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Merkur Casino UK Limited

Registered number: 08179391

Directors' report and financial statements

For the year ended 31 December 2017

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MERKUR CASINO UK LIMITED

COMPANY INFORMATION

Directors	N S Harding (resigned 6 July 2018) A J Hall (resigned 25 March 2017) B Lungen (appointed 6 July 2018) S Bruns (appointed 6 July 2018) 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

CONTENTS

	Page
Group Strategic Report	1 - 2
Directors' Report	3 - 6
Independent Auditor's Report	7 - 8
Consolidated Statement of Comprehensive Income	9
Consolidated Balance Sheet	10
Company Balance Sheet	11
Consolidated Statement of Changes in Equity	12
Company Statement of Changes in Equity	13
Notes to the Financial Statements	14 - 37

MERKUR CASINO UK LIMITED

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Introduction

The Directors present their strategic report for Merkur Casino UK Limited and its subsidiaries ("the Group") for the year ended 31 December 2017.

Business review

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

In January 2017 the Group acquired Mirage Centres Limited ("MCL"), a company which operates 7 Adult Gaming Centre venues. Further details of the acquisition are shown in note 27 to these financial statements.

During 2015 Praesepe On-line ceased trading, and at the end of 2017 the company was liquidated.

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 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.

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.

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 £119.8m (2016: £106.6m).

The operating profit before exceptional items, depreciation, amortisation and impairment for the year for continuing operations was £11.9m (2016: £11.5m).

Creditor days for the Group were 35 for the year (2016: 24 days).

Financial position at the reporting date

The consolidated balance sheet shows that the Group's net assets at the year-end have decreased to £55m from £65.5m partly due to the provision of £4.8m for property dilapidations, and the cost of asset impairments and losses of £1.5m.

MERKUR CASINO UK LIMITED

GROUP STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2017

Development and financial performance during the year

The Group were well placed to capitalise on the increased investment activity over the last four years. The UK economy and consumer spending continued to improve and the substantial investment in the Ticket in Ticket out (TITO) technology and a new Machines and Administration Reporting System (MARS) in the venues of its subsidiaries has been well received. TITO and MARS roll-outs which started in the previous financial year were completed during 2017.

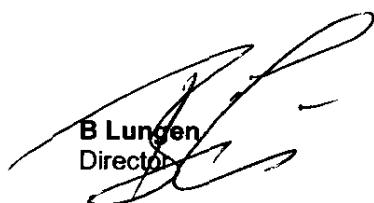
TITO provides a much cleaner and better customer service, and combined with MARS, will enable us to focus machines and people in the right place at the right time.

At the start of the year 7 arcades were acquired, based mainly in the Midlands region. The sites have been re-branded and new machines installed to bring them in line with the Cashino standards.

The Group ended the year with 178 venues, including 171 Cashino arcades and 7 Bingo Clubs.

Operations continue to be reviewed, with non-profitable venues being closed, and opening hours extended or reduced where appropriate.

This report was approved by the board on 10 August 2018 and signed on its behalf.



B Lungen
Director

MERKUR CASINO UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

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 £10.4m (from continuing operations 2016: £4.0m).

The directors do not recommend the payment of a dividend (2016: £nil).

Directors

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

N S Harding	(resigned 6 July 2018)
A J Hall	(resigned 25 March 2017)
M Sellenriek	
S Bruns	(appointed 6 July 2018)
B Lungen	(appointed 6 July 2018)

Charitable and political donations and expenditure

The Group made charitable donations in the year of £0.2m (2016: £0.2m).

During the year the Group made no political donations (2016: £nil).

MERKUR CASINO UK LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

Future developments

During the forthcoming year the Group intends to focus on improving the profitability of the AGC and Bingo estate, and put in place plans to close operations where a profit cannot be achieved.

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. 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.

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, a bi-annual company magazine and an internal platform allowing open exchange of comments, news, ideas and suggestions via a cloud based website 'Think Tank'.

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 which includes the on-going support of the gaming industry's charity CHIPs (Children's Happiness Involves People) to which the Group has contributed over £0.5m in the past few years by way of local and national fundraising activities and charitable donations.

MERKUR CASINO UK LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

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 Company's directors.

Audit exemption for subsidiaries

For the year ended 31 December 2017, 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 balance sheet 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.

Post balance sheet events

On 18th May 2018, following a review by the Gambling Commission on the maximum stake for Fixed Odds Betting Terminals (FOBTs), the Government announced that it will cut the maximum stake for FOBTs from £100 to just £2. This change, which is expected to come into force during 2020, does not directly impact on the revenues of the Group.

On 19th July 2018, Praesepe Service Limited (formerly Merkur Engineering Limited) ("PSL") sold part of its trade to a related party, Regal Amusement Machine Sales Limited for consideration of £12,000. After the transaction PSL only retained the trade with companies within the MCKU Group.

MERKUR CASINO UK LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

Going concern

The Directors have a reasonable expectation that the 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 Company, refer to the accounting policies Note 1.4 in the financial statements.

Auditors

Mazars LLP resigned as auditor during 2017 and Grant Thornton UK LLP were subsequently appointed as auditor. Grant Thornton UK LLP will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 10 August 2018 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 2017 which comprise the consolidated statement of comprehensive income, the consolidated and company balance sheets, 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 2017 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 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.

Who we are reporting to

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.

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 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.

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.

MERKUR CASINO UK LIMITED

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

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

Auditor's responsibilities for the audit of the financial statements

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

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



Nicholas Watson BSc ACA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

Date: 10th August 2018.

MERKUR CASINO UK LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

		Continuing operations 2017 £000	Discon'd ops 2017 £000	Total 2017 £000	As Restated Continuing operations 2016 £000	Discon'd ops 2016 £000	Total 2016 £000
	Note						
Turnover	3	119,794	-	119,794	105,583	1,003	106,586
Cost of sales		(45,131)	-	(45,131)	(37,613)	(393)	(38,006)
Gross profit		74,663	-	74,663	67,970	610	68,580
Administrative expenses		(77,479)	-	(77,479)	(68,569)	(577)	(69,146)
Exceptional administrative expenses	11	(6,600)	-	(6,600)	(1,454)	-	(1,454)
Operating (loss) / profit	4	(9,416)	-	(9,416)	(2,053)	33	(2,020)
Interest receivable and similar income	8	194	-	194	13	-	13
Interest payable and expenses	9	(579)	-	(579)	(1,821)	-	(1,821)
(Loss)/profit before taxation		(9,801)	-	(9,801)	(3,861)	33	(3,828)
Tax on (loss)/profit	10	(654)	-	(654)	(180)	-	(180)
(Loss)/profit for the year		(10,455)	-	(10,455)	(4,041)	33	(4,008)
Other comprehensive income				-			-
Total comprehensive income for the year				(10,455)			(4,008)
Total comprehensive income for the year attributable to:							
Owners of the parent				(10,425)			(4,039)
Non-controlling interests				(30)			31

The notes on pages 14 to 37 form part of these financial statements.

MERKUR CASINO UK LIMITED
REGISTERED NUMBER: 08179391

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 £000	2017 £000	As restated 2016 £000	2016 £000
Fixed assets					
Intangible assets	13		88,047		87,478
Tangible assets	14		<u>27,522</u>		<u>25,027</u>
			115,569		112,505
Current assets					
Stock	16	508		333	
Debtors: amounts falling due after more than one year	17	786		1,275	
Debtors: amounts falling due within one year	17	6,696		7,673	
Cash at bank and in hand	18	<u>10,034</u>		<u>8,523</u>	
		18,024		17,804	
Creditors: amounts falling due within one year	19	(29,461)		(21,561)	
Net current liabilities			(11,437)		(3,757)
Total assets less current liabilities			<u>104,132</u>		<u>108,748</u>
Creditors: amounts falling due after more than one year	20		(40,727)		(39,670)
Provisions for liabilities					
Deferred taxation	23	(10)		(83)	
Other provisions	24	<u>(8,360)</u>		<u>(3,505)</u>	
			(8,370)		(3,588)
Net assets			<u>55,035</u>		<u>65,490</u>
Capital and reserves					
Other reserves	25		76,000		76,000
Profit and loss account	25		<u>(20,966)</u>		<u>(10,541)</u>
			55,034		66,459
Non-controlling interest			<u>1</u>		<u>31</u>
Equity attributable to the owners			<u>55,035</u>		<u>65,490</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 10 August 2018.


B Lungen
 Director

The notes on pages 14 to 37 form part of these financial statements.

MERKUR CASINO UK LIMITED
REGISTERED NUMBER: 08179391

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 £000	2016 £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>76,000</u>	<u>76,000</u>
Capital and reserves			
Other reserves	25	76,000	76,000
Total equity		<u>76,000</u>	<u>76,000</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 10 August 2018.

B Lungen
 Director

The notes on pages 14 to 37 form part of these financial statements.

MERKUR CASINO UK LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital	Other reserves	Profit and loss account	Non- controlling interest	Total equity
	£000	£000	£000	£000	£000
At 1 January 2017 – as restated	-	76,000	(10,541)	31	65,490
Comprehensive income for the year					
Loss for the year	-	-	(10,425)	(30)	(10,455)
Total comprehensive income for the year	-	-	(10,425)	(30)	(10,455)
At 31 December 2017	-	76,000	(20,966)	1	55,035

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Called up share capital	Other reserves	Profit and loss account	Non- controlling interest	Total equity
	£000	£000	£000	£000	£000
At 1 January 2016	-	76,000	(6,502)	-	69,498
Comprehensive income for the year					
(Loss)/profit for the year – as restated	-	-	(4,039)	31	(4,008)
Total comprehensive income for the year	-	-	(4,039)	31	(4,008)
At 31 December 2016 – as restated	-	76,000	(10,541)	31	65,490

The notes on pages 14 to 37 form part of these financial statements.

MERKUR CASINO UK LIMITED

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital	Other reserves	Total equity
	£000	£000	£000
At 1 January 2016	-	76,000	76,000
Profit for the year	-	-	-
At 1 January 2017	-	76,000	76,000
Profit for the year	-	-	-
At 31 December 2017	-	76,000	76,000

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 thousand.

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 Casino Merkur Spielothek 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 Balance Sheet, 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 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 Company has net current liabilities and net liabilities, the directors have prepared the financial statements on the going concern basis. The directors have received a letter of support from Casino Merkur Spielothek 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 2017

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 2017

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 balance sheet 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 Operating leases: lessee

Rentals paid under operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the period of the lease.

1.9 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each balance sheet 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 balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

1.10 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

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 balance sheet 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

(i) Cash and cash equivalents

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

(ii) 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.

(iii) Trade and other payables and loans and borrowings

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.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

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'.

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 Balance Sheet. 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.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

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.

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 Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

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 balance sheet 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 Balance Sheet date, except that:

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

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

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.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 asset

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.

3. Turnover

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

	2017 £000	2016 £000
Adult gaming centres	96,399	81,867
Bingo clubs	20,255	22,426
Online gaming	-	20
Rental and sundry income	633	416
Machine rental and servicing	2,507	1,857
	<u>119,794</u>	<u>106,586</u>

All turnover arose within the United Kingdom.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

4. Operating loss

The operating loss is stated after charging:

	2017 £000	2016 £000
Depreciation of tangible fixed assets: owned	5,929	4,409
Depreciation of tangible fixed assets: finance lease	444	501
Impairment of tangible fixed assets	740	1,021
Amortisation of intangible assets, including goodwill	8,278	6,144
Impairment of intangible assets	233	16
Plant and machinery operating lease rentals	11,301	8,764
Other operating lease rentals	12,116	10,894
Defined contribution pension cost	<u>753</u>	<u>603</u>

5. Auditor's remuneration

	2017 £000	2016 £000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	112	96
Fees payable to the Group's auditor in respect of:		
Services relating to taxation	12	22
Services relating to due diligence	<u>-</u>	<u>90</u>

The prior year audit and non-audit fees were paid to the previous auditors.

6. Employees

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

	2017 £000	2016 £000
Wages and salaries	31,906	28,853
Social security costs	2,541	1,908
Cost of defined contribution scheme	<u>753</u>	<u>602</u>
	<u>35,200</u>	<u>31,363</u>

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

	2017 Number	2016 Number
Operations	1,341	1,205
Management and administration	<u>67</u>	<u>88</u>
	<u>1,408</u>	<u>1,293</u>

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

7. Directors' remuneration

	2017 £000	2016 £000
Directors' emoluments	816	786
Company contributions to defined contribution pension schemes	-	5
	<u>816</u>	<u>791</u>

During the year retirement benefits were accruing to no directors (2016: 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £490,000 (2016: £507,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £nil (2016: £5,000).

M Sellenriek, B Lungen and S Bruns were not remunerated by the Group during the year (2016: £Nil).

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

10. Taxation

	2017 £000	2016 £000
Corporation tax		
Current tax on loss for the year	844	180
Adjustments in respect of previous periods	(119)	-
Total current tax	<u>725</u>	<u>180</u>
Deferred tax		
Origination and reversal of timing differences	(33)	-
Adjustments in respect of previous periods	(38)	-
Total deferred tax	<u>(71)</u>	<u>-</u>
Taxation on loss on ordinary activities	<u>654</u>	<u>180</u>

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2016: higher than) the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%). The differences are explained below:

	2017 £000	2016 £000
Loss on ordinary activities before tax	(9,801)	(3,828)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	(1,887)	(765)
Effects of:		-
Expenses not deductible for tax purposes	3,000	1,673
Capital allowances for year in excess of depreciation	(82)	(150)
Utilisation of tax losses	(35)	(394)
Adjustments to tax charge in respect of prior periods	(157)	-
Other timing differences leading to an decrease in taxation	(185)	(184)
Total tax charge for the year	654	180

Factors that may affect future tax charges

At the balance sheet date the Group had unutilised tax losses of £3.1m (2016: £3.0m) in its subsidiaries available for offset against future taxable profits generated by the Group. 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 these losses.

Changes in tax legislation

Under the Finance Act 2016 the rate of Corporation tax has been reduced from 19% to 17% from 1 April 2020. The rate used to calculate deferred tax has been updated to reflect this change.

11. Exceptional items

	2017 £000	2016 £000
Dilapidation provisions	4,795	-
Closed unit costs	329	1,164
Impairment of tangible fixed assets	740	-
Impairment of intangible fixed assets	232	-
Redundancy and reorganisation costs	-	113
Loss on disposal of fixed assets	504	177
	6,600	1,454

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

11. Exceptional items (continued)

Dilapidation costs

During the year the Group recognised provisions for property dilapidations based on the charge that could reasonably be expected to arise at the end of, or during, the respective lease terms. The provision represents the accrued charge from the inception of the lease to 31 December 2017. A review of the dilapidations provision at the end of the year resulted in an exceptional charge of £4,795,000 being recognised in administrative expenses.

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, tangible fixed assets with a carrying value of £504,000 were disposed of, and further impairment provisions of £740,000 and £232,000 were recognised for tangible fixed assets and intangible fixed assets respectively, for assets whose carrying value exceeded their value in use.

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 (2016: £nil).

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

13. Intangible assets

Group and Company

	Licences £000	Software £000	Lease premiums £000	Brands £000	Goodwill £000	Total £000
Cost						
At 1 January 2017	2,148	724	282	5,500	101,519	110,173
Additions	84	231	-	-	-	315
Disposals	(85)	(285)	-	-	-	(370)
On acquisition of subsidiary	70	-	-	-	8,911	8,981
Transfers to tangible fixed assets	(16)	(25)	-	-	-	(41)
At 31 December 2017	2,201	645	282	5,500	110,430	119,058
Amortisation						
At 1 January 2017	586	297	63	229	21,520	22,695
Charge for the year	242	129	32	550	7,325	8,278
On disposals	(43)	(133)	-	-	-	(176)
Impairment	233	-	-	-	-	233
Transfers to tangible fixed assets	(16)	(3)	-	-	-	(19)
At 31 December 2017	1,002	290	95	779	28,845	31,011
Net book value						
At 31 December 2017	1,199	355	187	4,721	81,585	88,047
At 31 December 2016	1,562	427	219	5,271	79,999	87,478

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 2017

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 2017	5,669	1,668	82	23,321	30,740
Additions	-	189	18	9,609	9,816
Disposals	-	(13)	(19)	(1,848)	(1,880)
On acquisition of subsidiary	-	149	-	136	285
Transfers	-	(45)	-	86	41
At 31 December 2017	5,669	1,948	81	31,304	39,002
Depreciation					
At 1 January 2017	185	318	16	5,194	5,713
Charge for the year	63	438	50	5,822	6,373
On disposals	-	(3)	(11)	(1,351)	(1,365)
Impairment	-	-	-	740	740
Transfers	-	-	-	19	19
At 31 December 2017	248	753	55	10,424	11,480
Net book value					
At 31 December 2017	5,421	1,195	26	20,880	27,522
At 31 December 2016	5,484	1,350	66	18,127	25,027

Impairment charges have been recognised in administrative expenses 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:

	2017 £000	2016 £000
Fixtures & fittings	606	1,050

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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. A provision for impairment of £740,000 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
Merkur Engineering 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 2017

15. Fixed assets investments (continued)

For the year ended 31 December 2017, 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 balance sheet 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

Praesepe Online Limited, a company registered in the Isle of Man, was liquidated in December 2017.

Company

Investments in subsidiary companies £000

Cost or valuation

At 1 January 2017	77,448
At 31 December 2017	77,448

Net book value

At 31 December 2017	77,448
At 31 December 2016	77,448

16. Stocks

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Bar and catering supplies	97	104	-	-
Other stocks	411	229	-	-
	508	333	-	-

Stock recognised in cost of sales during the year as an expense was £1,711,000 (2016: £1,723,000).

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

17. Debtors

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Due after more than one year				
Amounts owed by related parties	250	750	-	-
Other debtors	536	525	-	-
	<u>786</u>	<u>1,275</u>	<u>-</u>	<u>-</u>

At the Statement of Financial Position date £250,000 is owed by Regal Amusement Machine Sales Limited, a related party due to common control. This is due on 10 May 2019.

This amount has not been discounted as the time value of money is not deemed material.

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Due within one year				
Trade debtors	1,617	781	-	-
Amounts owed by related parties	1,063	773	-	-
Other debtors	384	1,186	4	4
Prepayments and accrued income	3,632	4,933	-	-
	<u>6,696</u>	<u>7,673</u>	<u>4</u>	<u>4</u>

Other debtors include £273,000 (2016: £882,000) 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 deposits which are repayable in more than 1 year is £536,000 (2016: £525,000).

18. Cash and cash equivalents

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Cash at bank and in hand	10,034	8,523	-	-
	<u>10,034</u>	<u>8,523</u>	<u>-</u>	<u>-</u>

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

19. Creditors: Amounts falling due within one year

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Loan from ultimate parent undertaking	10,800	6,010	-	-
Trade creditors	4,264	3,119	-	-
Amounts owed to parent undertaking	401	-	-	-
Amounts owed to group undertaking	-	-	1,452	1,452
Amounts owed to related parties	1,531	691	-	-
Corporation tax	695	15	-	-
Other taxation and social security	4,593	1,280	-	-
Obligations under finance lease and hire purchase contracts	150	271	-	-
Other creditors	1,556	6,558	-	-
Accruals and deferred income	5,471	3,617	-	-
	<u>29,461</u>	<u>21,561</u>	<u>1,452</u>	<u>1,452</u>

Included in other creditors is £1,000,000 of deferred consideration due to the previous owners of Town and County Leisure Limited and is due for payment on 10 May 2018.

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

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Loan from ultimate parent undertaking	40,227	38,026	-	-
Net obligations under finance leases and hire purchase contracts	-	144	-	-
Deferred consideration	500	1,500	-	-
	<u>40,727</u>	<u>39,670</u>	<u>-</u>	<u>-</u>

The obligations under finance leases due after more than one year are split £nil (2016: £139,000) due between one and two years and £nil (2016: £5,000) due between two and five years.

The deferred consideration is due to the previous owners of Town and County Leisure Limited, and is payable on 10 May 2019. This amount has not been discounted as the time value of money is not deemed material.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

21. Loans

Analysis of the maturity of loans is given below:

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Amounts falling due within one year				
Loan from ultimate parent company	10,800	6,010	-	-
	<u>10,800</u>	<u>6,010</u>	<u>-</u>	<u>-</u>
Amounts falling due 2-5 years				
Loan from ultimate parent company	28,800	18,026	-	-
Amounts falling due after more than 5 years				
Loan from ultimate parent company	11,427	20,000	-	-
	<u>51,027</u>	<u>44,036</u>	<u>-</u>	<u>-</u>

Loans from the ultimate parent undertaking are unsecured at an interest rate of 1% per annum on £48,027,000 and 2% per annum on £3,000,000 (note 31).

22. Financial instruments

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Financial assets that are debt instruments measured at amortised cost:				
Cash and Cash equivalents	10,034	8,523	-	-
Trade receivables	1,617	781	-	-
Other receivables	2,194	4,548	4	4
	<u>13,677</u>	<u>13,852</u>	<u>4</u>	<u>4</u>
Financial liabilities that are debt instruments measured at amortised cost:				
Trade payables	(4,264)	(3,119)	-	-
Other payables	(6,436)	(14,084)	-	-
Loans and borrowings	(51,177)	(44,323)	-	-
	<u>(61,709)</u>	<u>(61,526)</u>	<u>-</u>	<u>-</u>

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

23. Deferred taxation

Group

	2017 £000	2016 £000
At 1 January 2017	(83)	(20)
Credited to the profit or loss	71	-
Arising on business combinations	2	(63)
Utilised in year	-	-
	<u>(10)</u>	<u>(83)</u>

At 31 December 2016

A deferred tax asset of £307,000 at 17% (2016: £1,159,000 at 18%) has not been recognised in the financial statements of the Group due to the uncertainty surrounding the timing of the reversal of the temporary differences.

The unprovided deferred tax asset consists of accelerated capital allowances of £519,000 (2016: £135,000), trading losses of £522,000 (2016: £531,000) and other timing differences of £734,000 (2016: £439,000).

The provision for deferred taxation is made up as follows:

	Group 2017 £000	Group 2016 £000
Accelerated capital allowances	<u>(10)</u>	<u>(83)</u>
	<u>(10)</u>	<u>(83)</u>

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

24. Provisions

Group	Dilapidations £000	Other Property provisions £000	Bingo Duty £000	Total £000
At 1 January 2017	88	3,371	46	3505
Charged to profit or loss	5,458	386	(46)	5,798
Utilised in year	(13)	(930)	-	(943)
At 31 December 2017	5,533	2,827	-	8,360

Dilapidations

During the year a provision for the repair of leasehold properties was recognised. The provision is based on the charge that could reasonably be expected to arise at the end of, or during, the respective lease terms. The provision represents the accrued charge from the inception of the lease to 31 December 2017. The provision is expected to be utilised at various dates up to December 2041.

Other property provisions

A provision has been recognised in the financial statements in relation to property costs relating to onerous leasehold costs, predominantly for closed sites. The provision is discounted at 3% and is expected to be utilised at various dates up to 2027.

Bingo Duty

During 2016, the Company settled the dispute with HMRC regarding the liability of certain revenue to Bingo Duty. The assessment which had previously been raised was appealed by the Company and upheld by the Upper Tribunal. The Company paid £239,000 in 2016 to settle the assessment and cover the associated professional fees. The remaining provision of £46,000 was released in 2017.

25. Reserves

Other reserves

Other reserves relate to a capital contribution received by the Company from Casino Merkur Spielothek GmbH on 1 October 2012 which enabled the Company to purchase the entire share capital of Praesepe Holdings Limited.

Profit & loss account

The profit and loss reserve represents cumulative profits and losses.

26. Share capital

	2017 £	2016 £
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.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

27. Business combinations

Acquisition of Mirage Centres Limited

On 21 January 2017, the Group acquired 100% of the issued share capital of Mirage Centres limited, a 7 venue Company whose principal activity is the operation of Adult Gaming Centres within the leisure and entertainment industry, comprising £9,229,000 in cash (including fees).

The acquisition of Mirage Centres Limited has been accounted for under the acquisition method.

The following table sets out the fair value of the identifiable assets and liabilities acquired:

	Book value	Fair value adjustment	Fair value
	£000	£000	£000
Fixed assets			
Intangible – licences	-	70	70
Tangible	500	(215)	285
	500	(145)	355
Current assets			
Debtors	68	(7)	61
Cash at bank and in hand	143	-	143
Total assets	711	(152)	559
Creditors			
Due within one year	(310)	(43)	(353)
Deferred tax difference between fair value and tax base			
Fair value of net assets	401	(195)	206
Goodwill			9,023
Total purchase consideration including fees			9,229
Purchase consideration settled in cash, as above			9,229
Cash and cash equivalent in subsidiary acquired			(143)
Cash outflow on acquisition			9,086

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

27. Business combinations (continued)

The results of Mirage Centres Limited since its acquisition are as follows:

	2017 £000
Turnover	3,105
	<u>3,105</u>
Profit before taxation	89
	<u>89</u>

Acquisition of William Clark (Holdings) Limited in prior year

On 21 July 2016, the Group acquired 100% of the issued share capital of William Clark (Holdings) Limited, and its subsidiary William Clark Limited, and the acquisition was accounted for under the acquisition method in the financial statements for 2016.

On the first anniversary of the acquisition, the fair value of the assets acquired and the purchase consideration including fees was reviewed, and as a consequence goodwill was reduced by £112,000.

The following table sets out the original and revised identifiable assets and liabilities acquired.

	Book value £000	Original Fair value adj. £000	Fair value £000	Book value £000	Revised Fair value adj. £000	Fair value £000
Fixed assets						
Intangible – tanning brand	-	5,500	5,500	-	5,500	5,500
Intangible – licences	-	250	250	-	250	250
Tangible	2,733	(736)	1,997	2,733	(649)	2,084
	<u>2,733</u>	<u>5,014</u>	<u>7,747</u>	<u>2,733</u>	<u>5,101</u>	<u>7,834</u>
Current assets						
Stock	29	-	29	29	-	29
Debtors	346	-	346	346	-	346
Cash at bank and in hand	1,493	-	1,493	1,493	-	1,493
Total assets	<u>4,601</u>	<u>5,014</u>	<u>9,615</u>	<u>4,601</u>	<u>5,101</u>	<u>9,702</u>
Creditors						
Due within one year	(1,279)	(64)	(1,343)	(1,279)	(67)	(1,346)
Deferred tax on differences between fair value and tax bases	(63)	-	(63)	(63)	5	(58)
Fair value of net assets	<u>3,259</u>	<u>4,950</u>	<u>8,209</u>	<u>3,259</u>	<u>5,039</u>	<u>8,298</u>
Goodwill			27,078			26,966
Total purchase consideration including fees			<u>35,287</u>			<u>35,264</u>
Reduction to goodwill included within 2017 additions						<u>(112)</u>

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

28. Contingent Liabilities

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.

29. 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 £753,000 (2016: £602,000). There were outstanding employer and employee contributions of £215,000 (2016: £179,000) at the year end.

30. Commitments under operating leases

At 31 December 2017 the Group and the Company had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2017 £000	Group 2016 £000
Not later than 1 year	10,394	9,535
Later than 1 year and not later than 5 years	31,527	31,892
Later than 5 years	19,881	24,781
	65,025	66,208

Minimum lease receipts due are split £177,000 (2016: £177,000) due within one year, £592,000 (2016: £677,000) due later than 1 year and not later than 5 years and £537,000 (2016: £646,000) due later than 5 years.

MERKUR CASINO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

31. Related party transactions

The Company is a wholly owned subsidiary of Casino Merkur Spielothek GmbH ("CMS"), and is included in the consolidated financial statements of that company. The Company has taken advantage of the exemption permitted by Section 33 *Related Party Disclosures*, from disclosing related party transactions with wholly owned entities that are part of the Merkur Casino UK group.

As at 31 December 2016 £44,036,000 was owed to Casino Merkur Spielothek GmbH ("CMS"), the parent company of Merkur Casino UK Limited. This consisted of a Euro loan of 10,554,264 and sterling loans of £35,000,000. During the year repayments of 2,931,740 euros and £2,500,000 respectively were made.

In January 2017 a Sterling loan of £9,600,000 was obtained. Repayments of £800,000 were made against this loan during the year.

On 15 December, the outstanding euro loan of 7,622,524 was converted into a sterling loan of £6,727,106, crystallising a loss on translation of £278,000; and the outstanding balances on all sterling loans with CMS were then consolidated into a single loan of £48,027,000. Interest accrued on loans at 1% per annum and amounted to £533,000 (2016: 237,000). The foreign exchange loss of £278,000 has been charged to the Statement of comprehensive income in the year (2016: £1,289,000).

On 18 December 2017 a further loan of £3,000,000 was obtained. No repayments were made on this loan. Interest accrued at 2% per annum on this loan and amounted to £2,000 by the end of the year (2016: £nil).

32. Post balance sheet events

On 18th May 2018, following a review by the Gambling Commission on the maximum stake for Fixed Odds Betting Terminals (FOBTs), the Government announced that it will cut the maximum stake for FOBTs from £100 to just £2. This change, which is expected to come into force during 2020, does not directly impact on the revenues of the Company or MCKUK Group.

On 19th July 2018, Praesepe Service Limited (formerly Merkur Engineering Limited) ("PSL") sold part of its trade to a related party, Regal Amusement Machine Sales Limited for consideration of £12,000. After the transaction PSL only retained the trade with companies within the MCKUK Group.

33. Controlling party

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