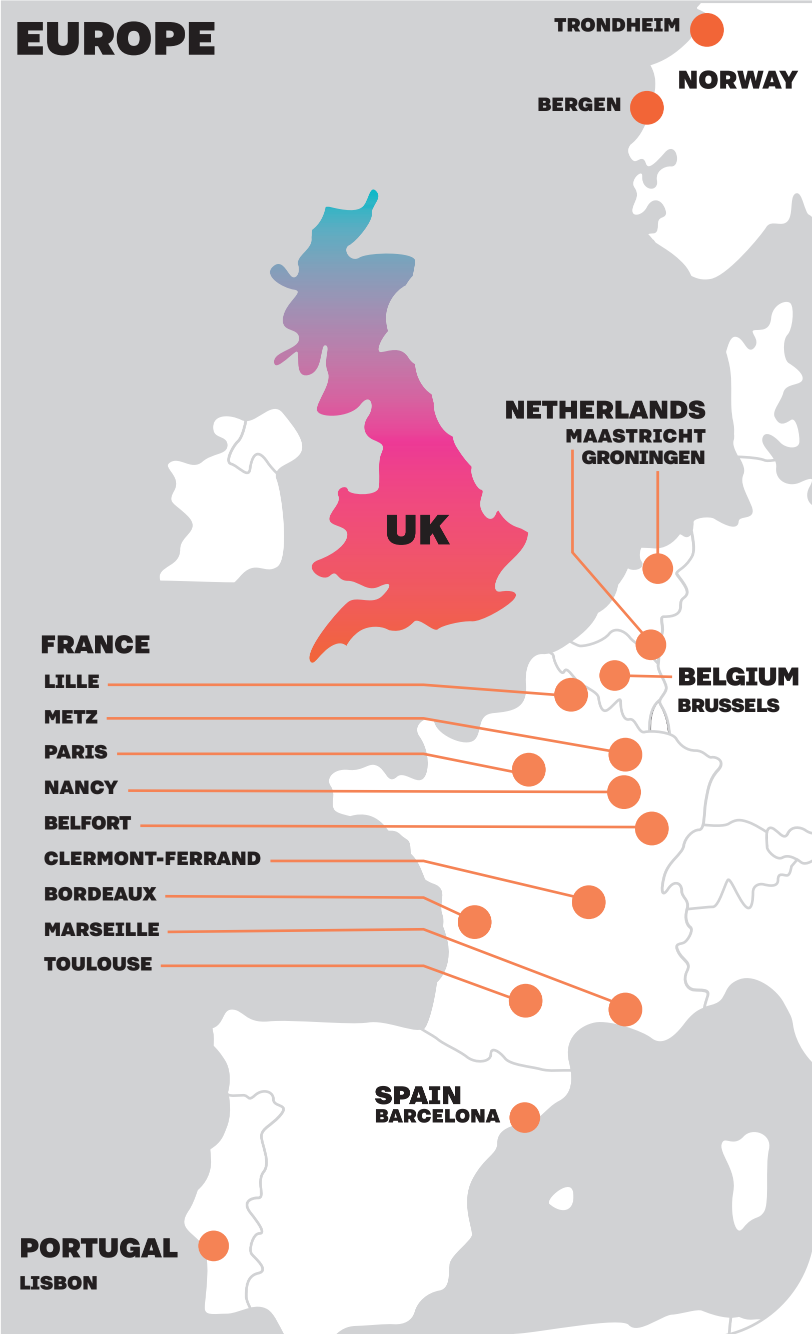

We have a strong national presence with significant opportunities for further expansion. Our 47 venue UK footprint trades from prime retail or leisure locations spanning England, Scotland and Wales. **ESCAPE HUNT** is fully owned and operated in the UK & **BOOM BATTLE BAR** is a mix of Owned & Operated and Franchise. The first UK **ESCAPE HUNT** opened in March 2018 and the first UK **BOOM BATTLE BAR** in June 2021.

ESCAPE HUNT
BOOM BATTLE BAR

# INTERNATIONAL

**ESCAPE HUNT** has been operating internationally across 4 continents since 2013. Its 26 international venues are a mix of Franchise (23) and Company Owned (3) sites. The first international **BOOM BATTLE BAR** is due to open in Dubai's Jumeriah Beach Resort in 2023.







**69**

**Venues 4 of which host both brands**

# OUR BRANDS

ESCAPE HUNT

BOOM BATTLE BAR

## We create & curate world class lean in entertainment experiences fused with world class hospitality.

At **xpfactory** plc our purpose is to bring people closer together through shared experiences. We strongly believe that life gets a whole lot more exciting the more you throw yourself in so we are on a mission to bring to market new kinds of lean in social experiences that we can combine with excellence in hospitality.
**xpfactory** plc is the home to 2 market leading brands in this space: **ESCAPE HUNT** & **BOOM BATTLE BAR**.

ESCAPE HUNT

**27**
unique gaming adventures

**23**
owner operated venues

**5**
new venues opened 2022

BOOM BATTLE BAR

**8**
experiences

**27**
venues

**18**
new venues opened 2022

# BRAND FOCUS

ESCAPE HUNT

## 5 Star rated, premium team based adventures

ESCAPE HUNT

**97**
**Guest Opinion Score***

**97.71%**
**Review Rating****

*A holistic measure combining NPS, social reviews (e.g. Google, Facebook and Tripadvisor), complaints and praise.

**An aggregated score expressed as a % from social reviews (e.g. Google, Facebook and TripAdvisor)

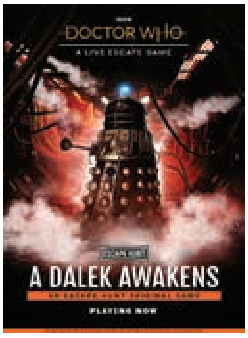
All data Jan–Dec 2022 Feed It Back

**ESCAPE HUNT** is unique in its position in UK's diverse "out of home" leisure sector. Teams of friends, families and work colleagues enjoy uniquely memorable, immersive and multi-sensory team-based gaming adventures in our well-located venues in prime retail or leisure space. What started as a small escape room brand in 2013 has been transformed into a mainstream entertainment experience venue like no other. Loved by consumers, trusted by corporates.

**ESCAPE HUNT** Studios brings together our very own team of inventors and storytellers in market leading experience design that has been endorsed by world class IP Studios. We are really proud of having worked with the likes of Netflix and of being home to the official BBC Studios Doctor Who Game.

We have a solid and attractive multi-format catalogue of 27 Games. Our **ESCAPE HUNT** Rooms benefit from full modular build, are well proven operationally & highly rated by customers. Experiences are underpinned by a progressive, proprietary software platform that brings strong operational reliability and efficiency.

Our team members are rightly proud of the award-winning customer experiences that they deliver and this is rooted in our world class training program.



**As a 360 gaming business that goes beyond the bricks and mortar this gives us access to both depth and scale unique to retail and leisure**

## ESCAPE ROOMS

**In venue immersive escape adventures or virtual reality**

## CITY HUNTS

**Outdoor explorer games using the streets of the city and an action pack of gadgets**

## DIGITAL & PLAY AT HOME GAMES

**Location Neutral games for Consumers & Corporates**


## DRINKS

**Our in venue bars offer pre-game or post game celebratory drinks**



BOOM BATTLE BAR

# A unique bar vibe with social lean in entertainment

**BOOM BATTLE BAR** promises to energise going out. Crowds of customers regularly flock to experience the collective high and energy of **BOOM BATTLE BAR** from celebrating in-game moments and outcomes, singing, dancing or cheering teams on the big screen. From regular nights out to celebrations of all kinds, from casual after work drinks to exclusive venue hire, **BOOM BATTLE BAR** is a vibrant destination for both consumers and corporates.

BOOM BATTLE BAR

**96**
**Guest Opinion Score***

**96.26%**
**Review Rating****

*A holistic measure combining NPS, social reviews (e.g. Google, Facebook and Tripadvisor), complaints and praise.

**An aggregated score expressed as a % from social reviews (e.g. Google, Facebook and TripAdvisor)

All data Jan–Dec 2022 Feed It Back


AR AXES


AR DARTS


CRAZIER GOLF


SHUFFLEBOARD


BEER/PROSECCO PONG


KARAOKE


PING PONG


POOL

# The modularity provided by our multi-experience proposition is distinctly advantageous.

**We can optimize the mix of games and experiences by venue size and location as well as continue to innovate and refresh the offer to remain current without the requirement for wholesale change.**

**DRINKS**
A wide range of delicious instagrammable cocktails & drinks

**FOOD**
BOOM BITES offers delicious signature chicken wings, streetfood and fully loaded sharers


**EXPERIENCES**
Modular, multi-experience set up from AR Axe throwing to Crazier Golf & Karaoke

**MUSIC**
A rosta of local DJs elevate the vibe, and provide a backdrop to our popular themed brunches

**LIVE TV EVENTS**
From World Cup Fixtures to big pop culture moments like Eurovision & St Patrick's day

Whatever the occasion, our amazing teams facilitate a unique unforgettable vibe aptly summed up in our tagline **FEEL THE BOOM.**

# 2022 saw investment in the BOOM BATTLE BAR website and the beginnings of system alignment between the two brands

We continue to see our investment in digital marketing channels return strongly for us with increasingly efficient cost per acquisition.

Post acquisition we continue to invest and optimise systems with initial focus on enhancing the booking process. Using the learnings from **ESCAPE HUNT** and improving the presentation of the **BOOM BATTLE BAR** products post acquisition we have seen significant increases in conversion.

Recent installations of wireless social in venue together with digital customer waivers combine in our drive for growth in the customer database. We continue to test and learn from customer communications using email and text, and have seen improvements in both engagement and revenue from using these databases.

In venue digital signage is beginning to roll out allowing us to really leverage the heavy passing footfall that our well-located venues benefit from.

We believe that our capability in delivering world class hospitality is what sets us apart. We have built a digital operational blueprint which provides us with both real time information and a complete historical record of all compliance checks which has resulted in every one of our venues achieving a 5 rating for food hygiene.

We have an integrated order and pay at table system that allows customers to browse the menu, order and pay from wherever they are in the venue improving both customer experience, operational efficiency and significantly increasing AOV and table turnover.


After every visit to our venues we digitally collect data on customer satisfaction which enables smart optimisation and rapid, tracked response.

# CHIEF EXECUTIVE'S REPORT

It is wonderful to be reporting a transformational year of outstanding growth and performance, as XP Factory continues to position itself as a leading operator in the experiential leisure sector. The bold expansion targets we set for ourselves were met, and we ended the financial year with a platform set for significant growth ahead. The strategic decision to buy Boom Battle Bar has been validated and Escape Hunt has continued to perform at levels far exceeding our initial investment assumptions. It is therefore a delight to highlight some of the key performance measures for the full year to December 2022:

- Group revenue increased 228% to £22.8m (2021: £7.0m)
- Adjusted EBITDA before IFRS16 of £2.6m (2021: loss of £0.6m)
- 27 Boom Battle Bar sites open as at 31 December 2022 (2021: 9)
- 23 owner-operated Escape Hunt sites open as at 31 December 2022 (2021: 19)
- 97% customer satisfaction score earned on both businesses

The pace of growth in the year would have been tough for many larger, longer established businesses to deliver, but adding 18 Boom sites in the year and 20 to a base of only 7 since acquisition in November 2021 represented a significant challenge to our teams. It was humbling to see the passion, tenacity and at times resilience with which they embraced the task, and I could not have been prouder of their execution. Most notably, they not only opened the sites in quick succession, but they did so in a way that embodied the best of our culture, our values and our unique form of hospitality, the manifestation of which saw our customers reward us with a 97% satisfaction rating.

Within the year we made two acquisitions, buying back our Boom franchises in each of Norwich and Cardiff. They have each proved to be highly successful, with Norwich fully paying back on a cash basis within 5 months, and Cardiff continuing to operate as a high revenue, highly profitable unit, which delivered 11% LFL sales growth in the period between acquisition and the year end.

It felt almost symbolic that our year closed with the opening of a flagship site on Oxford Street, perhaps the culmination of everything our teams have been working towards over the last 6 years. The unit sits proudly across 15k square feet and showcases the best of both Escape Hunt and Boom Battle Bar. Three years ago, as we were attempting to navigate the pandemic, it would have been unimaginable to think that we'd be opening our doors on one of the most iconic streets in the world. However, the team took it within their stride, and trading in both brands has exceeded our expectations so far.

Notwithstanding the challenges posed by the Omicron variant at the beginning of the year, and the significant disruption caused by strike action in Q4 2022, the Company delivered Group Adjusted EBITDA in line with expectations and enters 2023 from a true position of strength.

## ESCAPE HUNT

Escape Hunt bolstered its owner-operated estate throughout the year, opening a further 5 sites in Exeter, Norwich (a second unit), Edinburgh (relocating the previous Edinburgh site), Bournemouth and Oxford Street (London). Revenue of almost £10m from the owner operated business represented a 64% increase on the prior year (2021: £6m), albeit H1 in 2021 was affected by forced closures related to the pandemic. However, across H2 2022, perhaps a more fair comparison, like-for-like sales were 14% ahead on an underlying basis. The international franchise business also saw H2 sales growth of 18% vs 2021, and continues to provide a meaningful revenue contribution to the group (£0.7m).

Margins within Escape Hunt have continued to be exceptional, with the owned estate delivering 42% site-level EBITDA across the year. This flows clearly to the return on capital metrics, and the annualised cash return on invested capital in the UK business is in excess of 35%. Overall the business is demonstrably exceeding the mature targets we set for it, and even the most mature sites, opened in 2017, continue to deliver healthy like for like sales growth from the original game rooms first installed 6 years ago.

Our labour controls within Escape Hunt have continued to improve, bolstered by our investment in the proprietary software platform we implemented, and leveraged against higher sales. This has provided us with good cover in the face of rising costs and wage pressures, since we have been able to absorb the effect of our desire to invest in our teams and maintain wages well ahead of the industry. Moreover, since Escape Hunt has no meaningful cost of goods, the business is naturally insulated against much of the inflationary dynamics of the market, and has been able to maintain customer pricing, which we feel is important at a time when disposable income is being stretched.

Within the year we began to experiment with co-located sites in some cities, where we took large spaces and split them between Escape Hunt and Boom. Notably we have done this in Oxford Street, Lakeside, Edinburgh and Exeter. We will continue to assess how these sites perform relative to standalone units, but the early indications are positive, with the effect of materially lower property costs per square foot driving strong cash generation for Escape Hunt. We would expect to refine the way we bring the two brands together over time, but already it is clear that there is a commonality of customer between both businesses.

Overall we remain confident that we have a jewel of a business in Escape Hunt. The consistency of returns, the high level of these returns, and the overwhelmingly positive reactions that we still garner from customers underpin our continued roll-out strategy. It is therefore exciting to be bringing our experiences to new cities over the coming months.

## BOOM BATTLE BAR

In its maiden year for the Group, Boom Battle Bar's foundations were firmly set in 2022, and the year closed with 27 sites open across the UK. This pace of growth and execution against such a small base is likely unprecedented in our industry, and the delivery highlighted for me what an extraordinary team we have built over the last few years.

Without exception, our staff stepped up to the challenge and embraced every element of the job in hand. Whether the integration of Boom with Escape Hunt, the building of 18 sites in the year and a total of 20 since the acquisition, the training and recruitment of staff, or the delivery of our values and hospitality to customers, both I and my management team were deeply humbled by the execution. Several members of our team, who have been with the business since the beginning, were able to adopt leadership roles in the enlarged Group, and watching them take responsibility for large swathes of our growth strategy has been singularly rewarding. Moreover, seeing the resultant passion and culture that exudes from our staff at site level, and the positive impact it has on our customers, is a stark reminder of why we do what we do.

Whilst early in its evolution, the performance within Boom to date has been highly encouraging. Revenue from the owned estate was approximately £9.5m, with the franchise business delivering a further royalty income to the Group of £1.5m, and total revenue of £2.9m. Moreover, the conversion to gross profit and EBITDA has been in line with our expectations for a maturing business. Even though the opening of the sites in 2022 was somewhat weighted towards the back end of the year, and despite the fact that the units are expected to operate at a loss in their first few weeks of opening, Boom nevertheless generated pre IFRS 16 site EBITDA of 13%. This provides significant comfort that the medium term target operating EBITDA margins of between 20% and 25% are realistic, and indeed we are seeing this level and beyond in many of the more established locations already.

We remain confident that the high expectations for return on capital are achievable, as the build costs per square foot are being well managed, and this, combined both with the strong cash generation from the units and the capital contributions we are typically receiving from landlords (often circa £500k), result in forecast paybacks of between 1 and 2 years. Given this performance, it seems prudent to continue our site-opening strategy at a pace, and whilst we will not repeat the 18 Boom units achieved in 2022, we have cash and debt options to continue the rollout at pace.

There are of course many areas of the Boom operation which we continue to adapt and experiment with so early on in our journey, but already we are creating environments that customers are enjoying. Our satisfaction ratings of 97% are a testament to the delivery by our site teams, and the significant level of returning corporate business further reinforces that we are servicing an important market. Since the years of social lent born of COVID, we are seeing ever increasing numbers of companies looking to book our venues for their staff on a fairly regular basis, as Boom represents an ideal way to bring people together in a fun, relaxed and enjoyable environment. We only envisage this dynamic becoming more and more apparent, and indeed we have been forced to triple the size of our corporate sales team in order to cope with the in-bound demand.

Overall we are delighted with what we achieved with Boom over the course of 2022, and feel that it has set us up for success going forwards. We are through the required threshold of critical mass and the company is already showing itself to be cash generative in a way that has transformed our outcomes relative to where we were only two years ago.

## STRATEGIC OBJECTIVES

At the time of acquiring Boom Battle Bar, we outlined a four-point strategy to build shareholder value. Almost 18 months on, we have been pleased with our progress against these strategic imperatives, and have touched on the highlights below:

1. *Maximise the UK footprint by rolling out each brand, either through direct investment into owner-operated sites or through franchises*

   During 2022, we embarked upon an aggressive site opening strategy in the UK, and between Boom and Escape Hunt we opened 23 units. Importantly, we co-located a number of Escape Hunt sites with Boom Battle Bar and will continue to assess how these sites perform relative to stand-alone sites. Early indications are positive and it is likely that in certain venues, co-location of sites will make sense.

# CHIEF EXECUTIVE'S REPORT

We will continue to build the network for both brands, with a greater relative emphasis in the short term on Boom and owner operated sites.

2. *Accelerate growth in International territories, predominantly through franchises*

   Whilst we believe that there is a significant opportunity for each brand internationally, the immediacy of international growth will differ for each operating brand. For Boom, the focus remains in the UK although we are testing our first international market with a Boom site in Dubai. More broadly, international expansion is likely to be franchise led, as it has been for Escape Hunt.

3. *Continue to develop new products and markets which facilitate the growth of B2B sales*

   We will continue to innovate and develop products that provide access to a broader range of customer markets. Our direct sales team has been materially expanded and is addressing the corporate / business market for both Escape Hunt and Boom Battle Bar effectively.

4. *Integrate the businesses, exploit the synergies where possible, and develop an infrastructure that supports scale and future growth*

   Whilst more inward looking, the fourth objective is a critical component for the success of our business. I have been delighted with the progress we have made during 2022 in embracing the cultures of the two businesses and building on the DNA and values within the XP Factory Group. Our focus is now on implementing systems and operational practices which further differentiate our businesses and create an operating methodology which can be easily be scaled and which larger scale franchisees will value.

## OUTLOOK

The opportunity presented by the growth of experiential leisure remains as attractive today as it was when XP Factory (then Escape Hunt) started its journey. The addition of Boom Battle Bar to the group has significantly enhanced the scale and prospects for the group and we are well placed to continue to benefit from attractive property opportunities. Escape Hunt's financial performance has settled into an attractive rhythm, producing high site level margins and highly attractive return on capital, whilst Boom's performance has proven that our initial expectations of the opportunity were well founded.

Trading in the first quarter of 2023 has been strong, with the group as a whole performing ahead of management expectations. Escape Hunt had an exceptionally strong first quarter with like for like revenues, adjusted for the VAT benefit in 2022, up by 32%. Within this, it has been particularly satisfying to see the oldest seven sites in the UK estate delivering like for like growth of 18%. Margins continue to meet or beat our internal targets. The franchise estate has delivered modest year on year growth.

Boom is still a very new business with very little historic trading against which to compare. The four owner operated sites which traded the full Q1 in 2022 delivered like for like growth of 44%. The rest of the estate has also shown strong growth and continued progression towards the operating metrics we expect at maturity. The franchise estate has performed in line with expectations.

Overall, whilst mindful of the ongoing pressures on the consumer and on our cost base, the performance in Q1 of 2023 gives us cause for optimism.

**Richard Harpham**

***Chief Executive Officer***

23 May 2023

# FINANCIAL REVIEW

## GROUP RESULTS

### REVENUE

Group revenue increased by 228% to £22.9 million compared to £6.9 million in 2021, reflecting the significant increase in scale of the business following the acquisition of Boom Battle Bars in November 2021 as well as the period of closure in the comparative period between January and May 2021 when most of the Escape Hunt sites were closed due to Covid restrictions.

| | Year ended 31 December 2022 £'000 | Year ended 31 December 2021 £'000 | Increase / (decrease) |
|---|---|---|---|
| New site upfront location exclusivity fees, support and administrative fees | 1,368 | 247 | 453% |
| Franchise revenues | 2,012 | 456 | 341% |
| Owned branch game revenues | 13,535 | 6,025 | 125% |
| Owned branch food and drinks revenues | 5,149 | 214 | 2302% |
| Other | 770 | 41 | 1778% |
| **Total** | 22,834 | 6,984 | 227% |

Within the Escape Hunt owner operated estate, revenue grew 63% to £9.8m from £6.0m in 2021. As mentioned, Escape Hunt sites were closed for much of the period between January and May 2021 in the comparative year, whilst they benefitted from a VAT reduction of 15% for the remainder of 2021. Adjusting for the VAT benefit in the comparative, it was pleasing to see strong annualised like for like growth of 14% across the estate in the final 26 weeks of the year. Even the seven most mature sites in the estate which were originally opened in 2018 saw 7.4% like for like growth calculated on the same basis.

The Boom owner operated estate delivered revenue of £9.5m. At the start of the year only 2 owner operated sites were open, and a further 9 owner operated sites were opened / acquired during the course of 2022. The results also include turnover from the site in Swindon, which is managed by our team through an operating agreement but is counted as a franchise site in our site numbers.

The Escape Hunt franchise network delivered turnover of £0.7m, an 18% increase on 2021. In its maiden year, the Boom franchise network delivered turnover of £2.9m. Of this, £1.5m was royalty income. £0.8m related to the construction and resale of a franchise site, against which there is an associated £0.5m cost of sale. It is no longer our policy to build sites on behalf of franchisees, so this will not repeat. The balance comprises site upfront location exclusivity fees, support and administration fees.

The Board estimates that the Group exited the year at an underlying run rate turnover in excess of £30m per annum.

### GROSS PROFIT

Cost of sales includes the variable labour cost at sites and other direct cost of sales, but not fixed salaries of site staff, whose costs are included as administration costs. The Board believes this categorisation best reflects the underlying performance at sites and provides a more useful measure of the business.

Gross margin rose 188% to £14.7m from £5.1m in 2021. Gross margin at group level is impacted by the mix of sales between Boom and Escape Hunt and between franchise and owner operated performance. Gross margin within the Escape Hunt network fell from 74% to 69%. This was largely due to the loss of the 15% VAT relief that was enjoyed during 2021 within the Escape Hunt UK business. Boom gross margins improved marginally from 49% to 52% although the 2021 figure represented only a single site for a short period only.

### SITE LEVEL EBITDA AND ADJUSTED EBITDA

Site level Adjusted EBITDA is a key performance measure for the business and is calculated before IFRS 16 adjustments. Escape Hunt delivered £4.1m pre IFRS 16 site level EBITDA, a 66% increase on 2021, and representing a 42% EBITDA margin. The margin achieved is significantly higher than the internal target of 30% set when the business started out in 2018 and demonstrates the success of the business model to date. Whilst the result includes some VAT benefit from Q1 in 2022, it nevertheless represents a marginal improvement on the 41% margin achieved in 2021 which had the VAT benefit throughout the period of trading.

Boom owner operated estate delivered a site level EBITDA of £1.4m, representing a margin of 15%. Whilst our target for Boom is to achieve EBITDA margins between 20% and 25%, the achievement is extremely pleasing given the early stage of trading for most of the estate during the year. Sites are expected to, and generally do, run at a loss in the early weeks and months after

# FINANCIAL REVIEW

opening as operations are improved, labour trained and awareness of the venue builds. EBITDA margins have continued to improve during Q1 2023 and we remain confident of achieving the targeted range between 20% and 25%.

Adjusted EBITDA is a key performance indicator for the company. The Group recorded its first pre-IFRS16 Adjusted EBITDA profit of £2.7m for the year, compared to a pre IFRS 16 Adjusted EBITDA loss (before R&D credits) in 2021 of £0.6m. After IFRS 16, the Adjusted EBITDA profit was £4.1m.

| | Escape Hunt Owned | Escape Hunt Franchise | Boom Owned | Boom Franchise | Unallocated | 2022 £'000 |
|---|---|---|---|---|---|---|
| Pre IFRS 16 Adjusted site level EBITDA | 4,095 | 703 | 1,270 | 2,279 | – | 8,347 |
| *Site level EBITDA margin* | *42%* | *100%* | *13%* | *80%* | | *37%* |
| Other income | 141 | – | – | – | 6 | 147 |
| Centrally incurred costs | (63) | (134) | (188) | (105) | (5,449) | (5,939) |
| **Pre-IFRS Adjusted EBITDA** | 4,173 | 569 | 1,082 | 2,174 | (5,443) | 2,555 |
| IFRS adjustments (net of pre-opening) | 613 | – | 787 | – | – | 1,400 |
| **Adjusted EBITDA** | 4,785 | 569 | 1,869 | 2,174 | (5,443) | 3,955 |

| | Escape Hunt Owned | Escape Hunt Franchise | Boom Owned | Boom Franchise | Unallocated | 2021 £'000 |
|---|---|---|---|---|---|---|
| Pre IFRS 16 Adjusted site level EBITDA | 2,477 | 407 | 21 | 111 | – | 3,016 |
| *Site level EBITDA margin* | *41%* | *69%* | *8%* | *100%* | | *43%* |
| Other income | 371 | – | – | – | – | 371 |
| Centrally incurred costs | (1,479) | (130) | (2) | (30) | (2,363) | (4,004) |
| Pre-IFRS Adjusted EBITDA | 1,369 | 277 | 19 | 81 | (2,363) | (617) |
| R&D Grant (net of fees) | | | | | 2,590 | 2,590 |
| IFRS adjustments Net of pre-opening) | 580 | – | 63 | – | 37 | 680 |
| Adjusted EBITDA | 1,949 | 277 | 82 | 81 | 264 | 2,653 |

A reconciliation between statutory operating loss and Adjusted EBITDA is shown below.

| | Year ended 31 December 2022 £'000 | Year ended 31 December 2021 £'000 |
|---|---|---|
| **Pre IFRS 16 and pre R&D Adjusted EBITDA** | 2,555 | (616) |
| IFRS 16 adjustments (excl pre-opening) | 1,400 | 680 |
| R&D Grant | – | 2,589 |
| **Adjusted EBITDA** | 3,955 | 2,653 |
| Depreciation and amortisation | (5,165) | (2,805) |
| Loss on disposal of tangible assets | (126) | (50) |
| Profit on closure/modification of leases and rent credits | 123 | 189 |
| Branch closure costs and other exceptional costs | (399) | (239) |
| Branch pre-opening costs | (2,018) | (103) |
| Provision against loan to franchisee | (26) | (78) |
| Foreign currency gains / (losses) | (1,133) | (18) |
| IFRS 9 provision for guarantee losses | (68) | (8) |
| Fair value adjustment | 6,210 | – |
| Share-based payment expense | (81) | (62) |
| **Operating profit / (loss)** | **1,272** | **(521)** |

Centrally incurred costs rose to £5.9m from £4.0 million in 2021 (2021: £4.6m including costs relating to the successful R&D claim) reflecting the increased head office function following the Boom acquisition.

# FINANCIAL REVIEW

## OPERATING PROFIT

Operating profit rose to £1.2m from a loss of £0.5m in 2021.

The operating profit is after £2.0m pre-opening costs relating to openings of both Boom and Escape Hunt sites during the year. £1.6m related to Boom sites and £0.4m to Escape Hunt sites. Pre-opening costs comprised the following:

| Pre-opening costs | Boom £,000 | EH £'000 | Total £'000 |
|---|---|---|---|
| Admin costs | 486.2 | 83.5 | 569.7 |
| Rates and service charge | 264.3 | 43.1 | 307.4 |
| Cost of sales – consumables | 64.4 | 0.6 | 65.0 |
| Training | 363.7 | 69.4 | 433.1 |
| Central staff marketing and training | 464.2 | 178.8 | 643.1 |
| Post IFRS 16 | 1,642.8 | 375.5 | 2,018.2 |
| Rent accruals | 610.4 | 53.8 | 664.2 |
| Pre IFRS 16 | 2,253.2 | 429.3 | 2,682.5 |

Operating profit includes £1.1m of foreign exchange costs. These relate principally to an intercompany balance between Experiential Ventures and Escape Hunt IP Limited, both 100% owned subsidiaries within the Group. Experiential Ventures is in the process of being voluntarily wound down an on completion, the balances will be offset. There is no cash impact.

Branch closure and exceptional costs comprise predominantly the write off of inter-company balances on the dissolution of EHO and EVD, the former Malaysian and Thai companies in the group which were finally dissolved during 2022, as well as restructuring charges and the closure of the previous Escape Hunt site in Edinburgh.

The fair value adjustment of £6.2m relates to the contingent liability connected with the acquisition of Boom. A detailed explanation is given in note 3 on page 72.

## CASHFLOW AND CAPITAL EXPENDITURE

The Group had £3.2m of cash as at 31 December 2022, down from £8.2m at 31 December 2021. The reduction in cash is as a result of the significant capital investment in new sites during the year.

The Group generated £3.4m cash from operating activities, up from £0.8m in 2021. The cash generated from operating activities was boosted by positive working capital movements. A significant proportion of this relates to deferred rent payments, where companies in the group have rent-free periods early in their leases, significantly boosting the cashflow dynamics for those sites. The underlying working capital position is favourable, with the majority of revenue being received in advance or on the day of sale. Whilst the group does hold stock at sites, money tied up in stock is more than offset by trade and other creditors.

A total of £6.9m was invested in capital expenditure on Boom sites (tangible and intangible). Of this, £2.5m was funded from landlord contributions. Most of this expenditure related to the new Boom sites opened in Exeter, Manchester, Plymouth, Leeds, Edinburgh and London Oxford Street.

£2.1m was invested into Escape Hunt, of which £0.4m was funded from landlord contributions. The majority of this investment went into new sites opened in Exeter, Norwich, Edinburgh, Bournemouth and London Oxford Street.

Acquisitions of Boom Battle Bar franchised sites in Cardiff and Norwich utilised £0.4m of cash. The acquisition of Boom Cardiff required £0.5m (net of cash acquired), whilst the acquisition of Boom Norwich was funded through a vendor loan and resulted in a net inflow of £0.1m on completion. Since the year end a further £0.6m has been paid in respect of the Cardiff acquisition. A final payment which is expected to be de-minimus is due in September 2023.

Other movements within investing activities are largely fit-out loan repayments.

## RETURN ON CAPITAL

Return on capital is a key performance measure for the Company, with each site being commissioned based on an anticipated cash return on investment, payback and net present value generated.

The UK Escape Hunt network generated an annualised return on capital (defined as EBITDA divided by gross investment in the sites) of 35%, demonstrating the attractions of the business model.

# FINANCIAL REVIEW

Whilst it is arguably still too early to conclude on the performance of the Boom estate, initial indications are very positive. The annualised return on capital (calculated in the same way as for Escape Hunt) during Q1 of 2023 has exceeded 30% for Boom sites. This return does not take account of the considerable rent-free periods enjoyed by most of the Boom sites which further boosts the actual cash on cash return in the short term. As the Boom sites' performance matures, return on capital is expected to improve and the board's estimate is that the annualised return on capital will exceed 50% for the Boom owner operated estate as a whole.

The cash return on investment for our acquisitions has also proved very strong. The acquisition of the Boom Norwich site has already paid back on a cash basis. Likewise the acquisition of the Boom Cardiff business is expected to pay back within 18 months.

### BALANCE SHEET

Net assets at the end of the year were £21.8m. The most significant movements relate to the site roll out programme undertaken in the year.

The net book value of property plant and equipment rose to £12.7 m from £5.5m reflecting the capital investment programme, offset by depreciation in the year. Right of use assets rose to £17.8m from £7.6m, reflecting the IFRS 16 treatment of new leases signed in the year in Exeter, Plymouth, Manchester, London Oxford Street, Leeds, Edinburgh and Dubai, as well as acquisitions in Norwich and Cardiff. Landlord contributions of £2.6m are offset against the value of right of use assets in accordance with IFRS treatment. The increase is reciprocated by an increase in lease liabilities to £24.0m from £8.4m.

The intangibles balance of £23.0m predominantly includes goodwill and acquired intangibles (franchise contracts) from the acquisitions in prior years of Boom, the French, Belgian and Middle East master franchises for Escape Hunt, and in 2022 the acquisitions of Boom in Cardiff and Boom in Norwich.

The total balance in provisions has reduced significantly during the year to £5.4m. The balance includes £4.1m of contingent consideration (2021: £9.0m). The reduction arose from a fair value adjustment of the contingent consideration which is expected to be settled by the issue of approximately 23.5m XP Factory plc shares to MFT Capital Ltd, the former owner of Boom Battle Bars. For further details of the fair value revaluation see note 3 on page 72 of the financial statements. There will be no cash impact from the settlement of the contingent consideration and the number of shares is fixed and not influenced by the share price.

The balance sheet includes a total of £1.5m of loans. £0.4m of this relates to loans issued in connection with the acquisitions of the French and Belgian Escape Hunt master franchise and the acquisition of Boom Battle Bars both in 2021. £0.8m relates to fit-out funding within the Boom estate and the balance is bank and other borrowings.

The deferred tax liability was recognised to offset future amortisation of acquired intangibles (franchise contracts) arising from the acquisitions of the French and Belgian Escape Hunt master franchise and the acquisition of Boom Battle Bars both in 2021. £112k has been credited to the statement of comprehensive income during the period.

## KEY PERFORMANCE INDICATORS

The Directors and management have identified the following key performance indicators ('KPIs') that the Company tracks for each of its operating brands. These will be refined and augmented as the Group's business matures:

- Numbers of owner-operated sites: 23 Escape Hunt sites and 11 Boom Battle Bar sites as at 31 December 2022
- Numbers of franchised sites: 23 Escape Hunt and 16 Boom Battle Bar sites as at 31 December 2022
- Site level revenue: £19.3m in the year to 31 December 2022
- Site level EBITDA: £7.7m in the year to 31 December 2022
- Franchise revenue: £3.6m in the year to 31 December 2022
- Central costs: £5.9m in the year to 31 December 2022
- Adjusted EBITDA, before IFRS 16 for the Group: £2.6m in the year to 31 December 2022

The Company monitors performance of the owner-operated sites on a weekly basis. The Board also receives monthly updates on the progress on site selection, site openings and weekly as well as monthly information on individual site revenue and site operating costs. Monthly management accounts are also reviewed by the Board which focuses on revenue, site profitability and adjusted EBITDA as the key figures within the management accounts.

# FINANCIAL REVIEW

Both the number of franchised branches as well as their financial performance are monitored by the management team and assistance is provided to all branches that request it in terms of marketing advice as well as the provision of additional games.

The key weekly KPIs by which the UK and owner-operated business is operated are the site revenue (including UK franchise sites), gross margins (in the case of Boom sites) marketing spend and staff costs and consequent ratio of staff costs to revenue. Total revenue is tracked against budget, adjusted for seasonality, number of rooms open and the stage in the site's maturity cycle. Staff costs are measured against target percentages of revenue. The effectiveness of marketing is assessed by observing revenue conversion rates and the impact on web traffic, bookings and revenue from specific marketing campaigns.

The Company's systems track performance on both a weekly and a monthly basis. These statistics provide an early and reliable indicator of current performance. The profitability of the business is managed primarily via a review of revenue, adjusted EBITDA and margins. Working capital is reviewed by measures of absolute amounts.

**Graham Bird**

***Chief Financial Officer***

23 May 2023

# CORPORATE RESPONSIBILITY

The Company takes its responsibilities as a corporate citizen seriously. The Board's primary goal is to create shareholder value but in a responsible way which serves all stakeholders.

## GOVERNANCE

The Board considers sound governance as a critical component of the Group's success and the highest priority. The Company has an effective and engaged Board, with a strong Non-Executive presence from diverse backgrounds and well-functioning governance committees. Through the Group's compensation policies and variable components of employee remuneration, the Remuneration Committee of the Board seeks to ensure that the Company's values are reinforced in employee behaviour and that effective risk management is promoted.

More information on our corporate governance can be found below.

## EMPLOYEES AND THEIR DEVELOPMENT

The Company is dependent upon the qualities and skills of its employees and the commitment of its people plays a major role in the Group's business success. The Company invests in training and developing its staff through internally arranged knowledge sharing events and through external courses.

Employees' performance is aligned to the Group's goals through a performance review process and via incentive programmes. The Group provides employees with information about its activities through regular briefings and other media. The Group operates a number of incentive schemes and a share option scheme operated at the discretion of the Remuneration Committee. An employee share incentive scheme has been put in place and is available to all UK-based employees who have been employed within the Group for at least three months.

## DIVERSITY AND INCLUSION

The Group does not discriminate on the grounds of age, gender, nationality, ethnic or racial origin, non-job-related-disability, sexual orientation or marital status. The Group gives due consideration to all applications and provides training and the opportunity for career development wherever possible. The Board does not support discrimination of any form, positive or negative, and all appointments are based solely on merit.

## HEALTH AND SAFETY

The Group endeavours to ensure that the working environment is safe and healthy and conducive to the well-being of employees who are able to balance work and family commitments. The Group has a Health and Safety at Work policy which is reviewed regularly by the Board. The Group is committed to the health and safety of its customers, employees and sub-contractors and others who may be affected by the Group's activities. The Group provides the information, instruction, training and supervision necessary to ensure that employees are able to discharge their duties effectively. The health and safety procedures used by the Group ensure compliance with all applicable legal and regulatory requirements as well as its own internal standards.

# PRINCIPAL RISKS AND UNCERTAINTIES

The Directors consider that the principal risks and uncertainties facing the Group and a summary of the key measures taken to mitigate those risks are as follows:

*Economic and political risks*

Most economies experienced a bounce back of activity in 2022 following years which were severely impacted by COVID. However, inflation has risen sharply, notably for energy, and supply chains around the world remain disrupted. Russia's invasion of Ukraine has led to significant political tension globally, further impacting energy prices and creating significant uncertainty and the ongoing war continues to impact the region's ability as a major agricultural producer. Food price inflation remains stubbornly high impacting consumers' cost of living. Interest rates have risen significantly in the last year and have put further pressure on consumers' finances. Whilst the UK's economic performance has been more resilient than expected, it remains possible that a combination of all these factors leads to a broader consumer recession which might adversely impact consumer discretionary spending. Corporate spending is an increasingly important component of group revenues and this too falls within overall discretionary spend. Recent concerns over the health of the international banking system has heightened the macroeconomic risks in that a major bank failure would have a profound knock on effect on the global economy and both consumer and corporate confidence. The Group's activities are exposed directly to discretionary spend, and as a result, a consumer recession and / or a significant reduction in corporate discretionary spending would be expected to have an adverse impact on performance. The Board regularly reviews the Group's ability to cope with a downturn and the associated need for maintaining sufficient financial headroom to be able to absorb the impact of reduced sales activity.

*Financial risks*

The effective management of its financial exposures is central to preserving the Company and Group's profitability. The Group is exposed to financial market risks and may be impacted negatively by fluctuations in foreign exchange rates, which may create volatility in the Group's results from its international franchise operations. Today these form a relatively small component of the group's operations.

The Group's finance team provides support to management to ensure accurate financial reporting and tracking of business performance. Reporting on financial performance is provided on a monthly basis to senior management and the Board. Weekly reports provide high level summaries of site-by-site performance for Escape Hunt and are now being introduced to Boom sites.

The Group has invested in the improvement of its systems and processes in order to ensure sound financial management and reporting during the year.

*Roll-out of owner-operated sites*

The XP Factory Group has successfully opened a number of Escape Hunt and Boom Battle Bar owner-operated sites in recent years. The Group now has a greater critical mass and the future success of the Group is less dependent on further expansion of the estate than at any time in the past. Nevertheless, the Group plans to continue the growth of its owner-operated estate for both Escape Hunt and Boom Battle Bar. This expansion of owner-operated sites under the Group's two brands offer the Group growth opportunities.

The Group was in negotiations with a number of landlords at the end of the year. However, there is no guarantee that the XP Factory Group will be able to locate or secure a sufficient number of appropriate sites to meet its growth and financial targets. Obtaining sites, together with appropriate planning permissions and completing legal documentation has impacted the roll-out pace in previous years with a consequent impact on revenues and profits. It is also possible each site may take some time from its opening date to reach profitable operating levels due to inefficiencies typically associated with new sites, including lack of awareness, competition, the need to hire and train sufficient staff and other factors. Furthermore, Boom Battle Bar is a relatively new concept which may not achieve the site level performances expected at every new site. The Group has worked to reduce this risk through strong staff recruitment and training processes and investment in both operational and marketing activities.

Opening new sites is capital intensive. However, in the case of most of the proposed Boom Battle Bar sites, the Group has been able to secure favourable lease terms which in most cases include substantial capital contributions from the landlords. These capital contributions significantly reduce the total capital required to open a new site. As such, the Directors believe that the future return profile for new sites will be stronger than what has been delivered on the original Escape Hunt sites to date. However, there is no guarantee that this will be the case.

The ability of the Company to fund the capital expenditure is dependent on access to funding in the form of internally generated cashflow, landlord contributions, equity or debt. The Company was able to raise £17.2m (before expenses) in November 2021 through a placing, share subscription and an open offer to fund the acquisition of Boom Battle Bar and to provide working capital

# PRINCIPAL RISKS AND UNCERTAINTIES

to support the roll out of new Escape Hunt and Boom Battle Bar sites. The directors believe that having invested the cash so earmarked from the fundraise into the network of owner-managed sites in the Group portfolio, they have created a network able to support a profitable and cash generative business in future. However, any significant expansion beyond the existing estate would require additional funding which may be more than that generated by the business and the Group's existing cash resources, and may therefore require additional external funding. There can be no certainty that such additional funding will be available.

*Franchise estate*

Revenue from the franchise estate currently accounts for a material proportion of both revenue and operating cashflow for the XP Factory Group. Within the Escape Hunt network, a number of franchisees were materially adversely affected by COVID-19 in their respective jurisdictions, in a number of cases leading to closure. Others experienced significant financial pressure and some have fallen behind on their financial obligations to Escape Hunt. Further franchisee failures could have an adverse impact on future performance and results.

Within the Boom network, franchisees and the Boom concept is relatively new. It is therefore possible that the performance of franchise sites may not achieve expectations and franchisees could come under financial pressure and be unable to make the payments for which they are contracted to companies in the XP Factory group or in respect of property lease payments. XP Factory is co-tenant or guarantor on the leases for most of the Boom franchise network and, as such, could be called on by the landlord to make any such defaulted lease payments. The Franchise contracts have consequently been set up within Boom to allow XP Factory to step in to any franchise site which is in default and to take over the assets and operations of the site. The directors believe that this right substantially mitigates the risks as the site would effectively become an owner-operated site without any significant capital outlay. XP Factory has the know-how and resources to manage the sites and believes that it would do so in a manner to ensure that any financial exposure can be minimised.

While the XP Factory Group currently plans to continue to open new franchise sites in the UK and around the world, it is more likely that franchise agreements going forwards would be focussed towards fewer agreements requiring a larger number of sites to be opened in a particular territory. These potential partners include those who already operate other leisure facilities but there is no guarantee that these will come to fruition. The Company cannot guarantee that the Group will be able to achieve its franchise expansion goals or that the new sites will generate the expected levels of revenue and therefore revenue share. This may adversely impact on the Group's ability to increase turnover.

*The threat of new entrants into both the escape room market and the market in which Boom operates is high*

A single site or a small number of sites offering an escape game experience would be relatively simple for a new entrant to establish. The barriers to entry for such competition at that level is relatively low and there is a risk that such entrants could dilute the market place or adversely impact the consumer's perception of escape game experiences in the event that the quality of experience offered by these new entrants was poor or, at worst, attracted negative publicity related to the health and safety of participants or poor customer reviews which adversely affect the perception of the industry. The escape game experience market is in its still in relative infancy and consumer perceptions may be more easily influenced by a poor quality offering or negative publicity due to their limited experience which in turn could negatively impact on the perception of the Group's business and could adversely affect profitability and results of operations.

The risk is mitigated by the Group's strategy to develop an international quality escape room experience and the Directors believe the barriers to entry for new global entrants adopting the same strategy are higher than a single-site opening due to the complexities of designing games and managing them across international operations. However, there is a risk that established corporations in the leisure market, who may have the capital and resources to compete with the Group's business, may wish to enter the escape room market.

Boom Battle Bar is a competitive socialising bar concept which is an area attracting a lot of interest with many new concepts being developed and opened generating growing competition for the experiential leisure. The games operated by Boom Battle Bar are generally not unique and the directors do not believe that they offer any competitive advantage on an individual basis. However, the directors believe that the combination of multiple games in a single site, with the ability to swap out underperforming games with different games provides flexibility to react to competitive threats quickly and effectively. The directors also believe that the sites that have been chosen and developed are in strong locations capable of delivering against the competition. Operationally, the Group is focused on customer satisfaction. These factors lead the directors to believe that the Group is well placed to respond to any potential competitive threats.

# PRINCIPAL RISKS AND UNCERTAINTIES

*The market is immature and therefore forecast growth and application of regulation is unpredictable*

The market for both escape game experiences and the competitive socialising concepts offered by Boom Battle Bar is immature and growth will be characterised by changes in consumer needs and expectations, continued evolution in technology and increased competition. If the Group fails to develop new offerings or modify or improve existing offerings in a timely and cost-effective manner in response to these changes in technology, consumer demands and expectations, competition or product introductions, the Group's business, results of operations and financial condition may be adversely affected.

Changing trends could impact on the Group's revenues and profits as well as the Group's goodwill. Whilst the Directors believe that the Group's own escape game designs and Boom Battle Bar concepts have longevity and, therefore the potential to deliver substantial growth in sales, there can be no guarantee that they will evolve to fulfil this potential. The Group will also need to innovate and create new experiences which are market leading. This applies to not just the number of new experiences which are created but the quality and reflection of consumer tastes in the experiences. If the Group fails to anticipate, identify or react swiftly enough to trends in consumer preferences then this could result in lower sales, margins and profits for the Group.

*The Group's owner-operated sites are leased. Increases in rental payments or the early termination of any of the Group's leases, or the failure to renew or extend the terms of any of the Group's leases could adversely affect the Group's profitability*

The Group's operating performance depends in part on its ability to secure and retain leases in desired locations at rents it believes to be reasonable. The leases for the Group's new owner-operated sites may generally require that their annual rent be reviewed on a periodic basis and which may be on an "upwards-only" basis. The annual rent for the premises then becomes the greater of such open market rental value and the previous contractually agreed rent. As a result, the Group may be unable to predict or control the amount of any future increases in its rental costs arising from the review of rents it pays for its sites and would be unable to benefit from any decline in the open market rental value of its sites. Any substantial increase in the business rates or rent paid by the Group on its owner-operated sites or the early termination of any of its leases could adversely affect the Group's business, financial and other conditions, profitability and results of operations. However, the Group believes that the sustained pressure on the high street, exacerbated by COVID-19 could decrease overall future lease costs as prices may be reducing as a result of changes in the retail environment, notably as a result of the failure of a number of large format stores such as Debenhams and BHS.

The Group analyses the suitability of all new sites prior to opening, however this is not a guarantee that any new site will be a success. If a site is not successful, the Group may need to cease its operations on that site and seek to assign or sub-let the premises. However, suitable tenants may not be found and any lease may have restrictions on assignment or subletting which may mean that this is either prevented or delayed. A failure to find tenants and/or a prohibition or delay in assigning or sub-letting unsuccessful sites would result in the Group paying rent and satisfying the tenant's obligations under the lease of a site which is not operational and with total rental costs being higher than necessary.

*The Group works closely with a number of key suppliers. Termination of any of these key relationships could adversely affect performance in the short term*

The Group has invested significant time and resource into relationships with a number of key suppliers, notably those involved in the production, delivery and installation of escape games as well as the technology used to run the games and in the production and fit-out of Boom Battle Bar sites. Whilst the Group owns the intellectual property related to the escape games and these relationships can be replaced, the games played in Boom sites are mostly generic games available to competitors. The replacement of a key supplier could take time and could adversely affect the pace and cost at which the Group is able to execute its growth plans in the short term. It could also adversely impact the short term ongoing maintenance cost of existing games where the key supplier has been involved. Within Boom in particular, the directors believe that this risk is mitigated by the fact that the games and fit-out is less specialised than for an Escape Hunt site.

*Performance of franchisees*

The Group depends, in large part, on the Escape Hunt and Boom Battle Bars brands. The vast majority of sites in both networks are today owned and operated by franchisees who are responsible for delivering the high standards of the relevant XP Factory owned brand to consumers. Whilst franchisees are required to operate within the Group's standards for site operation, they are given a degree of autonomy to ensure they operate in a way that suits their local area. The XP Factory Group provides that franchisees must adhere to quality, safety and image regulations that the XP Factory Group promotes through the implementation of training and careful monitoring, funded by both the franchisees and the XP Factory Group, and through appraisals. Despite these controls and absent a decision to remove such franchisees from its business, the Group may be unable to prevent its franchisees from operating outside of the Group's operational regulations, franchise manual and business model.

# PRINCIPAL RISKS AND UNCERTAINTIES

The Board has responded to these risks by appointing directors and staff with the appropriate skills and experience and by identifying KPIs that will show how well these risks are being managed. In particular, the franchise agreements have been considerably strengthened for all new franchisees which will enable the Group to exercise greater control over new franchisees. In the case of the Boom Battle Bar franchise agreements, a breach of standards could result in forfeit of the franchise by the franchisee.

A small franchisee team has now been formed for each of the Escape Hunt and Boom Battle Bar brands to assist the respective franchise network with better marketing advice which is expected to raise revenue for both the franchisee and therefore the Group. The closer collaboration also strengthens the communication and relationship between the Group and the franchise network.

*Loss of key personnel*

As a relatively small business, the Group is heavily dependent on the skills and experience of a limited number of key personnel. Whilst no employee is irreplaceable, the loss of a key individual could cause delays to the execution of the Group's strategy. Providing cover for any key individual who has left may be costly in the short term whilst a long term solution is found. As such, the loss of a key person could have an adverse impact on the financial performance of the Group.

The Group strives to offer an attractive place to work which is both engaging and rewarding. The most senior employees are incentivised through equity participation and now that the Group has greater critical mass, other incentive plans aimed at retention and motivation are under active consideration and are expected to be implemented.

*Ability to recruit and retain staff and the impact of wage inflation*

As the XP Factory Group grows, the need for experienced personnel with specific skill is expected to grow too. Salary expectations in certain professions have recently increased significantly, driven by growing demand for specific skills and a shortage of supply. XP Factory's growth plans are supported by growth in the employee base and rely on the Group being able to fill the positions earmarked. For certain positions, the time taken to recruit people has become more extended and the costs have increased. The Group has also been impacted by increases in the minimum wage and national living wage. Tax changes have also added to the total cost of employment. These increased employment costs, coupled with the longer time taken to recruit certain roles could have an adverse impact on the Group's financial results and ability to execute on its strategy.

*Information Technology*

The Group relies on technology for both sales and the operation of its escape games. A number of the activities offered in Boom Battle Bars also rely on technology and both brands run completely cashless operations, relying on technology to take bookings and payments. Other functions within the Group, such as marketing, finance, the Group's internal legal department, operations at sites, bookings, e-commerce, staff rotering and other functions all rely on technology for their efficient operation. Failure in any one or more critical technology solution, could have a material adverse impact on the short term performance of the Group and / or could incur fines if as a result, GDPR regulations were seen to have been breached. The Group regularly reviews the risks associated with technology, has appropriate policies and controls in place and carries cyber insurance. The directors also believe that the overall risk associated with technology failure, including the susceptibility to cyber-attack, is mitigated by using cloud based solutions from different suppliers who are not connected.

# STATEMENT BY THE DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH S172(1) COMPANIES ACT 2006

The Directors of the Group must act in accordance with a set of general duties. These duties are detailed in section 172(1) of the U.K. Companies Act 2006, which is summarised as follows:

A Director of a Company must act in the way he/she considers, 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 have regard (amongst other matters) to:

1. The likely consequences of any decision in the long term;
2. The interests of the Company's employees;
3. The need to foster the Company's business relationships with suppliers, customers and others;
4. The impact of the Company's operations on the community and the environment;
5. The desirability of the Company maintaining a reputation for high standards of business conduct; and
6. The need to act fairly as between members of the Company.

The Board considers that it has fulfilled its duties in accordance with section 172(1) of the UK Companies Act 2006 and have acted in a way which is most likely to promote the success of the Group for the benefit of its stakeholders as a whole in the following ways:

### *Long term benefit*

Our strategy was designed to have a long-term beneficial impact on the Company and to contribute to its success in delivering an engaging and enjoyable service for customers across the world. The Board's strategy to increase the range of experiential brands within the group through the acquisition of Boom Battle Bars and to expand both the owner-operated and franchise estates within both experiential brands as well as developing new digital and remote play options is aimed at building long term value for shareholders and other stakeholders alike.

### *Shareholders*

The Board engages regularly with its shareholders and seeks to build a mutual understanding of the objectives of shareholders and those of the Board by discussing long-term strategy, shorter term challenges and issues and to receive feedback. For further information see page 38.

Within the practical constraints of being able to access all shareholders directly, the Board actively seeks to treat all shareholders equally.

### *Employees*

The XP Factory Group is reliant on the quality and performance of its employees and the commitment of its staff plays a crucial role in the success of the business. Staff in sites are given regular training to ensure they are able to fulfil their roles successfully and the Group maintains a regular two-way communication with all staff both centrally and through individual sites to ensure employee matters are identified and addressed.

The safety and wellbeing of our staff is of utmost importance to the Board. The Board implemented a 'work from home' policy for all office based staff during the COVID pandemic and implemented protocols and standards to safeguard employees in each owner-operated site. The board receives a report on all health and safety issues on a monthly basis. Many of the policies allowing flexible working have been retained to allow employees flexibility and choice. Head office staff are provided with memberships to a flexible office working facility and are regularly brought together both formally and for social interaction.

### *Customers*

As an experiential leisure business, a primary goal is to delight our customers and provide the best immersive experience we can. TripAdvisor and other publicly available ratings form one of our key internal measures and we continually seek to improve the user journey before, during, and after their experience.

### *Suppliers*

The group works closely with a number of suppliers in different disciplines. We aim to promote collaborative engagement and to build long term partnerships with our suppliers with an objective to minimise risk and optimise costs through the full lifecycle of our relationship. We seek to balance this with the need to ensure the company is not overly reliant on any single supplier.

# STATEMENT BY THE DIRECTORS IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH S172(1) COMPANIES ACT 2006

*Community and environment*

The Board has overall responsibility for Corporate Social Responsibility ("CSR").

The Group is committed to maintaining and promoting high standards of business integrity. The XP Factory Group's values, which incorporate the principles of corporate social responsibilities (CSR) and sustainability, guide the Group's relationships with clients, employees and the communities and environment in which it operates. The XP Factory Group's approach to sustainability addresses both environmental and social impacts, supporting the XP Factory Group's vision to remain an employer of choice, while meeting client demands for socially responsible partners.

The XP Factory Group respects laws and customs while supporting international laws and regulations. These policies have been integral in the way group companies have done business in the past and continue to play a central role in influencing the Group's practice in the future.

Specific CSR initiatives are promoted by the senior executive management and are communicated to others in the organisation as needed. Initiatives include matters such as recycling and minimising waste, recognition of companies and individuals in the community for whom we have offered discounted or free participation in our games, as well as local community issues and interests. Many of our employees are actively engaged with charities and other causes for which we will allow the use of company property and facilities.

*Culture and values*

The Board actively seeks to establish and maintain a corporate culture which will attract both future employees, customers and suppliers. The Company promotes honesty, integrity and respect and all employees are expected to operate in an ethical manner in all their dealings, whether internal or external. We do not tolerate behaviour which goes against these values which could cause reputational damage to the business or create ongoing conflict or unnecessary tension internally.

This Strategic Report was approved by the Board on 23 May 2023 and signed by order of the Board by the Chief Executive Officer.

**Richard Harpham**

***Chief Executive Officer***

23 May 2023

# DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors present their report together with the audited financial statements of the Group for the year ended 31 December 2022.

## PRINCIPAL ACTIVITIES

The principal activities of the Group are that of operating consumer facing leisure brands offering immersive experiences.

The Group currently operates two brands, each of which is developing a network of locations, either owned and operated directly or franchised. Escape Hunt is a global leader in providing escape-the-room experiences delivered through a network of owner-operated sites in the UK, an international network of franchised outlets, and through digitally delivered games which can be played remotely.

Boom Battle Bar is a fast-growing network of owner-operated and franchise sites in the UK that combine competitive socialising activities with themed cocktails, drinks and street food in a setting aimed to be high energy and fun.

## CAUTIONARY STATEMENT

The review of the business and its future development in the Strategic Report has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for these strategies to succeed. It should not be relied on by any other party for any other purpose. The review contains forward looking statements which are made by the Directors in good faith based on information available to them up to the time of the approval of the reports and should be treated with caution due to the inherent uncertainties associated with such statements.

## RESULTS AND DIVIDENDS

The results of the Company are set out in detail in the Financial Statements.

Given the nature of the business and its growth strategy, it is unlikely that the Board will recommend a dividend in the next few years. The Directors believe the Company should improve performance to generate profits to fund the Company's growth strategy over the medium term.

## BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Details of the business activities and developments made during the period can be found in the Strategic Report and in Note 1 to the Financial Statements respectively.

## RESEARCH AND DEVELOPMENT ACTIVITIES

The Group has historically invested in research and development activities relating to software and intellectual property that supports the Group's experiential leisure activities. It remains part of the Group's strategy to further invest in selected areas which will enhance the Group's operating and data analytic capabilities. Further details of the group's strategic objectives are set out in the strategy report.

## EMPLOYMENT POLICIES

The Group has employment policies which give full and fair consideration for the employment of disabled persons, having regard to their particular aptitudes and abilities. Where possible, the Group will make appropriate, sympathetic changes and provide training to continue the employment of any employees who become disabled whilst in the employment of the Group and will otherwise provide training and support the career development and promotion of any such employees.

## EMPLOYEE ENGAGEMENT

The Group attaches importance to good communications and relations with employees. Information that is or may be relevant to employees in the performance of their duties is circulated to them on a regular basis, or immediately if it requires their immediate attention. There is regular consultation with employees through meetings or other lines of communication, so that their views are known and can be taken into account in making decisions on matters that will or may affect them. Employee participation in their venue's performance is encouraged and there is regular communication with all employees on the performance of their particular venue or central function and on the financial and economic factors affecting the overall performance of the Group.

# DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

## DISCLOSURE OF INFORMATION TO AUDITOR

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/ she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Disclosures regarding financial instruments are provided within Note 30 to the Financial Statements.

## CAPITAL STRUCTURE AND ISSUE OF SHARES

Details of the Company's share capital, together with details of the movements during the period are set out in Note 23 to the Financial Statements. The Company has one class of ordinary share which carries no right to fixed income.

## POST BALANCE SHEET EVENTS

Since the year end, the failure of Silicon Valley Bank and fears over the strength of the international banking system, coupled with persistently high inflation and rising interest rates have fuelled further macroeconomic concerns, adding to the uncertainty already apparent from the ongoing war in Ukraine, high energy prices and the growing tension between China, Russia and the West. Whilst these conditions may have a detrimental impact on sentiment, they do not provide any further information impacting the financial performance or position of the Group as at 31 December 2022.

## BOARD OF DIRECTORS

The Directors of the Company who have served during the year and at the date of this report are:

| Director | Role | Date of appointment | Date of resignation | Board Committee |
|---|---|---|---|---|
| Richard Rose | Independent Non-Executive Chairman | 25/5/2016 | | N A R |
| Richard Harpham | Chief Executive Officer | 3/5/2017 | | |
| Graham Bird | Chief Financial Officer | 6/1/2020 | | |
| Martin Shuker | Independent Non-Executive Director | 29/6/2022 | | N A R |
| Philip Shepherd | Independent Non-Executive Director | 29/6/2022 | | N A R |
| Karen Bach | Independent Non-Executive Director | 3/5/2017 | 29/6/2022 | N A R |

Richard Harpham was first appointed on 25 May 2015 and resigned on 15 June 2016. He was subsequently re-appointed on 3 May 2017.

Board Committee abbreviations are as follows: N = Nomination Committee; A = Audit Committee; R = Remuneration Committee

The Board comprises two Executive and three Non-Executive directors.

*Richard Rose, Independent Non-Executive Chairman*

Richard has a wealth of experience chairing high profile boards. Previously he has been CEO of two multi-site quoted businesses where he significantly increased shareholder value. Since then he has held a number of Chairman roles including Booker Group plc (retiring in 2015 after three terms) and AO World plc where he retired in 2016. He has been Non-Executive Chairman of Watchstone Group plc since May 2015 is also Chairman of IB Group Ltd since October 2018.

Richard is a member of the Remuneration Committee, the Audit Committee and the Nomination Committee of the Company.

*Richard Harpham, Chief Executive Officer*

Richard joined the Company on its admission to AIM in May 2017 having worked since November 2016 with the Escape Hunt (now XP Factory) management team. Richard's prior role was with Harris + Hoole, having been Chief Financial Officer and then Managing Director, responsible for its turnaround. Before this, Richard spent over four years at Pret A Manger as Global Head of Strategy. Richard has also held a number of strategic and financial positions at companies including Constellation Brands, Shire Pharmaceuticals and Fujitsu Siemens Computers.

# DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

*Graham Bird, Chief Financial Officer*

Graham, who joined the Company in January 2020, has significant experience in financial and City matters and in growing small businesses. He is a chartered accountant, having qualified with Deloitte in London, and has worked in advisory, investment, commercial and financial roles. Prior to joining XP Factory, Graham was one of the founding employees at Gresham House plc ("Gresham House") where, in addition to supporting the growth of Gresham House, he was responsible for establishing and managing the successful strategic equity business unit which focuses on both quoted and unquoted equity investments. Prior to joining Gresham House, Graham spent six years in senior executive roles at PayPoint Plc ("PayPoint"), including director of strategic planning and corporate development and executive chairman and president of PayByPhone. Before joining PayPoint, he was head of strategic investment at SVG Investment Managers, having previously been at JPMorgan Cazenove, where he served as a director in the corporate finance department.

*Martin Shuker, Independent Non-Executive Director*

Martin has had a long and distinguished career with Yum Brands, the US Fortune 500 Global hospitality business. He spent 24 years in a variety of leadership roles, most recently as Managing Director KFC Western Europe where he had full strategic, growth and operational responsibility over 1,700 restaurants and 165 franchisees which generated £2.3 billion in sales and £120 million of profit.

As MD of KFC UK, he more than doubled sales in the UK to £1.3 billion and met or exceeded targets in 11 of 13 years.

Martin has demonstrated his ability in consistently achieving growth and bottom-line performance of established owner-operated and franchise businesses over a long period of time and has relevant experience in entering new territories through franchise routes. He successfully opened new markets in a number of European countries and has demonstrated his ability to both manage an established franchise network as well as establishing new networks in new territories.

Prior to YUM, Martin had a variety of marketing roles with United Biscuits.

Martin is chairman of the Company's Remuneration Committee.

*Philip Shepherd, Independent Non-Executive Director*

Philip is a former partner of PricewaterhouseCoopers ("PwC"), where he originally trained in audit and tax, qualifying as an ACA in 1987.

Following a career in corporate finance and transaction advisory services, Philip returned to PwC in 2004 working both in the UK and overseas, leading Strategy and Deals practices, with a particular focus on the hospitality and leisure sectors. Since leaving PwC in 2018, he has held a number of board and advisor roles, again with a focus on hospitality and leisure. He regularly travels abroad where he advises, and speaks, on the experiential leisure market and start up opportunities. Philip combines his experience in accounting and audit with deal evaluation and execution, and has a deep understanding of the hospitality and leisure markets both in the UK and globally.

Philip is chairman of the Company's Audit Committee.

## DIRECTORS' INTERESTS IN SHARES

Directors' interests in the shares of the Company at the date of this report are disclosed below. Directors' interests in contracts of significance to which the Company was a party during the financial period are disclosed in note 28 to the Financial Statements.

| Director | Ordinary shares held | % held |
|---|---|---|
| Richard Rose | 53,666 | 0.04 |
| Richard Harpham | 895,163 | 0.59 |
| Graham Bird | 1,911,093 | 1.27 |
| Martin Shuker | Nil | 0.00 |
| Philip Shepherd | Nil | 0.00 |

XP Factory Plc owns all the ordinary shares in its subsidiary, Escape Hunt Group Ltd ("EHGL"). EHGL issued a total of 1,000 Growth shares in 2017 to three directors and employees. In 2019, following the departure of one of the individuals, 280 shares were repurchased by the Company. In 2021, the Company purchased the remaining Growth shares for a total £1 consideration. As at 31 December 2022, XP Factory owns 100% of the Growth shares. The Growth shares carry no voting rights and are not entitled to any dividends that may be paid by EHGL.

# DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

## DIRECTORS' INTERESTS IN OPTIONS

The following options have been granted to certain Directors under the Escape Hunt Plc 2020 EMI Share Option Scheme. The options vest over three years and are subject to achieving certain performance conditions related to share price appreciation over a four year period.

| Director | Options held | Exercise price | Options vested | Date of Grant | Expiry date |
|---|---|---|---|---|---|
| Richard Harpham | 5,333,333 | 7.5 pence | 3,555,556 | 16 July 2020 | 16 July 2025 |
| Graham Bird | 3,733,333 | 7.5 pence | 2,488,888 | 16 July 2020 | 16 July 2025 |

No directors exercised any options during the year.

## SUBSTANTIAL INTERESTS

As at 31 March 2023 the Company has been advised of the following significant interests (greater than 3%) in its ordinary share capital:

| Shareholder | Ordinary shares held | % held |
|---|---|---|
| Canaccord Genuity Wealth Management | 32,946,854 | 21.9 |
| Crux Asset Management | 15,633,731 | 10.4 |
| Hargreaves Lansdown stockbrokers | 12,621,375 | 8.4 |
| JO Hambro Capital Management | 9,100,00 | 6.0 |
| Interactive investor | 7,681,457 | 5.1 |
| Stephen Lucas | 7,233,024 | 4.8 |
| Allianz Global Investors | 7,100,000 | 4.7 |
| John Story | 6,525,003 | 4.3 |
| Sankofa Investment Management | 4,543,194 | 3.0 |

Except as referred to above, the Directors are not aware of any person who was interested in 3% or more of the issued share capital of the Company or could directly or indirectly, jointly or severally, exercise control.

## DONATIONS

No political or charitable donations have been made in the year ended 31 December 2022.

## DIRECTORS' INSURANCE

The Company has maintained throughout the year directors' and officers' liability insurance for the benefit of the Company, the Directors and its Officers.

## INDEPENDENT AUDITORS

A resolution proposing the re-appointment of HW Fisher LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

## GOING CONCERN

The time horizon required for the Going Concern Statement is a minimum of 12 months from the date of signing the financial statements. Consistent with prior periods, the Directors have adopted an assessment period of 18 months and run forecasts for a three year period from the year end date of 31 December 2022.

In determining whether there are material uncertainties, the Directors consider the Group's business activities and principal risks. The Directors' reviewed the Group's cash flows, liquidity positions and borrowing facilities for the going concern period.

There has been no material uncertainty identified which would cast significant doubt upon the Group's ability to continue using as a going concern. As such, the Directors considered it appropriate to adopt the going concern basis of accounting in the preparation of the Group's financial statements.

# DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

### ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) will be held on 26 June 2023.

Signed by order of the board

**Graham Bird**

***Chief Financial Officer***

23 May 2023

# CORPORATE GOVERNANCE REPORT

## CHAIRMAN'S GOVERNANCE OVERVIEW

I am pleased to present the Corporate Governance Report for the year ended 31 December 2022.

The Board believes that strong governance is a central element of the successful growth and development of the Group. The Board and its Committees play a key role in the Group's governance by providing an independent perspective to the senior management team, and by seeking to ensure that an effective system of internal controls and risk management procedures is in place. This section of the Annual Report describes our corporate governance structures and processes and how they have been applied throughout the year ended 31 December 2022.

The AIM Rules for Companies require companies to formally adopt a corporate governance code.

On 13 September 2018, the Board of XP Factory decided to apply the QCA Corporate Governance Code (2018 edition – the QCA Code). We believe that the QCA Code provides us with the right governance framework: a flexible but rigorous outcome-oriented environment in which we can continue to develop our governance model to support our business.

## OUR GOVERNANCE FRAMEWORK

The Board currently comprises two executive and three non-executive directors.

The Board has an audit committee, remuneration committee and nomination committee with formally delegated duties and responsibilities, as described below.

The Chairman, who is Non-Executive and Independent, is responsible for leading an effective board, overseeing corporate governance culture and ensuring appropriate strategic direction.

The Chairman is primarily responsible for the working of the Board of the Company and for assessing the individual contributions of each Board member to ensure that:

- Their contribution is measurable, timely, relevant and effective
- They commit sufficient time to the business to fulfil their statutory and fiduciary duties
- Where relevant, they maintain their independence
- They function collectively in a coherent and productive manner
- They receive appropriate training to stay up to date and improve performance

In accordance with current best practice and the QCA Code, the Board undertakes an annual formal evaluation of its performance and effectiveness and that of each Director and its Committees. This evaluation is overseen by the Chairman, co-ordinated by the Company Secretary and concluded by Chairman interviews where necessary. In addition, the Directors meet, informally, without the Chairman present and evaluate his performance. The Board currently considers that the use of external consultants to facilitate the Board evaluation process is unlikely to be of significant benefit to the process, although the option of doing so is kept under review.

The Chairman considers that key to his role in creating an effective Board, is an effective assimilation of feedback received, and the development and effective application of recommendations.

The QCA Code was adopted by the Company in September 2018 and is set out on the Company's website. The Group addresses the ten principles underpinning the QCA Code as follows:

# CORPORATE GOVERNANCE REPORT

## DELIVER GROWTH

1. Establish a strategy and business model which promote long-term value for shareholders
2. Seek to understand and meet shareholder needs and expectations:

   See the section "Communication with shareholders" in on page 38 and the "Corporate governance" section of our website, www.xpfactory.com.
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success:

   See the "Corporate governance" section of our website, www.xpfactory.com
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation:

   See "Principal risks and uncertainties" on page 25.

## MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK

5. Maintain the Board as a well-functioning, balanced team led by the Chairman:

   See this section
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities:

   See this section and "Board of Directors" on page 32.
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement:

   See this section and the "Corporate governance" section of our website, www.xpfactory.com
8. Promote a corporate culture that is based on ethical values and behaviours:

   See this section and the "Corporate governance" section of our website www.xpfactory.com
9. Maintain governance structures and processes that are fit for purpose and support good decision making by the Board:

   See the section "Our Governance framework" below and the "Corporate governance" section of our website www.xpfactory.com

## BUILD TRUST

10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders:

    See this section "Our governance framework" and the "Corporate governance" section of our website, www.xpfactory.com

    The Board considers that it is fully compliant with all the principles of the QCA Code.

## OUR GOVERNANCE FRAMEWORK

See below for the role of the Board and its Committees.

*Board of Directors*

The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and corporate actions.

Biographical details of the Directors are included above.

The Board comprises two executive and three non-executive directors, including the Chairman. All Directors bring a wide range of skills and experience to the Board. The Non-Executive Directors hold meetings without the executive Directors present. The Chairman is primarily responsible for the working of the Board of the Company. The Chief Executive's office is primarily responsible for the running of the business and implementation of the Board's strategy and policy. The Chief Executive is assisted in the managing of the business on a day-to-day basis by the Chief Financial Officer.

# CORPORATE GOVERNANCE REPORT

High-level strategic decisions are discussed and taken by the full Board. Investment decisions (above a de minimis level) are taken by the full Board. Operational decisions are taken by the executive directors and their senior leadership team within the framework approved in the annual financial plan and within a framework of Board-approved authorisation levels.

The Board regulations define a frame-work of high-level authorities that maps the structure of delegation below Board level, as well as specifying issues which remain within the Board's preserve. The Board typically expects to meet monthly (other than in December and August) and in any event at least four times a year to consider a formal schedule of matters including the operating performance of the business and to review the Company's financial plan and business model. Whilst specific risks are considered as they arise, a more detailed review of the potential risks facing the company and what action is being taken to mitigate the risks is considered on an annual basis. The board obtains feedback from the Company's auditors on the effectiveness of the control environment, together with recommendations for continued improvement.

In accordance with the Company's Articles of Association, at the Annual General Meeting of the Company each Director for whom it is the third annual general meeting following the annual general meeting at which they were elected or last re-elected shall retire from office and offer themselves up for re-election.

It is the responsibility of the Chairman and the Company Secretary to ensure that Board members receive sufficient and timely information regarding corporate and business issues to enable them to discharge their duties.

## COMMUNICATION WITH SHAREHOLDERS

The Board attaches great importance to communication with both institutional and private shareholders. Investors are also an important source of feedback on the business model and plans for future growth.

Regular communication is maintained with all shareholders through Company announcements, the half-year Statement and the Annual Report and financial statements.

The Directors seek to build on a mutual understanding of objectives between the Company and its shareholders. Institutional shareholders are in contact with the Directors through presentations and meetings to discuss issues and to give feedback regularly throughout the year. With private shareholders, this is not always practical, although the Directors are increasingly seeking and are investing in communication channels to create an opportunity for retail shareholders to communicate directly through online and other retail-focused forums.

The Board also intends to use the Company's Annual General Meeting as the opportunity to meet private shareholders who are encouraged to attend and at which the Chief Executive Officer will give a presentation on the activities of the Company.

Following the presentation there would ordinarily be an opportunity to meet and ask questions of Directors and to discuss development of the business.

The Company operates a website at. http://xpfactory.com/investors

The website contains details of the Company and its activities; regulatory announcements, Company announcements, Interim statements, preliminary statements and Annual Reports. The website is maintained in compliance with AIM Rule 26.

### *Board Committees*

The Board maintains three standing committees, being the Audit, Remuneration and Nomination Committees. The minutes of all sub-committees are circulated for review and consideration by all relevant Directors, supplemented by oral reports from the Committee Chairmen at Board meetings.

### *Audit Committee*

The Audit Committee was formed in May 2017 on completion of the acquisition of Experiential Ventures Limited and comprises Philip Shepherd who chairs the committee, Martin Shuker and Richard Rose. The Committee held 3 meetings in 2022 and has so far held 2 meetings in 2023 being the meeting held to discuss the progress of the audit and a second to approve the preliminary results announcement on 22 May 2023. Further details on the Audit Committee are provided below in the Report of the Audit Committee.

*Remuneration Committee*

The Remuneration Committee was formed in May 2017 on completion of the acquisition of Experiential Ventures Limited and comprises Martin Shuker, who chairs the committee, Philip Shepherd, and Richard Rose. The Committee holds at least two meetings each year. The committee adopted the arrangements for Directors' remuneration and the share incentive plans currently in place. Further details on the Remuneration Committee are provided below in the Report of the Remuneration Committee.

*Nomination Committee*

The Nomination Committee was formed in May 2017 on completion of the acquisition of Experiential Ventures Limited and comprises Richard Rose, who chairs the committee, Martin Shuker and Philip Shepherd. The Committee holds two meetings each year. The appointments of Martin Shuker and Philip Shepherd were made recommended by the Nomination Committee which at the time comprised Karen Bach and Richard Rose. Further details on the Nomination Committee are provided below in the Report of the Nomination Committee.

## REPORT OF THE AUDIT COMMITTEE

### AUDIT COMMITTEE

The Audit Committee has written terms of reference and provides a mechanism through which the Board can maintain the integrity of the Financial Statements of the Company and the Group and any formal announcements relating to its financial performance; to review the Group's internal financial controls and its internal control and risk management systems and to make recommendations to the Board in relation to the appointment of the external auditor, their remuneration both for audit and non-audit work, the nature, scope and results of the audit and the cost effectiveness, independence and objectivity of the auditors. Provision is made by the Audit Committee to meet the auditors at least twice a year.

### INTERNAL CONTROLS

In applying the principle that the Board should maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets, the Directors recognise that they have overall responsibility for ensuring that the Group maintains systems to provide them with reasonable assurance regarding effective and efficient operations, internal control and compliance with laws and regulations and for reviewing the effectiveness of those systems. However, there are inherent limitations in any system of control and accordingly even the most effective system can provide only reasonable and not absolute assurance against material misstatement or loss. The systems are designed to manage rather than eliminate the risk of failure to achieve the business objectives.

The Group has established procedures necessary to implement the guidance on internal control issued by the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014). This includes identification, categorisation and prioritisation of critical risks within the business and allocation of responsibility to its Executives and senior managers. The key features of the internal control system are described below:

**Control environment** – the Group is committed to high standards of business conduct and seeks to maintain these standards across all of its operations. There are also policies in place for the reporting and resolution of suspected fraudulent activities. The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve its objectives.

**Risk identification** – Management is responsible for the identification and evaluation of key risks applicable to their areas of business. These risks are entered onto a risk register and assessed on a continual basis and may be associated with a variety of internal and external sources, including infringement of IP, sales channels, investment risk, staff retention, disruption in information systems, natural catastrophe and regulatory requirements. This is reviewed at least annually by the Board.

**Information systems** –The Board actively monitors performance against plan. Forecasts and operational results are consolidated and presented to the Board on a regular basis. Through these mechanisms, performance is continually monitored, risks identified in a timely manner, their financial implications assessed, control procedures re-evaluated and corrective actions agreed and implemented.

**Main control procedures** – the Group has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the exposure to loss of assets and fraud. Measures taken include segregation of duties and reviews by management.

# CORPORATE GOVERNANCE REPORT

**Monitoring and corrective action** – There are clear and consistent procedures in place for monitoring the system of internal financial controls.

Following the Audit Committee's recommendation, the Board considers the internal control system to be adequate for the Group. The Audit Committee reviews the scope and scale of the non-audit services undertaken by the auditors in order to ensure that their independence and objectivity is safeguarded. The Committee is satisfied with the objectivity and performance of the external auditor.

## REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee monitors the remuneration policies of the Group to ensure that they are consistent with its business objectives. Its terms of reference include the recommendation and execution of policy on Director and executive management remuneration and for reporting decisions made to the Board. The Committee determines the individual remuneration package of the executive management of the Board.

The Remuneration Committee recognises that incentivisation of staff is a key issue for the Group, which depends on the skill of its people for its success. The Remuneration Committee seeks to incentivise employees by linking individual remuneration to individual performance and contribution, and to the Group's results.

The duties of the Committee are to:

- determine and agree with the Board the framework or broad policy for the remuneration of the chairperson, executive directors, non-executive directors and any employees that the Board delegates to it;
- within the terms of the agreed policy, determine individual remuneration packages including bonuses, incentive payments, share options, pension arrangements and any other benefits;
- determine the contractual terms on termination and individual termination payments, ensuring that the duty of the individual to mitigate loss is fully recognised;
- in determining individual packages and arrangements, give due regard to the comments and recommendations of the Governance Code and the AIM Rules for Companies;
- be told of and be given the chance to advise on any major changes in employee benefit structures in the Group;
- recommend and monitor the level and structure of remuneration for senior managers below Board level as determined; and
- agree the policy for authorising claims for expenses from the Chief Executive Officer and from the Chairman of the Board.

The Committee is authorised by the Board to:

- seek any information it requires from any employee in order to perform its duties;
- be responsible for establishing the selection criteria and then for selecting, appointing and setting the terms of reference for any remuneration consultants providing advice to the Committee, at the Group's expense; and
- obtain, at the Group's expense, outside legal or other professional advice where necessary in the course of its activities.

### SERVICE CONTRACTS

The executive and non-executive Directors have signed service agreements that contain notice periods of six months, in the case of the Chief Executive and Chief Financial Officer and three months for all others. There are no additional financial provisions for termination.

### INCENTIVE SCHEMES

*2020 EMI Share option scheme*

On 15 July 2020 the Company established a new EMI Share option scheme to replace both the previous senior executive incentive schemes, being the 2018 EMI Share option scheme and the Growth Share incentive plan. The scheme is designed principally to incentivise senior, full time executives through the award of share options. The scheme provides for awards to be made which vest over a three year period subject to continuous employment. The ability to exercise the options is subject to performance conditions related to share price performance and are measured over a four year period from grant. The vesting of share options is accelerated in the case of a takeover. The options must be exercised within five years of grant.

*Escape Hunt Plc Share incentive plan*

In November 2020 the Company established a new HMRC tax-advantaged all employee share scheme, namely the Escape Hunt Plc Share Incentive Plan ("SIP"), now renamed the XP Factory Plc Share Incentive Plan. The SIP has been adopted to promote and support the principles of wider share ownership amongst all the Company's employees. The Plan is available to all eligible employees, including XP Factory's executive directors, and invites individuals to elect to purchase ordinary shares of 1.25p each in the Company ("Ordinary Shares") via the SIP trustee using monthly salary deductions. Shares are purchased monthly by the SIP trustee on behalf of the participating employees at the prevailing market price. Individual elections can be as little as £10 per month, but may not, in aggregate, exceed £1,800 per employee in any one tax year. The Ordinary Shares acquired in this manner are referred to as "Partnership Shares" and, for each Partnership Share purchased, participants will be awarded one further Ordinary Share, known as a "Matching Share", at nil cost.

Matching Shares must normally be held in the SIP for a minimum holding period of 3 years and, other than in certain exceptional circumstances, will be forfeited if, during that period, the participant in question ceases employment or withdraws their corresponding Partnership Shares from the Plan. The first purchases under the scheme took place in March 2021.

## REPORT OF THE NOMINATION COMMITTEE

The function of the Nomination Committee shall be to provide a formal, rigorous and transparent procedure for the appointment of new directors to the Board. In carrying out its duties, the Nomination Committee is primarily responsible for:

- identifying and nominating candidates to fill Board vacancies;
- evaluating the structure and composition of the Board with regard to the balance of skills, knowledge and experience and making recommendations accordingly;
- reviewing the time requirements of Non-Executive Directors;
- giving full consideration to succession planning; and
- reviewing the leadership of the Group.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with UK-adopted International Accounting Standards as issued by the International Accounting Standards Board and applicable law and they have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and Parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted International Accounting Standards;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

# CORPORATE GOVERNANCE REPORT

- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### WEBSITE PUBLICATION

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### DIRECTORS' CONFIRMATIONS

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and parent Company's position and performance, business model and strategy.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and parent Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and parent Company's auditors are aware of that information.

Signed by order of the Board

**Richard Rose**

23 May 2023

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XP FACTORY PLC

## OPINION

We have audited the financial statements of XP Factory Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2022, which comprise:

- the consolidated Statement of Comprehensive Income;
- the consolidated and Parent Company Statements of Financial Position,
- the consolidated and Parent Company Statement of Changes in Equity;
- the consolidated Statement of Cash Flows;
- the related notes to the Consolidated and Parent Company financial statements including significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK-adopted International Accounting Standards ('IAS'). The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion;

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2022 and of the Group's loss for the year then ended;
- the Group's financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards ('IAS');
- the Parent Company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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 Group and Parent 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 as applied to listed entities, 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.

## SUMMARY OF OUR AUDIT APPROACH

**Context**

There are thirty one components of the Group, twenty five located and operating in the United Kingdom (UK) and six located and operating overseas. One of the components located and operating in the UK is not a subsidiary of the Group, but has been consolidated as part of the results of the Group on the basis of control. Please refer to Note 15 to the Consolidated financial statements for more information. The audits of XP Factory Plc and its UK subsidiary undertakings requiring statutory audits were conducted from the UK by the audit engagement team. Financial information from other components not considered to be individually significant was subject to limited review procedures carried out by the audit engagement team.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XP FACTORY PLC

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters that we identified in the current year were:

- Revenue recognition arising from occurrence, completeness and cut-off in the period;
- Management override of controls;
- IFRS 9 and the resultant expected credit loss from franchisees;
- IFRS 16 and the adoption of IFRS 16;
- Valuation and impairment of goodwill and other intangible assets arising from business combinations;
- Valuation of contingent consideration arising from business combinations;
- The completeness and valuation of dilapidation provisions; and
- Going Concern.

## AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The key audit matters identified above are discussed further in this section. This is not a complete list of all risks identified by our audit.

We identified going concern as a key audit matter and have detailed our response in the conclusions relating to going concern section below.

| Area of focus | How our audit addressed the area of focus |
|---|---|
| **Revenue recognition arising from occurrence, completeness and cut-off in the period**<br><br>There is a presumed risk of misstatement arising from lack of completeness or inaccurate cut-off relating to revenues. | Our audit work included, but was not restricted to the following:<br>• We evaluated the sales controls system in place to determine the controls surrounding the income.<br>• We checked a sample of the franchise agreements and contracts through to the income recognised in the accounts and invoices.<br>• We checked a sample of sales from the booking system through to the income recognised in the accounts.<br>• We also completed checks on deferred and accrued income.<br>• We reviewed the revenue recognition accounting policy to ensure the application was consistent.<br><br>Based on our audit work detailed above, we confirm that we have nothing material to report, and / or draw attention to in respect of these matters. |

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XP FACTORY PLC

<table>
<tr><th>Area of focus</th><th>How our audit addressed the area of focus</th></tr>
<tr><td>Management override of controls<br>Management is in a unique position to override controls that otherwise appear to be operating effectively.</td><td>Our audit work included, but was not restricted to the following:<ul><li>We undertook a review to gain an understanding of the overall governance and oversight process surrounding management's review of the financial statements.</li><li>We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors.</li><li>We reviewed the financial statements and considered whether the accounting policies are appropriate and have been applied consistently.</li><li>We undertook a review of the journals posted through the nominal ledger for significant and unusual transactions and investigated them, reviewing and confirming the journal entry postings.</li><li>We undertook a review of the consolidation journals to ensure they were reasonable.</li></ul>Based on our audit work detailed above, we confirm that we have nothing material to report, and or draw attention to in respect of these matters.</td></tr>
<tr><td>IFRS 9 and the resultant expected credit loss from franchisees<br><br>The Group and Parent Company is a co-tenant or has provided a guarantee on a number of property leases for which a franchisee is the primary lessee. IFRS 9 requires the recognition of expected credit losses in respect of financial guarantees, including those provided by the Group. Where there has been a significant increase in credit risk, the standard requires the recognition of the expected lifetime losses on such financial guarantees.<br><br>The assessment of whether there has been a significant increase in credit risk is based on whether there has been an increase in the probability of default occurring since previous recognition.<br><br>The assessment of the probability of default is inherently subjective and requires management judgement.</td><td>Our audit work included, but was not restricted to the following:<ul><li>We obtained management's calculation of the expected credit loss provision and discussed the key inputs into the assessment with management.</li><li>We reviewed the lease agreements to verify the terms of the lease which act as a basis for the calculation.</li><li>We reviewed the calculation for completeness based on our knowledge of the business.</li><li>We reviewed the appropriateness of the disclosures made and their consistency with our knowledge of the agreements.</li></ul>Based on our audit work detailed above, we confirm that we have nothing material to report, and or draw attention to in respect of these matters.</td></tr>
</table>

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XP FACTORY PLC

| Area of focus | How our audit addressed the area of focus |
|---|---|
| **IFRS 16 and the adoption of IFRS 16**<br><br>The Group holds multiple property leases and judgement is required regarding the recognition of right of use assets and lease liabilities. | Our audit work included, but was not restricted to the following:<br><br>• We obtained management's calculation of recognition of right of use assets and lease liabilities.<br>• We reviewed the lease agreements and re-performed calculations to verify the accuracy the calculation.<br>• We reviewed the calculation for completeness based on our knowledge of leases within the business.<br>• We reviewed the significant judgements made in the recognition of the right of use assets and lease liabilities, particularly with respect to the discount rate implicit in the lease based on the Group's incremental borrowing rate, which the Company has assessed to be 6% above base rates, which is assessed at 6.2%.<br>• We reviewed the appropriateness of the disclosures made and its consistency with our knowledge of the lease agreements and the application of IFRS 16.<br><br>Based on our audit work detailed above, we confirm that we have nothing material to report, and or draw attention to in respect of these matters. |
| **Valuation and impairment of goodwill and other intangible assets arising from business combinations**<br><br>The Group's intangibles comprise of goodwill, trademarks, intellectual property, franchise agreements, and the portal.<br><br>Intangibles arising from business combinations in the year amounted to £1.6m (2021: £21.5m).<br><br>The total carrying value of intangible assets was £23.0m (2021: £22.0m).<br><br>The uncertainty of future cash flows indicate there could be an impairment in the carrying value of the intangible assets and as such we considered this to be a key audit matter. | Our audit work included, but was not restricted to the following:<br><br>**Valuation**<br><br>• We obtained management's valuation of the acquired intangibles and discussed the key inputs into the assessment with management.<br>• We performed procedures, including challenge regarding reasonableness of the key inputs into the model.<br>• We reviewed the significant judgements made in the model, particularly with respect to the discount rate applied, the calculation of tax amortisation benefits and the recognition of deferred tax liabilities.<br>• We tested to ensure the mathematical accuracy of the model presented.<br><br>**Impairment**<br><br>• We obtained management's assessment of impairment and discussed the key inputs into the assessment with management.<br>• We performed procedures, including challenge regarding reasonableness of the key inputs into the model.<br>• We considered management's sensitivity analysis and also performed an additional range of sensitivities to assess whether a reasonably likely change to a key input would result in an impairment charge.<br>• We tested to ensure the mathematical accuracy of the model presented. Based on our audit work detailed above, we confirm that we have nothing material to report, and or draw attention to in respect of these matters. |

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XP FACTORY PLC

<table>
<tr><th>Area of focus</th><th>How our audit addressed the area of focus</th></tr>
<tr><td>Valuation of contingent consideration arising from business combinations<br><br>In 2021, there was contingent consideration of £8.95m arising on the acquisition of the Boom Group.<br><br>Contingent consideration includes a preliminary estimate on the earnout payable in respect of the acquisition, recognised at fair value at the date of acquisition.<br><br>The value of the contingent consideration was initially estimated assuming all 25,000,000 shares potentially due under the provisions of the sale agreement would be issued.<br><br>The fair value of the contingent consideration has been re-assessed based on the performance of the Boom Group during the earnout period, which ended on 31 December 2022. Approximately 94 per cent of the contingent consideration is expected to be paid. This would lead to the issue of 23,501,137 shares. This resulted in a fair value adjustment of £6.2m which has been recognised in the Statement of Comprehensive Income. Please refer to Note 21 of the Consolidated financial statements for more information.</td><td>Our audit work included, but was not restricted to the following:<br><br>• We obtained management's calculation of the fair value at the date of acquisition and at the expected date of issue and discussed the key inputs into the assessment with management.<br><br>• We performed procedures, including challenge regarding reasonableness of the inputs into the model.<br><br>• We reviewed the significant judgements made in the model, particularly with respect to the cost of equity rate applied.<br><br>• We tested to ensure the mathematical accuracy of the model presented.<br><br>• We reviewed the appropriateness of the disclosures made and its consistency with our knowledge of the transaction.<br><br>Based on our audit work detailed above, we confirm that we have nothing material to report, and or draw attention to in respect of these matters.</td></tr>
<tr><td>The completeness and valuation of dilapidation provisions<br><br>Provisions for dilapidations are recognised on a lease-by-lease basis over the period of time landlord assets are being used and are based on the Management's best estimate of the likely committed cash outflow. This estimate requires judgement and is unique to each individual site.</td><td>Our audit work included, but was not restricted to the following:<br><br>• We obtained management's calculation of the expected dilapidation provision and discussed the key inputs into the assessment with management.<br><br>• We reviewed the calculation for completeness based on our knowledge of the business.<br><br>• We recalculated the estimated cost per sqft and reviewed this analytically and against RICs professional estimates for reasonableness.<br><br>• We reviewed the appropriateness of the disclosures made and its consistency with our knowledge of the agreements.<br><br>Based on our audit work detailed above, we confirm that we have nothing material to report, and or draw attention to in respect of these matters.</td></tr>
</table>

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XP FACTORY PLC

## OUR APPLICATION OF MATERIALITY

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £454,000, based on 2% of Group turnover.

## 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.

Our evaluation of the directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included obtaining and reviewing the forecast financial projections.

Management prepared two main scenarios for the future business following the planned opening of new sites in the UK. As part of their assessment, the following scenarios were presented:

- A central case for which revenue forecasts are based on a regression analysis of previous performance for the twelve months, adjusted for seasonality. The central case includes the planned roll out of new sites and is based on existing property deals which are in legal stages, heads of terms or final negotiations and management have a high degree of visibility. The central case represents the targets considered achievable by divisional management. Central case produces a cash generative, profitable business.
- A downside case which reflects a combination of downside sensitivities in each of the Boom and Escape Hunt businesses. The downside case reflects a reduction in activity for both Boom and Escape Hunt. Sensitivities include a sales reduction of 10% in Escape Hunt and 5% in Boom leading to reduced margins, cost inflation of a further 2% in Boom, a reduction of discretionary capex by 50%, controllable central costs reduced by 30%, a delay in the construction and timing of the opening of new sites. The downside case demonstrates that even if a wide range of targets are missed, the business has sufficient cash to meet its obligations.

In both scenarios the Group has surplus working capital to meet its working capital requirements for the foreseeable future.

We performed audit procedures, including but not restricted to the following:

- We reviewed the forecast revenues and resulting cash flows within the assessment period;
- We compared the forecast to available management information for the business post year-end;
- We considered management's sensitivity analysis and also performed an additional range of sensitivities to assess whether a reasonably likely change to a key input would result in an erosion of the revised headroom on working capital available in the downside model used by management.
- We reviewed the announcements and considered if any items will have a financial impact affecting the going concern;
- We reviewed the appropriateness of the disclosures made and its consistency with our knowledge of the business.

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 Group's or Parent 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,

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XP FACTORY PLC

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 the audit:

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

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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 Group's and the Parent 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 Group or the Parent 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.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XP FACTORY PLC

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:

As part of our planning process:

- We enquired of management the systems and controls the Group and Parent Company has in place, the areas of the financial statements that are most susceptible to the risk of irregularities and fraud, and whether there was any known, suspected or alleged fraud. The Group and Parent Company did not inform us of any known, suspected or alleged fraud.
- We obtained an understanding of the legal and regulatory frameworks applicable to the Group and Parent Company. We determined that the following were most relevant: UK-adopted International Accounting Standards, FRS 102, Companies Act 2006, Planning Consent, Alcohol Licencing, Health & Safety Standards, Food Hygiene, US Regulations relating to US Franchises.
- We considered the incentives and opportunities that exist in the Group and Parent Company, including the extent of management bias, which present a potential for irregularities and fraud to be perpetuated, and tailored our risk assessment accordingly.
- Using our knowledge of the Group and Parent Company, together with the discussions held with the Group and Parent Company at the planning stage, we formed a conclusion on the risk of misstatement due to irregularities including fraud and tailored our procedures according to this risk assessment.

The key procedures we undertook to detect irregularities including fraud during the course of the audit included:

- Identifying and testing journal entries and the overall accounting records, in particular those that were significant and unusual.
- Reviewing the financial statement disclosures and determining whether accounting policies have been appropriately applied.
- Reviewing and challenging the assumptions and judgements used by management in their significant accounting estimates.
- Assessing the extent of compliance, or lack of, with the relevant laws and regulations.
- Testing key revenue lines, in particular cut-off, for evidence of management bias.
- Performing a physical verification of key assets and stock items.
- Obtaining third-party confirmation of material bank and loan balances.
- Documenting and verifying all significant related party and consolidated balances and transactions.
- Reviewing documentation such as the Group's and Parent Company's board minutes for discussions of irregularities including fraud.
- Testing all material consolidation adjustments.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements even though we have properly planned and performed our audit in accordance with auditing standards. The primary responsibility for the prevention and detection of irregularities and fraud rests with the directors.

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

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XP FACTORY PLC

## USE OF OUR AUDIT REPORT

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Gary Miller (Senior Statutory Auditor)**
**For and on behalf of HW Fisher LLP**
**Chartered Accountants**
**Statutory Auditor**

Acre House
11/15 William Road
London
NW1 3ER
United Kingdom

23 May 2023

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## For the Year Ended 31 December 2022

| All figures in £'000s<br>Continuing operations | Note | Year ended 31 December 2022 | Year ended 31 December 2021 |
|---|---|---|---|
| **Revenue** | 4 | 22,834 | 6,984 |
| Cost of sales | 6 | (8,122) | (1,904) |
| Gross profit | | 14,712 | 5,080 |
| Other income | 33 | 74 | 3,607 |
| Fair value adjustment on contingent consideration | 22 | 6,210 | – |
| Administrative expenses | 6 | (19,724) | (9,208) |
| **Operating profit / (loss)** | 6 | 1,272 | (521) |
| Adjusted EBITDA | | 3,954 | 2,653 |
| Amortisation of intangibles | 13 | (886) | (471) |
| Rent concessions recognised in the year | 12 | 33 | 148 |
| Depreciation of property plant and equipment | 11 | (2,825) | (1,721) |
| Depreciation of right-of-use assets | 12 | (1,453) | (613) |
| Loss on disposal of tangible assets | 11 | (126) | (39) |
| Loss on disposal of intangible assets | 13 | – | (11) |
| Profit on termination / change of leases | 12 | 90 | 41 |
| Branch closure costs | | (106) | (4) |
| Branch pre-opening costs | | (2,018) | (103) |
| Provision against loan to franchisee | 16 | (26) | (78) |
| Provision for guarantee leases | 22 | (68) | (8) |
| Exceptional professional costs | 6 | (293) | (235) |
| Foreign currency losses) | | (1,133) | (18) |
| Fair value movements on provisions | 22 | 6,210 | – |
| Share-based payment expense | 25 | (81) | (62) |
| **Operating profit / ( loss)** | | 1,272 | (521) |
| Net Interest charged | 8 | (1,292) | (131) |
| Lease finance charges | 12 | (1,086) | (233) |
| **Loss before taxation** | | (1,106) | (885) |
| Taxation | 9 | 112 | 11 |
| **Loss after taxation** | | (994) | (874) |
| **Other comprehensive income:** | | | |
| Items that may or will be reclassified to profit or loss: | | | |
| Exchange differences on translation of foreign operations | | 363 | (3) |
| **Total comprehensive loss** | | (631) | (877) |
| **Loss attributable to:** | | | |
| Equity holders of XP Factory Plc | | (994) | (874) |
| Non-controlling interests | | – | – |
| | | (994) | (874) |
| **Total comprehensive loss attributable to:** | | | |
| Equity holders of XP Factory Plc | | (631) | (877) |
| Non-controlling interests | | – | – |
| | | (631) | (877) |
| Loss per share attributable to equity holders: | | | |
| Basic and diluted (Pence) | 1 | (0.66) | (0.93) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## As at 31 December 2022

| | Note | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 12,753 | 5,516 |
| Right-of-use assets | 12 | 17,842 | 7,602 |
| Intangible assets | 13 | 22,696 | 22,046 |
| Finance Lease receivable | 12 | 1,273 | – |
| Rent deposits | | 61 | 44 |
| Loan to franchisee | 16 | – | 84 |
| | | 54,625 | 35,292 |
| **Current assets** | | | |
| Inventories and work in progress | 18 | 323 | 462 |
| Trade receivables | 17 | 1,934 | 848 |
| Other receivables and prepayments | 17 | 1,839 | 4,142 |
| Cash and cash equivalents | 19 | 3,189 | 8,225 |
| | | 7,285 | 13,677 |
| **TOTAL ASSETS** | | 61,910 | 48,969 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables | 20 | 1,837 | 1,527 |
| Contract liabilities | 21 | 1,029 | 1,201 |
| Loans Notes | 23 | 45 | 404 |
| Other loans | 23 | 1,012 | 256 |
| Lease liabilities | 12 | 1,073 | 393 |
| Other payables and accruals | 20 | 5,259 | 2,889 |
| Provisions | 22 | 4,970 | 637 |
| | | 15,225 | 7,307 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## As at 31 December 2022

| | Note | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Contract liabilities | 21 | 455 | 491 |
| Provisions | 22 | 413 | 9,248 |
| Loan notes | 24 | – | 373 |
| Other loans | 24 | 423 | 620 |
| Deferred tax liability | 9 | 832 | 1,101 |
| Lease liabilities | 12 | 22,965 | 8,012 |
| | | 25,088 | 19,845 |
| **TOTAL LIABILITIES** | | 40,313 | 27,152 |
| **NET ASSETS** | | 21,597 | 21,817 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of XP Factory Plc** | | | |
| Share capital | 23 | 1,883 | 1,825 |
| Share premium account | 27 | 44,705 | 44,366 |
| Merger relief reserve | 27 | 4,756 | 4,756 |
| Convertible loan note reserve | 24 | – | 68 |
| Accumulated losses | 27 | (30,312) | (29,318) |
| Currency translation reserve | 27 | 279 | (84) |
| Capital redemption reserve | 27 | 46 | 46 |
| Share-based payment reserve | 27 | 240 | 158 |
| | | 21,597 | 21,817 |
| **Non-controlling interests** | | – | – |
| **TOTAL EQUITY** | | 21,597 | 21,817 |

The notes on pages 57 to 104 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 23 May 2023 and are signed on its behalf by:

**Graham Bird**
Director

Registered company number 10184316

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## For the year ended 31 December 2022

| | Attributable to owners of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year ended 31 Dec 2022 | Share capital £'000 | Share premium account £'000 | Merger relief reserve £'000 | Currency translation reserve £'000 | Capital redemption reserve £'000 | Share-based payment reserve £'000 | Convertible loan note reserve £'000 | Accumulated losses £'000 | Total £'000 |
| **Balance as at 1 Jan 2022** | 1,825 | 44,366 | 4,756 | (83) | 46 | 158 | 68 | (29,318) | 21,817 |
| Loss for the year* | – | – | – | – | – | – | – | (994) | (994) |
| Other comprehensive income | – | – | – | 363 | – | – | – | – | 363 |
| Total comprehensive loss | – | – | – | 363 | – | – | – | (994) | (631) |
| Issue of shares | 3 | – | – | – | – | – | – | – | 3 |
| Redemption of convertible loan notes | 55 | 339 | – | – | – | – | (68) | – | 326 |
| Share-based Payment Charges | – | – | – | – | – | 82 | – | – | 82 |
| Transactions with owners | 58 | 339 | – | – | – | 82 | (68) | – | 411 |
| **Balance as at 31 Dec 2022** | 1,883 | 44,705 | 4,756 | 279 | 46 | 240 | – | (30,312) | 21,597 |
| **Year ended 31 Dec 2021:** | | | | | | | | | |
| **Balance as at 1 Jan 2021** | 1,005 | 27,758 | 4,756 | (81) | 46 | 96 | 68 | (28,444) | 5,204 |
| Loss for the year* | – | – | – | – | – | – | – | (874) | (874) |
| Other comprehensive income | – | – | – | (3) | – | – | – | – | (3) |
| Total comprehensive loss | – | – | – | (3) | – | – | – | (874) | (877) |
| Issue of shares | 820 | 17,819 | – | – | – | – | – | – | 18,639 |
| Share issue costs | – | (1,211) | – | – | – | – | – | – | (1,211) |
| Share-based payment charges | – | – | – | – | – | 62 | – | – | 62 |
| Transactions with owners | 820 | 16,608 | – | – | – | 62 | – | – | 17,491 |
| Balance as at 31 Dec 2021 | 1,825 | 44,366 | 4,756 | (83) | 46 | 158 | 68 | (29,318) | 21,817 |

* Includes amortisation of intangible assets

The notes on pages 57 to 104 are an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS
## For the year ended 31 December 2022

| | | Year ended 31 December 2022 £'000 | Year ended 31 December 2021 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before income tax | | (1,106) | (885) |
| Adjustments: | | | |
| Depreciation of property, plant and equipment | 11 | 2,825 | 1,721 |
| Depreciation of right-of-use assets | 12 | 1,453 | 613 |
| Amortisation of intangible assets | 13 | 886 | 472 |
| Fair value movements | 22 | (6,210) | – |
| Movement in provision against franchisee loan | 16 | 26 | 78 |
| Loss on disposal of plant and equipment | 11 | 126 | 41 |
| Loss on write off of intangibles | 13 | – | 11 |
| Net foreign exchange differences | | 348 | (3) |
| Share-based payment expense | 25 | 81 | 62 |
| Lease interest charge | 12 | 1,086 | 233 |
| Rent concessions received | 12 | (33) | (148) |
| Profit on closure / modification of leases | 12 | (90) | (41) |
| Interest charge | 8 | 1,292 | 131 |
| Operating cash flow before working capital changes | | 684 | 2,285 |
| Decrease / (increase) in trade and other receivables | | 1,359 | (2,628) |
| Decrease (increase) in inventories and work in progress | | 184 | 93 |
| (Decrease) in provisions | | (160) | (270) |
| Increase in trade and other payables | | 1,571 | 202 |
| (Decrease) / increase in deferred income | | (317) | 1,075 |
| **Cash generated in operations** | | 3,321 | **757** |
| Income taxes paid | 9 | – | (15) |
| **Net cash generated in operating activities** | | 3,321 | **742** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 11 | (8,998) | (2,584) |
| Purchase of intangibles | 13 | (217) | (119) |
| Landlord incentives received | 12 | 2,914 | – |
| Payment of deposits | | (16) | (18) |
| Loan made to master franchisee | 16 | 84 | (187) |
| Acquisition of subsidiaries, net of cash acquired | 15 | (436) | (9,732) |
| Interest received | | 82 | – |
| **Net cash used in investing activities** | | (6,587) | (12,640) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of ordinary shares | 23 | 6 | 18,639 |
| Share issue costs | 25 | – | (1,211) |
| Proceeds from new loans | 24 | 820 | 728 |
| Repayment of loans | 25 | (1,271) | – |
| Interest paid | | (147) | – |
| Repayment of leases and lease interest | 12 | (1,185) | (759) |
| **Net cash (used) / generated from financing activities** | | (1,777) | 17,397 |
| **Net (decrease) / increase in cash and cash equivalents** | | (5,043) | 5,499 |
| Cash and cash equivalents at beginning of year | | 8,225 | 2,722 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | 7 | 4 |
| **Cash and cash equivalents at end of year** | | 3,189 | 8,225 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. General Information

The Company was incorporated in England on 17 May 2016 under the name of Dorcaster Limited with registered number 10184316 as a private company with limited liability under the Companies Act 2006. The Company was re-registered as a public company on 13 June 2016 and changed its name to Dorcaster Plc on 13 June 2016. On 8 July 2016, the Company's shares were admitted to AIM.

Until its acquisition of Experiential Ventures Limited on 2 May 2017, the Company was an investing company (as defined in the AIM Rules for Companies) and did not trade.

On 2 May 2017, the Company ceased to be an investing company on the completion of the acquisition of the entire issued share capital of Experiential Ventures Limited. Experiential Ventures Limited was the holding company of the Escape Hunt Group, the activities of which related solely to franchise.

On 2 May 2017, the Company's name was changed to Escape Hunt Plc and became the holding company of the enlarged Escape Hunt Group. Thereafter the group established the Escape Hunt owner operated business which operates through a UK subsidiary. All of the Escape Hunt franchise activity was subsequently transferred to a UK subsidiary. On 22 November 2021, the Company acquired BBB Franchise Limited, together with its subsidiaries operating collectively as Boom Battle Bars. At the same time, the group took steps to change its name to XP Factory Plc with the change taking effect on 3 December 2021.

XP Factory Plc currently operates two fast growing leisure brands. Escape Hunt is a global leader in providing escape-the-room experiences delivered through a network of owner-operated sites in the UK, an international network of franchised outlets in five continents, and through digitally delivered games which can be played remotely.

Boom Battle Bar is a fast-growing network of owner-operated and franchise sites in the UK that combine competitive socialising activities with themed cocktails, drinks and street food in a high energy, fun setting. Activities include a range of games such as augmented reality darts, Bavarian axe throwing, 'crazier golf', shuffleboard and others.

The Company's registered office is Belmont House, Station Way, Crawley, England, RH10 1JA.

The consolidated financial information represents the audited consolidated results of the Company and its subsidiaries, (together referred to as "the Group").

### Basis of preparation

The audited consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards ("IFRSs").

The audited financial statements are presented in Pounds Sterling, which is the presentational currency for the financial statements. All values are rounded to the nearest thousand pounds except where otherwise indicated. They have been prepared under the historical cost convention, except for financial instruments that have been measured at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

#### *Changes in accounting policy*

a) New standards, interpretations and amendments effective from 1 January 2022

There are no new standards impacting the Group adopted in the annual financial statements for the year ended 31 December 2022. The Directors do not expect any material impact on the Group's reporting from new accounting standards, interpretations and amendments not yet effective but currently under contemplation by the International Accounting Standards Board.

## 2. Significant accounting policies

The principal accounting policies applied in the preparation of the audited consolidated financial information set out below have, unless otherwise stated, been applied consistently throughout.

**Basis of consolidation**

The audited consolidated financial information incorporates the preliminary financial statements of the Company and its subsidiaries. Subsidiaries are entities over which the Group has control. The Group controls an investee if the Group has power over the investee, exposure to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Subsidiaries are consolidated from the date on which control is obtained by the Group up to the effective date on which control is lost, as appropriate.

Under the acquisition method, the results of the subsidiaries acquired or disposed of are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Consolidated Financial Statements. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Any excess of the purchase consideration of the business combination over the fair value of the identifiable assets and liabilities acquired is recognized as goodwill. Goodwill, if any, is not amortised but reviewed for impairment at least annually. If the consideration is less than the fair value of assets and liabilities acquired, the difference is recognized directly in the statement of comprehensive income.

Acquisition-related costs are expensed as incurred.

Intra-group transactions, balances and recognized gains on transactions are eliminated. Unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the Financial Statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by other members of the Group.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary it derecognises the assets and liabilities of the subsidiary and any non-controlling interest. The profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of.

**Going Concern**

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Directors have assessed the Group's ability to continue in operational existence for the foreseeable future in accordance with the Financial Reporting Council's Guidance on the going concern basis of accounting and reporting on solvency and liquidity risks issued in April 2016.

The Board has prepared detailed cashflow forecasts covering a three year period from the reporting date.

The Group plans to continue the roll out of new sites under both the Escape Hunt and Boom Battle Bar brands in the UK which are expected to contribute to performance in future.

The central case is based on opening a limited number of new Escape Hunt and Boom owner operated sites in the UK in line with the Board's stated strategy. Sites are expected to take a period of time to reach maturity based on previous experience. The central case does not assume any openings other than sites for which leases have already been secured.

The Group has also considered a 'downside' scenario. In this scenario the Group has assessed the potential impact of a reduction in sales across the group, delays in the opening of sites, and cost increases. In the 'downside' scenario, the Directors believe it can take mitigating actions to preserve cash. Principally the roll-out of further sites would be stopped and cost saving measures would be introduced at head office and in capital expenditure. The Group has previously made significant reductions in its head office property costs, and further cost reductions could be targeted in both people and areas such as IT, professional services and marketing. Other areas of planned capital expenditure would also be curtailed. These include planned expenditure on website and system improvements and capital expenditure at sites. Taking into account the mitigating factors, the Group believes it would have sufficient resources for its present needs.

Based on the above, the Directors consider there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable, as well as to fund the Group's future operating expenses. The going concern basis preparation is therefore considered to be appropriate in preparing these financial statements.

**Merger relief**

The issue of shares by the Company is accounted for at the fair value of the consideration received. Any excess over the nominal value of the shares issued is credited to the share premium account other than in a business combination where the consideration for shares in another company includes the issue of shares, and on completion of the transaction, the Company has secured at least a 90% equity holding in the other company. In such circumstances the credit is applied to the merger relief reserve.

**Foreign currency transactions and translation**

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rate of exchange prevailing on the date of the transaction.

The functional currency of the Company's formerly active subsidiaries based overseas, namely Escape Hunt Operations Limited and E V Development Co. Limited are the US Dollar and Thai Baht respectively. Likewise, the functional currency of the Company's subsidiary Escape Hunt USA Franchises Limited, which is intended to operate franchises in North America, is the US Dollar and the functional currency of the company's subsidiary Escape Hunt Entertainment LLC, purchased in September 2020 and operating in the Middle East is the Arab Emirates Dinar. The Company's subsidiaries, BGP Escape France and BGP Entertainment Belgium, both purchased in March 2021 both have the functional currency Euros. These subsidiaries, when recording their own foreign transactions follow the principles below. At the end of each financial year, monetary items denominated in foreign currencies are retranslated at the rates prevailing as of the end of the financial year. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in the presentational currency which is Pounds Sterling using exchange rates prevailing at the end of the financial year. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising are recognised initially in other comprehensive income and accumulated in the Group's foreign exchange reserve.

On disposal of a foreign operation, the accumulated foreign exchange reserve relating to that operation is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

| | |
|---|---|
| Office equipment | 5 years |
| Furniture and fixtures | 5 years |
| Leasehold improvements | 5 years or over the period of the lease |
| Computers | 3 years |
| Games | 2 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

**Research and development expenditure**

Research expenditure is recognised as an expense when it is incurred.

Development expenditure is recognised as an expense except that costs incurred on development projects are capitalised as long-term assets to the extent that such expenditure is expected to generate future economic benefits. Development expenditure is capitalised if, and only if an entity can demonstrate all of the following:-

(i) its ability to measure reliably the expenditure attributable to the asset under development;

(ii) the product or process is technically and commercially feasible;

(iii) its future economic benefits are probable;

(iv) its ability to use or sell the developed asset; and

(v) the availability of adequate technical, financial and other resources to complete the asset under development.

Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses, if any. Certain internal salary costs are included where the above criteria are met. These internal costs are capitalised when they are incurred in respect of new game designs which are produced and installed in the UK owner-operated sites, where the ensuing revenue is tracked on a weekly basis at each site by each game. Development expenditure initially recognised as an expense is not recognised as assets in subsequent periods.

**Intangible assets**

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

With the exception of goodwill, intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Game design and development costs are expensed as incurred unless such expenditure meets the criteria to be capitalised as a non-current asset.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.

The estimated useful lives are as follows:

| | |
|---|---|
| Trademarks | 3 years |
| Intellectual property: | |
| – Trade names and domain names | 3 years |
| – Rights to system and business processes | 3 years |
| – Internally generated intellectual property | 3 years |
| Franchise agreements | Term of franchise |
| App development | 2 years |
| Portal | 3 years |

**Impairment of assets**

***Financial assets***

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows taking into account credit risk. The present value of the future cash flows represents the expected value of the future cash flows discounted at the appropriate rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

***Non-financial assets***

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Employee benefits

***Short-term benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### Revenue recognition

The Group is operating and developing a network of franchised, licensed and owner-operated branches and offsite "escape the room" type games under the Escape Hunt™ brand and a network of owner-operated and franchised competitive socialising cocktail bar venues under the Boom Battle Bar™ brand. The Group receives revenues from its directly owned branches but also from franchisees, master-franchisees and sub-franchisees.

The Group, as franchisor, develops original escape games and other fun competitive socialising games and supporting materials and provides management, creative, technical and marketing services based on its knowledge of and expertise in the relevant disciplines to enable delivery of proprietary consumer experiences.

The Group considers that its contracts with franchisees, master-franchisees and sub-franchisees provide a customer with a right to access the Group's intellectual property throughout the franchise term which is typically for a minimum term of ten years. Accordingly, the Group satisfies each of its performance obligations by transferring control of goods and services to the customer over the period of the franchise agreement. Franchise revenues are therefore recognised over time.

The Group derives "upfront exclusivity fees" as well as training fees and documentation fees from the sale and set up of franchises and subsequent "Service Revenues" in the form of revenue shares, administration fees, and other related income.

***New branch upfront location exclusivity fees***

The initial non-refundable upfront exclusivity fees relate to the transfer of promised goods or services which are satisfied throughout the life of the franchise agreement. Payment of the initial upfront exclusivity fee is due immediately on the signing of a franchise agreement.

The Group, as franchisor, supplies a manual and grants to a franchisee during the term of a franchise agreement, the exclusive rights to carry on its business and to utilise the know-how, intellectual property rights and games within a territory. The franchise term typically provides for an initial term of 10 years, with automatic rights for renewal of successive 10-year periods. The Group offers to:

- Assist the franchisee to establish, manage and operate the business within the territory;
- Provide advice on the choice of branch location;
- Identify equipment, furniture, props and other items required to conduct the business;
- Assist in designing the layout and fit-out of any chosen branch location;
- Provide full game and other activity design to be installed in each branch;
- Provide guidance on setting up website, booking and other online services;
- Provide the franchisee with the franchise manual;
- Train the franchisee and its staff;
- Give the franchisee continuing assistance and advice for the efficient running of the franchise business;
- Regularly update the franchisee on any changes to the services and know-how;
- Design and provide territory-specific, and branch-specific, logos for use in advertising, merchandise and uniforms; and
- Communicate at all times with the franchisee in a timely manner.

The initial fee is recognised as revenue on a straight-line basis over the period of the franchise agreement where this is 10 years (or less in case of sub-franchise agreements, where the term of the sub-franchise agreement typically equals to the remaining term of the master franchise agreement). Where the franchise term is not specified or is greater than 10 years, revenue is recognised over 10 years to reflect a lack of certainty over the actual duration of the franchise arrangement. See Note 3 for more details.

Fees related to future periods are carried forward as deferred income within current and non-current liabilities, as appropriate. The amounts of deferred revenue at each reporting date are disclosed in Note 21 to the financial statements.

IFRS 15 also requires the Group to consider if there is a financing element to such long-term contracts. However, it is considered that there is no such financial element provided by the Group to franchisees as payment is received at the time of signing the franchise agreement and at the commencement of the delivery of the various services under such agreement.

Under a Master Franchise Agreement, the Group is entitled to a one-off upfront exclusivity fee representing an advance payment for a number of branches with all branches paid at a fixed rate, payable on signing of the Agreement. The contract is not deemed to be fulfilled and in force until this payment is received in full by the franchisor. This fee is recognised over the franchise term, or 10 years if this is greater than 10 years, in the same manner as in a single franchise arrangement.

Where the Group, through a Master Franchisee, enters into contracts with sub-franchisees, the initial fee is recognised in the same manner as contracts with direct franchisees (i.e. spread over 10 years), where not already covered in the fees attributed to the Master Franchisee. In the event of termination of a franchise agreement, any remaining deferred income related to this contract is immediately recognised in full.

Documentation fees are recognised when the franchise agreement and associated leases and other legal documents are exchanged and have reached practical completion. Training fees are recognised when the franchise site is opened.

In some instances, the Group will take on the full responsibility on a franchise new build, fitting out a franchise site and will have a direct relationship with the suppliers. The cost of the build will then be billed to the franchisee in stage payments, including a markup to cover internal costs and provide margin. In these instances, the cost of the build is carried as work in progress until it is invoiced to the franchisee. The total value of the build is recognised as revenue when invoiced. Profit is not recognised until completion of the build.

### *Franchise revenues*

As part of each franchise agreement, the Group receives franchise service revenues at a fixed percentage of a franchisee's monthly revenues which are recognised as the income is earned.

Service revenues comprise:

- An agreed share of the franchisee's monthly revenues, payable weekly or monthly;
- Fixed monthly fees payable quarterly in advance;
- Extra costs in respect of site visits and website set-up fees; and
- Fees charged for additional services, such as management of marketing and social media on behalf of a franchisee, for which franchisees opt in.

Revenue shares, support and administration and other related revenues are recognised as and when those sales occur. Amounts billed in advance are deferred to future periods as deferred revenue.

### *Owner-operated branch and offsite games*

Revenues from the owner-operated branch and offsite activities include entrance fees and the sale of food and beverages and merchandise. Such revenues are recognised as and when those sales occur. Where customers book in advance, the recognition of revenue is deferred until the customer participates in the experience.

### *Deferred revenue*

The amounts of deferred revenue at each reporting date are disclosed in Note 22.

### *Contract costs*

Where the game design costs relate to games for individual franchisees, the costs are not capitalised but expensed as in line with the delivery of services to franchisees, unless these costs are significant and other capitalisation criteria are met.

**Government Grants**

Grants relating to revenue are recognised on the performance model through the consolidated statement of comprehensive income by netting off against the costs to which the grants were intended to compensate. Where the grant is not directly associated with costs incurred during the period, the grant is recognised as 'other income'. Grants relating to assets are recognised in income on a systematic basis over the expected useful life of the asset.

**Leases**

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. The following policies apply subsequent to the date of initial application, 1 January 2019.

***Identifying Leases***

The Group accounts for a contract, or a portion of a contract, as a lease when it conveys the right to use an asset for a period of time in exchange for consideration. Leases are those contracts that satisfy the following criteria:

a) There is an identified asset;

b) The Group obtains substantially all the economic benefits from use of the asset; and

c) The Group has the right to direct use of the asset.

In determining whether the Group obtains substantially all the economic benefits from use of the asset, the Group considers only the economic benefits that arise use of the asset, not those incidental to legal ownership or other potential benefits.

In determining whether the Group has the right to direct use of the asset, the Group considers whether it directs how and for what purpose the asset is used throughout the period of use. If there are no significant decisions to be made because they are pre-determined due to the nature of the asset, the Group considers whether it was involved in the design of the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use. If the contract or portion of a contract does not satisfy these criteria, the Group applies other applicable IFRSs rather than IFRS 16.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used.

The discount rate is the rate implicit in the lease, if readily determinable. If not, the Company's incremental borrowing rate is used which the Company has assessed to be 6% above base rates.

Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provisions recognised where the Group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations – see Note 22).

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the discount rate appropriate at the time of revision. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

### Nature of leasing activities (in the capacity as lessee)

During the financial year, the Group leased owner-operated escape room and Boom Battle Bar venues. The Group also leases certain items of plant and equipment, but these are not significant to the activities of the Group.

### Nature of leasing activities (in the capacity as lessor)

During the financial year, the Group sub-let part of the space in Bournemouth which the group leases under a master lease agreement. The sub-let a to a Boom Battle Bar franchisee. The sub-let is treated as a finance lease receivable.

### Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

### Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

### Share-based payment arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Equity-settled share based payments to non-employees are measured at the fair value of services received, or if this cannot be measured, at the fair value of the equity instruments granted at the date that the Group obtains the goods or counterparty renders the service. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 25 to the consolidated financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. Where the conditions are non-vesting, the expense and equity reserve arising from share-based payment transactions is recognised in full immediately on grant.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves.

### Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

### Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Impairment provisions for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. In the process, the probability of the non-payment of the trade receivables is assessed. This probability is multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables.

### Inventories and Work in Progress

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition. Work in progress includes the cost associated with fit-out work on sites which are subsequently sold to a franchisee and is recognised at the point of transaction. Work in progress is derecognised when an invoice is raised to a franchisee or when it is determined that it is not recoverable.

### Provisions

A provision is recognised when the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

The Group has recognized provisions for liabilities of uncertain timing or amount including those for leasehold dilapidations, contingent consideration and losses arising of financial guarantee contracts.

#### *Dilapidation provisions*

Provisions for dilapidations are recognised on a lease-by-lease basis over the period of time landlord assets are being used and are based on the Directors' best estimate of the likely committed cash outflow.

#### *Contingent and deferred consideration*

Contingent consideration is consideration that is payable in respect of acquisitions which is contingent on the achievement of certain performance or events after the date of acquisition. Deferred consideration is consideration payable in respect of acquisitions which is deferred, but is not dependent on any future performance or events.

The likely value of contingent consideration is estimated based on the anticipated future performance of the business acquired and a probability of the necessary performance being achieved. The expected future value of the contingent consideration is discounted from the anticipated date of payment to the present value. For cash settled contingent consideration, the discount rate is the risk free rate together with the Consumer Price index for inflation. For Equity settled contingent consideration, the future value is discounted using the Directors' assessment of the company's cost of equity. The present value is recognised as a liability at the date of transaction. The implied interest is recognised over the period between the date of acquisition and anticipated date of payment of the contingent consideration.

Deferred consideration is recognised as a liability at its face value at the date of acquisition.

***Losses arising on financial guarantee contracts***

Provision for losses on financial guarantee contracts uses the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected losses. In the process, the probability of the guarantee being called is assessed. This probability is multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the financial guarantee contract.

**Contingent liabilities**

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or present obligations where the outflow of resources is uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

**Financial Liabilities and equity**

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations rather than the financial instrument's legal form. Financial liabilities, excluding convertible debt and derivatives are initially measured at transaction price (including transaction costs) and subsequently held at amortised cost.

***Financial liabilities***

Basic financial liabilities, including trade and other payables, bank and other loans and loans from fellow group companies that are classified as debt are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Det instruments are subsequently carried at amortised cost, using the effective interest rate method.

***Derecognition of financial liabilities***

Financial liabilities are derecognised when, and only when, the Group's contractual obligations are discharged, cancelled or they expire.

***Equity instruments***

Equity instruments including share capital issued by the Company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities one they are no longer at the discretion of the Company.

## 3. Critical accounting estimates and judgements

In the application of the Group's accounting policies, which are described in Note 2 above, the Directors are required to make judgements and estimates about the carrying amounts 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, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. 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.

The key estimates and underlying assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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. In particular:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Key judgements**

***Initial upfront exclusivity fees***

Note 2 describes the Group's policies for recognition of revenues from initial upfront exclusivity fees. In making their judgement, the Directors consider that the upfront non-refundable exclusivity fee provides the customer with a right to access the Group's intellectual property throughout the franchise term which is typically for a minimum term of ten years. The Group's service obligations include a requirement to advise, assist and update the customer throughout the term of the agreement.

However, certain franchise contracts are for the unspecified term which theoretically can run in perpetuity. Furthermore, for term franchise contracts certain factors could reduce the franchise term (such as early termination) whilst franchises may be extended beyond their initial term. No franchises have yet been in place for a full term and in the absence of sufficient track record the Directors made a judgement that until a clear pattern of terminations and extensions of franchises becomes clear, it is reasonable to assume that franchises will on average run for 10 years, hence the initial upfront exclusivity fees are recognised over this estimated period.

***Recognition of deferred tax assets***

The Group's tax charge on ordinary activities is the sum of the total current and deferred tax charges.

A deferred tax asset is recognised when it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Recognition, therefore, involves judgement regarding the prudent forecasting of future taxable profits of the business and in applying an appropriate risk adjustment factor.

Based on detailed forward-looking analysis and the judgement of management, it has been concluded that a deferred tax asset should not be recognised for the carry forward of unused tax losses and unused tax credits totalling approximately £22.3m, as the timing and nature of future taxable profits remains uncertain given the relatively young stage of development and the of the group and the rate of planned expansion. As such the Directors do not yet regard it sufficiently probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised in the near term. In forming this conclusion, management have considered the same cash flow forecasts used for impairment testing purposes. Impairment testing adjusts for risk through the discounting of future cash flows and focus on cash generation rather than taxable profits.

Additionally, the owner-operated segment is in its early stages of development, and the Directors envisage that there will be an extended period (and thus increasing uncertainty as time progresses) before it expects to recoup net operating losses. The analysis indicates that the unused losses may not be used in the foreseeable future as the Group does not yet have a history of taxable profits nor sufficiently convincing evidence that such profits will arise within the near term.

***Recognition of R&D credits and other government grants***

Research and development credits and other government grants are recognised as an asset when it has become probable that the grant will be received.

Companies within the Group have previously made successful applications for grants relating to research and development and in respect of support related to the COVID-19 pandemic.

In relation to research and development grants, no claims are outstanding, but the company expects to make claims in respect of activity undertaken in 2021 and 2022. The amount of such potential claims is not yet known. Notwithstanding previous success in making such claims, recognition of these claims involves a judgement by management. Given the uncertainty of the amount and detailed nature of potential claims relating to 2021 and 2022, Management does not consider it sufficiently possible to estimate the value of the claims at this time and as such, no claims in relation to 2021 or 2022 have been recognised as an asset.

***Contingent consideration***

The likely value of contingent consideration is estimated based on the anticipated future performance of the business acquired and a probability of the necessary performance being achieved. The expected future value of the contingent consideration is discounted from the anticipated date of payment to the present value. For cash settled contingent consideration, the discount rate is the risk free rate together with the Consumer Price index for inflation. For Equity settled contingent consideration, the future value is discounted using the Director's assessment of the company's cost of equity, being 13.7 per cent. The present value is recognised as a liability at the date of transaction. The implied interest is recognised over the period between the date of acquisition and anticipated date of payment of the contingent consideration.

## Key estimates

### *Impairment of intangible assets*

IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Impairment testing is an area involving management judgement in determining estimates, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

- growth in EBITDA, calculated as adjusted operating profit before depreciation and amortisation;
- the forecast occupancy rate (and growth thereof) for each escape room using regression analysis based on historic experience from similar rooms;
- the level of capital expenditure to open new sites and the costs of disposals;
- long-term growth rates; and
- the selection of discount rates to reflect the risks involved.

The Group prepares and approves a detailed annual budget and strategic plan for its operations, which updated regularly to take account of actual activity and which are used in the fair value calculations. The forecasts perform a detailed analysis for three years, apply an anticipated growth rate for years 4 and 5 of between 3% and 10% per annum and apply a 2% growth rate thereafter. Further details are provided in the sensitivity analysis below.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results.

The current strategic plan for the group indicates an excess of the net present value of future cashflows compared to the carrying value of intangible assets.

The sensitivity of impairment tests to changes in underlying assumptions is summarised below:

### *Site level EBITDA*

If the site level EBITDA is 10% lower in each business unit within the Group than as set out in the strategic plan, this would lead to reduction in the net present value of intellectual property of £12.9m (2021: £13.8m) but would not result in the need for an impairment charge.

### *Discount rate*

The discount rate used for the fair value calculation has been assumed at 13.7%. A 100 basis point increase in the discount rate reduces the net present value of intellectual property across the group by £5.6m (2021: £5.7m) but would not result in the need for an impairment charge.

The discount rate used was the same as in prior years, notwithstanding the significant increase in base interest rates between 31 December 2021 and 2022, impacting the risk free rates and cost of borrowing used in the calculations of the group's weighted average cost of capital. Whilst interest rates have increased, it is the Directors' view that the risk premium associated with XP Factory will have reduced significantly over the same period given the following:

- The group has achieved a scale at which it is capable of operating profitably where previously it lacked such scale
- The group is significantly more diversified with the addition of the Boom business to the group
- The network of owner operated sites is significantly more diversified with a much larger estate and the group is consequently less exposed to any single site
- The group has developed a proven operating history with Escape Hunt in particular, operating at attractive growth rates and margins
- The group exited 2022 with sites generating positive cashflow and EBITDA. This has continued into 2023.

Furthermore, external estimates of the group's cost of capital, which are based on historic numbers which do not take account of these factors, indicate a level not materially different to the director's assessment. The cost of capital indicated for similar competitors further supports the directors' view.

***Long-term growth rates***

The growth rate used for the fair value calculation after year 5 has been assumed at 2% per annum. If this rate was decreased by 100 basis points the net present value of intellectual property across the group would fall by £2.8m (2021: £3.5m) but would not result in the need for an impairment charge.

***Capital expenditure***

If capital expenditure over the forecast period were to be 10% higher than in the strategic plan, the net present value of intellectual property across the group would fall by £1.0m (2021: £1.8m) but would not result in the need for an impairment charge.

***Estimation of useful life and amortisation rates for intellectual property assets***

The useful life used to amortise intangible assets relates to the expected future performance of the assets acquired and management's estimate of the period over which economic benefit will be derived from the asset.

The estimated useful life principally reflects management's view of the average economic life of each asset and is assessed by reference to historical data and future expectations. Any reduction in the estimated useful life would lead to an increase in the amortisation charge. The average economic life of the intellectual property has been estimated at 3 years. If the estimation of economic lives was reduced by one year, the amortisation charge for IP would have increased by £204k (year ended 31 December 2021: £299k).

**Estimation of useful life and depreciation rates for property, plant and equipment of the owner-operated business**

The useful life used to depreciate assets of the owner-operated business relates to the expected future performance of the assets acquired and management's estimate of the period over which economic benefit will be derived from the asset.

Property, plant and equipment represent a significant proportion of the asset base of the Group being 16% (2021: 11%) of the Group's total assets. Therefore, the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Group's financial position and performance.

The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the consolidated income statement. The useful lives and residual values of the Group's assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life such as changes in technology. Historically changes in useful lives and residual values have not resulted in material changes to the Group's depreciation charge.

The useful economic lives of property, plant and equipment has been estimated at between 2 and 5 years. If the estimation of economic lives was reduced by one year, the depreciation charge for property, plant and equipment would have increased by £995k (year ended 31 December 2021: £669k).

**Estimation of the value of right of use assets and lease liabilities arising from long term leases under IFRS16**

The estimation of the value of right of use assets and the associated lease liability arising from long term leases is done by calculating the net present value of future lease payments. In doing so, the Directors have used the discount rate of 6.2 per cent implicit in the lease, if readily determinable. If not, the Company's incremental borrowing rate is used which the Company has assessed to be 6% above base rates.

***Estimation of dilapidations provision***

The estimation of the provision for dilapidations is done by estimating the cost of stripping out a site at the end of the contracted lease to restore the property to the condition required under the terms of the lease. The liability is accrued over the period of the lease. The estimation of the cost of the strip out is based on a management estimate and represents a key estimate.

***Estimation of the debt and equity components of Convertible Loan note***

Debt securities which carry an option to convert into equity accounted for as a debt component and an equity component. Management are required to estimate the split by valuing the underlying debt with reference to a similar debt instrument which has no conversion rights and / or by reference to the value of the option inherent in the conversion right. These calculations involve the estimate of a number of key components such as appropriate interest rates, the expected volatility of the company's share price, the company's future dividend policy, and the likelihood and future date of conversion. On 1 July 2020, the Company issued £340,000 convertible loan notes ("Convertible Notes"). The Convertible Notes were unsecured and interest rolled up at a fixed rate of 10 per cent. per annum. At the date of issue, the Company determined that £272,251 of the principal related to the debt component of the Convertible Notes with the balance of £67,749 was classified as the equity component of the Convertible Notes. This gave an effective underlying interest rate on the Notes of 13.4% per annum. The Convertible Notes carried rights to early redemption, exercisable by the Company only, but with preferential rights to early conversion, exercisable by the Noteholder.

On 4 January 2022, the Company gave notice to the Noteholder of its intention to redeem the Convertible Notes on 2 February 2022 unless the Noteholder first served a Noteholder Conversion Notice to convert the Convertible Notes. On 5 January 2022 the Noteholder served a Noteholder Conversion Notice to the Company formally electing to convert the principal amount of the Convertible Notes together with accrued interest into ordinary shares at 9.0 pence per share. £340,000 principal, together with £54,027 of accrued interest was converted at 9.0 pence per share on 2 February 2022 resulting in the issue of 4,378,082 ordinary shares. All 4,378,082 ordinary shares were admitted to trading on AIM on 3 February 2022.

***Estimation of share base payment charges***

The calculation of the annual charge in relation to share based payments requires management to estimate the fair value of the share-based payment on the date of the award. The estimates are complex and take into account a number of factors including the vesting conditions, the period of time over which the awards are recognised, the exercise price of options which are the subject of the award, the expected future volatility of the company's share price, interest rates, the expected return on the shares, and the likely future date of exercise. A new executive scheme was established during the year ended 31 December 2020 and awards were made under the scheme in both 2020 and 2021, details of which are set out in note 25. Management has estimated the annual charge related to the awards made in the year to 31 December 2020 to be £51,222 and £17,313 in respect of awards made in the year to 31 December 2021. The charge recognized in the year ended 31 December 2022 was £69k (2021: £53k).

The Group also operates a broader share based Incentive scheme available to all employees, allowing employees to purchase shares tax efficiently each month. For each share purchased (a "Partnership Share"), the employee is granted a further matching share ("Matching Share"). The Management has estimated the cost of the Matching Shares recognized in the year ended 31 December 2022 was £12k (2021: £9k) Further details are provided in note 25.

***Estimation of liabilities arising from Financial Guarantee Contracts – Franchise lease guarantees***

The Company is a co-tenant or has provided a guarantee on a number of property leases for which a franchisee is the primary lessee. IFRS 9 requires the recognition of expected credit losses in respect of financial guarantees, including those provided by the Group. Where there has been a significant increase in credit risk, the standard requires the recognition of the expected lifetime losses on such financial guarantees. The assessment of whether there has been a significant increase in credit risk is based on whether there has been an increase in the probability of default occurring since previous recognition. An entity may use various approaches to assess whether credit risk has increases. The assessment of the probability of default is inherently subjective and requires management judgement.

In all cases where the Group is co-tenant or has provided guarantees for underlying leases, the Group has taken security in the form of personal guarantees from the lessee and, in addition, has step-in rights which enable the relevant company in the group to take over the assets and operations of the franchisee and to operate the site as an owner-operated site. Management believes that the personal guarantees and step in rights significantly reduce the probability of incurring losses and provide a mechanism to mitigate any adverse impact on the group in the event of any guarantees being called upon.

Details of the number of lease guarantees provided, the average length of the guarantee and the average annual rental are given in note 22.

Each guarantee is assessed separately. Management's view of the probability of the lessee defaulting on its lease obligations is assigned to the specific guarantee. Lessees are categorized on a rating of 1 – 5, which allocates a probability of default to each banding, with category 1 representing very limited risk, and 5 representing extreme risk. Management then assesses the

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

likelihood of the personal guarantee from the lessee, together with the step-in rights being insufficient to cover in full the payments required to be made under the guarantee provided to the landlord. This is based on historic experience of the former owner of Boom Battle Bars which has, in a number of occasions, taken on existing franchisees within other parts of its business which have either been re-sold or have since become owner-operated sites. Based on this experience and taking account of the current economic environment, Management has judged that 1 in 6 sites where the guarantee is called would result in a loss. Finally, management applies an assessment as to the proportion of the future lease liability that might be suffered in the event that the guarantee is not fully covered by the personal guarantees and / or the step in rights. The proportion used in the calculation was 50%. This cumulative probability is applied to the net present value of the future lease liability. The net present value is calculated by reference to the expected future cash payments required under the lease using a discount rate of 6.2%, which is consistent with the rate used to assess the company's property lease liabilities under IFRS 16.

In the year to December 2022, the average probability of default used across the portfolio was assessed as between 10% and 15% (2021: 10%). This was made on the basis that the franchisees are all relatively new and remain inexperienced in operating Boom sites. The overall expected loss provision at 31 December 2022 was £93,505 (2021: £25,548).

***Sensitivities.***

The key assumptions impacting the assessment of the expected loss provision are the discount rate used to calculate the net present value of the leases under guarantee; the probability of default assigned to each guaranteed lease; the proportion of defaulted leases that would give rise to a credit loss; and the proportion of the total liability that would not be covered by security and step-in rights. The sensitivity to each of these assumptions in each of the two years to 31 December is shown in the table below:

| | | | Increase in Expected loss provision (£'000) | |
|---|---|---|---|---|
| Assumption | Base case | Sensitivity applied | 2022 | 2021 |
| Discount rate | 6.2% | 1% decrease | 4.7 | 1.7 |
| Probability of default | Individually assessed | 10% increase in probability of default | 9.4 | 2.5 |
| Proportion of defaulted leases giving rise to a loss | 16.67% (1 in 6) | Increase by 3.33% (1 in 5) | 18.7 | 5.1 |
| Proportion of liability not covered by guarantee / step-in right | 50% | 10% increase in loss | 9.4 | 5.1 |

***Estimation of the value of Contingent consideration and implied interest charges***

The value of the contingent consideration in relation to Boom Battle Bars was initially estimated using a share price of 35.8p per XP Factory share, being the share price on 23rd November23rd November 2021, the date that the Acquisition of Boom Battle Bars completed, and assuming all 25,000,000 shares potentially due under the provisions of the sale agreement are issued. The valuation is considered a level 2 valuation under IFRS 13, indicating that it is a financial liability that does not have regular market pricing, but whose value can be determined using other data values or market prices. The future value of the contingent consideration, which is due to be settled on completion of the audit for the group for the year ended 31 December 2022 (assumed to be 18 months after the acquisition) was calculated using a cost of capital of 13.7 per cent and an implied share price of 43.4 pence per share. The difference between the fair value at acquisition and the future value was being recognised as a finance charge over the 18 months between the date of acquisition and the expected date of settlement. This gave rise to a notional interest charge of £1.3m being recognised in the year to 31 December 2022 (2021: £105k).

The fair value of the contingent consideration has been revalued at 31 December 2022 based on the Directors' revised estimate of the liability. The revised value of the contingent consideration has been estimated using a share price of 17.5 pence per share, the share price as at 31 December 2022, and assuming that 23,501,137 shares will be issued, based on the actual performance of the Boom owner operated sites during the year to 31 December 2022. The future value of the contingent consideration, which is due to be settled shortly after the publication of this annual report, was calculated using a cost of capital of 13.7 per cent and an implied share price of 18.5 pence per share. The difference between the fair value as at 31 December 2022 and the date of settlement will be recognised as a finance charge in 2023.

The revised estimate of the consideration gave rise to a reduction in the estimated liability of £6.2m which has been recognised as a revaluation gain through the statement of consolidated income.

A 1% reduction in the in the discount rate used would have reduced the implied interest charge in 2022 by £95k (2021: £8k), would reduce the expected charge in 2023 by £16k and would have reduced the revaluation gain by £103k.

***Estimation of valuation of acquired intangibles***

As part of the acquisition of Boom Battle Bars, the Directors recognised £4,386k as relating to franchise contracts in place at the date of acquisition. The valuation took into account the forecast revenue from the relevant franchise contracts over the remaining life of the contracts, net of tax and allocated costs to service the contracts, discounted at the estimated cost of capital, 13.7 per cent. During the year to 31 December 2022, two of the franchise sites were acquired, and a third became operated by the Group under an operating agreement, the results of which are consolidated within the Group results. The value of the acquired intangibles attributable to these three sites as at 31 December 2021 has been reclassified to goodwill associated with the acquisition Boom Battle Bars. The remaining value of acquired intangibles will be amortised over the remaining franchise term. As at 31 December 2022, the value of acquired intangibles was £3.48m.

The Directors have re-assessed the value of the acquired intangibles based on the latest forecasts for specific franchisee sites and an allocation of central costs using a cost of capital of 13.7 per cent to determine whether an impairment was necessary. The analysis concluded that no impairment is necessary. A 1% increase in the cost of capital applied would reduce the value of acquired intangibles in the year by £116k, but would not lead to an impairment of the carrying value.

## 4. Revenue

| | Year ended 31 December 2022 £'000 | Year ended 31 December 2021 £'000 |
|---|---|---|
| Upfront location exclusivity fees, support and administration fees | 1,368 | 247 |
| Franchise revenue share | 2,012 | 456 |
| Revenues from owned branches | 13,535 | 6,026 |
| Food and drinks revenue from owned branches | 5,149 | 214 |
| Other | 770 | 41 |
| | 22,834 | 6,984 |

Revenues from contracts with customers:

| | Year ended 31 December 2022 £'000 | Year Ended 31 December 2021 £'000 |
|---|---|---|
| Revenue from contracts with franchise customers | 3,380 | 703 |
| Revenue from customers at owner operated branches | 19,454 | 6,281 |
| Total revenue from contracts with customers | 22,834 | 6,984 |

In respect of contracts from franchise customers, the satisfaction of performance obligations is treated as over a period of up to 10 years. The typical timing of payment from customers is a mixture of upfront fees, payable at the start of the contract, fixed fees payable quarterly or monthly during the term of the contract and variable consideration typically received shortly after the month in which the revenue has been accrued.

Future upfront exclusivity fee income that has been deferred on the balance sheet is certain as the amount has already been received. Support and administrative fees and other fees are considered to be reasonably certain and unaffected by future economic factors, except to the extent that adverse economic factors would result in premature franchise closure. Revenue based service fees are dependent on and affected by future economic factors, including the performance of franchisees.

A total of £19.45m (2021: £6.28m) of revenues relate to the owner-operated segment. All other revenues in the table refer to the franchise segment as detailed in Note 5 (Segment Information).

Upfront exclusivity fees are billed and received in advance of the performance of obligations. This generally creates deferred revenue liabilities which are greater than the amount of revenue recognised from each customer in a financial year.

Revenue share income is necessarily billed monthly in arrears (and accrued on a monthly basis).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the group of executive directors and the chief executive officer who make strategic decisions.

Management considers that the Group has four operating segments. Revenues are reviewed based on the nature of the services provided under each of the Escape Hunt™ and Boom Battle Bar™ brands as follows:

1. The Escape Hunt franchise business, where all franchised branches are operating under effectively the same model;
2. The Escape Hunt owner-operated branch business, which as at 31 December 2022 consisted of 23 Escape Hunt sites, comprising 20 in the UK (2021: 16), one in Dubai, one in Paris and one in Brussels; and
3. The Boom Battle Bar franchise business, where all franchised branches operate under the same model within the Boom Battle Bar™ brand.;
4. The Boom Battle Bar owner-operated business comprising 12 Boom Battle Bar sites in the UK (2021: 2)

The Group operates on a global basis. As at 31 December 2022, the Company had active Escape Hunt franchisees in 10 countries. The Company does not presently analyse or measure the performance of the franchising business into geographic regions or by type of revenue, since this does not provide meaningful analysis to managing the business. The geographic split of revenue was as follows:

| | Year Ended 31 December 2022 £'000 | Year ended 31 December 2021 £'000 |
|---|---|---|
| United Kingdom | 20,872 | 5,094 |
| Europe | 1,291 | 880 |
| Rest of world | 671 | 1,011 |
| | 22,834 | 6,984 |

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The cost of sales in the owner-operated business comprise variable site staff costs and other costs directly related to revenue generation.

| Year ended 31 December 2022 | Escape Hunt Owner operated £'000 | Escape Hunt Franchise operated £'000 | Boom Owner operated £'000 | Boom Franchise operated | Unallocated £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Revenue** | 9,773 | 703 | 9,501 | 2,857 | – | 22,834 |
| Cost of sales | (2,990) | – | (4,541) | (591) | – | (8,122) |
| **Gross profit/(loss)** | 6,783 | 703 | 4,960 | 2,266 | – | 14,712 |
| Site level operating costs | (3,227) | – | (6,008) | – | – | (9,235) |
| Other income | 141 | – | – | – | – | 141 |
| IFRS 16 adjustment | 666 | – | 1,399 | – | – | 2,065 |
| **Site level EBITDA** | 4,363 | 703 | 351 | 2,266 | – | 7,683 |
| Centrally incurred overheads | (156) | (188) | (188) | (173) | (6,847) | (7,552) |
| Depreciation and amortization | (2,552) | (136) | (1,798) | (439) | (240) | (5,165) |
| Other income | – | – | – | – | 6,216 | 6,216 |
| IFRS 16 adjustment | 90 | – | – | – | – | 90 |
| **Operating profit** | 1,745 | 379 | (1,635) | 1,654 | (871) | 1,272 |
| Adjusted EBITDA | 4,782 | 569 | 1,870 | 2,174 | (5,440) | 3,955 |
| Depreciation and amortisation | (2,102) | (136) | (795) | (439) | (240) | (3,712) |
| Depreciation – right-of-use assets | (450) | – | (1,003) | – | – | (1,453) |
| Foreign currency losses | – | 4 | – | – | (1,137) | (1,133) |
| Share-based payment expenses | – | – | – | – | (81) | (81) |
| Provision against loan to franchisee | – | (26) | – | – | – | (26) |
| Provision for guarantee losses | – | – | – | (68) | – | (68) |
| Gain / (loss) of disposal of assets | (126) | – | – | – | – | (126) |
| Exceptional Professional & Branch Closure Costs | (107) | (31) | (64) | (13) | (184) | (399) |
| Branch pre-opening costs | (375) | – | (1,643) | – | – | (2,018) |
| Profit on closure / modification of leases | 90 | – | – | – | – | 90 |
| Fair value adjustments | – | – | – | – | 6,210 | 6,210 |
| Rent credits recognised | 33 | – | – | – | – | 33 |
| **Operating profit** | 1,745 | 380 | (1,635) | 1,654 | (872) | 1,272 |
| Interest expense/receipt | – | – | (56) | 39 | (1,275) | (1,292) |
| Finance lease charges | (229) | – | (857) | – | – | (1,086) |
| Profit / (Loss) before tax | 1,516 | 380 | (2,548) | 1,693 | (2,147) | (1,106) |
| Taxation | – | 2 | – | 110 | – | 112 |
| Profit/(loss) after tax | 1,516 | 382 | (2,548) | 1,803 | (2,147) | (994) |
| **Other information:** | | | | | | |
| Non-current assets | 6,851 | 195 | 24,473 | 4,559 | 18,247 | 54,325 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| Year ended 31 December 2021 | Escape Hunt Owner operated £'000 | Escape Hunt Franchise operated £'000 | Boom Owner operated £'000 | Boom Franchise operated | Unallocated £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Revenue** | 6,018 | 592 | 263 | 112 | – | 6,985 |
| Cost of sales | (1,585) | (185) | (134) | – | – | (1,904) |
| **Gross profit/(loss)** | 4,433 | 407 | 129 | 112 | – | 5,081 |
| Site level operating costs | (1,974) | – | (108) | – | – | (2,082) |
| Other income | 371 | – | – | – | – | 371 |
| IFRS 16 adjustment | 598 | – | 63 | – | – | 661 |
| **Site level EBITDA** | 3,428 | 407 | 84 | 112 | – | 4,031 |
| Centrally incurred overheads | (1,348) | (207) | (59) | (30) | (3,376) | (5,020) |
| Depreciation and amortization | (2,284) | (16) | (50) | – | (455) | (2,805) |
| Other income | – | – | – | – | 3,236 | 3,236 |
| IFRS 16 adjustment | – | – | – | – | 37 | 37 |
| **Operating profit** | (204) | 184 | (25) | 82 | (558) | (521) |
| Adjusted EBITDA | 1,949 | 278 | 81 | 82 | 262 | 2,652 |
| Depreciation and amortisation | (1,706) | (16) | (15) | – | (455) | (2,192) |
| Depreciation – right-of-use assets | (578) | – | (35) | – | – | (613) |
| Foreign currency losses | – | – | – | – | (18) | (18) |
| Share-based payment expenses | – | – | – | – | (62) | (62) |
| Provision against loan to franchisee | – | (78) | – | – | – | (78) |
| Provision for guarantee losses | – | – | (8) | – | – | (8) |
| Gain / (loss) of disposal of assets | – | – | – | – | (50) | (50) |
| Exceptional Professional & Branch Closure Costs | (4) | – | – | – | (235) | (239) |
| Branch pre-opening costs | (54) | – | (48) | – | – | (102) |
| Profit on closure / modification of leases | 41 | – | – | – | – | 41 |
| Fair value adjustments | – | – | – | – | – | – |
| Rent credits recognised | 148 | – | – | – | – | 148 |
| **Operating profit** | (204) | 184 | (25) | 82 | (558) | (521) |
| Interest expense/receipt | – | – | – | – | (131) | (131) |
| Finance lease charges | (208) | – | (25) | – | – | (233) |
| Profit / (Loss) before tax | | | | | | |
| Taxation | | | | | | |
| Profit/(loss) after tax | (412) | 184 | (50) | 82 | (689) | (885) |
| **Other information:** | | | | | | |
| Non-current assets | 12,156 | 405 | 955 | 4,349 | 17,427 | 35,292 |

***Significant customers:***

No customer provided more than 10% of total revenue in either the year ended 31 December 2022 or 2021.

## 6. Operating loss before taxation

Loss from operations has been arrived at after charging / (crediting):

| | Year ended 31 December 2022 £'000 | Year ended 31 December 2021 £'000 |
|---|---|---|
| Auditor's remuneration: | | |
| – Audit of the financial statements | 150 | 75 |
| – Review of interim financial statements | 13 | 2 |
| Impairment of trade receivables | 21 | 56 |
| Foreign exchange (gains) / losses | 1,133 | 18 |
| Staff costs including directors, net of amounts capitalized | 4,997 | 3,739 |
| Depreciation of property, plant and equipment (Note 11) | 2,825 | 1,721 |
| Depreciation of right-of-use assets (Note 12) | 1,453 | 613 |
| Amortisation of intangible assets (Note 13) | 886 | 471 |
| Share-based payment costs (non-employees) | 81 | 62 |
| Research and development grants | – | 3,236 |
| Professional fees paid in respect of R&D grants | – | 647 |

**Detailed information on statement of profit or loss items:**

| Cost of sales | Year ended 31 December 2022 £'000 | Year ended 31 December 2021 £'000 |
|---|---|---|
| Wages and salaries | 4,254 | 1,395 |
| Food and beverages | 1,880 | 92 |
| Other costs of sale | 1,988 | 417 |
| | 8,122 | 1,904 |

| Administrative expenses | Year ended 31 December 2022 £'000 | Year ended 31 December 2021 £'000 |
|---|---|---|
| Depreciation of property, plant and equipment | 2,825 | 1,721 |
| Depreciation of right-of-use assets | 1,453 | 613 |
| Amortisation | 886 | 471 |
| Write-off of assets | – | 50 |
| Staff costs including directors, net of amounts capitalised | 4,997 | 3,739 |
| Share-based payments | 81 | 62 |
| Foreign currency losses | 1,133 | 18 |
| Other administrative expenses | 8,348 | 2,534 |
| | 19,724 | 9,208 |

Exceptional professional costs of £293k incurred during year relate to a combination of the liquidation of the Thailand and Malaysian entities, both the costs involved but also the write off of debts owed, staff restructuring in head office and late recognition of costs relating to the Boom acquisition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 7. Staff costs

| | Year Ended 31 December 2022 £'000 | Year Ended 31 December 2021 £'000 |
|---|---|---|
| Wages salaries and benefits (including directors) | 8,820 | 3,897 |
| Share-based payments | 81 | 63 |
| Social security costs | 675 | 313 |
| Other post-employment benefits | 272 | 153 |
| Less amounts capitalised | (596) | (164) |
| Less amounts received under the CJRS scheme | – | (460) |
| | 9,251 | 3,802 |
| Included in cost of sales | 4,254 | 1,395 |
| Included in Admin expenses | 4,997 | 2,407 |
| | 9,251 | 3,802 |

**Key management personnel:**

| | Year Ended 31 December 2022 £'000 | Year Ended 31 December 2021 £'000 |
|---|---|---|
| Wages, salaries and benefits (including directors) | 653 | 644 |
| Share-based payments | 40 | 40 |
| Social security costs | 90 | 83 |
| Pensions | 26 | 23 |
| Other post-employment benefits | 8 | 6 |
| Less amounts capitalised | (85) | (56) |
| Less amounts received under the CJRS scheme | – | (56) |
| | 732 | 685 |

Key management personnel are the directors and one member of staff. Their remuneration was as follows:

| Year ended 31 December 2022 | Salary and fees £'000 | Share-based payments £'000 | Pension contributions £'000 | Other benefits £'000 | Total £'000 |
|---|---|---|---|---|---|
| Graham Bird | 188 | 12 | 9 | 3 | 212 |
| Richard Rose | 60 | – | – | – | 60 |
| Richard Harpham | 218 | 17 | 10 | 2 | 247 |
| Karen Bach | 15 | – | – | – | 15 |
| Philip Shepherd | 15 | – | – | – | 15 |
| Martin Shuker | 15 | – | – | – | 15 |
| Other key management | 142 | 11 | 7 | 4 | 164 |
| | 653 | 40 | 26 | 8 | 728 |
| Amounts capitalised | (85) | – | – | – | (85) |
| Profit and loss expense | 568 | 40 | 26 | 8 | 643 |

| Year ended 31 December 2021 | Salary and fees £'000 | Share-based payments £'000 | Pension contributions £'000 | Other benefits £'000 | Total £'000 |
|---|---|---|---|---|---|
| Graham Bird | 167 | 12 | 7 | 3 | 189 |
| Richard Rose | 60 | – | – | – | 60 |
| Richard Harpham | 224 | 17 | 10 | 1 | 252 |
| Karen Bach | 30 | – | – | – | 30 |
| John Story | 18 | – | – | – | 18 |
| Other key management | 146 | 11 | 6 | 2 | 165 |
| | 644 | 40 | 23 | 6 | 737 |
| Amounts capitalised | (56) | – | – | – | (56) |
| Furlough claims | (56) | – | – | – | (56) |
| Profit and loss expense | 533 | 40 | 23 | 6 | 602 |

Only two directors are accruing retirement benefits, being Richard Harpham and Graham Bird. Both make personal contributions and receive company contributions into defined contribution (money purchase) pensions schemes. There are no defined benefit schemes in the group and the Group has no pension commitments other than monthly contributions for employees.

The average monthly number of employees was as follows:

| | Year ended 31 December 2022 No. | Year ended 31 December 2021 No. |
|---|---|---|
| Management | 4 | 4 |
| Administrative | 49 | 27 |
| Operations | 663 | 191 |
| | 716 | 222 |

## 8. Interest

| | Year Ended 31 December 2022 £'000 | Year Ended 31 December 2021 £'000 |
|---|---|---|
| Interest income | 82 | 17 |
| Interest expense | (1,376) | (148) |
| Net interest (expense) / income | (1,292) | (131) |

## 9. Taxation

| | Year Ended 31 December 2022 £'000 | Year Ended 31 December 2021 £'000 |
|---|---|---|
| **Current tax expense** | | |
| Current tax on profits for the year | – | – |
| Total Current tax | – | – |
| **Deferred tax expense** | | |
| Origination and reversal of Temporary differences | (269) | 1,101 |
| Effects of Business combinations | 157 | (1,112) |
| Total deferred tax | (112) | (11) |
| **Total tax expense** | (112) | (11) |

A reconciliation of income tax expense applicable to the loss before taxation at the statutory tax rate to the income tax expense at the effective tax rate of the Group is as follows:

| | Year Ended 31 December 2022 £'000 | Year Ended 31 December 2021 £'000 |
|---|---|---|
| Loss before taxation | (1,106) | (885) |
| Tax calculated at the standard rate of tax of 19% (2020:19%) | (210) | (168) |
| Tax effects of: | | |
| Expenses not deductible for tax purposes | 280 | 53 |
| Non-taxable income | (1,132) | (597) |
| Enhanced relief for qualifying additions | (101) | (35) |
| Unrecognised tax losses | 619 | 625 |
| Foreign operations | 224 | (29) |
| Non qualifying amortisation | 22 | 33 |
| Depreciation on ineligible assets | 186 | 81 |
| Increase in dilapidation provision | 28 | 14 |
| Notional interest on contingent consideration | – | 20 |
| Other | (28) | (8) |
| | (112) | (11) |

***Changes in tax rates and factors affecting the future tax charge***

Changes to the UK corporation tax rates were made as part of the 2021 Budget. These were substantially enacted on 24 May 2021. This included an increase in the main rate from 19% to 25% from 1 April 2023. The company is taxed at a rate of 25% unless its profits are sufficiently low enough to qualify for a lower rate of tax, the lowest being 19%.

***Deferred tax***

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is probable that these assets will be recovered.

The Group has tax losses of approximately £22,338k as at 31 December 2022 (£18,839k as at 31 December 2021) which, subject to agreement with taxation authorities, are available to carry forward against future profits. The tax value of such losses amounted to approximately £5,585k (£3,579k as at 31 December 2020). A deferred tax asset has been recognised in respect of £3,025k (2021: £572k) of these losses to offset the deferred tax liability in respect of fixed asset temporary differences.
A deferred tax asset has therefore not been recognised in respect of the remaining tax losses of £19,313k (2020: £18,267k).

Recognised temporary differences as at 31 December:

| | Year ended 31 December 2022£'000 | Year ended 31 December 2021 £'000 |
|---|---|---|
| Fixed asset temporary differences | 756 | 143 |
| Unused tax losses | (756) | (143) |
| Intangibles acquired through business combination | 832 | 1,101 |
| | 832 | 1,101 |

***Estimates and assumptions, including uncertainty over income tax treatments***

The Group is subject to income tax in several jurisdictions and significant judgement is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due.

These tax liabilities are recognised when, despite the Directors' belief that its tax return positions are supportable, the Directors believe it is more likely than not that a taxation authority would not accept its filing position. In these cases, the Group records its tax balances based on either the most likely amount or the expected value, which weights multiple potential scenarios. The Directors believe that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law.

No material uncertain tax positions exist as at 31 December 2022. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

In the year ended 31 December 2021 upon acquisition of both the French master franchise in March 2021 and the Boom group of companies in November 2021, there were intangibles acquired as part of the purchase. These acquired intangibles were deemed to create a deferred tax liability and calculated at 25.75% for France and 25% for Boom. In total, these amounted to £1,112k. These deferred tax liabilities were recognised in the period ended 31 December 2021 and are being amortised over the same periods as the acquired intangible.

## 10. Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders by the weighted average number of ordinary shares in issue during the period. Diluted net loss per share is calculated by dividing net loss by the weighted average number of shares in issue and potential dilutive shares outstanding during the period.

Because XP Factory is in a net loss position, diluted loss per share excludes the effects of ordinary share equivalents consisting of stock options and warrants, which are anti-dilutive. The total number of shares subject to share options and conversion rights outstanding excluded from consideration in the calculation of diluted loss per share for the year ended 31 December 2022 was 19,699,481 shares (year ended 31 December 2021: 19,699,481 shares).

| | Year Ended 31 December 2022 | Year Ended 31 December 2021 |
|---|---|---|
| Loss after tax attributable to owners of the Company (£'000) | (994) | (874) |
| Weighted average number of shares: | | |
| – Basic and diluted | 150,043,518 | 93,846,053 |
| Loss per share | | |
| – Basic and diluted (Pence) | (0.66) | (0.93) |

## 11. Property, plant and equipment

| | Leasehold improvements £'000 | Office equipment £'000 | Computers £'000 | Furniture and fixtures £'000 | Games £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2021 | 3,905 | 15 | 122 | 262 | 3,962 | 8,266 |
| Additions | 965 | – | 32 | 37 | 1,601 | 2,635 |
| Additions arising from acquisition | 617 | 36 | 19 | 543 | 12 | 1,227 |
| Disposals | (22) | (1) | (8) | (18) | (49) | (98) |
| As at 31 December 2021 | 5,465 | 50 | 165 | 824 | 5,526 | 12,030 |
| Additions | 6,968 | 1 | 135 | 425 | 1,470 | 8,999 |
| Additions arising from acquisition | 1,001 | – | 32 | 389 | 67 | 1,489 |
| Disposals | (246) | – | (7) | (29) | (302) | (584) |
| **As at 31 December 2022** | 12,888 | 51 | 325 | 1,609 | 6,761 | 21,634 |
| **Accumulated depreciation:** | | | | | | |
| As at 1 January 2021 | (1,651) | (13) | (86) | (110) | (2,521) | (4,381) |
| Additions arising from acquisition | (322) | (34) | (1) | (92) | – | (449) |
| Depreciation charge | (822) | (3) | (22) | (78) | (796) | (1,721) |
| Translation differences | (2) | – | – | – | (18) | (20) |
| Disposals | 12 | 1 | 8 | 10 | 26 | 57 |
| As at 31 December 2021 | (2,785) | (49) | (101) | (270) | (3,308) | (6,514) |
| Additions arising from acquisition | (195) | – | (7) | (94) | (14) | (310) |
| Depreciation charge | (1,335) | (1) | (46) | (193) | (1,250) | (2,825) |
| Translation differences | 3 | – | – | – | 4 | 7 |
| Disposals | 147 | – | 7 | 30 | 277 | 461 |
| **As at 31 December 2022** | (4,165) | (50) | (147) | (527) | (4,292) | (9,181) |
| **Net book value** | | | | | | |
| **As at 31 December 2022** | 9,023 | 1 | 178 | 1,082 | 2,469 | 12,753 |
| As at 31 December 2021 | 2,680 | 1 | 64 | 554 | 2,217 | 5,516 |

The amount of expenditure recognised in the carrying value of leasehold improvements in the course of construction at 31 December 2022 is £36,625 (2021: £nil).

## 12. Right-of-use assets and lease liabilities

| Right-of-use assets | Year ended 31 December 2022 £'000 | Year ended 31 December 2021 £'000 |
|---|---|---|
| Land and buildings – right-of-use asset cost b/f | 8,920 | 3,884 |
| Closures / leases ended for renegotiation during the year | (411) | (211) |
| Additions during the year, including through acquisition | 15,018 | 5,400 |
| Lease incentives | (2,914) | – |
| Newly negotiated leases | – | 86 |
| Less: Accumulated depreciation b/f | (1,318) | (944) |
| Depreciation charged for the year | (1,453) | (613) |
| Net book value | 17,842 | 7,602 |

The Group leases land and buildings for its offices and escape room and battle bar venues under agreements of between five to fifteen years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

During the year the Group entered into a lease on a premises in Bournemouth where a portion of the property is sub-let to a Boom franchisee. The total value of the master lease is recognised within lease liabilities whilst the underlease has been recognised as a finance lease receivable.

| Finance lease receivable | Year ended 31 Dec 2022 £'000 | Year ended 31 Dec 2021 £'000 |
|---|---|---|
| Balance at beginning of period | – | – |
| Additions during the year | 1,234 | – |
| Interest charged | 39 | – |
| Payments received | – | – |
| Balance at end of period | 1,273 | – |

During the year ended 31 December 2022, £33k of rent concessions have been recognised in the profit and loss (2021: £148k) to reflect credits provided by landlords during the COVID-19 pandemic. Only those rent concessions which adequately fulfil the criteria of paragraph 46A of the amendment to IFRS 16 on this subject have been included in the profit and loss.

Where leases have been renegotiated during the year due to the COVID-19 pandemic, these have been treated as modifications of leases and included as separate items in the note above.

| Lease liabilities | Year ended 31 Dec 2022 £'000 | Year ended 31 Dec 2021 £'000 |
|---|---|---|
| **In respect of right-of-use assets** | | |
| Balance at beginning of period | 8,405 | 3,742 |
| Closures / leases ended for renegotiation during the year | (501) | (253) |
| Additions during the year | 16,252 | 5,400 |
| Newly negotiated leases | – | 87 |
| Interest incurred | 1,086 | 233 |
| Rent concessions received | (33) | (148) |
| Repayments during the period | (1,186) | (759) |
| Reallocated (to) / from accruals and trade payables | 16 | 103 |
| Lease liabilities at end of period | 24,039 | 8,405 |

| | As at 31 Dec 2022 £'000 | As at 31 Dec 2021 £'000 |
|---|---|---|
| **Maturity** | | |
| Current | | |
| < 1 month | 76 | 42 |
| 1 – 3 months | 119 | 84 |
| 3 – 12 months | 878 | 290 |
| Non-current | 22,965 | 7,989 |
| Total lease liabilities | 24,039 | 8,405 |

In the Escape Hunt group of companies, leases are generally 10 years with a 5 year break clause. Where the break clause is tenant only the leases are accounted for over the full period of the lease as it is assumed the break clause will not be enacted, whereas where the break clause is both ways, leases are accounted for over the period to the initial break clause years.

In the Boom group of companies, leases are generally over 15 years with a 10 year tenant only break clause. Leases with a 10 year break are accounted for over 10 years. Leases without a break are accounted for over 15 years.

The group has no short term leases of properties.

None of the leases imposed restrictions or covenants.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The group also leases laptops for a small number of staff on leases of 3 years. The charge to the profit and loss for the year ended 31 December 2022 for these computers was £7k (2021: £7k). These leases are all cancellable on short notice.

There are a small number of properties for which turnover rent is payable. The amount charged to the profit and loss for these turnover rent payments in the year ended 31 December 2022 was £191k (2021: £99k).

As at 31 December 2022 there were no leases that had not commenced to which the group were committed.

### 13. Intangible assets

| | Goodwill £'000 | Trademarks £'000 | Intellectual property £'000 | Internally generated IP £'000 | Franchise agreements £'000 | App Quest £'00' | Portal £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 January 2021 | 1,412 | 78 | 10,195 | 855 | 802 | 100 | 269 | 13,711 |
| Additions arising from internal development | – | – | – | 119 | – | – | – | 119 |
| Additions arising from acquisition | 16,284 | – | – | 752 | 4,446 | – | 47 | 21,529 |
| Disposals | – | – | – | (11) | – | – | – | (11) |
| At 31 December 2021 | 17,696 | 78 | 10,195 | 1,715 | 5,248 | 100 | 316 | 35,348 |
| Additions arising from internal development | – | 8 | – | 149 | – | – | 61 | 218 |
| Additions arising from acquisition | 1,475 | – | – | – | – | – | – | 1,475 |
| Transfers arising from acquisition | 469 | – | – | – | (625) | – | – | (156) |
| Disposals | – | – | – | – | – | – | – | – |
| **As at 31 December 2022** | 19,640 | 86 | 10,195 | 1,864 | 4,623 | 100 | 377 | 36,885 |
| **Accumulated amortisation / impairment** | | | | | | | | |
| At 1 January 2021 | (1,393) | (47) | (10,195) | (404) | (420) | (100) | (239) | (12,798) |
| Amortisation for the year | – | (13) | – | (265) | (160) | – | (34) | (472) |
| Additions arising from acquisition | – | – | – | – | – | – | (30) | (30) |
| Translation differences | – | – | – | – | – | – | (3) | (3) |
| At 31 December 2021 | (1,393) | (60) | (10,195) | (669) | (580) | (100) | (306) | (13,303) |
| Amortisation for the year | – | (12) | – | (302) | (563) | – | (9) | (886) |
| Additions arising from acquisition | – | – | – | – | – | – | – | – |
| Translation differences | – | – | – | – | – | – | – | – |
| Disposals | – | – | – | – | – | – | – | – |
| As at 31 December 2022 | (1,393) | (72) | (10,195) | (971) | (1,143) | (100) | (315) | (14,189) |
| **Carrying amounts** | | | | | | | | |
| **At 31 December 2022** | 18,247 | 14 | – | 893 | 3,480 | – | 62 | 22,696 |
| At 31 December 2021 | 16,303 | 18 | – | 1,046 | 4,668 | – | 10 | 22,046 |

Goodwill and acquisition related intangible assets recognised have arisen from the acquisition of Experiential Ventures Limited in May 2017, Escape Hunt Entertainment LLC in September 2020, BGP Escape France, BGP Entertainment Belgium in March 2021 and the Boom group of companies in November 2021, plus Boom East in August 2022 and Boom Battle Bar Cardiff in September 2022. Goodwill has also been recognised on the consolidation of BBB Nine Limited (Boom Battle Bar Swindon) which is managed by the group under an operating agreement. Refer to Notes 14 and 15 for further details.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ('CGUs') that are expected to benefit from that business combination. Management considers that the goodwill is attributable to the owner-operated business because that is where the benefits are expected to arise from expansion opportunities and synergies of the business.

No value was attributed to the brand and customer relationships as the Board's strategic review of the business and a repositioning of our branding exercise enabled the Group to clearly define its quality, service and values, and make it more attractive to new customers and partners. Furthermore, the value of any existing brand and customer relationships which was separately identifiable from other intangible assets was insignificant.

The Group tests goodwill annually for impairment or more frequently if there are indications that these assets might be impaired. The recoverable amounts of the CGU are determined from fair value less costs to sale. The value of the goodwill comes from the future potential of the assets rather than using the assets as they are (i.e. there is assumed expansionary capex which supports growth in revenues and the value of the business and therefore goodwill).

The key assumptions for the fair value less costs to sale approach are those regarding capital expenditure which supports a consequent growth in revenues and associated earnings and a discount rate. The Group monitors its pre-tax Weighted Average Cost of Capital and those of its competitors using market data. In considering the discount rate applying to the CGU, the Directors have considered the relative sizes, risks and the inter-dependencies of its CGUs. The impairment reviews use a discount rate adjusted for pre-tax cash flows. The Group prepares cash flow forecasts derived from the most recent financial plan approved by the Board and extrapolates revenues, net margins and cash flows for the following three years based on forecast growth rates of the CGU. Cash flows beyond this period are also considered in assessing the need for any impairment provisions. A discount rate of 13.7% and capex of £9.4 million over the three years has been assumed. Growth in years 4- 6 is assumed at 5% per annum. The rate used for the fair value calculation thereafter is 2%. The directors consider these assumptions are consistent with that which a market participant would use in determining fair value.

***Intellectual property***

The Intellectual Property relates to the valuation of the Library of Game Wire Frame Templates of games, the process of games development and the inherent know how and understanding of making successful games.

The fair value of these assets on acquisition of £10,195k was determined by discounting estimated future net cash flows generated by the asset where no active market for the assets exists.

The Group tests intellectual property for impairment only if there are indications that these assets might be impaired. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows.

***Franchise agreements***

The intangible asset of the Franchise Business was the net present value of the net income from the franchisee agreements acquired.

The approach selected by management to value the franchise agreements was the Multi-Period Excess Earnings Method ("MEEM") which is within the income approach. The multi-period excess earnings method estimated value is based on expected future economic earnings attributable to the agreements.

The key assumptions used within the intangible asset valuation were as follows:

- Economic life – The valuation did not assume income for a period longer than the asset's economic life (the period over which it will generate income). The contractual nature of the Franchise Agreements (with terms typically between 6 and 10 years) means it is possible to forecast with a reasonable degree of certainty the remaining term of each agreement and therefore the period in which it will generate revenue. Only contracts which were signed at the acquisition date were included.
- Renewal – No provision for the renewal of existing Franchise Contracts has been included with the valuation. This reflects the fact that potential contract renewals will only take place several years in the future, and the stated strategy of management has been to focus on the development of owner-managed sites rather than renewing the franchises when they are due for renewal – as they may be bought out.
- Contributory Asset Charges (CAC–) – The projections assumed after returns are paid/charged to complementary assets which are used in conjunction with the valued asset to generate the earnings associated with it. The only CAC identified by management is the charge relating to IP – a charge has been included to take into account the Intellectual Property used within the franchise operation. This is considered key in generating earnings at the franchised sites. Management has applied the same royalty rate of 10% used to value this asset.
- Discount Rate – The Capital Asset Pricing Model ("CAPM") was used to calculate a discount rate of 13.7%.
- Taxation – At the time of acquisition, the franchise profits were earned within a group subsidiary which was incorporated in the Labuan province of Malaysia. The tax rate applicable in Labuan was applied to the earnings generated from franchise operations for franchise contracts acquired at that time. The acquisitions in France and the UK during 2021 have used anticipated tax rates of 25.75% and 25% respectively.

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During the year ended 31 December 2022, the Franchise businesses Boom East Ltd and Boom Battle Bar Cardiff were purchased and the group entered into an operating agreement to manage the site held by BBB Nine Ltd in Swindon. As such amounts that were previously being held as Franchise agreement intangibles have been transferred to goodwill to reflect the new group ownership and management of these companies.

The carrying amount of the franchise agreements has been considered on the basis of the value in use derived from the expected future cash flows.

### 14. Subsidiaries

Details of the Company's subsidiaries as at 31 December 2022 are as follows:

| Name of subsidiary | Country of incorporation | Principal activity | Effective equity interest held by the Group (%) | Ref |
|---|---|---|---|---|
| Experiential Ventures Limited | Seychelles | Former holding company – In dissolution | 100 | #2 |
| Escape Hunt Group Limited | England and Wales | Operator of escape rooms | 100 | #1 |
| Escape Hunt IP Limited | England and Wales | IP licensing | 100 | #1 |
| Escape Hunt Franchises Limited | England and Wales | Franchise holding | 100 | #1 |
| Escape Hunt Innovations Limited | England and Wales | Game design | 100 | #1 |
| Escape Hunt Limited | England and Wales | Dormant | 100 | #1 |
| Escape Hunt USA Franchises Ltd | England and Wales | Franchise holding | 100 | #1 |
| Escape Hunt Entertainment LLC | United Arab Emirates | Operator of Escape Rooms in Dubai and master franchise to the Middle East | 100 | #3 |
| BGP Escape France | France | Operator of Escape Rooms in Paris and master franchise to France, Belgium and Luxembourg | 100 | #1 |
| BGP Entertainment Belgium | Belgium | Operator of Escape Rooms in Brussels | 100 | #1 |
| BBB Franchise Limited | England and Wales | Franchise holding | 100 | #1 |
| BBB Ventures Limited | England and Wales | Intermediate holding company | 100 | #2 |
| BBB UK Trading Limited | England and Wales | Previous head office for Boom group | 100 | #2 |
| Boom BB One Limited | England and Wales | Operator of battle bar Lakeside | 100 | #2 |
| Boom BB Two Limited | England and Wales | Operator of battle bar – allocated to Canterbury | 100 | #2 |
| BBB Three Limited | England and Wales | Operator of battle bar – location TBC | 100 | #2 |
| BBB Six Limited | England and Wales | Operator of battle bar – Edinburgh | 100 | #2 |
| BBB Seven Limited | England and Wales | Operator of battle bars in O2, Leeds and Birmingham | 100 | #2 |
| BBB Eleven Limited | England and Wales | Operator of battle bar Plymouth | 100 | #2 |
| BBB Twelve Limited | England and Wales | Operator of battle bar Manchester | 100 | #2 |
| BBB Thirteen Limited | England and Wales | Operator of battle bar Oxford Street | 100 | #2 |
| BBB Fourteen Limited | England and Wales | Operator of battle bar – Exeter | 100 | #2 |
| BBB Fifteen Limited | England and Wales | Operator of battle bar – location TBC | 100 | #2 |
| BBB Sixteen Limited | England and Wales | Operator of battle bar – location TBC | 100 | #2 |
| BBB Seventeen Limited | England and Wales | Holder of Boom IP | 100 | #2 |
| Boom East Limited | England and Wales | Operator of battle bar – Norwich | 100 | #2 |
| Boom Battle Bar Cardiff Limited | England and Wales | Operator of battle bar – Cardiff | 100 | #2 |

Each of the companies incorporated in England and Wales have their registered office at Belmont House, Station Way, Crawley, RH10 1JA.

Each of the subsidiaries for which reference 1 is shown is directly held by the Company. Those referenced 2 are held indirectly through one of the directly held subsidiaries. Those referenced 3 are held via nominee arrangements.

The registered address of each overseas subsidiary is as follows:

***Experiential Ventures Limited***
103 Sham Peng Tong Plaza, Victoria, Mahe, Seychelles.

***Escape Hunt Entertainment LLC***
Retail Space 26, Galleria Mall, Al Wasl Road, Bur Dubai, Dubai,

***BGP Escape France***
112 bis rue cardinet 75017, France

***BGP Entertainment Belgium***
13-15 rue de Livourne, 1060 Brussels

Previously held entities

***Escape Hunt Operations Ltd***
Lot A020, Level 1, Podium Level, Financial Park Labuan, Jalan Merdeka,8700 Labuan, Malaysia.

***E V Development Co. Ltd***
No. 689 Bhiraj Tower at EmQuartier, Sukhumvit (Soi 35) Road, Klongton-Nua Sub-district, Bangkok, Thailand.

During the year the liquidations of Escape Hunt Operations Ltd and E V Development Co. Ltd were finalised. The subsequent writing off of final intercompany balances owed gave rise to a loss of £47k which has been presented on the P&L as part of exceptional costs.

## 15. Business Combination

***Acquisition of Boom East Ltd***
On 12 August 2022, XP Factory Plc acquired 100% of the equity interest in Boom East Ltd, thereby obtaining control. Boom East Ltd runs an owner operated Boom Battle Bar site situated in Norwich.

The details of the business combination are as follows:

| | £'000 |
|---|---|
| **Fair value of consideration transferred** | |
| Amounts settled in cash | – |
| Vendor loan | 100 |
| Total purchase consideration | 100 |

The vendor loan is being paid off in twelve monthly instalments of £8.3k. The balance payable as at 31 December 2022 was £66.7k

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Further acquisition related costs of £5k that were not directly attributable to the issue of shares are included in administrative expenses under the owner operated segment.

| | Book Value £'000 | Fair Value Adjustment £'000 | Fair Value £'000 |
|---|---|---|---|
| **Assets and liabilities recognised as a result of the acquisition** | | | |
| Cash | 115 | – | 115 |
| Other receivables and deposits | 22 | – | 22 |
| Property, plant and equipment | 374 | – | 374 |
| Right of use assets | 1,025 | – | 1,025 |
| Trade payables | (2) | – | (2) |
| Inventory | 9 | | 9 |
| Lease liabilities | (1,025) | – | (1,025) |
| Loans | (47) | – | (47) |
| Other payables | (452) | – | (452) |
| Net identifiable assets acquired | 19 | – | 19 |
| Goodwill arising on consolidation | – | 81 | 81 |
| Total | 19 | 81 | 100 |

There were no trade receivables present in the company as at the date of acquisition.

The excess of the total consideration over the net identifiable assets acquired of £81k has been analysed and it has all been recognised as goodwill. This goodwill is primarily related to growth expectations, expected future profitability and the expertise and experience of Boom East Ltd's workforce. Goodwill has been allocated to the owner operated segment and is not expected to be deductible for tax purposes.

Boom East Ltd contributed revenues of £376k and net profits of £34k in the period between acquisition and 31 December 2022. If the acquisition had occurred on 1 January 2022, consolidated revenue would have been £521k higher, however consolidated net profits would have been £11.7k lower due to the recognition of rent accruals during the rent free period which had previously not been accounted for .

### *Acquisition of Boom Battle Bar Cardiff Ltd*

On 9 September 2022, the XP Factory Group acquired 100% of Boom Battle Bar Cardiff Ltd, thereby obtaining control. Boom Battle Bar Cardiff Ltd runs an owner operated Boom Battle Bar site situated in Cardiff.

The details of the business combination are as follows:

| | £'000 |
|---|---|
| **Fair value of consideration transferred** | |
| Amounts settled in cash | 558 |
| Vendor loan | 601 |
| Loan receivable | (240) |
| Offset against franchise fees due and director's loans | 76 |
| Total consideration | 995 |

The vendor loan is due to be paid in March 2023 and as such is held in current liabilities on the Statement of Financial Position. The loan receivable was novated to XP Factory plc from a third party and has as a result been treated as a reduction in the fair value of the consideration.

Further acquisition related costs of £34k that were not directly attributable to the issue of shares are included in administrative expenses under the owner operated segment.

| | Book Value £'000 | Fair Value Adjustment £'000 | Fair Value £'000 |
|---|---|---|---|
| **Assets and liabilities recognised as a result of the acquisition** | | | |
| Cash | 4 | – | 4 |
| Inventory | 24 | – | 24 |
| Trade receivables (net of provisions) | 2 | 114 | 116 |
| Other receivables | 87 | – | 87 |
| Property, plant and equipment | 479 | – | 479 |
| Right of use assets | 1,032 | – | 1,032 |
| Trade payables | (61) | – | (61) |
| Accruals, deferred income and other payables | (549) | – | (549) |
| Loans | (456) | – | (456) |
| Lease liabilities | (1,032) | – | (1,032) |
| Net identifiable liabilities acquired | (470) | 114 | (356) |
| Goodwill arising on consolidation | – | 1,351 | 1,351 |
| Total | (470) | 1,465 | 995 |

The fair value of acquired trade receivables is £2k. The gross contractual amount for trade receivables due is £2k of which none had been provided against as at the date of acquisition.

The excess of the total consideration over the net identifiable assets acquired of £1,351 krelates1,351 krelates to goodwill and is primarily related to growth expectations, expected future profitability and the expertise and experience of the Boom Battle Bar Cardiff Ltd team. Goodwill has been allocated to the owner operated segment and is not expected to be deductible for tax purposes.

Boom Battle Bar Cardiff contributed revenues of £1.236m and net profits of £41k in the period between acquisition and 31 December 2022. If the acquisition had occurred on 1 January 2022, consolidated revenue would have been £2.432m higher but consolidated net profits would have been £681k lower due to the writing off of bad and doubtful debts in the prior period and recognition of rent accruals not previously accounted for.

### *Consolidation of BBB Nine Ltd*

On 10 September 2022, BBB Franchise Ltd entered into an operating agreement with BBB Nine Ltd. The agreement dictated that the XP Factory group would take over management of the venue and as such the risks and rewards of managing the company would accrue to the group. Although BBB Nine Ltd was not formally acquired, it has been consolidated as part of the results of the group on the basis of control as the following criteria have been met:

- Power – The XP Factory Group has the right to direct the relevant activities of the company
- Rights – The XP Factory Group has rights to the returns of the company
- Exposure – The XP Factory Group is exposed to both positive and negative returns as a result of the company's performance, although has no obligation to support the entity through providing working capital.

| | Book Value £'000 | Fair Value Adjustment £'000 | Fair Value £'000 |
|---|---|---|---|
| **Assets and liabilities recognised as a result of the consolidation of BBB Nine Limited** | | | |
| Cash | 3 | – | 3 |
| Inventory | 11 | – | 11 |
| Trade receivables (net of provisions) | 8 | – | 8 |
| Other receivables | 12 | – | 12 |
| Property, plant and equipment | 301 | – | 301 |
| Intangibles | 25 | – | 25 |
| Trade payables | (41) | – | (41) |
| Accruals, deferred income and other payables | (362) | – | (362) |
| Net identifiable liabilities acquired | (43) | | (43) |
| Goodwill arising on consolidation | | 43 | 43 |
| Total | (43) | 43 | – |

The net liabilities acquired have been treated as goodwill, is primarily related to growth expectations, expected future profitability and the expertise and experience of the Boom Battle Bar Swindon team. Goodwill has been allocated to the owner operated segment and is not expected to be deductible for tax purposes.

BBB Nine Limited contributed revenues of £247k and a loss of £114k in the period between acquisition and 31 December 2022. Had the operating contract in respect of BBB Nine been entered into on 1 January 2022, consolidated revenue would have been £622k higher, and consolidated net profits would have been £301k lower.

As at 31 December 2021, the franchise contracts associated with Boom East Ltd, Boom Battle Bar Cardiff Ltd and BBB Nine Ltd were valued at £624,805. This amount, net of the associated deferred tax asset of £156,201 was reclassified to goodwill associated with the purchase of Boom Battle Bars as the sites are no longer operated as franchise sites.

## 16. Loan to franchisee

A loan of £300,000 is due from a master franchisee which bears interest at 5% per annum plus 2% of the franchisee's revenues and is repayable in instalments between January 2020 and June 2023.

The majority of income receivable under the terms of the loan relates to interest at a fixed rate. The impact of COVID-19 on the borrower in 2020 has been significant, as a result of which it is considered unlikely that the loan will be repaid. The pandemic caused the franchisee to fall into arrears on rent at one of his sites and on loan repayments. As at 31 December 2022 this loan, together with accrued interest, has been provided for in full.

## 17. Trade and other receivables

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Trade receivables (customer contract balances) | 1,934 | 848 |
| Prepayments | 1,140 | 666 |
| Accrued income (customer contract balances) | 421 | 122 |
| Deposits and other receivables | 278 | 3,354 |
| | 3,773 | 4,990 |

The Group's exposure to credit risk and impairment losses related to trade receivables is disclosed in Note 30.

Significant movements in customer contract assets during the year ended 31 December 2022 are summarised below:

| Year ended 31 December 2022: | Trade Receivables £'000 | Accrued income £'000 |
|---|---|---|
| Contract assets: | | |
| Balance at 1 January 2021 | 848 | 122 |
| Transfers from contract assets recognised at the beginning of the period to receivables | 122 | (122) |
| Net increases as a result of changes in the measure of progress | 1,306 | 538 |
| Provisions for doubtful amounts | (341) | (26) |
| Balance at 31 December 2021 | 1,934 | 511 |

The amount of revenue recognised from performance obligations satisfied in previous periods is nil.

We receive payments from customers based on terms established in our contracts. In the case of franchise revenues in Escape Hunt, amounts are billed within five working days of a month end and settlement is due by the 14th of the month. In the case of franchise revenues in Boom Battle Bar, amounts are billed every Tuesday and settlement is due by Friday each week.

Accrued income relates to our conditional right to consideration for our completed performance under the contract, primarily in respect of franchise revenues. Accounts receivable are recognised when the right to consideration becomes unconditional.

## 18. Inventories

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Branch consumables (at cost) | 323 | 24 |
| Stocks and Work in Progress | – | 438 |
| Total inventories | 323 | 462 |

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition. As items are sold, the costs of those items are drawn down from the value of inventory and recorded as an expense under costs of sale in the profit and loss for the period.

Work in progress includes the cost associated with fit-out work on sites which are subsequently sold to a franchisee and is recognised at the point of transaction. Work in progress is derecognised when an invoice is raised to a franchisee or when it is determined that it is not recoverable.

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The movement in stocks and work in progress was as follows:

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Balance brought forward | 462 | 16 |
| Utilised in the year | (2,316) | (218) |
| Acquired through acquisition | 44 | 544 |
| Purchases / const incurred | 2,133 | 120 |
| Total inventories | 323 | 462 |

### 19. Cash and cash equivalents

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Bank balances | 3,189 | 8,225 |
| Cash and cash equivalents in the statement of cash flow | 3,189 | 8,225 |

The currency profiles of the Group's cash and bank balances are as follows:

| | As at 31 December 2021 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Pounds Sterling | 2,644 | 7,202 |
| Australian Dollars | 92 | 192 |
| United States Dollars | 77 | 350 |
| Euros | 272 | 339 |
| United Arab Emirates Dirhams | 103 | 142 |
| | 3,189 | 8,225 |

### 20. Trade and other payables (current)

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Trade payables | 1,837 | 1,527 |
| Accruals | 3,657 | 2,065 |
| Deferred income | 1,438 | 1,201 |
| Loans due in < 1yr | 1,101 | 649 |
| Other taxes and social security | 957 | 605 |
| Other payables | 645 | 219 |
| | 9,635 | 6,266 |

## 21. Deferred income

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Contract liabilities (deferred income): | | |
| Balance at beginning of year | 1,692 | 592 |
| Revenue recognised in the year that was included in the deferred income balance at the beginning of the year and from balances acquired during the year | (1,002) | (229) |
| Increases due to cash received, excluding amounts recognised as revenue during the period | 686 | 614 |
| Increases on acquisition of new businesses | 109 | 754 |
| Decreased on termination of franchises | (8) | (42) |
| Translation differences | 7 | 3 |
| Transaction price allocated to the remaining performance obligations | 1,484 | 1,692 |

All of the above amounts relate to contracts with customers and include amounts which will be recognised within one year and after more than one year. The amounts on the early termination of upfront franchise fees were recognised as revenue as all performance obligations have been satisfied.

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Upfront exclusivity, legal and training fees | 550 | 859 |
| Escape room advance bookings | 135 | 356 |
| Boom Battle Bar advance bookings | 233 | 15 |
| Gift vouchers | 566 | 462 |
| | 1,484 | 1,692 |

| Upfront exclusivity, legal and training fees | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Within one year | 95 | 368 |
| After more than one year | 455 | 491 |
| | 550 | 859 |

Deferred revenues in respect of upfront exclusivity fees are expected to be recognised as revenues over the remaining lifetime of each franchise agreement. Deferred legal fees are recognised on the earlier of the date of completion of the franchise lease and the date of occupation and training fees are recognised on the date the franchise site is opened. The average remaining period of the Escape Hunt franchise agreements is approximately three years. The average remaining life on all Boom franchise leases is nine years. All other deferred revenue is expected be recognised as revenue within one year.

## 22. Provisions

The following provisions have been recognised in the period:

| | Year ended 31 Dec 2022 £'000 | Year ended 31 Dec 2021 £'000 |
|---|---|---|
| Provision for contingent consideration | 4,113 | 9,056 |
| Provision for deferred consideration | 857 | 637 |
| Dilapidations provisions | 314 | 162 |
| Provision for financial guarantee contracts | 94 | 26 |
| Other provisions | 5 | 5 |
| Total | 5,383 | 9,885 |

Provisions represent future liabilities and are recognised on an item by item basis based on the Group's best estimate of the likely committed cash outflow. £6,210k of the provision for contingent consideration at 31 December 2021 has been reversed in the year to reflect the fair value of the expected contingent consideration payable in respect of the acquisition of the Boom Battle Bar businesses in November 2021. Further details are provided below.

Movements on provisions can be illustrated as follows:

| | Contingent consideration £'000 | Deferred consideration £'000 | Dilapidations £'000 | Financial guarantee contracts £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| As at 31 December 2021 | 9,056 | 637 | 162 | 26 | 5 | 9,886 |
| Additions arising from acquisition | – | 600 | – | – | – | 600 |
| Provisions recognised | 1,267 | – | 152 | 68 | – | 1,487 |
| Fair value revaluation | (6,210) | – | – | – | – | (6,210) |
| Releases recognised | – | (380) | – | – | – | (380) |
| **As at 31 December 2022** | **4,113** | **857** | **314** | **94** | **5** | **5,383** |

The ageing of provisions can be split as follows:

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Within one year | 4,970 | 637 |
| After more than one year | 413 | 9,248 |
| | 5,383 | 9,885 |

The contingent consideration relates to an earnout payment in connection with the Boom acquisition in the prior year. The valuation is considered a level 2 valuation under IFRS 13, indicating that it is a financial liability that does not have regular market pricing, but whose value can be determined using other data values or market prices.

The value of the contingent consideration was initially estimated using a share price of 35.8p per XP Factory share, being the share price on 23rd November 2021, the date that the Acquisition of Boom Battle Bars completed, and assuming all 25,000,000 shares potentially due under the provisions of the sale agreement would be issued. The future value of the deferred consideration, which is due to be settled on completion of the audit for the group for the year ended 31 December 2022 (assumed to be 18 months after the acquisition) was calculated using a cost of capital of 13.7 per cent and an implied share price of 43.4 pence per share. The difference between the fair value at acquisition and the future was expected to be recognised as a finance charge over the 18 months between the date of acquisition and the settlement date. £1,267k was recognised in the year to 31 December 2022 (2021: £106k).

The fair value of the contingent consideration has been re-assessed based on the performance of Boom during the earnout period, which ended on 31 December 2022, approximately 94 per cent of the contingent consideration is expected to be paid. This would lead to the issue of 23,501,137 shares. The fair value of the contingent consideration has been re-calculated as at 31 December 2022 using a share price of 17.5 pence per share (the share price as at 31 December 2022) and the estimated 23,501,137 shares expected to be issued. The revised estimate of the future value of the deferred consideration, which is to be settled on completion of the audit for the group for the year ended 31 December 2022 (for the purposes of the revaluation assumed to be 18 months after the acquisition) was calculated using a cost of capital of 13.7 per cent and an implied share price of 18.5 pence per share. The difference between the revised fair value as at 31 December 2022 and the value on the expected settlement date will be recognised as a finance charge over the period between the 31 December 2022 and the settlement date.

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Fair value of contingent consideration at acquisition | 8,950 | 8,950 |
| Financing charges recognised in year to 31 December 2021 | 106 | 106 |
| Financing charges recognised during the year to 31 December 2022 | 1,267 | – |
| Fair value adjustment | (6,210) | – |
| Provision for contingent consideration as at 31 December 2022 | 4,113 | 9,056 |

Based on the revised valuation of the contingent consideration, a finance charge of £226k is expected to be charged in 2023.

Financial guarantee contracts relate to leases where the Group has signed as co-tenant or has provided a guarantee for a site operated by a franchisee.

| | 31 Dec 2022 £'000 | 31 Dec 2021 £'000 |
|---|---|---|
| Provision for financial guarantee contracts acquired | 26 | 18 |
| Additional provision in year | 68 | 8 |
| Provision at 31 December 2022 | 94 | 26 |
| Number sites for which guarantees provided | 7 | 2 |
| Average term of lease remaining (years) | 14.2 | 14.8 |
| Average annual rent (£'000) | 166 | 175 |

At the end of the reporting period, the directors of the Company have assessed the past due status of the debts under guarantee, the financial position of the debtors as well as the economic outlook of the industries in which the debtors operate. There has been no change in the estimation techniques or significant assumptions made during the reporting periods in assessing the loss allowance for these financial assets.

## 23. Share capital

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| **Issued and fully paid:** | | |
| At beginning of the year: 146,005,098 (2021: 80,369,044) Ordinary shares of 1.25 pence each | 1,825 | 1,005 |
| Issued during the year: 4,628,082 Ordinary shares | 58 | 820 |
| As at end of period / year – 150,633,180 (2021: 146,005,098) Ordinary shares of 1.25 pence each | 1,883 | 1,825 |

XP Factory Plc does not have an authorised share capital and is not required to have one.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

During the year ended 31 December 2022, the following changes in the issued share capital of the Company occurred:

- 2 February 2022 the Company issued 4,378,082 new shares at 9.0 pence per share in consideration for the conversion of the principal amount of £340,000 convertible loan notes together with £54,027 in accrued interest. The total 4,378,082 shares were admitted to trading on AIM on 2 February 2022.
- On 10 October 2022 the company issued 250,000 new shares at 1.25 pence per share to the trustees of the Company's Share Incentive Scheme ("SIP") to meet anticipated demand for Matching Shares. Details of the Company's SIP share scheme are given in note 25.

## 24. Loan notes

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| **Amounts due within one year** | | |
| Vendor loan notes | 40 | 401 |
| Rolled up interest on vendor loan notes | 5 | 3 |
| Other loans | 1,012 | 256 |
| | 1,057 | 660 |
| **Amounts due in more than one year:** | | |
| Vendor loan notes | – | 43 |
| Rolled up interest on vendor loan notes | – | 2 |
| Convertible loan notes | – | 272 |
| Rolled up interest on convertible loan notes | – | 56 |
| Other loans | 423 | 620 |
| As at end of period / year | 1,480 | 1,653 |

On 1 July 2020, the Company issued £340,000 convertible loan notes ("Convertible Notes"). The Convertible Notes were unsecured and interest rolled up at a fixed rate of 10 per cent. per annum. At the date of issue, the Company determined that £272,251 of the principal related to the debt component of the Convertible Notes with the balance of £67,749 was classified as the equity component of the Convertible Notes. This gave an effective underlying interest rate on the Notes of 13.4% per annum. The Convertible Notes carried rights to early redemption, exercisable by the Company only, but with preferential rights to early conversion, exercisable by the Noteholder.

On 4 January 2022, the Company gave notice to the Noteholder of its intention to redeem the Convertible Notes on 2 February 2022 unless the Noteholder first served a Noteholder Conversion Notice to convert the Convertible Notes. On 5 January 2022 the Noteholder served a Noteholder Conversion Notice to the Company formally electing to convert the principal amount of the Convertible Notes together with accrued interest into ordinary shares at 9.0 pence per share. £340,000 principal, together with

£54,027 of accrued interest was converted at 9.0 pence per share on 2 February 2022 resulting in the issue of 4,378,082 ordinary shares. All 4,378,082 ordinary shares were admitted to trading on AIM on 3 February 2022.

€100,000 vendor loan notes were issued on 9 March 2021 ("France Notes") as part of the consideration for the acquisition of the French and Belgian master franchise. The France Notes carry interest at 4 per cent per annum and are repayable, together with accrued interest, in two equal tranches on the first and second anniversary of issue. The France Notes are secured by means of a pledge of the shares in BGP Entertainment Belgium. The balance outstanding as at 31 December 2022 including rolled up interest, was £45k equivalent.

On 22 November 2021, the Company issued £360,000 vendor loan notes to MFT Capital Limited as part of the consideration for the acquisition of Boom Battle Bars ("Boom Notes"). The Boom Notes are unsecured and carry interest at 5 per cent per annum. During 2022, the redemption date for the Boom Notes was extended to the second anniversary of the transaction in connection with the acquisition of Boom Battle Bar Cardiff Limited. The acquisition of Boom East Limited (Boom Norwich) also utilised vendor financing, of which £67k was outstanding at 31 December 2022.

The Group has utilised asset backed fit-out finance in certain Boom locations, has a number of small bank loans in certain subsidiaries, and uses a loan facility to spread the cost of insurance over the year. The total fit-out finance outstanding as at 31 December 2022 was £693k. Bank and other loans totalled £315k.

## 25. Share option and incentive plans

***XP Factory Plc (formerly Escape Hunt Plc) Enterprise Management Incentive Plan***

On 15 July 2020, the Company established the Escape Hunt plc Enterprise Management Incentive Plan ("2020 EMI Plan"). The 2020 EMI Plan is an HMRC approved plan which allows for the issue of "qualifying options" for the purposes of Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003 ("Schedule 5"), subject to the limits specified from time to time in paragraph 7 of Schedule 5, and also for the issue of non qualifying options.

It is the Board's intention to make awards under the 2020 EMI Plan to attract and retain senior employees. The 2020 EMI Plan is available to employees whose committed time is at least 25 hours per week or 75% of his or her "working time" and who is not precluded from such participation by paragraph 28 of Schedule 5 (no material interest). The 2020 EMI Plan will expire on the 10th anniversary of its formation.

The Company has made three awards to date as set out in the table below. The options are exercisable at their relevant exercise prices and vest in three equal tranches on each of the first, second and third anniversary of the grants, subject to the employee not having left employment other than as a Good Leaver. The number of options that vest are subject to a performance condition based on the Company's share price. This will be tested on each vesting date and again between the third and fourth anniversaries of awards. If the Company's share price at testing equals the first vesting price, one third of the vested options will be exercisable. If the Company's share price at testing equals the second vesting price, 90 per cent of the vested options will be exercisable. If the Company's share price at testing equals or exceeds the third vesting price, 100% of the vested options will be exercisable. The proportion of vested options exercisable for share prices between the first and second vesting prices will scale proportionately from one third to 90 per cent. Similarly, the proportion of options exercisable for share prices between the second and third vesting prices will scale proportionately from 90 per cent to 100 per cent.

The options will all vest in the case of a takeover. If the takeover price is at or below the exercise price, no options will be exercisable. If the takeover price is greater than or equal to the second vesting price, 100 per cent of the options will be exercisable. The proportion of options exercisable between the first and second vesting prices will scale proportionately from nil to 100 per cent.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

If not exercised, the options will expire on the fifth anniversary of award. Options exercised will be settled by the issue of ordinary shares in the Company.

| Awards | #1 | #2 | #3 |
|---|---|---|---|
| Date of award | 15-Jul-20 | 18-Nov-21 | 23-Nov-21 |
| Date of expiry | 15-Jul-25 | 18-Nov-26 | 23-Nov-26 |
| Exercise price | 7.5p | 35.0p | 35.0p |
| Qualifying awards – number of shares under option | 13,333,332 | 700,001 | 533,334 |
| Non-qualifying awards – number of shares under option | 2,400,000 | 0 | 0 |
| First vesting price | 11.25p | 43.75p | 43.75p |
| Second vesting price | 18.75p | 61.25p | 61.25p |
| Third vesting price | 25.00p | 70.00p | 70.00p |
| Proportion of awards vesting at first vesting price | 33.33% | 33.33% | 33.33% |
| Proportion of awards vesting at second vesting price | 90.00% | 90.00% | 90.00% |
| Proportion of awards vesting at third vesting price | 100% | 100% | 100% |

As at 31 December 2022, 16,700,000 options were outstanding under the 2020 EMI Plan (2021: 16,966,667).

| | As at 31 December 2022 '000 | As at 31 December 2021 '000 |
|---|---|---|
| Options outstanding at the beginning of the period | 16,966 | 15,733 |
| Awards made during the year | – | 1,233 |
| Options exercised | – | – |
| Options lapsed or forfeited | (266) | – |
| Options outstanding at the end of the year | 16,700 | 16,966 |

The sum of £68,535 has been recognised as a share-based payment and charged to the profit and loss during the year (2021: £53,073). The fair value of the options granted during the period has been calculated using the Black & Scholes formula with the following key assumptions:

| Awards | #1 | #2 | #3 |
|---|---|---|---|
| Exercise price | 7.5p | 35.0p | 35.0p |
| Volatility | 34.60% | 31% | 31% |
| Share price at date of award | 7.375p | 33.50p | 32.00p |
| Option exercise date | 15-Jul-24 | 18-Nov-25 | 23-Nov-25 |
| Risk free rate | -0.05% | 1.55% | 1.55% |

The performance conditions were taking into account as follows:

The value of the options have then been adjusted to take account of the performance hurdles by assuming a lognormal distribution of share price returns, based on an expected return on the date of issue. This results in the mean expected return calculated using a lognormal distribution equaling the implied market return on the date of issue validating that the expected return relative to the volatility is proportionately correct. This was then used to calculate an implied probability of the performance hurdles being achieved within the four year window and the Black & Scholes derived option value was adjusted accordingly.

Time based vesting: It has been assumed that there is between a 90% and 95% probability of all share option holders for each award remaining in each consecutive year thereafter.

The weighted average remaining contractual life of the options outstanding at 31 December 2022 is 31.7 months (2021: 43.7 months).

An option-holder has no voting or dividend rights in the Company before the exercise of a share option.

During the year 266,667 options lapsed due to a vesting condition not being met. No adjustment has been made to the share based payment charge as a result.

***Escape Hunt Employee Share Incentive Scheme***

In January 2021, the Company established the Escape Hunt Share Incentive Plan ("SIP").

The SIP has been adopted to promote and support the principles of wider share ownership amongst all the Company's employees. The Plan is available to all eligible employees, including Escape Hunt's executive directors, and invites individuals to elect to purchase ordinary shares of 1.25p each in the Company via the SIP trustee using monthly salary deductions. Shares are be purchased monthly by the SIP trustee on behalf of the participating employees at the prevailing market price. Individual elections can be as little as £10 per month, but may not, in aggregate, exceed £1,800 per employee in any one tax year. The Ordinary Shares acquired in this manner are referred to as "Partnership Shares" and, for each Partnership Share purchased, participants are awarded one further Ordinary Share, known as a "Matching Share", at nil cost.

Matching Shares must normally be held in the SIP for a minimum holding period of 3 years and, other than in certain exceptional circumstances, will be forfeited if, during that period, the participant in question ceases employment or withdraws their corresponding Partnership Shares from the Plan.

As at 31 December 2022, 173,904 matching shares (31 December 2021, 54,073) had been awarded and were held by the trustees for release to employees pending satisfaction of their retention conditions . A charge of £12,592 (2021: £9,478) has been recognised in the accounts in respect of the Matching Shares awards.

## 26. Capital management

The Board defines capital as share capital and all components of equity.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. In particular, the Company has in the past raised equity as a means of executing its acquisition strategy and as a sound basis for operating the acquired Escape Hunt and Boom Battle Bar businesses in line with the Group's strategy. The Board of Directors will also monitor the level of dividends to ordinary shareholders.

The Company is not subject to externally imposed capital requirements.

## 27. Reserves

The share premium account arose on the Company's issue of shares and is not distributable by way of dividends.

The share-based payment reserve represents the cumulative charge for share options over the vesting period with such charges calculated at the fair value at the date of the grant.

The merger relief reserve arises from the issue of shares to by the Company in exchange for shares in Experiential Ventures Limited and is not distributable by way of dividends.

In the case of the Company's acquisition of Experiential Ventures Limited, where certain shares were acquired for cash and others on a share for share basis, then merger relief has been applied to those shares issued on a share for share basis.

The convertible loan note reserve represents the equity component of the convertible loan notes on the date of issue.

The translation reserve represents cumulative foreign exchange differences arising from the translation of the Financial Statements of foreign subsidiaries and is not distributable by way of dividends.

The capital redemption reserve has arisen following the purchase by the Company of its own shares pursuant to share buy-back agreements and comprises the amount by which the distributable profits were reduced on these transactions in accordance with the Companies Act 2006.

## 28. Related party transactions

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party in making financial and operating decisions.

During the period under review, other than those disclosed elsewhere in the financial statements there were no significant related party transactions.

## 29. Directors and key management remuneration

Details of the Directors' remuneration are set out in Note 7 above.

## 30. Financial risk management

**General objectives, policies and processes**

The overall objective of the Directors is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

The Directors review the Company's monthly reports through which they assess the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

**Categories of financial assets and liabilities**

The Company's activities are exposed to credit, market and liquidity risk. The Company's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- cash and cash equivalents;
- trade and other receivables; and
- trade and other payables;

The financial assets and financial liabilities maturing within the next 12 months approximated their fair values due to the relatively short-term maturity of the financial instruments.

The Company had no financial assets or liabilities carried at fair values. The Directors consider that the carrying amount of financial assets and liabilities approximates to their fair value.

A summary of the financial instruments held by category is provided below:

**Financial assets at amortised cost:**

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Trade receivables | 1,934 | 848 |
| Other receivables and deposits | 2,132 | 3,476 |
| Cash and cash equivalents | 3,189 | 8,225 |
| | 7,256 | 12,550 |

**Financial liabilities at amortised cost:**

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Trade payables | 1,837 | 1,527 |
| Accruals and other payables | 5,259 | 2,889 |
| Loan notes | 45 | 417 |
| Other loans | 1,435 | 1,236 |
| Deferred consideration | 857 | 637 |
| Contingent consideration | 4,113 | 9,056 |
| | 13,546 | 15,762 |

## Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis. For other financial assets (including cash and bank balances), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

Management have assessed the increase in credit risk over the last 12 months and have adjusted the carrying values of receivables where appropriate. In aggregate, Management does not consider there to have been a significant change in credit risk since initial recognition of receivables balances. Management reviews credit risk on an ongoing basis taking into account the circumstances at the time.

### *Impairment of financial assets*

As described in Note 2 above, the Group applies the "expected loss" model which focuses on the risk that a loan or receivable will default rather than whether a loss has been incurred.

The carrying amount of financial assets in the statement of financial position represents the Group's maximum exposure to credit risk, before taking into account any collateral held. The Group does not hold any collateral in respect of its financial assets.

Concentration of credit risk relating to trade receivables is limited due to the Group's many varied customers. The Group's historical experience in the collection of accounts receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond the amounts provided for collection losses is inherent in the Group's trade receivables. The ageing of trade receivables at the reporting date was as follows:

| Gross amounts (before impairment): | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Not past due | 983 | 656 |
| Past due 0-30 days | 271 | 32 |
| Past due 31-60 days | 98 | 22 |
| Past due more than 60 days | 923 | 402 |
| | 2,275 | 1,112 |

### *Impairment losses:*

The movement in the allowance for impairment losses in respect of trade receivables during the year was as follows:

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| At beginning of year | (264) | (184) |
| Impairment losses recognised | (77) | (117) |
| Bad debts written off | – | 38 |
| At end of year | (341) | (264) |

The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

The Group assesses collectability based on historical default rates expected credit losses to determine the impairment loss to be recognised. Management has reviewed the trade receivables ageing and believes that, except for certain past due receivables which are specifically assessed and impaired, no impairment loss is necessary on the remaining trade receivables due to the good track records and reputation of its customers.

During the year ended 2020 the Group recognised an impairment in full against both the capital and accrued interest potions of the loan receivable from a master franchise. Therefore as at 31 December 2022 the net balance outstanding on this loan per these financial statements is nil (2021: £nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Liquidity risk**

The ageing of financial liabilities at the reporting date was as follows:

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Not past due | 12,427 | 15,604 |
| Past due 0-30 days | 567 | 790 |
| Past due 31-60 days | 171 | 22 |
| Past due more than 60 days | 381 | 387 |
| | 13,546 | 16,803 |

As at 31 December 2022 £2,912k (2021: £7,202k) of the cash and bank balances, as detailed in Note 19 to the financial statements are held in financial institutions which are regulated and located in the UK, which management believes are of high credit quality. Management does not expect any losses arising from non-performance by these counterparties.

The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

Liquidity risk arises from the Company's management of working capital. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The principal liabilities of the Group arise in respect of trade and other payables which are all payable within 12 months. At 31 December 2022, total trade payables within one year were £1,837k (2021: £1,527k), which is considerably less than the Group's cash held at the year-end of £3,189k (2021: £8,225k). The Board receives and reviews cash flow projections on a regular basis as well as information on cash balances.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group has insignificant financial assets or liabilities that are exposed to interest rate risks.

**Foreign currency risk**

The Group has exposure to foreign currency movements on trade and other receivables, cash and cash equivalents and trade and other payables denominated in currencies other than the respective functional currencies of the Group entities. It also exposed to foreign currency risk on sales and purchases that are denominated in foreign currencies. The currencies giving rise to this risk are primarily the United States ("US") dollar, the Euro ("EUR"), Australian ("AUD") dollars, and UAE Dirham ("AED"). Currently, the Group does not hedge its foreign currency exposure. However, management monitors the exposure closely and will consider using forward exchange or option contracts to hedge significant foreign currency exposure should the need arise.

The Group's exposure to foreign currency risk expressed in Pounds was as follows:

| As at 31 December 2022 | UK Pound Sterling £'000 | United States Dollar £'000 | Euro £'000 | Australian Dollar £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Financial assets:** | | | | | | |
| Trade receivables | 1,453 | 8 | 420 | 0 | 53 | 1,934 |
| Other receivables and deposits | 2,011 | 0 | 122 | 0 | 0 | 2,132 |
| Cash and bank balances | 2,506 | 41 | 446 | 92 | 104 | 3,189 |
| | 5,970 | 49 | 987 | 92 | 157 | 7,256 |
| **Financial liabilities:** | | | | | | |
| Trade payables | 1,697 | 1 | 108 | | 31 | 1,837 |
| Other payables and accruals | 5,068 | 6 | 185 | | | 5,259 |
| Loan notes | 0 | | 45 | | | 45 |
| Other loans | 1,419 | | 16 | | | 1,435 |
| Deferred consideration | 857 | | | | | 857 |
| Contingent consideration | 4,113 | | | | | 4,113 |
| | 13,154 | 7 | 353 | – | 31 | 13,546 |
| **Foreign currency exposure (net)** | 0 | 43 | 634 | 92 | 126 | 895 |

| As at 31 December 2021 | UK Pound Sterling £'000 | United States Dollar £'000 | Euro £'000 | Australian Dollar £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Financial assets:** | | | | | | |
| Trade receivables | 647 | – | 41 | – | 160 | 848 |
| Other receivables and deposits | 3,207 | 130 | 139 | – | 1 | 3,476 |
| Cash and bank balances | 7,202 | 350 | 339 | 192 | 142 | 8,225 |
| | 11,056 | 479 | 519 | 192 | 303 | 12,550 |
| **Financial liabilities:** | | | | | | |
| Trade payables | 1,304 | 7 | 186 | – | 30 | 1,527 |
| Other payables and accruals | 3,474 | 25 | 220 | – | 211 | 3,930 |
| Loan notes | 417 | – | – | – | – | 417 |
| Other loans | 1,236 | – | – | – | – | 1,236 |
| Deferred consideration | 637 | – | – | – | – | 637 |
| Contingent consideration | 9,056 | – | – | – | – | 9,056 |
| | 16,124 | 32 | 406 | – | 241 | 16,803 |
| **Foreign currency exposure (net)** | – | 447 | (94) | 192 | (11) | 534 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

***Sensitivity analysis***

A 10% strengthening of the Pound against the following currencies at 31 December 2022 would increase/(decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | Increase/ (Decrease) £'000 2022 | Increase/ (Decrease) £'000 2021 |
|---|---|---|
| Effects on profit after taxation/equity | | |
| United States Dollar: | | |
| – strengthened by 10% | (4) | (48) |
| – weakened by 10% | 4 | 48 |
| Euro: | | |
| – strengthened by 10% | (63) | (52) |
| – weakened by 10% | 63 | 52 |
| Australian Dollar: | | |
| – strengthened by 10% | (9) | (19) |
| – weakened by 10% | 9 | 19 |

## 31. Commitments

As at 31 December 2022, the Group had capital expenditure commitments in respect of leasehold improvements totalling £36,625 (2021: £nil).

## 32. Contingencies

The Directors are not aware of any other contingencies which might impact on the Company's operations or financial position.

## 33. Government grants

The following Government grants have been recognised during the period:

| | Year ended 31 Dec 2022 £'000 | Year ended 31 Dec 2021 £'000 |
|---|---|---|
| Local authority Small Business Grants | 68 | 371 |
| R&D Claims made under the SME Scheme | – | 3,236 |
| Total | 68 | 3,607 |

In addition, the Company benefitted from Business Rates Relief introduced for the retail, hospitality and leisure industries. The benefit in the period was £458k (2021: £230k)

Other income in the year ended 31 December 2022 includes £6k not related to government grants.

## 34. Events after the reporting period

There are no significant events since the reporting date that require disclosure.

## 35. Ultimate controlling party

As at 31 December 2022, no one entity owns greater than 50% of the issued share capital. Therefore, the Company does not have an ultimate controlling party.

# COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

| | Note | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 4 | 57 | – |
| Property, plant and equipment | 5 | 22 | 17 |
| Fixed asset investments | 6 | 13,979 | 20,177 |
| Loan receivable | 7 | – | 105 |
| Deposits | | – | 26 |
| | | 14,058 | 20,325 |
| **Current assets** | | | |
| Trade and other receivables | | 137 | 323 |
| Prepayments | | 52 | 52 |
| Amounts due from subsidiaries | 8 | 17,455 | 14,311 |
| Cash at bank balances | 9 | 182 | 6,337 |
| | | 17,826 | 21,024 |
| **TOTAL ASSETS** | | 31,884 | 41,348 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 10 | (656) | (555) |
| Other provisions | 12 | (4,370) | (637) |
| Loan notes and other loans | 11 | (552) | (404) |
| **Non-current liabilities** | | | |
| Loan notes | 11 | – | (373) |
| Other provisions | 12 | – | (9,056) |
| **TOTAL LIABILITIES** | | (5,578) | (11,025) |
| **NET ASSETS** | | 26,306 | 30,324 |
| **EQUITY** | | | |
| Share capital | 13 | 1,883 | 1,825 |
| Share premium account | 14 | 44,704 | 44,365 |
| Merger relief reserve | 14 | 4,756 | 4,756 |
| Accumulated losses | 14 | (25,323) | (20,894) |
| Capital redemption reserve | 14 | 46 | 46 |
| Share-based payment reserve | 14 | 240 | 158 |
| Convertible loan note reserve | 14 | – | 68 |
| **TOTAL EQUITY** | | 26,306 | 30,324 |

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included a Profit and Loss account in these separate financial statements. The loss attributable to members of the Company for the year ended 31 December 2022 is £4,429k (2021: loss of £2,306k).

The notes on pages 107 to 119 form an integral part of these Financial Statements. The Financial Statements on pages 105 to 119 were authorised for issue by the board of Directors on 23 May 2023 and were signed on its behalf by.

**Richard Harpham**
Director

The notes on pages 107 to 119 form part of these financial statements.

# COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

| | Share Capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Convertible loan note reserve £'000 | Share based payment reserve £'000 | Merger relief reserve £'000 | Accumulated losses £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2021** | 1,006 | 27,758 | 46 | 68 | 96 | 4,756 | (18,588) | 15,142 |
| Loss for the year | – | – | – | – | – | – | (2,306) | (2,306) |
| Issue of shares | 819 | 17,819 | – | – | – | – | – | 18,638 |
| Share issue costs | – | (1,212) | – | – | – | – | – | (1,212) |
| Share based payment charge | – | – | – | – | 62 | – | – | 62 |
| Total transactions with owners | 819 | 16,607 | – | – | 62 | – | – | 17,488 |
| **At 1 January 2022** | 1,825 | 44,365 | 46 | 68 | 158 | 4,756 | (20,894) | 30,324 |
| Loss for the year | | | | | | | (4,429) | (4,429) |
| Issue of shares | 3 | – | – | – | – | – | – | 3 |
| Conversion of convertible loan note | 55 | 339 | – | (68) | – | – | – | 326 |
| Share based payment charge | – | – | – | – | 82 | – | – | 82 |
| Total transactions with owners | 58 | 339 | – | (68) | 82 | – | – | 411 |
| **At 31 December 2022** | 1,883 | 44,704 | 46 | – | 240 | 4,756 | (25,323) | 26,306 |

The notes on pages 107 to 119 form part of these financial statements

# COMPANY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

## 1. General information

The Company was incorporated in England on 17 May 2016 under the name of Dorcaster Limited with registered number 10184316 as a private company limited by shares under the Companies Act 2006. The Company was re-registered as a public company on 13 June 2016 and changed its name to Dorcaster Plc on 13 June 2016. On 8 July 2016, the Company's shares were admitted to the AIM. The financial statements are presented in sterling which is the functional currency of the company and rounded to the nearest £.

Until its acquisition of Experiential Ventures Limited on 2 May 2017, the Company was an investing company (as defined in the AIM Rules for Companies) and did not trade.

On 2 May 2017, the Company ceased to be an investing company on the completion of the acquisition of the entire issued share capital of Experiential Ventures Limited. All business has since been moved into UK base subsidiaries and Experiential Ventures Limited in the process of voluntary liquidation.

On 2 May 2017, the Company's name was changed to Escape Hunt Plc.

On 3 December 2021, the Company's name was changed to XP Factory Plc

The Company's registered office is Belmont House, Station Way, Crawley, RH10 1JA.

## 2. Accounting policies

### (a) Basis of preparation of financial statements

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS 102'), and with the Companies Act 2006.

These financial statements are prepared in UK pounds sterling, the company's functional currency, under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange of assets. Numbers are rounded to the nearest thousand. The principal accounting policies are set out below.

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included a Profit and Loss account in these separate financial statements. The loss attributable to members of the Company for the year ended 31 December 2022 is £4,429k (year ended 31 December 2021: loss of £2,306k).

The Company has taken advantage of the following disclosure exemptions in preparing these Financial Statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7: Statement of Cash Flows
- the requirements of Section 11: Financial Instruments
- The disclosure of the compensation of Key Management Personnel of the Company
- The disclosures required by Section 26 Share Based Payments in respect of Group settled share-based payments for its own separate financial statements.

The Company produces true and fair consolidated accounts which include the results of the Company.

### (b) Going concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Company relies on the performance of the Group and the ability to access and utilize cash resources within its subsidiaries. The Group plans to continue the roll out new sites under both the Escape Hunt and Boom Battle Bar brands in the UK which are expected to contribute to performance in future. The Directors have confirmed that there is no intention to restrict access by the company to the operating decisions of the rest of the group, and consequently believe that the going concern review, which looks at the group as a whole, is the appropriate for the Company.

## COMPANY STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors have assessed the Company's ability to continue in operational existence for the foreseeable future in accordance with the Financial Reporting Council's Guidance on the going concern basis of accounting and reporting on solvency and liquidity risks issued in April 2016.

The Board has prepared detailed cashflow forecasts covering a three-year period from the reporting date.

The central case is based on opening a limited number of new Escape Hunt and Boom owner operated sites in the UK in line with the Board's stated strategy. Sites are expected to take a period of time to reach maturity based on previous experience. The central case does not assume any openings other than sites for which leases have already been secured.

The Directors has also considered a 'downside' scenario. In this scenario the Directors have assessed the potential impact of a reduction in sales across the Group, delays in the opening of sites, and cost increases. In the 'downside' scenario, the Directors believe they can take mitigating actions to preserve cash. Principally the roll-out of further sites would be stopped and cost saving measures would be introduced at head office and in capital expenditure. The Group has previously made significant reductions in its head office property costs, and further cost reductions could be targeted in both people and areas such as IT, professional services and marketing. Other areas of planned capital expenditure would also be curtailed. These include planned expenditure on website and system improvements and capital expenditure at sites. Taking into account the mitigating factors, the Group believes it would have sufficient resources for its present needs.

Based on the above, the Directors consider there are reasonable grounds to believe that for a period of at least 18 months from the balance sheet date, the Group will be able to pay its debts as and when they become due and payable, as well as to fund the Group's future operating expenses. The going concern basis preparation is therefore considered to be appropriate in preparing these financial statements.

### (c) Fixed asset investments

Fixed asset investments are carried at cost less, where appropriate, any provision for impairment.

### (d) Loans to subsidiaries

Loans to subsidiaries are measured at the present value of the future cash payments discounted at a market rate of interest for a similar debt instrument unless such amounts are repayable on demand. The present value of loans that are repayable on demand is equal to the undiscounted cash amount payable reflecting the Company's right to demand immediate repayment.

### (e) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the reporting date and the gains or losses on translation are included in the profit and loss account.

### (f) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances, deposits with financial institutions and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (g) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### (h) Impairment of assets

***Financial assets***

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows taking into account credit risk. The present value of the future cash flows represents the expected value of the future cash flows discounted at the appropriate rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

***Non-financial assets***

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

**(i) Employee benefits**

***Short-term benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**(j) Income taxes**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and 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 end of the reporting period.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

**(k) Provisions**

A provision is recognised when the Company has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

## COMPANY STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2022

The Company has recognized provisions for liabilities of uncertain timing or amount including contingent and deferred consideration.

***Contingent and deferred consideration***

Contingent consideration is consideration that is payable in respect of acquisitions which is contingent on the achievement of certain performance or events after the date of acquisition. Deferred consideration is consideration payable in respect of acquisitions which is deferred, but is not dependent on any future performance or events.

The likely value of contingent consideration is estimated based on the anticipated future performance of the business acquired and a probability of the necessary performance being achieved. The expected future value of the contingent consideration is discounted from the anticipated date of payment to the present value. For cash settled contingent consideration, the discount rate is the risk free rate together with the Consumer Price index for inflation. For Equity settled contingent consideration, the future value is discounted using the Director's assessment of the company's cost of equity. The present value is recognised as a liability at the date of transaction. The implied interest is recognised over the period between the date of acquisition and anticipated date of payment of the contingent consideration.

Deferred consideration is recognised as a liability at its face value at the date of acquisition.

### (l) Leases

Assets that are held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases. Operating lease rentals are charged to profit and loss on a straight-line basis over the period of the lease.

### (m) Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Equity-settled share based payments to non-employees are measured at the fair value of services received, or if this cannot be measured, at the fair value of the equity instruments granted at the date that the Company obtains the goods or counterparty renders the service. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 25 to the consolidated financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. Where the conditions are non- vesting, the expense and equity reserve arising from share-based payment transactions is recognised in full immediately on grant.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves.

### (n) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (o) Share capital

Proceeds from issuance of ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares or options are shown in equity as a deduction from the proceeds.

### (p) Financial instruments

Financial instruments are recognised in the statements of financial position when the Company has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

A financial instrument is recognised initially at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

#### *(i) Financial liabilities*

Financial liabilities are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges. There were no financial liabilities classified under this category.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

#### *(ii) Equity instruments*

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

#### *(iii) Other financial instruments*

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

### (q) Merger relief

The issue of shares by the Company is accounted for at the fair value of the consideration received. Any excess over the nominal value of the shares issued is credited to the share premium account other than in a business combination where the consideration for shares in another company includes the issue of shares, and on completion of the transaction, the Company has secured at least a 90% equity holding in the other company. In such circumstances the credit is applied to the merger relief reserve.

In the case of the Company's acquisition of Experiential Ventures Limited, where certain shares were acquired for cash and others on a share for share basis, then merger relief has been applied to those shares issued in exchange for shares in Experiential Ventures Limited.

### (r) Government grants

Grants relating to revenue are recognised on the performance model through the consolidated statement of comprehensive income by netting off against the costs to which the grants were intended to compensate. Where the grant is not directly associated with costs incurred during the period, the grant is recognised as 'other income'. Grants relating to assets are recognised in income on a systematic

# COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

## 3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying 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 key sources of judgment that have a significant effect on the amounts recognised in the financial statements are described below.

***Impairment of fixed asset investments and amounts due from subsidiaries***

As described in Note 2 to the financial statements, fixed asset investments are stated at the lower of cost less provision for impairment. The present value of loans to subsidiaries that are repayable on demand is equal to the undiscounted cash amount payable reflecting the Company's right to demand immediate repayment.

At each reporting date fixed asset investments and loans made to subsidiaries are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss. The Directors have carried out an impairment test on the value of the loans due from subsidiaries and have concluded that no further impairment provision (2021: £Nil) is required to write down the loans to their estimated recoverable amount.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

The investments in and loans to subsidiaries are supported by the intangible assets in the subsidiaries, most notably intellectual property and franchise agreements as well as tangible fixed assets, cash and receivables.

The Company tests the receivables and intangible assets for impairment only if there are indications that these assets might be impaired. The Company considers that there are no such indications of impairment and impairment testing has not been performed. Accordingly, the Company considers that the value of investments in and loans to subsidiaries are not impaired.

***Estimation of the debt and equity components of Convertible Loan note***

Debt securities which carry an option to convert into equity accounted for as a debt component and an equity component. Management are required to estimate the split by valuing the underlying debt with reference to a similar debt instrument which has no conversion rights and / or by reference to the value of the option inherent in the conversion right. These calculations involve the estimate of a number of key components such as appropriate interest rates, the expected volatility of the company's share price, the company's future dividend policy, and the likelihood and future date of conversion. On 1 July 2020, the Company issued £340,000 convertible loan notes ("Convertible Notes"). The Convertible Notes were unsecured and interest rolled up at a fixed rate of 10 per cent. per annum. At the date of issue, the Company determined that £272,251 of the principal related to the debt component of the Convertible Notes with the balance of £67,749 was classified as the equity component of the Convertible Notes. This gave an effective underlying interest rate on the Notes of 13.4% per annum. The Convertible Notes carried rights to early redemption, exercisable by the Company only, but with preferential rights to early conversion, exercisable by the Noteholder.

On 4 January 2022, the Company gave notice to the Noteholder of its intention to redeem the Convertible Notes on 2 February 2022 unless the Noteholder first served a Noteholder Conversion Notice to convert the Convertible Notes. On 5 January 2022 the Noteholder served a Noteholder Conversion Notice to the Company formally electing to convert the principal amount of the Convertible Notes together with accrued interest into ordinary shares at 9.0 pence per share. £340,000 principal, together with £54,027.40 of accrued interest was converted at 9.0 pence per share on 2 February 2022 resulting in the issue of 4,378,082 ordinary shares. All 4,378,082 ordinary shares were admitted to trading on AIM on 3 February 2022.

***Estimation of share base payment charges***

The calculation of the annual charge in relation to share based payments requires management to estimate the fair value of the share-based payment on the date of the award. The estimates are complex and take into account a number of factors including the vesting conditions, the period of time over which the awards are recognized, the exercise price of options which are the subject of the award, the expected future volatility of the company's share price, interest rates, the expected return on the shares, and the likely future date of exercise. A new executive scheme was established during the year ended 31 December 2020 and awards have been made under the scheme in the years ended 31 December 2020 and 31 December 2021, details of which are set out in note 25 to the consolidated accounts. Management has estimated the annual charge in the year to 31 December 2022 related to the awards made to be £81,127 and recognized this charge accordingly.

***Contingent consideration***

Where acquisitions include an element of consideration which is contingent on the performance of the business acquired, an estimate is made of the amount which the Directors believe will become payable based on the anticipated performance of the business acquired and the probability of the performance requirements being met. Where these amounts are significant, the estimated total contingent consideration is discounted back to the present value at the date of acquisition using the risk free rate of interest and the consumer price inflation index at the date of acquisition for cash settled contingent consideration and the Directors' estimate of the cost of equity for equity settled contingent consideration. The discounted value is recognised as part of the consideration. The implied interest is recognised in the period between acquisition and the expected date of payment of the contingent consideration. Further details are set out in notes 3 and 22 of the consolidated financial statements.

## 4. Intangible assets

| | Customer portal £'000 |
|---|---|
| **Cost** | |
| Cost at 1 Jan 2022 | – |
| Additions | 61 |
| Cost at 31 Dec 2022 | 61 |
| **Accumulated depreciation** | |
| Accumulated depreciation at 1 Jan 2022 | – |
| Depreciation charge for the year | 4 |
| Accumulated depreciation at 31 Dec 2022 | 4 |
| **Carrying amounts** | |
| **At 31 December 2022** | 57 |
| At 31 December 2021 | – |

## 5. Property, plant and equipment

| Cost | Furniture and fittings £'000 | Office equipment £'000 | Computer equipment £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 January 2022 | 9 | 14 | 32 | 55 |
| Additions | – | – | 16 | 16 |
| At 31 December 2022 | 9 | 14 | 48 | 71 |
| Accumulated depreciation | | | | |
| At 1 January 2022 | 6 | 14 | 17 | 37 |
| Depreciation charge | 2 | – | 10 | 12 |
| At 31 December 2022 | 8 | 14 | 27 | 49 |
| Carrying amounts | | | | |
| At 31 December 2022 | 1 | – | 21 | 22 |
| At 31 December 2021 | 3 | – | 14 | 17 |

# COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

## 6. Fixed asset investments

| | As at 31 December 2022 £'000 | As at 31 December 2022 £'000 |
|---|---|---|
| Balance Brought forward | 21,177 | 117 |
| Additions | 12 | 20,060 |
| Re-measurement of contingent consideration | (6,210) | – |
| Balance at end of year | 13,979 | 20,177 |

The Company's investments comprise 100% holdings in the issued ordinary share capital of the following companies:

- Escape Hunt Group Limited
- Escape Franchises Limited
- Escape Hunt IP Limited
- Escape Hunt Innovations Limited
- Escape Hunt USA Franchises Limited
- Escape Hunt Entertainment LLC (registered in Dubai)
- BGP Escape France (registered in France)
- BGP Entertainment Belgium (registered in Belgium)
- Experiential Ventures Limited (registered in Seychelles – company in voluntary liquidation)
- Boom BB One Limited
- BBB Seven Limited
- BBB UK Trading Limited
- BBB Seventeen Limited
- BBB Franchise Limited
- BBB Thirteen Limited
- BBB Ventures Limited
- Boom BB Two Limited
- BBB Sixteen Limited
- BBB Six Limited
- BBB Eleven Limited
- BBB Fifteen Limited
- BBB Twelve Limited
- BBB Three Limited
- BBB Fourteen Limited
- Escape Hunt Ltd
- Boom Battler Bar Cardiff Ltd
- Boom East Ltd

No impairment provision has been made against the investments in subsidiaries. Note 14 to the consolidated financial statements contains further information on the Company's holdings in subsidiaries including their activities and address of registered office.

## 7. Amounts due from subsidiaries

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Gross receivable | 24,687 | 23,333 |
| Provision made in prior years | (10,005) | (10,000) |
| Balance brought forward at beginning of year | 14,312 | 13,333 |
| Reclassification from Loans to franchisees | 105 | – |
| Amounts advanced net of repayments | 3,038 | 979 |
| **Balance at end of year** | 17,455 | 14,312 |

The amounts owing from subsidiaries are unsecured, interest-free and repayable on demand. The amounts owing are to be settled in cash. The present value of amounts that are repayable on demand is equal to the undiscounted cash amount payable reflecting the Company's right to demand immediate repayment.

## 8. Loans to franchisees

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Balance brought forward | 105 | – |
| | – | 47 |
| New loans recognised | – | 105 |
| Reclassification to Amounts due from subsidiaries | (105) | (47) |
| **Balance carried forward** | – | 105 |

The loan to the Norway master franchisee is unsecured, bears interest at 5% per annum plus 2% of the franchisee's revenues. The amounts owing are to be settled in cash.

The majority of income receivable under the terms of the loan relates to interest at a fixed rate. The valuation of this loan also takes account of the expected income under the revenue share; however, the impact of this estimate is not significant to the valuation.

## 9. Cash and cash equivalents

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Bank balances | 182 | 6,337 |
| **Cash and cash equivalents** | 182 | 6,337 |

# COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

## 10. Trade and other payables

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Trade Payables | 180 | 104 |
| Accruals | 387 | 363 |
| Taxes and social security | 77 | 84 |
| Other payables | 2 | 3 |
| Amounts due to subsidiaries | 10 | 1 |
| | 656 | 555 |

The amounts owing to subsidiaries are unsecured, interest-free and repayable on demand. The amounts owing are to be settled in cash.

Accruals includes an amount for the audit of the parent financial statements for the year ended 31 December 2022 of £50k (2021: £25k).

The directors consider that the carrying amounts of amounts falling due within one year approximate to their fair values.

## 11. Loan Notes

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| **Amounts due within one year** | | |
| Loan notes and vendor loans | 402 | 401 |
| Rolled up interest on vendor loan notes | 3 | 3 |
| Other loans | 147 | – |
| | 552 | 404 |
| **Amounts due in more than one year** | | |
| Vendor loan notes | – | 43 |
| Rolled up interest on vendor loan notes | – | 2 |
| Convertible loan notes | – | 272 |
| Rolled up interest on convertible loan notes | – | 56 |
| | – | 373 |

On 1 July 2020, the Company issued £340,000 convertible loan notes ("Convertible Notes"). The Convertible Notes were unsecured and interest rolled up at a fixed rate of 10 per cent. per annum. At the date of issue, the Company determined that £272,251 of the principal related to the debt component of the Convertible Notes with the balance of £67,749 was classified as the equity component of the Convertible Notes. This gave an effective underlying interest rate on the Notes of 13.4% per annum. The Convertible Notes carried rights to early redemption, exercisable by the Company only, but with preferential rights to early conversion, exercisable by the Noteholder.

On 4 January 2022, the Company gave notice to the Noteholder of its intention to redeem the Convertible Notes on 2 February 2022 unless the Noteholder first served a Noteholder Conversion Notice to convert the Convertible Notes. On 5 January 2022 the Noteholder served a Noteholder Conversion Notice to the Company formally electing to convert the principal amount of the Convertible Notes together with accrued interest into ordinary shares at 9.0 pence per share. £340,000 principal, together with £54,027.40 of accrued interest was converted at 9.0 pence per share on 2 February 2022 resulting in the issue of 4,378,082 ordinary shares. All 4,378,082 ordinary shares were admitted to trading on AIM on 3 February 2022.

€100,000 vendor loan notes were issued on 9 March 2021 ("France Notes") as part of the consideration for the acquisition of the French and Belgian master franchise. The France Notes carry interest at 4 per cent per annum and are repayable, together with accrued interest, in two equal tranches on the first and second anniversary of issue. The France Notes are secured by means of a pledge of the shares in BGP Entertainment Belgium. The balance outstanding as at 31 December 2022 including rolled up interest, was £45k equivalent.

On 22 November 2021, the Company issued £360,000 vendor loan notes to MFT Capital Limited as part of the consideration for the acquisition of Boom Battle Bars ("Boom Notes"). The Boom Notes are unsecured and carry interest at 5 per cent per annum. During 2022, the redemption date for the Boom Notes was extended to the second anniversary of the transaction in connection with the acquisition of Boom Battle Bar Cardiff Limited.

The Company has utilised a facility which enables it to spread group insurance costs over the course of the year. The amount outstanding as at 31 December 2022 was £147k.

## 12. Provisions

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Provision for contingent consideration | 4,113 | 9,056 |
| Provision for deferred consideration | 257 | 637 |
| | 4,370 | 9,693 |

Provisions represent future liabilities and are recognised on an item by item basis based on the Group's best estimate of the likely committed cash outflow.

The contingent consideration relates to an earnout payment in connection with the Boom acquisition in the prior year. The valuation is considered a level 2 valuation under IFRS 13, indicating that it is a financial liability that does not have regular market pricing, but whose value can be determined using other data values or market prices.

The value of the contingent consideration was initially estimated using a share price of 35.8p per XP Factory share, being the share price on 23rd November 2021, the date that the Acquisition of Boom Battle Bars completed, and assuming all 25,000,000 shares potentially due under the provisions of the sale agreement would be issued. The future value of the deferred consideration, which is due to be settled on completion of the audit for the group for the year ended 31 December 2022 (assumed to be 18 months after the acquisition) was calculated using a cost of capital of 13.7 per cent and an implied share price of 43.4 pence per share. The difference between the fair value at acquisition and the future was expected to be recognised as a finance charge over the 18 months between the date of acquisition and the settlement date. £1,267k was recognised in the year to 31 December 2022 (2021: £106k).

The fair value of the contingent consideration has been re-assessed Based on the performance of Boom during the earnout period, which ended on 31 December 2022, approximately 94 per cent of the contingent consideration is expected to be paid. This would lead to the issue of 23,501,137 shares. The fair value of the contingent consideration has been re-calculated as at 31 December 2022 using a share price of 17.5 pence per share (the share price as at 31 December 2022) and the estimated 23,501,137 shares expected to be issued. The revised estimate of the future value of the deferred consideration, which is to be settled on completion of the audit for the group for the year ended 31 December 2022 (for the purposes of the revaluation assumed to be 18 months after the acquisition) was calculated using a cost of capital of 13.7 per cent and an implied share price of 18.5 pence per share. The difference between the revised fair value as at 31 December 2022 and the value on the expected settlement date will be recognised as a finance charge over the period between the 31 December 2022 and the settlement date.

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Fair value of contingent consideration at acquisition / beginning of year | 9,056 | 8,950 |
| Financing charges recognised in year to 31 December | 1,267 | 106 |
| Fair value adjustment to the cost of investment | (6,210) | – |
| **Provision for contingent consideration at the end of the year** | 4,113 | 9,056 |

# COMPANY STATEMENT OF CHANGES IN EQUITY
# FOR THE YEAR ENDED 31 DECEMBER 2022

The ageing of provisions can be split as follows:

| | As at 31 December 2022 £'000 | As at 31 December 2021 £'000 |
|---|---|---|
| Within one year | 4,370 | 637 |
| After more than one year | – | 9,056 |
| | 4,370 | 9,693 |

## 13. Share capital

Details of the Company's allotted, called-up and fully paid share capital are set out in Note 23 to the Consolidated Financial Statements.

## 14. Reserves

**Share premium account**

The share premium account arose on the Company's issue of shares and is not distributable by way of dividends.

**Share-based payment reserve**

The share-based payment reserve arises from the requirement to value share options and warrants in existence at the year end at fair value (see Note 25 to the Consolidated Financial Statements).

**Capital redemption reserve**

The capital redemption reserve has arisen following the purchase by the Company of its own shares pursuant to share buy-back agreements and comprises the amount by which the distributable profits were reduced on these transactions in accordance with the Companies Act 2006.

**Convertible loan note reserve**

The convertible loan note reserve represents the equity component of the convertible loan notes on the date of issue.

**Merger Reserve**

The merger relief reserve arises from the issue of shares to by the Company in exchange for shares in Experiential Ventures Limited and is not distributable by way of dividends.

## 15. Share based payments

Details of the Company's share options and warrants are contained in Note 25 to the Consolidated Financial Statements.

## 16. Segment information

Operating segments are identified on the basis of internal components of the Company that are regularly reviewed by the Board. Until its acquisition of Experiential Ventures Limited on 2 May 2017, the Company was an investing company (as defined in the AIM Rules for Companies) and did not trade. On the completion of the acquisition of Experiential Ventures Limited and its subsidiaries, the Company became the holding company of the Group. The Company's subsidiaries currently operate two fast growing leisure brands. Escape Hunt is a global leader in providing escape-the-room experiences delivered through a network of owner-operated sites in the UK, an international network of franchised outlets, and through digitally delivered games which can be played remotely. Boom Battle Bar is a fast-growing network of owner-operated and franchise sites in the UK that combine competitive socialising activities with themed cocktails, drinks and street food in a high energy, fun setting. Activities include a range of games such as augmented reality darts, Bavarian axe throwing, 'crazier golf', shuffleboard and others.

The Company has one segment, namely that of a parent company to its subsidiaries. Accordingly, no segmental analysis has been provided in these financial statements.

## 17. Employees

| | Year Ended 31 December 2022 £'000 | Year Ended 31 December 2021 £'000 |
|---|---|---|
| Wages and salaries and benefits (including directors) | 1,259 | 1,048 |
| Share-based payments | 81 | 52 |
| Social Security costs | 153 | 126 |
| Other post-employment benefits | – | 6 |
| Less amounts capitalised | (147) | (56) |
| Less amounts received under CJRS scheme | – | (70) |
| | 1,346 | 1,106 |

The average monthly number of employees including directors was as follows:

| | Year Ended 31 December 2022 £'000 | Year Ended 31 December 2021 £'000 |
|---|---|---|
| Management | 3 | 3 |
| Administrative | 21 | 10 |
| | 24 | 13 |

## 18. Related party transactions

The only key management personnel of the Company are the Directors. Details of their remuneration are contained in Note 7 to the Consolidated Financial Statements.

Details of amounts due between the Company and its subsidiaries are shown in Notes 7 and 10 above.

## 19. Subsequent events

There are no significant events since the reporting date that require disclosure.

## 20. Contingent Liabilities

For the financial year ended 31 December 2022, the below subsidiaries are exempt from the requirements stipulating that they be audited since they fulfil all the conditions for exemption under section 479A of the Companies Act 2006.

Escape Hunt Limited BBB
Ventures Limited
Boom BB Two Limited
BBB Three Limited
BBB Fifteen Limited
BBB Sixteen Limited
BBB Seventeen Limited

The outstanding liabilities at the balance sheet date of the above subsidiary undertakings have been guaranteed by XP Factory Plc pursuant to s479A to s479C of the Companies Act 2006. The aggregate liabilities of these subsidiaries at 31 December 2022 was £1,343.

## 21. Ultimate controlling party

As at 31 December 2022, no one entity owns greater than 50% of the issued share capital. Therefore, the Company does not have an ultimate controlling party.

# COMPANY INFORMATION

**Directors**

Richard Rose, Independent Non-Executive Chairman
Richard Harpham, Chief Executive Officer
Graham Bird, Chief Financial Officer
Martin Shuker, Non-Executive Director
Philip Shepherd, Non-Executive Director

**Company secretary**

Joanne Briscoe

**Company number**

10184316

**Registered address**

Belmont House
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Crawley
RH10 1JA

**Independent auditors**

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Acre House
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London NW1 3ER

**Nominated adviser and Broker**

Singer Capital Markets Advisory LLC
One Bartholomew Lane
London
EC2N 2AX

**Registrars**

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29 Wellington Street
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xpfactory plc

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