

Registered number: 08179391

Merkur Casino UK Limited

Annual Report and Financial Statements

For the year ended 31 December 2019

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MERKUR CASINO UK LIMITED

COMPANY INFORMATION

Directors	B Lungen S Bruns M Sellenriek
Company secretary	EMW Secretaries Limited
Registered number	08179391
Registered office	Seebeck House 1A Seebeck Place Knowlhill Milton Keynes Buckinghamshire MK5 8FR
Independent auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 30 Finsbury Square London EC2A 1AG

MERKUR CASINO UK LIMITED

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MERKUR CASINO UK LIMITED

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

The directors present their strategic report for Merkur Casino UK Limited and its subsidiaries ("the Group") for the year ended 31 December 2019.

Business review

The Group's principal activities are the provision of leisure services and entertainment facilities.

In the normal course of business the Group closed 6 unprofitable Adult Gaming Centres ("AGC's") and 1 Bingo Club. The Group opened 2 new AGC's in 2019. This has not had a material effect on the ongoing activities of the Group as a whole.

The directors are not aware, at the date of this report, of any likely major changes in the Group's principal activities in the forthcoming year.

Principal risks and uncertainties

Management continually monitor the key risks (as disclosed in the directors' report on page 4) facing the Group together with assessing the controls used for managing these risks. The board of directors formally reviews and documents the principal risks facing the business at least annually.

Further to the recent global outbreak of Coronavirus disease (COVID-19), the directors of the Group continue to assess the situation within the UK and the potential risk to the operation of the business on a daily basis. At the time of signing of these accounts, there has been no notable impact on either the Revenue or Footfall within the Group's AGCs, however a reduction in Footfall is expected in the Group's Bingo venues. The directors have taken all necessary measures as advised by the NHS, WHO and the UK government, within the venues and at head office, including promoting hygiene standards and providing facilities to enable this; and advising that any employees who are showing symptoms of the virus should remain at home.

Whether or not the Group's venues can remain open during peak times of the illness will be dependent on the staffing levels available and advice from the authorities. However, the directors do not consider there to be a threat to the overall business in the case of a forced closure (i.e. government recommended action) due to ample liquidity and working capital within the Group. The Group also has full financial support from the Parent Company – Merkur Casino GmbH.

The changing environment within the gambling and leisure industry, which has arisen as a result of government legislation, represents the principal risk to the future profitability of the Group. It is the belief of the directors that appropriate strategies have, and are being further developed, to ensure the Group is able to take advantage of favourable circumstances which may arise in the sector, or alternatively to minimise the effect of any adverse developments which could affect Group profitability.

Details of the principal risks affecting the Group are shown in the directors' report.

Financial key performance indicators

Management use a range of performance measures to monitor and manage the business. The performance measures are split into financial and non-financial key performance indicators as set out below.

Revenue for the year for continuing operations was £134.3m (2018: £122.1m continuing operations).

The operating profit before exceptional items, depreciation, amortisation and impairment for the year for continuing operations was £21.9m (2018: £11.5m).

Creditor days for the Group were 25 for the year (2018: 33 days).

MERKUR CASINO UK LIMITED

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (continued)

Financial position at the reporting date

The consolidated Statement of Financial Position shows that the Group's net assets at the year-end have decreased to £42.2m from £46.4m partly as a result of the recognition of £5.7m of exceptional costs (note 11).

Development and financial performance during the year

In 2019, the Group's directors focused on improving the profitability of the Adult Gaming Centre ('AGC') and Bingo Club estate, and put in place plans to close operations where a profit cannot be achieved.

A project to define the technical and style standards of the Group was agreed in 2018 and undertaken during 2019 (the 'Future Venues' project). A total of 29 venues had been refurbished by the end of 2019, at a total investment of £8.1m. On average, the Group has seen an increase in revenue at these venues of 15.2%.

Machine mix and content were reviewed in detail in the year, with 30% of the machine estate being replaced at an investment of £15m. This has had a positive effect on revenue in the year, with an increase in revenue of nearly 10% on the top performing machines.

The customer service offering was also reviewed at all venues during 2019, with total investment during 2018 and 2019 of £2.6m.

In April 2019, the maximum stake for Fixed Odds Betting Terminals (FOBTs) was reduced from £100 to just £2. This appears to have had a positive impact on the revenues of the Company's subsidiaries.

The directors expect that the regulatory regime surrounding customer welfare pertaining to gambling machines is expected to strengthen, but are confident that the Company's subsidiaries will implement any additional social responsibility measures required.

At the end of the year, the number of operating venues in subsidiary undertakings stood at 161, which included 5 Bingo Clubs.

This report was approved by the board on 13 March 2020 and signed on its behalf.



B Lungen
Director

MERKUR CASINO UK LIMITED

GROUP DIRECTORS REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their report and the consolidated financial statements for the year ended 31 December 2019.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 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 Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

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

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

Results and dividends

The loss for the year, after taxation, amounted to £4.2m (2018: £13.3m).

The directors do not recommend the payment of a dividend (2018: £nil).

Directors

The directors who served during the year and to the date of this report were:

B Lungen
S Bruns
M Sellenriek

Charitable and Political contributions

The Group made charitable donations in the year of £0.1m (2018: £0.1m).

During the year the Group made no political donations (2018: £nil).

MERKUR CASINO UK LIMITED

GROUP DIRECTORS REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

Regulatory risk

The current political and social environment continues to perceive the gambling industry in a concerned light and there is a risk that such negative publicity may lead to adverse changes in regulation and legislation. The Group works hard to ensure that it actively provides and promotes an environment in which customers play safely. The Group also works with stakeholders, customers and regulators to help public understanding of the gaming offers it provides, participating in trade bodies' representations to political and regulatory bodies to ensure that such stakeholders clearly understand the positive contribution that its business provides to the economy.

All staff undertake relevant training for their roles to ensure that a good understanding of the objectives of compliance and the obligations of their role is maintained.

Liquidity risk

The Group manages its cash and borrowing requirements centrally to maximise interest income and minimise interest expense, whilst ensuring that the Group has sufficient liquid resources to meet the operating needs of its business.

Interest rate risk

The Group is exposed to interest rate risk on floating rate deposits, bank overdrafts and loans.

Foreign currency risk

The Group's principal foreign currency exposures arise from transactions with its German parent, related party companies and overseas suppliers. The Group believes the materiality of these transactions do not warrant hedging of foreign currency risks.

Credit risk

The principal activities of the Group mean that cash is generated on a regular and even basis during the period and there is no assumption of credit risk.

Future Developments

In 2020, the directors will continue to focus on improving the profitability of the AGC and Bingo estate in the relevant subsidiaries. Plans will be put in place to close operations where a profit cannot be achieved. The directors are also looking at opportunities to increase the number of venues through new sites that will be identified and acquired over the next 5 years.

The future venues project will continue during 2020 with the intention of transforming all suitable venues to the new standard by the end of 2024. The transformation includes the refurbishment of the sites, the customer service offering and changes to the ambience of the venues. There are 30 venues planned for refurbishment in 2020.

During the year, the board of directors agreed a new project ('Merkur Slots') that will increase the presence of the Merkur brand on the High Street, have a positive impact on market share and establish a growth trajectory across the business. This will be a new brand for the Group, which will incorporate smaller sized venues as AGC's. Potential venues will be reviewed during 2020, with investment being made in suitable sites as leases are agreed.

The directors have secured financing for investments covering the next 5 years from both internal and external sources.

MERKUR CASINO UK LIMITED

GROUP DIRECTORS REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

Going concern

The directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future, therefore they continue to adopt the going concern basis for accounting in preparing the annual financial statements.

For further information regarding the directors' assessment of the going concern status of the Group and Company, refer to the accounting policies Note 1.4 in the financial statements.

Employee consultation

The Group routinely provides information to its employees through a variety of mediums, ensuring that information is disseminated regarding financial performance and/or matters affecting the business as a whole.

This is achieved through 1:1, departmental and regional meetings, regular business bulletins, monthly employee newsletters, and a bi-annual company magazine.

Performance targets and indicators are published each week to inform employees of financial performance to budget both weekly and cumulatively; and staff participate in incentive and bonus schemes to achieve financial targets throughout the year.

All employees are actively informed and encouraged to participate in activities relating to the organisation's corporate social responsibility agenda. During the year the Group supported the BACTA charitable trust, which allowed the Group to support more local charities, as well as four major charities including Great Ormond Street Hospital, Days of Sunshine, Teenage Cancer Trust and The Royal Marsden Cancer charity.

Employment of disabled persons

The Group's policy is to give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities. Disabled employees receive appropriate training to promote their career development within the Group. Employees who become disabled are retained in their existing posts where possible or retrained for suitable alternative posts.

Director's indemnity

The Company's Articles of Association provide, subject to UK legislation, an indemnity for directors and officers of the Company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted or alleged to have been done or omitted, by them as officers of the Company.

Appropriate directors' and officers' liability insurance cover is in place in respect of all the Group's directors.

MERKUR CASINO UK LIMITED

GROUP DIRECTORS REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

Audit exemption for subsidiaries

For the year ended 31 December 2019, the subsidiaries shown below, which are included within these consolidated financial statements, are entitled to the exemption from audit by virtue of section 479A Companies Act 2006. In accordance with section 479A of the Companies Act 2006, the members of the companies have unanimously agreed that they do not require an audit, and the carrying value of liabilities at the Statement of Financial Position date have been guaranteed by Merkur Casino UK Limited under section 479C of the Act.

Cashino Gaming (E&J) Limited
United Leisure Limited
Mayfair Acquisitionco Limited
Thomas Holdings Limited
Classic Leisure (Northern) Limited
Dolphin Gaming Limited
Praesepe Limited
William Clark (Holdings) Limited
Baleday Limited

Disclosure of information to auditor

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

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

Matters covered in the Strategic report

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and reports) Regulations 2008 certain matters which are required to be disclosed in the directors' report have been omitted as they are included in the strategic report on pages 1 and 2. These matters relate to principal risks and uncertainties and key performance indicators.

Events after the Statement of Financial Position date

There have been no significant events affecting the Group or the Company since the Statement of Financial Position date.

Auditors

Under section 487(2) of the Companies Act 2006, Grant Thornton UK LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 278 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 13 March 2020 and signed on its behalf.



B Lungen
Director

MERKUR CASINO UK LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF MERKUR CASINO UK LIMITED

Opinion

We have audited the financial statements of Merkur Casino UK Limited (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2019, which comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including 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 the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

The impact of uncertainties arising from the UK exiting the European Union on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group associated with a course of action such as Brexit.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

MERKUR CASINO UK LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF MERKUR CASINO UK LIMITED (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the directors report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report 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 has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

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 group strategic report or the directors' report.

Matters on which we are required to report by exception

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 for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 3, 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 company or to cease operations, or have no realistic alternative but to do so.

MERKUR CASINO UK LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF MERKUR CASINO UK LIMITED (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

Use of report

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

Grant Thornton UK LLP

Nicholas Watson BSc ACA

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

Date: 13 March 2020

MERKUR CASINO UK LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Continuing operations 2019 £000	Continuing operations 2018 £000	Discon'd ops 2018 £000	Total 2018 £000
Turnover	3	134,322	122,091	1,030	123,121
Cost of sales		(39,138)	(45,051)	(615)	(45,666)
Gross profit		95,184	77,040	415	77,455
Administrative expenses		(91,033)	(79,840)	-	(79,840)
Exceptional administrative expenses	11	(5,692)	(9,960)	-	(9,960)
Operating loss	4	(1,541)	(12,760)	415	(12,345)
Interest receivable and similar income	8	24	18	-	18
Interest payable and expenses	9	(2,275)	(1,756)	-	(1,756)
Loss before taxation		(3,792)	(14,498)	415	(14,083)
Tax on loss	10	(425)	795	-	795
Loss for the year		(4,217)	(13,703)	415	(13,288)
Other comprehensive income for the year		-			-
Total comprehensive income for the year		(4,217)			(13,288)
Total comprehensive income for the year attributable to:					
Owners of the parent		(4,248)			(12,924)
Non-controlling interests		31			(364)

The notes on pages 15 to 38 form part of these financial statements.

MERKUR CASINO UK LIMITED
REGISTERED NUMBER: 08179391

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 £000	2019 £000	2018 £000	2018 £000
Fixed assets					
Intangible assets	13		71,285		79,587
Tangible assets	14		<u>39,416</u>		<u>35,264</u>
			110,701		114,851
Current assets					
Stock	16	269		272	
Debtors: amounts falling due after more than one year	17	359		383	
Debtors: amounts falling due within one year	17	5,577		6,395	
Cash at bank and in hand	18	<u>15,797</u>		<u>12,192</u>	
		22,002		19,242	
Creditors: amounts falling due within one year	19	(40,914)		(33,943)	
Net current liabilities			(18,912)		(14,701)
Total assets less current liabilities			91,789		100,150
Creditors: amounts falling due after more than one year	20		(28,824)		(37,614)
Provisions for liabilities					
Deferred taxation	23	-		(4)	
Other provisions	24	<u>(20,793)</u>		<u>(16,143)</u>	
			(20,793)		(16,147)
Net assets			<u>42,172</u>		<u>46,389</u>
Capital and reserves					
Share capital	26		-		-
Other reserves	25		80,701		80,701
Profit and loss account	25		<u>(38,197)</u>		<u>(33,949)</u>
			42,504		46,752
Non-controlling interest			<u>(332)</u>		<u>(363)</u>
Equity attributable to the owners			<u>42,172</u>		<u>46,389</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 13 March 2020.


B Lünge
 Director

The notes on pages 15 to 38 form part of these financial statements.

MERKUR CASINO UK LIMITED
REGISTERED NUMBER: 08179391

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 £000	2018 £000
Fixed assets			
Investments	15	77,448	77,448
		<u>77,448</u>	<u>77,448</u>
Current assets			
Debtors: amounts falling due within one year	17	4	4
		<u>4</u>	<u>4</u>
Creditors: amounts falling due within one year	19	(1,452)	(1,452)
Net current liabilities		<u>(1,448)</u>	<u>(1,448)</u>
Total assets less current liabilities		<u>76,000</u>	<u>76,000</u>
Net assets		<u><u>76,000</u></u>	<u><u>76,000</u></u>
Capital and reserves			
Share capital	26	-	-
Other reserves	25	76,000	76,000
Total equity		<u><u>76,000</u></u>	<u><u>76,000</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 13 March 2020.


B. Langen
 Director

The notes on pages 15 to 38 form part of these financial statements.

MERKUR CASINO UK LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Non- controlling interest £000	Total equity £000
At 1 January 2019	-	80,701	(33,949)	(363)	46,389
Comprehensive loss for the year					
Loss for the year	-	-	(4,248)	31	(4,217)
Total comprehensive loss for the year	-	-	(4,248)	31	(4,217)
At 31 December 2019	-	80,701	(38,197)	(332)	42,172

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Non- controlling interest £000	Total equity £000
At 1 January 2018	-	80,701	(21,025)	1	59,677
Comprehensive loss for the year					
Loss for the year	-	-	(12,924)	(364)	(13,288)
Total comprehensive loss for the year	-	-	(12,924)	(364)	(13,288)
At 31 December 2018	-	80,701	(33,949)	(363)	46,389

The notes on pages 15 to 38 form part of these financial statements.

MERKUR CASINO UK LIMITED

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Called up share capital	Other reserves	Total equity
	£000	£000	£000
At 1 January 2018	-	76,000	76,000
Profit for the year	-	-	-
At 1 January 2019	-	76,000	76,000
Profit for the year	-	-	-
At 31 December 2019	-	76,000	76,000

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies

1.1 General information

Merkur Casino UK Limited is a limited company incorporated in England and Wales. The address of its registered office and principal place of business are disclosed in the company information.

The principal activity of the Group is the provision of leisure services and entertainment facilities.

These financial statements are presented in Sterling which is also the functional currency of the Group, rounded to the nearest £'000.

1.2 Basis of preparation of financial statements

These financial statements have been prepared under the historical costs convention and in accordance with the Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland, and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note 2).

The Company is a wholly owned subsidiary of Merkur Casino GmbH and is included in those consolidated financial statements which are publicly available. Consequently the Company has taken advantage of the exemption from preparing a cash flow statement as permitted by FRS 102 paragraph 1.12 (b).

The following principal accounting policies have been applied:

1.3 Basis of consolidation

The consolidated financial statements present the results of Merkur Casino UK Limited and its own subsidiaries (*"the Group"*) as they form a single entity. *Intercompany transactions and balances* between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Comprehensive Income from the date on which control is obtained. They are deconsolidated from the date control ceases.

1.4 Going concern

After reviewing the Company's and wider Group's budgets and forecasts for the next 12 months from the date of this report, its liquid resources and its medium term plans, the directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing these financial statements.

Notwithstanding the fact that the Group has net current liabilities, the directors have prepared the financial statements on the going concern basis. *The directors have received a letter of support from Merkur Casino GmbH confirming ongoing financial support for at least 12 months from the approval of these financial statements.*

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts and value added tax (where appropriate). The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Group has transferred the significant risks and rewards of ownership to the buyer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the transaction;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Machine income

Turnover primarily represents receipts from gaming machines, excluding value added tax (where appropriate). Machine revenue represents machine cash receipts, net of machine payouts.

Rental income

Operating lease income from properties is recognised in the statement of comprehensive income on a straight-line basis over the lease term.

1.6 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the fair value of its identifiable assets and liabilities at the date of acquisition. Goodwill is amortised on a straight-line basis to the Consolidated Statement of Comprehensive Income over its useful economic life. The estimated useful life of goodwill is 15 years.

Other intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

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

Licences	- 10 years
Lease premiums	- Period of lease
Software	- 3 to 5 years
Brands	- 10 years

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.7 Tangible fixed assets

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

The Group adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Group. The carrying amount of the replaced part is derecognised. Repairs and maintenance costs are charged to the Consolidated Statement of Comprehensive Income during the period in which they are incurred.

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

Freehold property	- 15 to 50 years
Short leasehold buildings	- Period of lease
Motor vehicles	- 4 years
Fixtures & fittings	- 3 to 10 years
Land is not depreciated.	

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

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

1.8 Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the Group. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Statement of Comprehensive Income so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease term and the useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the statement of comprehensive income over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.9 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit ('CGU') to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each Statement of Financial Position date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

1.10 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment. Where there is an indication that an investment may be impaired, the carrying value of the investment is tested for impairment. An impairment loss is recognised for the amount by which the investment's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an investment's fair value less costs to sell and value in use.

1.11 Stocks

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

At each Statement of Financial Position date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the consolidated Statement of Comprehensive Income.

1.12 Financial instruments

Financial assets and liabilities are recognised when the Group becomes party to the contractual provisions of the financial instrument. The Group holds basic financial instruments, which comprise cash and cash equivalents, trade and other receivables, trade and other payables and intercompany balances. The Group has chosen to apply the provisions of Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments in full.

Financial assets – classified as basic financial instruments

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held with banks.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.12 Financial instruments (continued)

Trade and other receivables

Trade and other receivables are initially recognised at the transaction price, including any transaction costs, and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Amounts that are receivable within one year are measured at the undiscounted amount of the cash expected to be received, net of any impairment.

At the end of each reporting period, the Group assesses whether there is objective evidence that any receivable amount may be impaired. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised immediately in the Statement of Comprehensive Income.

Trade and other payables, loans and borrowings – classified as basic financial instruments

Trade and other payables and loans and borrowings are initially measured at the transaction price, including any transaction costs, and subsequently measured at amortised cost using the effective interest method. Amounts that are payable within one year are measured at the undiscounted amount of the cash expected to be paid.

Loans with an interest rate higher or lower than the market rate of interest are measured at the present value at inception of the loan by discounting the loan cash flows over the term using the market rate of interest. The difference arising on the initial recognition of the loan is recognised in equity as a capital contribution.

1.13 Foreign currency translation

Functional and presentation currency

The Group's functional currency is Sterling.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Consolidated Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'other operating income'.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.14 Finance costs

Finance costs are charged to the Consolidated Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount.

1.15 Pensions

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

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

1.16 Interest income

Interest income is recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

1.17 Provisions

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation. The provision is discounted using the risk free rate of interest pertaining to the duration of the provision. Where a provision represents the present value of the obligation, it is not discounted.

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

1.18 Current and deferred taxation

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

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the Financial Position date in the countries where the Company and the Group operate and generate income.

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

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.18 Current and deferred taxation (continued)

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

1.19 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Group but are presented separately due to their size or incidence.

2. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 102 requires the use of judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the accounting policies, including intangible fixed assets (1.6), tangible fixed assets (1.7) and provisions (1.17).

Intangible fixed assets and tangible fixed assets

The application of the accounting policies in these areas requires the use of accounting estimates and judgments in determining the recoverable amount of cash generating units to which the goodwill, intangible assets and tangible assets are associated. The recoverable amount is the higher of the fair value less costs of disposal and value in use. Estimates of fair value less cost of disposal are performed internally by experienced senior management supported by knowledge of similar transactions and advice from external experts where appropriate. Value in use is calculated using estimated cash flows projections from financial budgets, discounted by selecting an appropriate rate.

Provisions

In calculating onerous property lease provisions, estimates are made of the discounted cash flows associated with each property and its associated operations including sub-let income together with any estimate of dilapidation obligations.

In calculating the property dilapidations provision for leases in use in the business, management have estimated a cost per square metre on which to base the future dilapidations cost. The estimate is based on prior experience of dilapidation costs incurred.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. Turnover

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

	2019 £000	2018 £000
Adult gaming centres	111,056	100,941
Bingo clubs	22,253	20,589
Rental and sundry income	1,013	452
Machine rental and servicing	-	1,139
	<u>134,322</u>	<u>123,121</u>

All turnover arose within the United Kingdom.

4. Operating loss

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

	2019 £000	2018 £000
Depreciation of tangible fixed assets: owned	7,003	5,793
Depreciation of tangible fixed assets: finance lease	2,152	290
(Impairment release) / Impairment charge re tangible fixed assets	(389)	726
Amortisation of intangible assets, including goodwill	8,259	8,290
Plant and machinery operating lease rentals	9,723	11,156
Other operating lease rentals	11,936	11,276
Defined contribution pension cost	<u>782</u>	<u>794</u>

5. Auditor's remuneration

	2019 £000	2018 £000
Fees payable to the Group's auditor for the audit of the Group's and subsidiaries annual accounts	<u>135</u>	<u>118</u>
Fees payable to the Group's auditor in respect of:		
Tax and compliance	<u>113</u>	<u>17</u>

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

6. Employees

Staff costs, including directors' remuneration, were as follows:

	2019	2018
	£000	£000
Wages and salaries	34,696	32,800
Social security costs	3,020	2,760
Cost of defined contribution scheme (note 28)	782	794
	<u>38,498</u>	<u>36,354</u>

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

	2019	2018
	Number	Number
Operations	1,597	1,666
Management and administration	97	69
	<u>1,694</u>	<u>1,735</u>

7. Directors' remuneration

	2019	2018
	£000	£000
Directors' emoluments	<u>331</u>	<u>404</u>
	<u>331</u>	<u>404</u>

During the year retirement benefits were accruing to no directors (2018: nil) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £331,000 (2018: £212,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £nil (2018: £nil).

M Sellenriek and S Bruns were not remunerated by the Group during the year (2018: £nil).

The directors of the Group are considered to be the key management personnel. Details of their remuneration can be seen above.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

8. Interest receivable and similar income

	2019 £000	2018 £000
Other interest	7	2
Bank interest	10	-
Release of interest discount	7	16
	<u>24</u>	<u>18</u>

9. Interest payable and expenses

	2019 £000	2018 £000
Loans from parent undertaking	1,718	1,737
Finance leases and hire purchase contracts	306	18
Unwinding of discount on provisions	250	-
Other interest payable	1	1
	<u>2,275</u>	<u>1,756</u>

Under FRS 102, where loans are obtained at interest rates lower than market rate, the loan must be measured on inception at the present value of future cash payments discounted at a market rate of interest of a similar financial liability.

A group loan with an interest rate of 1% per annum has been recognised at inception using the market rate of 4.22%. Consequently, additional interest of £1,067,000 has been charged to the statement of comprehensive income in the year (2018: £1,249,000). Further details are provided in Note 21 to these financial statements.

10. Taxation

	2019 £000	2018 £000
Corporation tax		
Current tax on loss for the year	829	(33)
Adjustments in respect of previous periods	-	(756)
Total current tax	<u>829</u>	<u>(789)</u>
Deferred tax		
Origination and reversal of timing differences	28	(6)
Deferred tax asset recognised in the current year	(432)	-
Total deferred tax credit	<u>(404)</u>	<u>(6)</u>
Taxation on loss on ordinary activities	<u>425</u>	<u>(795)</u>

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2018: higher than) the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are explained below:

	2019 £000	2018 £000
Loss on ordinary activities before tax	(3,792)	(14,142)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	(720)	(2,687)
Effects of:		-
Expenses not deductible for tax purposes	1,985	2,022
Capital allowances for year in excess of depreciation	(45)	81
(Utilisation) / non-utilisation of tax losses	(351)	456
Deferred tax asset recognised in the current year	(432)	-
Adjustments to tax charge in respect of prior periods	-	(756)
Other timing differences leading to a decrease in taxation	(12)	89
Total tax charge / (credit) for the year	425	(795)

Factors that may affect future tax charges

At the Financial Position date the Group had unutilised tax losses of £2.7m (2018: £5.5m) in its subsidiaries available for offset against future taxable profits generated by the Group. All of these tax losses may only be utilised in the company where they have been generated. A deferred tax asset has not been recognised in relation to any losses.

Changes in tax legislation

Under the Finance Act 2017, the rate of Corporation Tax was reduced from 19% to 17% from April 2020. Deferred tax has been calculated using 17%.

In the Budget 2020, which was published on 11 March 2020, the Government announced that plans to reduce Corporation Tax from 19% to 17% from April 2020 will not go ahead, but remain at 19%. The calculation of deferred taxation has not been updated for this change.

The impact on the value of the deferred tax asset recognised in these financial statements as a result of the change in tax rate is £47,000.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

11. Exceptional items

	2019 £000	2018 £000
Onerous lease (release) / costs	(192)	3,542
Closed unit costs	5,843	4,483
Impairment of tangible fixed assets	(389)	726
HM Revenue and Customs provision (release)/charge	(293)	450
Redundancy and reorganisation costs	-	430
Loss on disposal of fixed assets	723	329
	<u>5,692</u>	<u>9,960</u>

Impairment of Intangible fixed assets, tangible fixed assets and loss on disposal of fixed assets

During the year a review of the carrying value of all fixed assets was carried out. As a consequence of the review an impairment provisions of £nil (2018: £726,000) were recognised for tangible fixed assets whose carrying value exceeded their value in use. In 2019, the Group released £389,000 of provisions for impairment previously recognised.

Onerous lease costs

In 2018 the Group recognised a provision for loss-making venues equal to the net lease costs for 5 years, less the expected net trading income. During 2019, £192,000 of the provision was released.

Closed site costs

The closed site provision represents the leasehold costs of closed sites net of rental income where the site could be sub-let, plus other associated costs of closure.

HM Revenue and Customs costs

In 2018 the Group was the subject of an investigation by HM Revenue and Customs regarding the Group's requirement for employees to provide and pay for parts of their own uniform, and the impact of that policy on the requirement to pay the national minimum wage. A provision of £450,000 was made for the expected liability. In the current year the investigation was completed and £293,000 of the provision was released to the Statement of Comprehensive Income as the actual liability was lower than expected.

MERKUR CASINO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

12. Parent company profit for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements. The profit after tax of the parent Company for the year was £nil (2018: £nil).

13. Intangible assets**Group and Company**

	Licences £000	Software £000	Lease premiums £000	Brands £000	Goodwill £000	Total £000
Cost						
At 1 January 2019	2,101	659	282	5,500	110,204	118,746
Additions	-	3	-	-	-	3
Disposals	(63)	(95)	(10)	-	-	(168)
At 31 December 2019	2,038	567	272	5,500	110,204	118,581
Amortisation						
At 1 January 2019	1,154	382	127	1,329	36,167	39,159
Charge for the year	218	115	30	550	7,346	8,259
On disposals	(24)	(88)	(10)	-	-	(122)
At 31 December 2019	1,348	409	147	1,879	43,513	47,296
Net book value						
At 31 December 2019	690	158	125	3,621	66,691	71,285
At 31 December 2018	947	277	155	4,171	74,037	79,587

Amortisation charges and impairment charges have been recognised within administrative expenses within the Statement of Comprehensive Income.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

14. Tangible fixed assets

Group

	Freehold property £000	Short leasehold property £000	Motor Vehicles £000	Fixtures and Fittings £000	Total £000
Cost					
At 1 January 2019	5,669	2,016	46	42,468	50,199
Additions	-	-	4	13,651	13,655
Disposals	-	(267)	-	(2,556)	(2,823)
Transfers	-	43	-	(43)	-
At 31 December 2019	5,669	1,792	50	53,520	61,031
Depreciation					
At 1 January 2019	353	939	42	13,601	14,935
Charge for the year	62	343	8	8,742	9,155
On disposals	-	(251)	-	(1,835)	(2,086)
Net release of Impairment	-	-	-	(389)	(389)
Transfers	-	14	-	(14)	-
At 31 December 2019	415	1,045	50	20,105	21,615
Net book value					
At 31 December 2019	5,254	747	-	33,415	39,416
At 31 December 2018	5,316	1,077	4	28,867	35,264

The release of the Impairment provision has been recognised in exceptional costs in the Statement of Comprehensive Income.

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2019 £000	2018 £000
Fixtures & fittings	9,090	9,919

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

14. Tangible fixed assets (continued)

Fixed asset review

During the year the MCKUK group carried out a review of the carrying value of fixed assets in each Company and a physical verification of assets. As a result of the review, assets included in the financial statements which related to other group companies were transferred to the respective Companies at net book value, and assets which were either not found, or were impaired were disposed of. The provision for impairment was reduced by £389,000 (2018: increase in impairment provision of £726,000) and has been included within fixed assets.

15. Fixed asset investments

Subsidiary undertakings

The following were subsidiary undertakings of the Company

Name	Country of Incorporation	Class of shares	Holding	Principal activities
Praesepe Holdings Ltd	England & Wales	Ordinary	100%	Holding Company
Cashino Gaming Ltd	England & Wales	Ordinary	100%	Adult gaming centre operator
Baleday Ltd	England & Wales	Ordinary	100%	Group property rental
Beacon Bingo Ltd	England & Wales	Ordinary	100%	Proprietor of bingo clubs
Praesepe Ltd	England & Wales	Ordinary	100%	Holding Company
Mayfair Acquisitionco Ltd	England & Wales	Ordinary	100%	Holding Company
Cashino Gaming (E&J) Ltd	England & Wales	Ordinary	100%	Group property rental
Dolphin Gaming Ltd	England & Wales	Ordinary	100%	Dormant Company
Thomas Holdings Ltd	England & Wales	Ordinary	100%	Dormant Company
United Leisure Ltd	England & Wales	Ordinary	100%	Dormant Company
Classic Leisure (Northern) Ltd	England & Wales	Ordinary	100%	Group property rental
William Clark Limited	England & Wales	Ordinary	100%	Adult gaming centre operator
William Clark (Holdings) Ltd	England & Wales	Ordinary	100%	Holding Company
Mirage Centres Ltd	England & Wales	Ordinary	100%	Adult gaming centre operator
Praesepe Service Ltd	England & Wales	Ordinary	66%	Rental, logistics and maintenance of gaming machines

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

15. Fixed assets investments (continued)

For the year ended 31 December 2019, the subsidiaries shown below, which are included within these consolidated financial statements, are entitled to the exemption from audit by virtue of section 479A Companies Act 2006. In accordance with section 479A of the Companies Act 2006, the members of the companies have unanimously agreed that they do not require an audit, and the carrying value of liabilities at the Statement of Financial Position date have been guaranteed by MCKUK under section 479C of the Act.

Company	Registered Number
Cashino Gaming (E&J) Limited	02147788
United Leisure Limited	00971618
Mayfair Acquisitionco Limited	05716536
Thomas Holdings Limited	02908142
Classic Leisure (Northern) Limited	02581191
Dolphin Gaming Limited	00387076
Praesepe Limited	05745526
William Clark (Holdings) Limited	10232984
Baleday Limited	07443123

Company

Investments in
subsidiary
companies
£000

Cost or valuation

At 1 January 2019	77,448
At 31 December 2019	77,448

Net book value

At 31 December 2019	77,448
At 31 December 2018	77,448

16. Stocks

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Bar and catering supplies	67	73	-	-
Other stocks	202	199	-	-
	269	272	-	-

Stock recognised in cost of sales during the year as an expense was £1,515,000 (2018: £1,750,000).

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

17. Debtors

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Due after more than one year				
Other debtors	359	383	-	-
	359	383	-	-

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Due within one year				
Trade debtors	96	268	-	-
Amounts owed by related parties	125	796	-	-
Other debtors	1,042	787	4	4
Corporation tax	-	1,459	-	-
Deferred tax asset (note 23)	400	-	-	-
Prepayments and accrued income	3,914	3,085	-	-
	5,577	6,395	4	4

Other debtors include £827,000 (2018: £834,000) relating to deposits which have been made to landlords in respect of quarterly rental charges in advance. The quarterly rental liabilities are secured by a fixed charge on deposits. The deposits are repayable at the end of each respective lease, which end at various dates up to and including 2027.

The value of rent deposits which are repayable in more than 1 year is £359,000 (2018: £383,000).

18. Cash and cash equivalents

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Cash at bank and in hand	15,797	12,192	-	-
	15,797	12,192	-	-

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

19. Creditors: Amounts falling due within one year

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Loan from ultimate parent undertaking (note 21)	19,300	14,133	-	-
Trade creditors	2,619	2,699	-	-
Amounts owed to parent undertaking	424	224	-	-
Amounts owed to group undertaking	-	-	1,452	1,452
Amounts owed to related parties	671	2,247	-	-
Corporation tax	271	-	-	-
Other taxation and social security	5,077	4,665	-	-
Obligations under finance lease and hire purchase contracts	2,460	1,531	-	-
Other creditors	1,016	1,733	-	-
Accruals and deferred income	9,076	6,711	-	-
	<u>40,914</u>	<u>33,943</u>	<u>1,452</u>	<u>1,452</u>

Group

Amounts owed to the parent undertaking and related parties are non-interest bearing, and due within normal credit terms

Included in other creditors in 2018 is £500,000 of deferred consideration due to the previous owners of Town and County Leisure Limited, which was paid on 10 May 2019.

Amounts owed to group undertakings are non-interest bearing and repayable on demand.

20. Creditors: Amounts falling due after more than one year

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Loan from ultimate parent undertaking (note 21)	23,501	31,201	-	-
Net obligations under finance leases and hire purchase contracts	5,323	6,413	-	-
Deferred consideration	-	-	-	-
	<u>28,824</u>	<u>37,614</u>	<u>-</u>	<u>-</u>

The obligations under finance leases due after more than one year are split £2,606,000 (2018: £1,589,000) due between one and two years, £2,717,000 (2018: £4,206,000) due between two and five years and £nil (2018: £618,000) due after more than five years.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

21. Loans

Analysis of the maturity of loans is given below:

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Amounts falling due within one year				
Loan from ultimate parent company	19,300	14,133	-	-
	<u>19,300</u>	<u>14,133</u>	<u>-</u>	<u>-</u>
Amounts falling due 2-5 years				
Loan from ultimate parent company	23,501	26,519	-	-
Amounts falling due after more than 5 years				
Loan from ultimate parent company	-	4,182	-	-
	<u>42,801</u>	<u>44,834</u>	<u>-</u>	<u>-</u>

All loans from the ultimate parent undertaking are unsecured.

In 2017, the ultimate parent company, Merkur Casino GmbH, redenominated a long-term Euro loan into Sterling at a value of £48,027,000. The loan has an interest rate of 1%, which is at a lower interest rate than could be obtained from a third party bank in the UK.

Under FRS 102, where loans are obtained at interest rates lower than market rate, the loan must be measured at fair value, which is calculated by discounting the cash payments of the loan by the market rate of interest for a similar loan.

At inception, the fair value of the loan using a discount rate of 4.22%, which is considered to be the market rate, was £43,326,000. The difference arising on initial recognition of the loan amounting to £4,701,000 was recognised within equity as a capital contribution in the 2018 financial statements.

During the year, the Group made principal repayments of £7,200,000 (2018: £7,200,000).

Other short-term loans from the ultimate parent company, Merkur Casino GmbH, are measured at amortised cost. Interest is charged at 2% on a loan of £3,000,000, and 2.5% on a loan of £5,000,000 which were obtained in 2018. In 2019 a loan of £4,100,000 was obtained from Merkur Casino GmbH at an interest rate of 2.5%. The loans are repayable on demand, and no adjustment to the carrying value of the loans was required on inception.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

22. Financial instruments

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Financial assets that are debt instruments measured at amortised cost:				
Cash and cash equivalents	15,797	12,192	-	-
Trade receivables	96	268	-	-
Other receivables	1,536	1,479	4	4
	<u>17,429</u>	<u>13,939</u>	<u>4</u>	<u>4</u>
Financial liabilities that are debt instruments measured at amortised cost:				
Trade payables	(3,039)	(2,699)	-	-
Other payables	(14,669)	(16,076)	-	-
Loans and borrowings	(42,801)	(44,834)	-	-
	<u>(60,509)</u>	<u>(63,609)</u>	<u>-</u>	<u>-</u>

23. Deferred taxation asset / (liability)

Group

	2019 £000	2018 £000
At 1 January 2019	(4)	(10)
credited/ (charged) to the profit or loss	404	(6)
At 31 December 2019	<u>400</u>	<u>(4)</u>

A deferred tax asset of £96,000 at 17% (2018: £1,124,000) has not been recognised in the financial statements of the Group

The unprovided deferred tax asset consists of accelerated capital allowances of (£364,000) (2018: (£90,000)), trading losses of £460,000 (2018: £940,000) and other timing differences of £nil (2018: £274,000).

At 31 December 2019 a deferred taxation asset of £400,000 has been recognised and this relates to accelerated capital allowances £198,000 (2018: £4,000) and other timing differences £202,000 (2018: £nil).

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

24. Provisions

Group	Dilapidations £000	Closed site £000	Onerous lease £000	Total £000
At 1 January 2019	6,064	6,041	4,038	16,143
Charged to profit or loss	778	6,392	194	7,364
Transfers	157	999	(1,156)	-
Utilised or released in year	(126)	(1,734)	(854)	(2,714)
At 31 December 2019	6,873	11,698	2,222	20,793

Dilapidations

As part of the Group's property leasing arrangements there is an obligation to repair damages which occur during the life of the lease, such as wear and tear. The provision is based on the charge that could reasonably be expected to arise at the end of, or during, the respective lease terms and represents the accrued charge from the inception of the lease to 31 December 2019. The provision is expected to be utilised at various dates up to December 2041.

The provision is not discounted as it represents the present value of the obligation based on current estimates of the cost of repairs.

Onerous lease costs

During the year the Group recognised a provision for loss-making venues equal to the leasehold costs less the expected net trading income. A provision has been made for the net lease costs for 5 years on the basis that the loss-making sites will either be closed or become profitable within that time-frame.

The provision is discounted at 1.21% to reflect the risk free rate of interest over 5 years.

Closed site costs

Where leasehold properties become vacant, the Group provides for all costs, net of anticipated income, to the end of the lease or the anticipated days of the disposal or sublease. The provision, which is discounted at 1.21% reflecting the risk free rate of interest, is expected to be utilised at various dates up to 2032.

25. Reserves

Other reserves

Other reserves relate to a capital contributions received by the Company from Merkur Casino GmbH. On 1 October 2012, a capital contribution of £76,000,000 was received which enabled the Company to purchase the entire share capital of Praesepe Holdings Limited.

On 1 January 2018 the Group recognised a capital contribution of £4,701,000 arising on the redenomination of a long-term Euro loan into Sterling, which had been provided at an interest rate lower than the market rate of interest. Details of this transaction are provided in note 21.

Profit & loss account

The profit and loss reserve represents cumulative profits and losses.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

26. Share capital

	2019 £	2018 £
Shares classified as equity		
Allotted, called up and fully paid		
1 Ordinary share of £1	1	1

The Company has one class of ordinary shares which carry voting rights but no right to fixed income.

27. Contingent Assets

The Group has previously submitted requests for the repayment of VAT on certain gaming machines for the period January 2010 to January 2013 ("Rank II claims"). All Rank II claims have been refused by HM Revenue & Customs ("HMRC") but appeals against this decision have been lodged.

The value of Rank II claims (excluding potential interest), which have not been received from HMRC, nor recognised in these financial statements is over £16m, of which approximately £12m would be due to various previous shareholders of the Group's subsidiaries.

28. Pension commitments

The Group operates two defined contribution pension schemes into which all the employees of Group Companies contribute. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £782,000 (2018: £794,000). There were outstanding employer and employee contributions of £287,000 (2018: £221,000) at the year end.

29. Commitments under operating leases

At 31 December 2019 the Group and the Company had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2019 £000	Group 2018 £000
Not later than 1 year	9,466	9,309
Later than 1 year and not later than 5 years	28,485	26,119
Later than 5 years	27,042	16,631
	64,993	52,059

Minimum lease receipts due on sub-leases are split £245,000 (2018: £233,000) due within one year, £764,000 (2018: £475,000) due later than 1 year and not later than 5 years and £447,000 (2018: £979,000) due later than 5 years.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

30. Related party transactions

The Company is a wholly owned subsidiary of Merkur Casino GmbH and is included in the consolidated financial statements of that company. The Group has taken advantage of the exemption permitted by FRS 102 Section 33 Related Party Disclosures, from disclosing related party transactions with other wholly owned entities that are part of the Merkur Casino UK Group.

During the year the Company entered into transactions with related parties which are not a part of the MCUK group:

	Sales		Purchases	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Regal Amusement Machine Sales Limited	157	174	3	19
ADP Gauselmann UK Limited	-	-	8	21
ADP Gauselmann GmbH	-	-	383	450
Blueprint operations Limited	95	80	5,786	5,458
BEIT Systemhaus GmbH	-	-	706	301
GeWeTe Geldwechsel & Sicherheitetechnik GmbH	1	-	200	206
Merkur Casino GmbH	-	-	802	515
Merkur Casino International GmbH	-	11	260	252
Merkur Management Services Limited	394	347	110	39
Merkur Games d.o.o	14	-	30	14
Gauselmann AG	-	-	1	18
Merkur Interactive GmbH	3	-	-	-
Spielothek Immobilien GmbH	-	-	1	1
	664	612	8,290	7,294

At 31 December 2019, the following balances existed with related parties which are not part of the MCUK Group (excluding the loan from Merkur Casino GmbH, details of which are shown in note 21):

	Receivable		Liability	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Regal Amusement Machine Sales Limited	29	284	1	24
ADP Gauselmann UK Limited	-	-	33	21
ADP Gauselmann GmbH	-	5	53	22
Blueprint operations Limited	7	80	430	1,549
BEIT Systemhaus GmbH	-	-	48	97
GeWeTe Geldwechsel & Sicherheitetechnik GmbH	-	-	22	195
Merkur Casino GmbH	-	-	424	224
Merkur Casino International GmbH	7	11	54	267
Merkur Management Services Limited	82	-	5	39
Merkur Games d.o.o	-	416	-	14
Gauselmann AG	-	-	24	18
Spielothek Immobilien GmbH	-	-	1	1
	125	796	1,095	2,471

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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31. Controlling party

The immediate and ultimate parent of Merkur Casino UK Limited is Merkur Casino GmbH, a company registered in Germany.