

12 May 2020

Escape Hunt plc (AIM: ESC)

("Escape Hunt", the "Company" or the "Group")

Unaudited preliminary results for the year ended 31 December 2019

The Board of Escape Hunt is pleased to announce its unaudited preliminary results for the year ended 31 December 2019.

FINANCIAL HIGHLIGHTS

- Group revenue up 128% to £4.9m (2018: £2.2m)
- Revenue from owner-operated sites up 275% to £3.8m (2018: £1.0m)
- Site level Adjusted EBITDA from owner-operated sites rose to £0.6m¹ (2018: loss £0.5m)
- Franchise EBITDA increased to £0.3m (2018: £14k)
- Group Adjusted EBITDA loss £1.7m (2018: loss £3.1m)
- Group operating loss of £5.9m (2018: loss of £10.0m)
- Cash at year end £2.2m (2018: £2.7m) and £1.2m on 30 April 2020

OPERATIONAL HIGHLIGHTS

- Nine 'Escape Hunt' branded sites open in the UK at year end (2018: eight sites)
- Number of active UK games rooms increased to 49 (2018: 38 rooms)
- Like-for-like revenue growth in Q4 2019 of 34% from three most mature owner-operated sites
- Strong Christmas trading in both owner-operated and franchise estates continued into the new year, pre-impact of COVID-19
- Encouraging pipeline of new sites in ongoing negotiations with more favourable property market conditions
- New, strategically important franchise Area Representative Agreement signed with PCH to cover US and Canada
- Rationalisation of underperforming franchisee sites supporting improved profitability for franchise business during the year
- Raised £3.7m (net of expenses) through an equity placing in June 2019

POST YEAR END & COVID-19 UPDATE

- Trading in the period 1 January 2020 to 29 February 2020 was strong with revenue and owner-operated site performance comfortably ahead of Board's expectations
- First US site under PCH Area Representative Agreement opened in March 2020 in Houston, Texas
- Virtual reality being trialed in two rooms at the newest site, Birmingham Resorts World

¹ Pre-IFRS 16

- New Doctor Who game launched in March 2020 under licence with BBC Studios. BBC Studios announced in April 2020 that the new story ‘Time Lord Victorious’ will be released later this year on multiple platforms
- Proactive, early measures taken to mitigate the impact of COVID-19, including:
 - Significant cost reductions implemented to put core business into ‘hibernation’
 - Deferral of costs where possible
 - Grant and other support from UK Government
 - Launch of play at home games enhancing brand exposure
 - All UK owner-operated sites were closed on 20 March 2020 until further notice
 - Lockdowns are in place in other countries which impact the majority of the Company’s international franchise network
- Planned openings of two new owner-operated sites deferred to post-lockdown
- Pipeline for new sites remains attractive

The Board is actively exploring options to access further capital to finance its strategic objectives for 2020 and beyond and to provide additional working capital in the short and medium term.

Richard Harpham, Chief Executive of Escape Hunt, commented: *“The strong performance at a site level in Q4 2019 which ran into Q1 2020 demonstrates the very attractive return on capital metrics and the potential for strong growth in the business. This has given us greater confidence in our plans to grow both our owner-operated estate in the UK and our franchise network internationally. Whilst the business has been severely impacted in the short term by COVID-19, the support and understanding we have received from our employees and many of our suppliers has been amazing and, as such, we remain confident in the medium and long term prospects for the business.”*

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About Escape Hunt plc

The Escape Hunt Group is a global leader in providing live escape-the-room experiences with a network of owner-operated sites in the UK and a global network of franchised outlets in six continents. The Company was re-admitted to AIM in May 2017 and has a strategy of creating high quality premium games and experiences, which incorporates branded IP content. (<https://escapehunt.com/>)

CHAIRMAN'S STATEMENT

I am pleased to report that 2019 has, in many ways, been a defining year in proving the commercial proposition of our model and one during which we made further progress in executing our strategy. Trading during the year ended 31 December 2019 showed continued, strong growth with a particularly busy Christmas period.

The strong performance over Christmas continued into the new year, with revenues and site performance in the UK comfortably ahead of management's expectations and franchise activity in line for the period to 29 February 2020.

Since the end of February 2020, however, the impact of COVID-19 on the UK leisure and hospitality sector has been dramatic. Trading held up well in early March, but as the pandemic became more widely spread and advice on social distancing was implemented, we began to feel the impact, culminating on 20 March when the UK Government mandated closure of all restaurants, bars, clubs, gyms and leisure facilities. The vast majority of our franchise network has also been affected by similar mandatory closures in other parts of the world. Anticipating the closures, we took early action to cut costs significantly and preserve cash. The UK Government's measures to assist businesses such as ours have also provided help. We were greatly relieved to be able to retain our staff as a result of the Coronavirus Job Protection Scheme. We are very fortunate to have a very loyal and dedicated workforce. As I write, 125 (87%) of our staff are on furlough leave and will receive up to 80% of their normal pay through the Government scheme, subject to the applicable rules. All other staff have accepted temporary pay reductions, with senior management accepting a 25% pay reduction and the Non-Executive Directors waiving all fees whilst the lockdown conditions persist. Our teams are the Group's most valuable asset and their universal understanding of the situation and willingness to support our efforts to ensure we are able to bounce back from this crisis have been humbling.

The UK Government's decision to offer a rates holiday for 2020/2021 to eligible retail, hospitality and leisure businesses was welcomed and will make a material difference to our property costs over the next 12 months. We have also benefitted from the £25,000 grants being made available at a number of our UK sites. A number of our landlords have been incredibly supportive giving consent to defer rent. For that we thank them. However, there are exceptions and certain landlords have chosen to take an aggressive stance which has been both frustrating and disappointing in the circumstances.

We have put on hold all capital expenditure and the majority of our third-party expenditure leading to delays in our planned new site openings in Norwich and Basingstoke. Many of these suppliers have been important supporters of Escape Hunt and it is therefore difficult to see them being impacted through our decisions where we have had little choice. Through these initiatives, we have been able to enact a very significant reduction in our monthly cash costs, some of which is deferred rather than a permanent reduction, but nevertheless these actions provide adequate headroom for us to survive an anticipated 3 – 6 month period of closure.

More detail on our performance during 2019 is provided in our Strategic Report and Financial Review below. A few highlights are worth mentioning (all figures below are unaudited):

- Group revenue rose 128% to £4.9m (2018: £2.2m)
- Site level Adjusted EBITDA from our UK owner-operated estate rose to £0.6m¹ (2018: loss £0.5m)
- Franchise EBITDA rose to £0.3m (2018: £14k)
- Group Adjusted EBITDA loss improved to £1.7m (2018: loss of £3.1m)
- Cash at 31 December 2019 of £2.2m (2018: £2.7m) and £1.2m on 4 May 2020

¹ Pre-IFRS 16

A key metric for our UK owned and operated sites is cashflow return on capital, which we measure as site level EBITDA divided by total cash invested, including start-up losses. With eight of these sites having been open for more than 12 months, we are beginning to obtain reliable indicators of this metric and believe that we can target very attractive returns on future site openings. This is explained in more detail below.

In June 2019, the Company raised £3.7m (net of expenses) in a placing and open offer of new shares. At 31 December 2019, we had deployed approximately half of these funds which were raised to support the roll-out of further sites in the UK. Further details on our progress and plans to expand our estate are set out below.

Notwithstanding our growth ambitions, we took a more cautious approach to our roll-out strategy during 2019, as we were keen to ensure that our business model could be repeated in a premium and industry-leading manner such as we have been targeting. As a result, we have not as yet fully achieved all the milestones we set ourselves at the time of our fundraising. However, the benefit of this is that we have set the business up well to catch up on our expansion objectives and, most importantly, have now clearly demonstrated the potential for our business through our site metrics and return on capital profile. Before the onset of COVID-19, we had expected to catch up our site roll-out objectives by the end of May 2020, but have since had to delay those plans. Nevertheless, we look forward to executing our growth plans with confidence, enthusiasm and vigour.

In September 2019, after a lengthy period of discussion and negotiation, we were delighted to complete our master franchise agreement for the USA and Canada with our new partners, Proprietors Capital Holdings (“PCH”). North America represents a very substantial opportunity for the Group and we are focused on delivering on this opportunity.

Alistair Rae stepped down from the Board and as Chief Financial Officer at the end of July 2019, and we were delighted to appoint Graham Bird who joined the Board as CFO in January 2020. Graham has extensive City experience and brings a wide range of skills having worked in investment, advisory, financial and commercial roles.

Adrian Jones, who was one of the original management team which established Escape Hunt prior to its acquisition by Dorcaster and Admission to AIM, will step down from his position on the Board as a Non-Executive Director at the end of May 2020. Adrian is based in Malaysia and his knowledge and experience of operating in the Far East has been invaluable, particularly whilst Escape Hunt had a significant presence in the region. However, since Admission, the focus of our business has moved to the UK and, in due course, we will appoint a UK based replacement. I would like to thank Adrian for his contribution over the years.

We are acutely aware that shareholders have suffered a significant fall in the value of their holdings in Escape Hunt over the last twelve months and since our Admission in May 2017. Whilst we cannot account for every movement in the share price, a significant impact was undoubtedly when one of our largest shareholders, Arrowgrass, went into Administration in Autumn 2019 and the sale of their shares subsequently triggered a precipitous fall in the share price. The impact of Brexit uncertainty did not help the performance of micro-cap shares either and, more recently we have had to endure the impact of COVID-19. We are also aware that it has taken longer for us to prove the attractions of the business than we had originally expected. Nevertheless, as a Board, we take comfort in the increasingly attractive return on capital metrics at site level and remain confident in the long-term opportunity to build substantial shareholder value.

We are enormously encouraged by the performance of our business prior to the pandemic and by the fact that at that time, all our UK sites had five star ratings and were ranked in the top four on TripAdvisor™ in their respective cities under fun and games. We are also encouraged by the energy and enthusiasm of our US partners and many of our franchise operators. We continue to see the opportunity afforded by rapid growth in experiential entertainment as an attractive one where we will be able to build and sustain

a premium brand in escape rooms. We are confident that we will emerge from the COVID-19 pandemic intact and ready to build on the base that we have successfully established so far.

Richard Rose

Non-Executive Chairman

12 May 2020

STRATEGIC REPORT

The Group ended 2019 with a strong performance, providing us with a high level of confidence in the future potential for our business as we continue to grow our network. 2019 was critical in validating our business model and content strategy, and we are delighted with progress that can now be firmly demonstrated.

Group turnover rose by 128% to £4.9m (2018: £2.2m) and Group Adjusted EBITDA loss fell from £3.1m to £2.1m on a pre-IFRS16 basis, and to £1.7m post-IFRS16.

Importantly, we now have solid evidence of the potential for our business. In aggregate, the unit economics at a site level are proving very attractive, both at an EBITDA margin level and based on return on capital metrics. This gives us confidence to accelerate the pace of our roll-out now that we have reduced the build cost and optimised the returns for new sites. Adjusted Group and site level EBITDA are key metrics which we use to measure performance of the business as the measures provide a good proxy for cash contribution from each component part of the Group.

Owner-Operated sites

The owner-operated sites accounted for 78% of Group sales in the year ended 31 December 2019 and delivered unaudited revenue of £3.8m (2018: £1.0m), a material increase over the prior year. The increase was helped by the full year impact of sites opened during 2018, but a substantial proportion of the growth was organic. Escape Hunt's three most mature owner-operated sites (Birmingham, Bristol and Leeds), each 21 months old at year end, delivered a combined like-for-like sales increase of 34% in the final quarter of 2019. Across all eight established owner-operated sites, like-for-like sales increased by 70% in December. Five of these sites were opened in the final quarter of 2018 and hence benefitted from entering the final month of 2019 with a more mature market position.

We have seen continued growth across all our Escape Hunt branded UK sites. We have also gained a greater understanding of the impact of school holidays and seasonal variations as well as the maturity profile of sites after opening. All our Escape Hunt branded sites have continued to experience growth, notwithstanding their period of maturity.

Table 1: Like-for-Like Growth

Data as at 7 March 2020	Year-on-Year Growth (Rolling average period)		
	4 weeks	12 weeks	24 weeks
First 3 sites	21%	25%	32%
Next 5 sites	91%	110%	na
All 8 mature sites	54%	63%	na

Site level adjusted EBITDA from the owner-managed portfolio for the full year was £0.6m² (2018: loss £0.5m) which exceeded management's expectations, and included the start-up site losses incurred in the opening months of trading for the immature sites.

Pleasingly, the significant and continued focus on the customer experience has again driven exceptional TripAdvisor scores, with all sites five star rated and in the top four "fun and games" activities in their respective territories.

In June 2019, we raised £3.7m (net of expenses) by way of a placing and open offer of new shares to fund the opening of new UK sites. In December, we opened a new site at Birmingham Resorts World and sites at Basingstoke and Norwich were well advanced and due to open towards the end of Q1 2020. We are also in advanced negotiations on several other sites, including a number where we have agreed heads of terms. All these have had to be put on hold as a result of COVID-19. Notwithstanding the slower pace of roll-out of new sites, the number of the Group's active UK games rooms increased from 38 to 49 during 2019.

Our newest site in Birmingham Resorts World has made a strong start and, until the COVID-19 pandemic impacted business, was trading well ahead of management's expectations. The new site also includes two virtual reality escape rooms, which are being tested ahead of a potential further roll-out at other sites. In part, the early success of our Resorts World site can be attributed to the support we have received from our landlord, both by way of capital contribution in building the site, and in ongoing marketing. The model is one we believe can be repeated and 'leisure destination' sites, such as Resorts World, are likely to form a growing part of our ongoing strategy.

Market challenges faced by retail landlords continued to protract the time taken to complete commercial negotiations throughout the year. However, there were signs in late 2019 and early 2020 that this market pressure was easing and Escape Hunt has been increasingly able to find sites on financially attractive terms. COVID-19 will undoubtedly have an impact on many smaller retailers and restaurateurs and we therefore expect the environment for us to find suitable sites on attractive terms to improve further. Together with the strong unit economics that we have been able to demonstrate, this gives us confidence in our ability to deliver on our strategy for the UK.

Franchise network

The most significant development in our franchise strategy in 2019 was the agreement we signed with our new Area Representative, PCH, covering the USA and Canada. Proprietors Capital Holdings ("PCH") is a US-based investment capital company with a wealth of experience in supporting and growing brands as both a franchisee and franchisor. PCH has successfully grown brands including Papa Murphy's, CPR -Cell Phone Repair, PROSE, Miracle Method, online Trading Academy, and Pedal Pub. This is the most substantial franchise agreement we have signed since Admission and sets a standard for future, similar deals. Importantly, the new agreement creates much stronger alignment in content strategy with our franchise partners which will enable us to serve our partners more effectively, efficiently and profitably. PCH successfully converted an existing franchise location in Houston, Texas to our new format and branding and installed one of our catalogue games, Alice in Puzzleland. The site opened in early March 2020 to extremely positive reviews before being temporarily closed due to COVID-19. We continue to work closely with our US partners and supporting their growth ambitions is a key strategic objective for 2020. Although the PCH agreement was signed in 2019, there was no financial contribution from the partnership in the year to 31 December 2019.

Our existing franchise network performed in line with the Board's expectations, delivering revenue of £1.1m (2018: £1.1m) and EBITDA of £0.3m (2018: £14k). We have terminated a number of under-performing smaller direct franchise agreements. At year end, the active network comprised 40 locations

² Pre-IFRS 16

in 17 countries. Since year end, we have terminated a further three agreements as we seek to rationalise the network and focus on regions where we can build a meaningful presence.

Content strategy

Our content strategy sets out a clear path to monetise opportunities from a broad customer segment. To date, the business has been focused on retail consumers. In late 2019, we aimed to diversify our customer mix and began to market directly to corporates, generating positive results. Looking forward, we have identified a number of opportunities and have a strategy to address each of these incrementally. The content strategy supports both the UK owned and operated business and our franchise network.

Table 2: Content strategy

	EH Retail	EH for Business	EH for Education	EH for Brands
Content	<ul style="list-style-type: none"> • Social entertainment experiences 	<ul style="list-style-type: none"> • Experiences as learning and development, training and recruitment 	<ul style="list-style-type: none"> • Experiential, gamified learning and assessment 	<ul style="list-style-type: none"> • Experiential gamified marketing activations for consumer products, services and attractions
Audience	<ul style="list-style-type: none"> • Families, friends, colleagues, social event organisers, children, students, retired 	<ul style="list-style-type: none"> • Learning and development; recruitment and assessment; reward and recognition; conferences, away days 	<ul style="list-style-type: none"> • Teachers and pupils • Schools and colleges • Community groups • Admissions teams 	<ul style="list-style-type: none"> • Tourist attractions • Theme parks • Hotels • Museums • Parks
Channel	<ul style="list-style-type: none"> • In venue games and meeting rooms • Surrounds of venue (outdoor) • Virtual Reality • Downloads / home games 	<ul style="list-style-type: none"> • In venue games and meeting rooms • Surrounds of venues • Downloads / home games 	<ul style="list-style-type: none"> • In venue games and meeting rooms • Surrounds of venues • Downloads / home games • Virtual Reality 	<ul style="list-style-type: none"> • Bespoke trails • Outdoor roaming • Indoor • Virtual Reality • Themes downloads / home games

Operational capability

Our success in delivering value for our customers, shareholders and other stakeholders alike, depends on our ability to produce high quality content efficiently and effectively. Since Admission, our experience in developing new games and turning them to reality has created a substantial bank of intellectual property. We have been working with key suppliers to reduce the cost of installing new games and have developed ways to produce games in a more modular fashion so that they can be more easily replicated, installed and, in future, moved between venues. We are also working closely with our franchise partners, notably in the US, to further improve the manufacturing and installation costs of games as we believe this will provide a clear competitive advantage in future.

As a small business, we work closely with certain suppliers, providing opportunities for continued improvement whilst seeking to develop and build the know-how internally to ensure the value of all these initiatives is retained.

Whilst efforts to date have been able to substantially reduce the cost per game / room compared to our earliest sites, further work is being done to continue progress in this regard.

Strategic objectives for 2020

Our strategic objectives for 2020 and beyond fall into five categories:

- 1. Roll-out of our owner-managed network through direct investment
- 2. Sustain and support growth in performance from our existing franchise network
- 3. Deliver the US franchise opportunity in partnership with PCH
- 4. Enhance returns and margins through broadening our product set and target audience
- 5. Investment in infrastructure and operations to improve efficiency and scalability

The pace and order in which we are able to achieve these objectives depends partly on our ability to access further capital, and the Board is therefore actively exploring options to do so and to provide additional working capital in the short and medium term. The recent performance of our business gives us confidence in the unit economics and the financial attractions of the business model and the Board therefore continues to explore any options which will support growth whilst seeking to grow shareholder value.

Conditional on accessing sufficient capital to do so, our short-term target is to grow the UK estate to at least 15 Escape Hunt branded sites within 9 months and then to 20 within 18 – 24 months of reopening after COVID-19. We believe there is a market opportunity to grow the UK estate to approximately 50 sites in the longer term. Supported by anticipated growth in our franchise business, both in the US and elsewhere, we believe this strategy will deliver a sustainably cash generative, highly profitable business.

Our key performance indicators by which we monitor progress and performance are set out in the Financial Review below.

Outlook

Without a clear view on when our sites might be able to re-open and how consumers will behave thereafter, it is difficult to know how quickly our business will rebound. We are enormously encouraged by the Group’s performance as we entered the pandemic and by the consumer response to our offering, evidenced by the fantastic TripAdvisor™ ratings we have received and excellent financial returns. We are also encouraged by the energy and enthusiasm of our US partners and our franchise network. Consequently, we continue to see the opportunity afforded by rapid growth in experiential entertainment as an attractive one where we will be able to build and sustain a premium brand in escape rooms. We are therefore as confident as we can be that we will emerge from the COVID-19 pandemic intact and ready to build on the base that we have successfully established so far.

Richard Harpham
Chief Executive Officer
12 May 2020

FINANCIAL REVIEW

Group Results

Revenue

Group revenue rose strongly in the year from £2.2m to £4.9m, a rise of 128%.

	Year ended	Year ended	Increase / (decrease)
	31 December	31 December	

	2019	2018	
	£'000	£'000	
New branch upfront location exclusivity fees	138	123	12%
Game design fees	129	118	9%
Support and administrative fees	92	94	(2%)
Franchise revenues	725	741	(2%)
Owned branch revenues	3,832	1,077	255%
Other	7	-	-
	<hr/>	<hr/>	
	4,923	2,153	128%
	<hr/>	<hr/>	

The main contribution to revenue growth came from the UK owned branch network, where revenues were up £2.8m, an increase of 275%. Of this, approximately £2.0m was as a result of the full year contributions from sites not open during the whole of 2018, whilst £0.8m represented like-for-like growth from existing sites. Like-for-like growth from our most mature sites was 34% in the last quarter of the financial year, whilst across all eight established sites like-for-like growth in December 2019 was 70% compared to the same period in 2018.

Within the franchise business, recognition of upfront location exclusivity fees rose as a result of the termination of a small number of contracts which led to the accelerated recognition of upfront fees which are otherwise recognised over the period of exclusivity. Franchise revenues were broadly flat year-on-year.

Gross profit (re-categorised)

We changed the basis in which we measure gross profit during the year as we considered that certain costs, principally fixed labour costs at site level, should be treated as administration rather than direct cost of sale. The Board believes this change in categorisation better reflects the underlying performance and provides a more useful measure of the business. Gross margin rose from 47% in 2018 to 67% in 2019. The primary driver of this improvement was more efficient use of labour at sites, helped by the higher levels of utilisation and learning curve effects from having been open for longer.

Adjusted EBITDA

Adjusted EBITDA loss reduced by 45% from £3.1m to £1.7m and is a key performance measure for the Group. A reconciliation between statutory operating loss and Adjusted EBITDA is shown below.

At a segmental level, the breakdown of Adjusted EBITDA loss was as follows:

	2019	2018	Increase / (decrease)
	£'000	£'000	£'000
Owner-operated EBITDA – Site level, pre-IFRS 16	606	(499)	1,105
Owner-operated EBITDA after central overheads (pre-IFRS 16)	507	(613)	1,120
IFRS 16 Adjustments	370 ³	-	370
Owner-operated EBITDA after central overheads and IFRS 16 ⁴	877	(613)	1,490
Franchise EBITDA after central overheads	361	14	347
Unallocated central costs	(2,945)	(2,488)	(457)
Adjusted Group EBITDA	<hr/>	<hr/>	<hr/>
	(1,707)	(3,087)	1,380

³ £370k is the rental charge relating to sites only which is reversed out under IFRS16. The group total rental charge reversed out under IFRS16 is £454k, £84k relating to head office.

⁴ 2018 has not been restated for IFRS16

The Group started to benefit from operational gearing with increased turnover, notably at site level. EBITDA profitability in both the owner operated business and the franchise business rose sharply.

Operating loss

Group operating loss reduced significantly from £10.0m to £5.9m, helped by the improvement in Adjusted EBITDA as well as reduced amortisation charges, principally relating to acquired intangibles and the impairment charges in 2018 which were not repeated.

	2019	2018
	£'000	£'000
Operating loss	(5,932)	(10,012)
Amortisation of intangibles	2,132	3,656
Impairment of intangible assets	-	2,345
Depreciation	1,725	545
Depreciation of right of use assets	347	-
Loss on disposal of assets	-	45
Branch closure costs	-	291
Exceptional professional fees	7	-
Foreign currency losses	1	31
Share-based payment expense	12	12
Adjusted Group EBITDA	<u>(1,707)</u>	<u>(3,087)</u>
<i>Pro forma IFRS 16 adjustments</i>		388
<i>Comparable prior year Adjusted Group EBITDA</i>	<u>(1,707)</u>	<u>(2,699)</u>

Owner-Operated sites

Eight new sites opened during 2018 and each operated for the full twelve months in 2019. As mentioned above, revenue from our owner-operated sites grew from £1.1m to £3.8m in 2019. Approximately £2.0m of this growth was from the full year effects of having sites open, whilst the balance represents like-for-like growth.

Site level EBITDA rose sharply as individual site performance grew and start-up losses turned to profit. Total site labour as a percentage of total sales fell from 65% in 2018 to below 40% in 2019. Importantly, the ratio fell from 43% in the first half of the year to 36% in the second half, illustrating the continued improvement which has been achieved. We believe further improvements can be made through investment in technology and systems and as occupancy levels at site level continue to improve.

In December 2019, we opened a further site at Birmingham Resorts World and had been scheduled to open two further sites in early 2020 in Basingstoke and Norwich. These openings have been put on hold as a result of the COVID-19 outbreak. In the first weeks of its operation, our Resorts World site performed ahead of management's expectations.

Franchise estate

Revenue from our franchise estate was broadly flat year-on-year. However, we were able to reduce the costs directly associated with managing our franchise estate such that adjusted EBITDA from our franchise estate rose to £0.4m (2018: £0.0m). Following some rationalisation of our franchise estate, the number of active franchisees at the end of the year was 40 which compares to 42 at the end of 2018. Since year end, we have terminated a further three single franchisee agreements.

Central overheads

In the Autumn, the Company took action to reduce overhead costs, including reducing headcount at head office. We continue to look at ways in which we can optimise costs and plan to make modest investments in projects to improve efficiency centrally which are aimed to ensure that we maximise the benefit of operational gearing as the Company's revenues grow.

Cashflow and capital expenditure

Cash and cash equivalents at the year-end was £2.2m (2018: £2.7m). In June 2019, the Company raised £3.7m (net of expenses) through an equity issue. Hence, total cash used during the year was £4.2m. EBITDA losses absorbed approximately £1.7m whilst working capital movements absorbed £0.5m. We expect this to reverse in future and greater focus is being placed on collecting cash from our franchise estate so that the benefits that we receive from advance bookings flow through to cash.

£1.5m was utilised for capital investment, of which £1.3m was on property plant and equipment, including new games and site fit out, and £0.2m on intangibles.

The balance (£0.5m) was largely property rental which under IFRS 16 is accounted for as repayment of finance leases and interest, together with other sundry items.

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

IFRS 16

From 1 January 2019, the Group adopted the new accounting standard, IFRS 16. The standard requires companies for the first time with leasehold properties to capitalise all leases on the balance sheet as a right of use asset and also to recognise on the balance sheet the present value of the obligations to make lease payments. The rents which were previously charged to the Income Statement (£388k in 2018) have instead be replaced by a depreciation charge and a finance charge. In 2018, these would have been £302k and £158k respectively had the Standard been adopted for the whole of 2018. Total rent payments in 2019 were £454k which under IFRS 16 were accounted for as £347k depreciation of right-of-use assets, and £171k in finance charges.

Key Performance Indicators

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

- Numbers of owner-operated branches
- Numbers of franchised branches
- Ratio of site staff costs to site revenue
- Site level revenue and like-for-like growth
- Site level EBITDA
- Site level return on total investment
- Adjusted EBITDA for the Group
- Head office costs

The Company monitors performance of the owner operated sites on a weekly basis and intends to move towards 'months' based on four and five week cycles. Investment is being made into data management solutions which will provide faster and easier access to management information across sites. The Board also receives monthly updates on the progress on site selection, site openings and weekly as well as monthly information on individual site revenue and site operating costs. Monthly management accounts are also reviewed by the Board which focuses on revenue, site profitability and adjusted EBITDA as the key figures within the management accounts.

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

Although there continue to be a high level of enquiries from interested parties for individual franchises, the Group changed its approach in 2018 to issuing new franchises to focus on its Master Franchisees as well as larger, well capitalised businesses which can open large numbers of owner operated branches. The agreement signed with PCH in the US in September 2019 is the first agreement signed since this new approach.

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

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

We still have no visibility on when sites will be able to reopen nor how quickly business will return. As a result, the Company has applied for, and been granted, permission to delay the publication of its audited final results for the year ended 31 December 2019, if so required, until 30 September 2020.

Graham Bird

Chief Financial Officer

12 May 2019

Consolidated Statement of Comprehensive Income for the year ended 31 December 2019

All figures in £'000s		Year ended 31 December 2019	Year ended 31 December 2018 (Restated)
Continuing operations	Note		
Revenue	4	4,915	2,153
Cost of sales	6	(1,279)	(561)
Gross profit		3,636	1,593
Administrative expenses	6	(9,568)	(11,605)
Operating loss	6	(5,932)	(10,012)
Adjusted EBITDA		(1,707)	(3,087)
Amortisation of intangibles	12	(2,124)	(3,656)
Impairment of intangible assets	12	-	(2,345)
Depreciation of property plant and equipment	10	(1,733)	(545)
Depreciation of right-of-use assets	11	(347)	-
Loss on disposal of tangible assets		-	(45)
Branch closure costs		-	(291)
Exceptional professional fees		(7)	-
Foreign currency gains / (losses)		(1)	(31)
Share-based payment expense	24	(12)	(12)
Operating loss		(5,932)	(10,012)
Gain on disposal of subsidiary	13	30	-
Interest received		33	34
Lease finance charges	2	(171)	-
Loss before taxation		(6,040)	(9,978)
Taxation	8	4	(26)
Loss after taxation		(6,044)	(10,004)
Other comprehensive income:			
Items that may or will be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(30)	26
Total comprehensive loss		(6,074)	(9,978)
Loss attributable to:			
Equity holders of Escape Hunt plc		(5,993)	(10,004)
Non-controlling interests		(51)	-
		(6,044)	(10,004)
Total comprehensive loss attributable to:			
Equity holders of Escape Hunt plc		(6,023)	(9,978)
Non-controlling interests		(51)	-
		(6,074)	(9,978)
Loss per share attributable to equity holders:			
Basic and diluted (Pence)	9	(24.78)	(49.38)

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	As at 31 December 2019 £'000	As at 31 December 2018 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	3,935	4,366
Right-of-use assets	11	2,470	-
Intangible assets	12	2,906	4,792
Rent deposits		26	36
Loan to franchisee	14	300	300
		<hr/> 9,637	<hr/> 9,494
Current assets			
Inventories	16	12	15
Trade receivables	15	370	121
Other receivables and prepayments	15	473	501
Cash and bank balances	17	2,171	2,657
		<hr/> 3,026	<hr/> 3,294
TOTAL ASSETS		<hr/> 12,663	<hr/> 12,788
LIABILITIES			
Current liabilities			
Trade payables	18	317	670
Deferred income	20	360	244
Lease liabilities	19	304	-
Other payables and accruals	18	948	967
		<hr/> 1,929	<hr/> 1,881

Consolidated Statement of Financial Position

As at 31 December 2019 (continued)

	Note	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Non-current liabilities			
Deferred income	20	262	419
Provisions	21	74	40
Lease liabilities	19	2,298	-
		2,634	459
TOTAL LIABILITIES		4,563	2,340
NET ASSETS		8,100	10,448
EQUITY			
Capital and reserves attributable to equity holders of Escape Hunt Plc			
Share capital	22	336	253
Share premium account	26	24,717	21,076
Merger relief reserve	26	4,756	4,756
Accumulated losses	26	(21,803)	(15,741)
Currency translation reserve	26	(19)	11
Capital redemption reserve	26	46	46
Share-based payment reserve	26	67	55
		8,100	10,456
Non-controlling interests		-	(8)
TOTAL EQUITY		8,100	10,448

Consolidated Statements of Changes in Equity for the year ended 31 December 2019

Attributable to owners of the parent

Year ended 31 Dec 2019	Share capital	Share premium account	Merger relief reserve	Currency translation reserve	Capital redemption reserve	Share-based payment reserve	Accumulated losses	Total	Non-controlling interest	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 Jan 2019	253	21,076	4,756	11	46	55	(15,741)	10,456	(8)	10,448
Adjustment from adoption of IFRS 16	-	-	-	-	-	-	(69)	(69)	-	(69)
Adjusted balance at 1 Jan 2019	253	21,076	4,756	11	46	55	(15,810)	10,387	(8)	10,379
Loss for the year	-	-	-	-	-	-	(5,993)	(5,993)	(51)	(6,044)
Other comprehensive income	-	-	-	(30)	-	-	-	(30)	-	(30)
Total comprehensive loss	-	-	-	(30)	-	-	(5,993)	(6,023)	(51)	(6,074)
Issue of shares	83	3,917	-	-	-	-	-	4,000	-	4,000
Share issue costs	-	(276)	-	-	-	-	-	(276)	-	(276)
Share-based Payment Charges	-	-	-	-	-	12	-	12	-	12
Disposal of subsidiary	-	-	-	-	-	-	-	-	59	59
Transactions with owners	83	3,641	-	-	-	12	-	3,736	59	3,795
Balance as at 31 Dec 2019	336	24,717	4,756	(19)	46	67	(21,803)	8,100	-	8,100
Year ended 31 Dec 2018:										
Balance as at 1 Jan 2018	253	21,076	4,756	(15)	46	43	(5,737)	20,422	-	20,422
Loss for the year	-	-	-	-	-	-	(10,004)	(10,004)	-	(10,004)
Other comprehensive income	-	-	-	26	-	-	-	26	-	26
Total comprehensive loss	-	-	-	26	-	-	(10,004)	(9,978)	-	(9,978)
Acquisition of subsidiary	-	-	-	-	-	-	-	-	(8)	(8)
Share-based payment charges	-	-	-	-	-	12	-	12	-	12
Transactions with owners	-	-	-	-	-	12	-	12	(8)	4
Balance as at 31 Dec 2018	253	21,076	4,756	11	46	55	(15,741)	10,456	(8)	10,448

Consolidated Statement of Cash Flows**For the year ended 31 December 2019**

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Cash flows from operating activities		
Loss before income tax	(6,040)	(9,978)
Adjustments:		
Depreciation of property, plant and equipment	1,733	545
Depreciation of right-of-use assets	347	-
Amortisation of intangible assets	2,124	3,655
Impairment of intangible assets	-	2,345
Gain on disposal of subsidiary	(30)	-
Write-off of non-current assets	-	45
Gain on disposal of plant and equipment	-	(1)
Net foreign exchange differences	-	31
Share-based payment expense	12	12
Finance lease interest charge	171	-
Interest income	(33)	(34)
Operating cash flow before working capital changes	(1,716)	(3,380)
(Increase) in trade and other receivables	(244)	(273)
Decrease / (increase) in inventories	23	(11)
Increase in provisions	34	40
(Decrease) / increase in trade and other payables	(287)	584
(Decrease) / increase in deferred income	(41)	124
Cash used in operations	(2,231)	(2,916)
Income taxes paid	(23)	(8)
Net cash used in operating activities	(2,254)	(2,924)
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,308)	(4,276)
Purchase of intangibles	(266)	(495)
Receipt / (payment) of deposits	10	(4)
Loan made to master franchisee	-	(300)
Acquisition of subsidiary, net of cash acquired	-	(10)
Cash less overdrafts on disposal of subsidiary	29	-
Interest received	33	34
Net cash used in investing activities	(1,502)	(5,051)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	4,000	-
Share issue costs	(276)	-
Finance lease interest charge payment	(171)	-
Repayment of finance leases	(284)	-
Net cash from financing activities	3,269	-
Net decrease in cash and cash equivalents	(487)	(7,975)
Cash and cash equivalents at beginning of year	2,657	10,645
Effects of exchange rate changes on the balance of cash held in foreign currencies	1	(13)
Cash and cash equivalents at end of year	2,171	2,657

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

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

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

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

On 2 May 2017, the Company's name was changed to Escape Hunt plc and became the holding company of the enlarged Escape Hunt Group. Thereafter the group established the owner operated business which operates through a UK subsidiary. Most of the franchise activity has subsequently been transferred to a UK subsidiaries. Escape Hunt Group is now a global provider of live 'escape the room' experiences through a network of franchised, licensed and owner-operated branches and offsite "escape the room" type games

The Company's registered office is 3 Pear Place, London SE1 8BT.

The consolidated financial information represents the unaudited consolidated results of the Company and its subsidiaries, (together referred to as "the Group"). The Unaudited Consolidated Financial Statements are presented in Pounds Sterling, which is the currency of the primary economic environment in which the Company operates.

Basis of preparation

The unaudited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent company financial statements in accordance with FRS 102.

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

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

Restatement

During the year, as part of its decision-making process, the Company reviewed its cost classifications and considered that certain costs should be treated as administration rather than direct costs of sale. Accordingly, a total of £1,576,000 which had been treated as a cost of sale in the financial statements for the year ended 31 December 2018 has been restated and included within administrative costs. The statement of comprehensive income statement has been restated to reflect this presentation. The restatement has had no impact on reported losses or equity

Changes in accounting policy

a) New standards, interpretations and amendments effective from 1 January 2019

New standards impacting the Group adopted in the annual financial statements for the year ended 31 December 2019, and which have given rise to changes in the Group's accounting policies are:

- IFRS 16 Leases (IFRS 16);

Details of the impact this standard have had are given below.

On top of this, other standards which have been adopted but have made no change to these accounts are:

- IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23)

Other new and amended Standards and Interpretations issued by the IASB that apply for the first time in the financial statements are not expected to impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

b) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. The most significant of these are as follows, which are all effective for the period beginning 1 January 2020:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material);
- IFRS 3 Business Combinations (Amendment – Definition of Business); and
- Revised Conceptual Framework for Financial Reporting

The Company is currently assessing the impact of these new accounting standards and amendments.

IFRS 16

The Group has adopted IFRS 16 which became effective on 1 January 2019. The standard replaces IAS 17 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are now recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss.

For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. The reclassifications and adjustments arising from the new standard have been recognised in the opening balance sheet as at 1 January 2019.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following:

- future lease payments arising from a change in an index or a rate used;
- residual guarantee; lease-term;
- revised in-substance fixed lease payments and
- certainty of a purchase option.

When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Impact of adoption

IFRS 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. As at 31 December 2018, the Group had entered into 10 property leases which had commenced prior to the year-end.

The impact of adoption on accumulated losses as at 1 January 2019 was as follows:

	1 January 2019 £'000
Right-of-use assets	2,809
Lease liabilities – current	(284)
Lease liabilities – non-current	(2,594)
Tax effect on the above adjustments	-
Increase in opening accumulated losses at 1 January 2019	<u>(69)</u>

Impact on the balance sheet

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	Increase / decrease	£'000
Right-of-use assets (Note 11)	Increase	2,809
Lease liabilities (Note 19)	Increase	(2,878)

The net impact on accumulated losses on 1 January 2019 was an increase of £69,000.

a) Right-of-use assets

Right-of-use assets were measured as if IFRS 16 had been applied from the commencement date discounted at the incremental borrowing rate at the date of initial application. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31 December 2019 £'000	1 January 2019 £'000
Properties – head office and escape rooms	2,470	2,809
	<u>2,470</u>	<u>2,809</u>

b) Lease liabilities

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group’s borrowing rate as of 1 January 2019. The lease liabilities at 31 December 2019 and 1 January 2019 were as follows:

	31 December 2019 £'000	1 January 2019 £'000
Lease liabilities – current	(304)	(284)
Lease liabilities – non-current	(2,298)	(2,594)
	<u>(2,602)</u>	<u>(2,878)</u>

Impact on the income statement and earnings per share

For the year ended 31 December 2019, operating losses were £108,000 lower as a result of applying IFRS 16 due to a portion of the lease expense now being recorded as interest expense and depreciation. In particular, operating lease expenses of £454,000 were replaced by depreciation of £347,000 and finance lease charges of £171,000. Loss before tax was £64,000 higher due to interest expenses on the lease liabilities recognised under IFRS 16. The net effect of £(64,000) increased Loss Per Share by 0.27p.

The table below summarise the profit and loss account treatment for the year ended 31 December 2019 and the comparative period for these leases:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Finance costs		
Interest and finance charges paid/payable on lease liabilities (IFRS 16)	171	-

Leases / right-of use assets depreciation

Minimum operating lease payments (IAS 17)	-	476
Depreciation of right-of-use assets (IFRS 16)	347	-
Total expense in profit and loss	<u>518</u>	<u>476</u>

The following tables summarises the effect of IFRS 16 on the Group's operating losses and losses before tax for the year ended 31 December 2019:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Operating loss excluding lease charges	(5,585)	(9,536)
Lease payments under operating leases (IAS 17)	-	(476)
Depreciation of right-of-use assets (IFRS 16)	(347)	-
Operating loss after lease charges	<u>(5,932)</u>	<u>(10,012)</u>

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Loss before tax excluding lease charges	(5,522)	(9,502)
Lease payments under operating leases (IAS 17)	-	(476)
Depreciation of right-of-use assets (IFRS 16)	(347)	-
Operating lease finance expense (IFRS 16)	(171)	-
Loss before tax and after lease charges	<u>(6,040)</u>	<u>(9,978)</u>

Impact on the cash flow statement

For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

This has increased net cash used in operations and decreased net cash used from financing activities by £171,000 respectively.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- The Group to determine whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- The Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have

a right to examine and have full knowledge of all related information when making those examinations.

The Group elected to apply IFRIC 23 retrospectively with the cumulative effect recorded in retained earnings as at the date of initial application, 1 January 2019. The adoption of IFRIC 23 did not have any effect on the Group.

2. Significant accounting policies

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

Basis of consolidation

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

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

The acquisition of Experiential Ventures Limited constituted a reverse takeover of Experiential Ventures Limited for the purposes of the AIM Rules for Companies and received shareholder approval on 2 May 2017. However, the Directors considered that under IFRS 3 *Business Combinations*, the accounting acquirer would be considered to be Escape Hunt plc, due to:

- a greater proportion of share capital in the Group being held by shareholders of Escape Hunt plc, rather than pre-acquisition shareholders of Experiential Ventures Limited;
- Escape Hunt plc's shareholders have the ability to appoint or remove a majority of the members of the Board;
- greater Board representation in the Group of the Escape Hunt plc Board of directors rather than pre-acquisition members of the Experiential Ventures Limited Board; and
- the composition of the senior management of the Group consist mostly of Escape Hunt plc management.

The acquisition of Experiential Ventures has therefore been accounted for under the acquisition method.

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

Acquisition-related costs are expensed as incurred.

Intra-group transactions, balances and unrealised gains on transactions are eliminated. Unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made

to the Financial Statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

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

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

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

Merger relief

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

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

Foreign currency transactions and translation

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

The functional currency of the Company's active subsidiaries based overseas, namely Escape Hunt Operations Limited and E V Development Co. Limited are the US Dollar and Thai Baht respectively. These subsidiaries, when recording their own foreign transactions follow the principles below. At the end of each financial year, monetary items denominated in foreign currencies are retranslated at the rates prevailing as of the end of the financial year. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses

are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

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

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

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

Property, plant and equipment

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

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

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

Office equipment	5 years
Furniture and fittings	5 years
Leasehold property	5 years
Computer hardware	3 years
Escape games	2 years

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

Research and development expenditure

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

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

- (i) its ability to measure reliably the expenditure attributable to the asset under development;
- (ii) the product or process is technically and commercially feasible;
- (iii) its future economic benefits are probable;
- (iv) its ability to use or sell the developed asset; and
- (v) the availability of adequate technical, financial and other resources to complete the asset under development.

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

Capitalised development expenditure in respect of the Escape Hunt App is amortised on a straight-line method over a period of 2 years when the products or services are ready for sale or use. In the event that it is no longer probable that the expected future economic benefits will be recovered, the development expenditure is written down to its recoverable amount.

Intangible assets

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

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

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

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

The estimated useful lives are as follows:

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

Impairment of assets

Financial assets

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

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

Non-financial assets

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

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Short-term benefits

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

Revenue recognition

The Group is operating and developing a network of franchised, licensed and owner-operated branches and offsite "escape the room" type games. The Group receives revenues from its directly owned branches but also from franchisees, master-franchisees and sub-franchisees.

The Group, as franchisor, develops original escape games and supporting materials and provides management, creative, technical and marketing services based on its knowledge of and expertise in Escape Hunt to enable delivery of a proprietary 'escape the room' game experience.

The Group considers that its contracts with franchisees, master-franchisees and sub-franchisees provide a customer with a right to access the Group's intellectual property throughout the franchise term which is typically for a minimum term of ten years. Accordingly, the Group satisfies each of

its performance obligations by transferring control of goods and services to the customer over the period of the franchise agreement. Franchise revenues are therefore recognised over time.

The Group derives both “upfront exclusivity fees” from the sale of franchises and subsequent “Service Revenues” in the form of revenue shares, administration fees, game design fees and other related income.

New branch upfront location exclusivity fees

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

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

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

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

Fees related to future periods are carried forward as deferred income within current and non-current liabilities, as appropriate. The amounts of deferred revenue at each reporting date are disclosed in Note 20 to the financial statements.

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

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

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

Franchise revenues

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

Service revenues comprise:

- An agreed share of the franchisee's monthly revenues, payable monthly;
- Fixed monthly fees payable quarterly in advance in respect of location-specific game design fees for an agreed number of game themes (with additional game themes charged separately) and franchisee location support fees; and
- Extra costs in respect of site visits and website set-up fees.

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

Owner-operated branch and offsite games

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

Deferred revenue

The amounts of deferred revenue at each reporting date are disclosed in Note 20.

Contract costs

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

Leases

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

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

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. An explanation of the transitional requirements that were applied as at 1 January 2019 is included above. The following policies apply subsequent to the date of initial application, 1 January 2019.

Identifying Leases

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

- (a) There is an identified asset;
- (b) The Group obtains substantially all the economic benefits from use of the asset; and
- (c) The Group has the right to direct use of the asset.

The Group considers whether the supplier has substantive substitution rights. If the supplier does have those rights, the contract is not identified as giving rise to a lease.

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

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

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

The discount rate is the rate implicit in the lease, if readily determinable. If not, the Company's incremental borrowing rate is used which the Company has assessed to be 6.2%. The Group currently has no borrowings and consequently there is no available interest rate to use as the basis for this calculation. However, as a small company which has been loss-making, a calculation has been performed to include an appropriate level of risk to the risk-free rate of borrowing.

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

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

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

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

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and

- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations – see Note 21).

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

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

Nature of leasing activities (in the capacity as lessee)

The Group leases its head office and a number of its owner-operated escape room branches. The Group also leases certain items of plant and equipment but these are not significant to the activities of the Group.

Financing income and expenses

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

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

Taxation

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

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

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

on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

Share-based payment arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Equity-settled share based payments to non-employees are measured at the fair value of services received, or if this cannot be measured, at the fair value of the equity instruments granted at the date that the Group obtains the goods or counterparty renders the service. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Notes 23 and 24 to the consolidated financial statements.

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

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

Cash and cash equivalents

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

Trade and other receivables

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition.

Provisions

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

Dilapidation provisions

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

Contingent liabilities

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

Share capital

Proceeds from issuance of ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares or options are shown in equity as a deduction from the proceeds.

3. Critical accounting estimates and judgements

In the application of the Company's accounting policies, which are described in Note 2 above, the Directors are required to make judgements and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period.

The key estimates and underlying assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. In particular:

Key judgements

Initial upfront exclusivity fees

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

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

Acquisition of Experiential Ventures Limited in the prior year

The acquisition of Experiential Ventures Limited in 2017 constituted a reverse takeover of Experiential Ventures Limited for the purposes of the AIM Rules for Companies whereby the Directors judged that under IFRS 3 *Business Combinations*, the accounting acquirer would be Escape Hunt plc. The acquisition of Experiential Ventures in 2017 was therefore accounted for under the acquisition method.

Recognition of deferred tax assets

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

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

Based on detailed forward-looking analysis and the judgment of management, it has been concluded that a deferred tax asset should not be recognised for the carry forward of unused tax losses and unused tax credits totalling approximately £16m, as the uncertainties mean it is not probable that sufficient future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. In forming this conclusion, management have considered the same cash flow forecasts used for impairment testing purposes. Impairment testing adjusts for risk through the discounting of future cash flows. Management have reflected the risk relevant to the recognition of deferred tax assets by looking at forecasts where a reliable estimate of taxable profits can be made.

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

Finally, whilst the acquired business of EV has been profitable, the profits arising from this business cannot be utilised against the losses Escape Hunt Group Limited which contains the owner-operated segment.

Key estimates

- The determination of the lease term for some lease contracts in which the Group is a lessee, including whether the Company is reasonably certain to exercise lessee options
- The determination of the incremental borrowing rate used to measure lease liabilities

Valuation of Intangible Assets

The determination of the fair value of assets and liabilities including goodwill arising on the acquisition of the EV business in the year ended 31 December 2017, the acquisition of intellectual property and other intangible assets, whether arising from separate purchases or from the acquisition as part of business combinations, and development expenditure which is expected to generate future economic benefits, are based to a considerable extent on management's judgement.

The fair value of these assets is determined by discounting estimated future net cash flows generated by the asset where no active market for the assets exists. The use of different assumptions for the expectations of future cash flows and the discount rate would change the valuation of the intangible assets.

Allocation of the purchase price affects the results of the Group as finite life intangible assets are amortised, whereas indefinite lived intangible assets, including goodwill, are not amortised and could result in differing amortisation charges based on the allocation to indefinite lived and finite lived intangible assets.

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

The estimated useful life principally reflects management's view of the average economic life of each asset and is assessed by reference to historical data and future expectations. Any reduction in the estimated useful life would lead to an increase in the amortisation charge.

The fair value of intellectual property acquired in business combinations is based on the royalty relief method. The fair value of the intellectual property acquired with EV during the year ended 31 December 2017 was determined using a discount factor of 13.7% and royalty rate of 10%. The Board has re-assessed the discount rate used in calculations and has concluded that the discount rate of 13.7% remains appropriate for the assessment of the fair value of intangible assets.

The fair values of franchise agreements acquired through business combinations are based on the Multi-Period Excess Earnings Method ("MEEM") which is within the income approach. The multi-period excess earnings method estimated value is based on expected future earnings attributable to the agreements which have been discounted to a net present value using a discount rate of 13.7%, based on the Group's estimated weighted average cost of capital. This is after returns are paid/charged to complementary assets which are used in conjunction with the valued asset to generate the earnings associated with it. These are commonly referred to as contributory asset charges ("CACs"). The only CAC identified by management is the charge relating to IP which has been estimated at 10%.

Impairment reviews

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

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

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

The Group prepares and approves a detailed annual budget and strategic plan for its operations, which are used in the fair value calculations.

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

In the year ended 2018, goodwill of £1.4 million relating to the acquisition of EV in 2017 which was allocated to the owner-operated business representing a group of Cash Generating Units ("CGU") was tested for impairment as of the reporting date. The carrying value of the owner-operated business was tested for impairment on the basis of fair value less costs to sell, including a discount rate of 16.2%. As described in Note 12 below, these impairment tests in 2018 indicated an impairment loss was required and this loss was first taken to reduce the carrying value of goodwill, with the remaining impairment allocated to intellectual property.

The current strategic plan for the group indicates an excess of the net present value of future cashflows compared to the carrying value of intangible assets. However, given the continued uncertainty of the outlook due to the COVID-19 pandemic, the Board considers it inappropriate to reverse the impairment of intellectual property made in 2018.

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

Occupancy rates

If the occupancy rate achieved is 1% lower in each site within the UK owned and operated estate than as set out in the strategic plan, this would lead to reduction in the net present value of intellectual property of £625,000m (2018: £1.37m) but would not result in the need for an impairment charge.

Discount rate

A 100 basis point increase in the discount rate reduces the net present value of intellectual property across the group by £1.1000m (2018: £1m) but would not result in the need for an impairment charge.

EBITDA growth

If EBITDA was on average £100,000 lower in each year, the net present value of intellectual property across the group would fall by £822,000m (2018: £628,000) but would not result in the need for an impairment charge.

Long-term perpetuity growth rates

The terminal rate used for the fair value calculation has been assumed at 2% per annum. If this rate was decreased by 100 basis points, the net present value of intellectual property across the group would fall by £666,000m (2018: £593,000) but would not result in the need for an impairment charge.

Capital expenditure

If capital expenditure over the forecast period were to be 10% higher than in the strategic plan, the net present value of intellectual property across the group would fall by £529,000m (2018: £533,000) but would not result in the need for an impairment charge.

Estimation of useful life and amortisation rates for intellectual property assets

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

The estimated useful life principally reflects management's view of the average economic life of each asset and is assessed by reference to historical data and future expectations. Any reduction in the estimated useful life would lead to an increase in the amortisation charge. The average economic life of the intellectual property has been estimated at 3 years. If the estimation of economic lives

was reduced by one year, the amortisation charge for IP would have increased by £1,015,000 (year ended 31 December 2018: £1,709,000).

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

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

Property, plant and equipment represent a significant proportion of the asset base of the Group being 31.1% (2018: 34.1%) of the Group's total assets. Therefore, the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Group's financial position and performance.

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

The useful economic lives of property, plant and equipment has been estimated at between 2 and 5 years. If the estimation of economic lives was reduced by one year, the depreciation charge for property, plant and equipment would have increased by £1,290,000 (year ended 31 December 2018: £344,000).

4. Revenue

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
New branch upfront location exclusivity fees	138	123
Game design fees	129	118
Support and administrative fees	92	94
Franchise revenues	717	741
Owned branch revenues	3,832	1,077
Other	7	-
	<hr/> 4,915	<hr/> 2,153

Revenues from contracts with customers:

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Revenue from contracts with franchise customers	1,083	1,131
Revenue from customers at owner operated branches	<hr/> 3,832	<hr/> 1,023
Total revenue from contracts with customers	<hr/> 4,915	<hr/> 2,153

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Upfront exclusivity fees	138	123
Game design fees, support, admin and other fees	228	231
Revenue-based service fees	4,549	1,799
Revenue from contracts with customers	4,915	2,153

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

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

A total of £3,832,000 (2018: £1,077,000) of revenues relate to the owner-operated segment. All other revenues in the table refer to the franchise segment as detailed in Note 5 (Segment Information).

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

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

5. Segment information

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

The Company was an investing company and did not trade until its acquisition of Experiential Ventures Limited (“EV”) on 2 May 2017. Since the acquisition, management considers that the Group has two operating segments. Revenues are reviewed based on the nature of the services provided as follows:

1. The franchise business, where all franchised branches are operating under effectively the same model; and
2. The owner-operated branch business, which currently consists of 10 sites in the UK.

The Group operates on a global basis. As at 31 December 2019, the Company had active franchisees

in 19 countries. The Company does not presently analyse or measure the performance of the franchising business into geographic regions or by type of revenue, since this does not provide meaningful analysis to managing the business.

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

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

Year ended 31 December 2019	Owner operated £'000	Franchise operated £'000	Unallocated £'000	Total £'000
Revenue	3,837	1,078	-	4,915
Cost of sales	(1,275)	-	(4)	(1,279)
Gross profit/(loss)	2,562	1,078	(4)	3,636
Site level operating costs	(1,956)	-	-	(1,956)
Site level Adjusted EBITDA pre IFRS16	606	1,078	(4)	1,680
Centrally incurred overheads	(99)	(717)	(3,025)	(3,841)
IFRS 16 Adjustments	370		84	454
EBITDA	877	361	(2,945)	(1,707)
Interest income	-	-	32	32
Finance lease charges	(155)	-	(16)	(171)
Depreciation and amortisation	(1,702)	(18)	(2,137)	(3,857)
Depreciation – right-of-use assets	(278)	-	(69)	(347)
Foreign currency gains	-	-	(1)	(1)
Share-based payment expenses	-	-	(12)	(12)
Exceptional Professional Costs	-	(7)	-	(7)
Gain on disposal of subsidiary	-	-	30	30
Profit/(loss) before tax	(1,258)	336	(5,118)	(6,040)
Taxation	-	-	(4)	(4)
Profit/(loss) after tax	(1,258)	336	(5,122)	(6,044)
<u>Other information:</u>				
Non-current assets	8,780	857	-	9,637

Year ended 31 December 2018	Owner operated £'000	Franchise operated £'000	Unallocated £'000	Total £'000
Revenue	1,023	1,130	-	2,153
Cost of sales	(540)	-	(21)	(561)
Gross profit/(loss)	483	1,130	(21)	1,592
Site level operating costs	(982)	-	-	(982)
Site level EBITDA	(499)	1,130	(21)	610
Centrally incurred overheads	(114)	(1,116)	(2,467)	(3,697)
EBITDA	(613)	14	(2,488)	(3,087)
Interest income	13	-	21	34
Depreciation and amortisation	(517)	(7)	(3,677)	(4,201)
Impairment losses	-	-	(2,345)	(2,345)
Loss on disposal of tangible assets	-	-	(45)	(45)
Foreign currency (gain)/loss	-	-	(31)	(31)
Branch closure costs	-	-	(291)	(291)
Share-based payment expenses	-	-	(12)	(12)
Profit/(loss) before tax	(1,117)	7	(8,868)	(9,978)
Taxation	-	-	(26)	(26)
Profit/(loss) After Tax	(1,117)	7	(8,894)	(10,004)
<u>Other information:</u>				
Non-current assets	8,508	986	-	9,494

Significant customers:

In the year ended 31 December 2018, one customer in the franchise operated segment generated £354,000, approximately 16.3% of total revenue for the year. No customer provided more than 10% of total revenue in the year ended 31 December 2019.

6. Operating loss before taxation

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

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Auditor's remuneration:		
- Audit of the financial statements	54	65
- Review of interim financial statements	3	6
Operating lease expenses	-	476
Impairment of trade receivables	117	6
Foreign exchange (gains)/ losses	(7)	31

Staff costs including directors, net of amounts capitalised	3,069	1,987
Depreciation of property, plant and equipment (Note 10)	1,732	545
Depreciation of right-of-use assets (Note 11)	347	-
Amortisation of intangible assets (Note 12)	2,123	3,656
Impairment of intangible assets (Note 11)	-	2,345
Share-based payment costs (non-employees)	12	12

In addition to the auditor's remuneration disclosed above, £12,750 was paid to KPMG in connection with tax review work during the year ended 31 December 2018.

Detailed information on statement of profit or loss items:

Cost of sales

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Wages and salaries	1,068	508
Food and beverages	44	15
Other costs of sale	167	38
	<hr/> 1,279	<hr/> 561

Administrative expenses

	Year ended 31 December 2019 £'000	Year Ended 31 December 2018 £'000
Depreciation of property, plant and equipment	1,732	545
Depreciation of right-of-use assets	347	-
Amortisation	2,123	3,656
Impairment of intangible assets	-	2,345
Write-off of assets	-	45
Minimum lease payments recognised as an operating lease expense	-	476
Staff costs including directors, net of amounts capitalised	2,001	1,479
Share-based payments	12	12
Foreign currency losses	26	31
Other administrative expenses	3,327	3,016
	<hr/> 9,568	<hr/> 11,605

7. Staff costs

	Year Ended 31 December 2019 £'000	Year Ended 31 December 2018 £'000
Wages salaries and benefits (including directors)	2,868	1,921
Share-based payments	12	12
Social security costs	239	180
Other post-employment benefits	108	36
Less amounts capitalised	(146)	(150)
	<u>3,081</u>	<u>1,999</u>

Key management personnel:

	Year Ended 31 December 2019 £'000	Year Ended 31 December 2018 £'000
Wages, salaries and benefits (including directors)	581	575
Share-based payments	12	12
Social security costs	75	74
Other post-employment benefits	39	41
Less amounts capitalised	(23)	(90)
	<u>684</u>	<u>612</u>

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

Year ended 31 December 2019	Salary and fees £'000	Share- based payments £'000	Other benefits £'000	Total £'000
Richard Rose	60	0	8	68
Richard Harpham	220	6	14	240
Alistair Rae	126	4	4	134
Adrian Jones	20	0	0	20
Karen Bach	30	0	2	32
Other key management	125	2	11	138
	<u>(23)</u>	<u>-</u>	<u>-</u>	<u>(23)</u>
Amounts capitalised	(23)	-	-	(23)
Profit and loss expense	<u>558</u>	<u>12</u>	<u>39</u>	<u>609</u>

Year ended 31 December 2018	Salary and fees £'000	Share- based payments £'000	Other benefits £'000	Total £'000
Richard Rose	60	-	7	67
Richard Harpham	200	6	12	218
Alistair Rae	140	4	6	150
Adrian Jones	20	-	-	20
Karen Bach	30	-	5	35
Other key management	125	2	11	138
	<u>575</u>	<u>12</u>	<u>41</u>	<u>628</u>
Amounts capitalised	(90)	-	-	(90)
Profit and loss expense	<u>485</u>	<u>12</u>	<u>41</u>	<u>538</u>

The average monthly number of employees was as follows:

	Year ended 31 December 2019 No.	Year ended 31 December 2018 No.
Management	4	4
Administrative	21	23
Operations	110	43
	<u>134</u>	<u>70</u>

8. Taxation

The Company has made no provision for taxation as it has not yet generated any taxable income. A reconciliation of income tax expense applicable to the loss before taxation at the statutory tax rate to the income tax expense at the effective tax rate of the Company is as follows:

	Year Ended 31 December 2019 £'000	Year Ended 31 December 2018 £'000
Loss before taxation	(6,040)	(9,978)
Tax calculated at the standard rate of tax of 19% (2018:19%)	(1,148)	(1,896)
Tax effects of:		
Non-deductible expenditure	58	273
Effect of different tax rates in foreign jurisdictions	-	25
Unrecognised tax losses	1,026	1,668
Capital allowances less depreciation	197	(32)
Other	(129)	(12)
	<u>4</u>	<u>26</u>

The Group had losses for tax purposes of approximately £16m as at 31 December 2019 (£11m as at 31 December 2018) which, subject to agreement with taxation authorities, are available to carry

forward against future profits. The tax value of such losses amounted to approximately £2.78m (£1.88m as at 31 December 2018).

A deferred tax asset in respect of these losses and temporary differences has not been established as the Directors have assessed the likelihood of future profits being available to offset such deferred tax assets to be uncertain.

A deferred tax liability has not been recognised in respect of the intangible assets arising on acquisition. The Directors had plans, at the time of the acquisition to move the IP to the UK for a number of commercial reasons and the ability to do so without any obstacles, as a result of which a tax base for such assets was established in the UK.

9. Loss per share

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

Because Escape Hunt is in a net loss position, diluted loss per share excludes the effects of ordinary share equivalents consisting of stock options and warrants, which are anti-dilutive. The total number of shares subject to share options and warrants outstanding excluded from consideration in the calculation of diluted loss per share for the year ended 31 December 2019 was 1,967,507 shares (year ended 31 December 2018: 1,829,576 shares).

	Year Ended 31 December 2019	Year Ended 31 December 2018
Loss after tax attributable to owners of the Company (£'000)	(5,993)	(10,004)
Weighted average number of shares:		
- Basic and diluted	24,186,199	20,259,258
Loss per share		
- Basic and diluted (Pence)	(24.78)	(49.38)

10. Property, plant and equipment

	Leasehold improvements	Office equipment	Computers	Furniture and fixtures	Escape games	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<i>Cost:</i>						
At 1 January 2018	575	15	36	5	59	690
Additions	2,204	18	70	171	1,813	4,276
Disposals	(28)	(22)	(37)	(9)	-	(96)
As at 31 December 2018	2,751	11	69	167	1,872	4,870
Additions	25	6	6	71	1,199	1,307
Disposals	-	(8)	-	-	-	(8)

As at 31 December 2019	2,776	9	75	238	3,071	6,169
<i>Accumulated depreciation:</i>						
As at 1 January 2018	(4)	(3)	(11)	(1)	(1)	(20)
Depreciation charge	(241)	(5)	(24)	(16)	(259)	(545)
Disposals	13	6	31	11	-	61
As at 31 December 2018	(232)	(2)	(4)	(5)	(260)	(504)
Depreciation charge	(517)	(7)	(30)	(45)	(1,133)	(1,732)
Disposals	-	1	-	-	-	1
As at 31 December 2019	(749)	(8)	(34)	(50)	(1,393)	(2,234)
Net book value						
As at 31 December 2019	2,027	1	41	188	1,678	3,935
As at 31 December 2018	2,519	9	65	161	1,612	4,366

The amount of expenditure recognised in the carrying value of leasehold improvements in the course of construction at 31 December 2019 is £nil (2018: £153,000).

11. Right-of-use assets

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Land and buildings – right-of-use asset		
On adoption of IFRS 16 on 1 January 2019	3,119	-
Additions during the year	8	-
Less: Accumulated depreciation		
On adoption of IFRS 16 on 1 January 2019	(310)	-
Depreciation charged for the year	(347)	-
Net book value	<u>2,470</u>	<u>-</u>

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

12. Intangible assets

	Goodwill £'000	Trademarks £'000	Intellectual property £'000	Internally generated IP £'000	Franchise agreements £'000	App Quest £'000	Portal £'000	Total £'000
Cost								
At 1 January 2018	1,404	13	10,195	-	802	100	141	12,655
Additions through business combinations	29	-	-	-	-	-	-	29
Additions arising from acquisition	-	65	-	-	-	-	128	193
Additions arising from internal development	-	-	-	302	-	-	-	302
Disposals	(11)	-	-	-	-	-	-	(11)
At 31 December 2018	1,422	78	10,195	302	802	100	269	13,168
Additions arising from internal development	-	-	-	266	-	-	-	266
Disposals	(29)	-	-	-	-	-	-	(29)
As at 31 December 2019	1,393	78	10,195	568	802	100	269	13,405
Accumulated amortisation								
At 1 January 2018	-	-	(2,266)	-	(76)	(33)	-	(2,375)
Amortisation for the year	-	(11)	(3,398)	(21)	(115)	(50)	(61)	(3,656)
Impairment provision	(1,393)	-	(952)	-	-	-	-	(2,345)
At 31 December 2018	(1,393)	(11)	(6,616)	(21)	(191)	(83)	(61)	(8,376)
Amortisation for the year	-	(18)	(1,737)	(130)	(115)	(17)	(106)	(2,123)
Impairment provision	-	-	-	-	-	-	-	-
As at 31 December 2019	(1,393)	(29)	(8,353)	(151)	(306)	(100)	(167)	(10,499)
Carrying amounts								
At 31 December 2019	-	49	1,842	417	496	-	102	2,906
At 31 December 2018	29	67	3,579	281	611	17	208	4,792

Goodwill and acquisition related intangible assets recognised have arisen from the acquisition of Experiential Ventures Limited in May 2017 and of Boundless Workshop Limited in December 2018. Refer to Note 13 for further details.

Experiential Ventures Limited

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

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

assets was insignificant.

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

The key assumptions for the fair value less costs to sale approach are those regarding capital expenditure which supports a consequent growth in revenues and associated earnings and a discount rate. The Group monitors its pre-tax Weighted Average Cost of Capital and those of its competitors using market data. In considering the discount rate applying to the CGU, the Directors have considered the relative sizes, risks and the inter-dependencies of its CGUs. The impairment reviews use a discount rate adjusted for pre-tax cash flows. The Group prepares cash flow forecasts derived from the most recent financial plan approved by the Board and extrapolates revenues, net margins and cash flows for the following four years based on forecast growth rates of the CGU. Cash flows beyond this period are also considered in assessing the need for any impairment provisions. A discount rate of 16.2% and capex of £2.8 million over the four years has been assumed. The terminal rate used for the fair value calculation thereafter is 2%. The directors consider these assumptions are consistent with that which a market participant would use in determining fair value.

In 2018, the Company tested goodwill for impairment and determined that the recoverable amount relating to the acquisition of Experiential Ventures Limited was lower than its carrying amount and was therefore impaired. An impairment loss of £1,393,000 was therefore recognised in 2018 to write off the goodwill which arose on the acquisition. More detail of the input assumptions has been provided in Note 3.

Intellectual property

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

The fair value of these assets on acquisition of £10,195,000 was determined by discounting estimated future net cash flows generated by the asset where no active market for the assets exists.

The "relief from royalty method" was adopted as being most appropriate methodology. The relief-from-royalty method values the intangible asset by reference to the amount of royalty the acquirer would have had to pay in an arm's length licensing arrangement to secure access to the same rights. The key input into this method was the 'royalty rate', which is then applied to the 'royalty base' to estimate the amount of theoretical royalty payments. This royalty stream, which the owner does not have to pay since the intangible asset is already owned, is discounted.

Under this method the following were key inputs:

- Forecast revenue associated with the asset;
- Expected/Remaining economic life of the asset;
- Notional royalty rate applicable to the asset; and
- A discount rate which encompasses the level of risk present.

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

Franchise agreements

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

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

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

- Economic life – The valuation did not assume income for a period longer than the asset’s economic life (the period over which it will generate income). The contractual nature of the Franchise Agreements (with terms typically between 6 and 10 years) means it is possible to forecast with a reasonable degree of certainty the remaining term of each agreement and therefore the period in which it will generate revenue. Only contracts which were signed at the acquisition date were included.
- Renewal – No provision for the renewal of existing Franchise Contracts has been included with the valuation. This reflects the fact that potential contract renewals will only take place several years in the future, and the stated strategy of management has been to focus on the development of owner-managed sites rather than renewing the franchises when they are due for renewal – as they may be bought out.
- Contributory Asset Charges (CACs) - The projections assumed after returns are paid/charged to complementary assets which are used in conjunction with the valued asset to generate the earnings associated with it. The only CAC identified by management is the charge relating to IP – a charge has been included to take into account the Intellectual Property used within the franchise operation. This is considered key in generating earnings at the franchised sites. Management has applied the same royalty rate of 10% used to value this asset.
- Discount Rate – The Capital Asset Pricing Model (“CAPM”) has been used to calculate a discount rate of 13.7%.
- Taxation – The franchise profits are earned within a group subsidiary which is incorporated in the Labuan province of Malaysia. This has a tax rate of approximately 3%, which has been applied to the earnings generated from franchise operations.

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

13. Subsidiaries

Details of the Company’s subsidiaries as at 31 December 2019 are as follows:

Name of subsidiary	Country of incorporation	Principal activity	Effective equity held by the Group (%)
Experiential Ventures Limited	Seychelles	Holding company	100
Escape Hunt Group Limited	England and Wales	Operator of escape rooms	100
Escape Hunt Operations Ltd	Malaysia	Operator of escape rooms	100

E V Development Co. Ltd	Thailand	Game design	99.9
Escape Hunt IP Limited	England and Wales	IP licensing	100
Escape Franchises Limited	England and Wales	Franchise holding	100
Escape Hunt Innovations Limited	England and Wales	Game design	100
Escape Hunt USA Limited	England and Wales	Franchise holding	100

Each of the companies incorporated in England and Wales have their registered office at 3 Pear Place, London SE18BT.

Each of the subsidiaries incorporated in England and Wales is directly held by the Company. The overseas subsidiaries are held indirectly.

The registered address of each overseas subsidiary is as follows:

Experiential Ventures Limited

103 Sham Peng Tong Plaza, Victoria, Mahe, Seychelles.

Escape Hunt Operations Ltd

Lot A020, Level 1, Podium Level, Financial Park Labuan, Jalan Merdeka, 8700 Labuan, Malaysia.

E V Development Co. Ltd

No. 689 Bhiraj Tower at EmQuartier, Sukhumvit (Soi 35) Road, Klongton-Nua Sub-district, Bangkok, Thailand.

Boundless Workshop Limited

On 1 December 2018, the Company subscribed £20,000 in cash for a 51% interest in the enlarged share capital of Boundless Workshop Ltd ('Boundless'). The activities of Boundless have been consolidated with effect from the date of acquisition until 30 June 2019 when the Company made the decision to dispose of its investment.

Boundless designs and builds interactive experiences.

The following table summarises the consideration paid for Boundless, the fair value of assets acquired, and liabilities assumed at the acquisition date.

	Fair value
Consideration	£'000
Cash paid to Boundless	20
Total consideration	20
 Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	10
Property, plant and equipment	7
Trade and other receivables	30
Inventories	4
Trade and other payables	(68)
Total identifiable net liabilities	(17)

Goodwill	29
Non-controlling interest	8
Total	20

The goodwill arising was attributable to the acquired workforce, anticipated future profit from expansion opportunities and synergies of the business. The goodwill arising from the acquisition was been allocated to the owner-operated CGU. No fair value adjustments were deemed necessary.

In June 2019, the Company made the decision to dispose of its 51% shareholding for a consideration of £20,000. Accordingly, the Company made full provision against the carrying value of goodwill. This is summarised below:

	£'000
Consideration	20
Impairment of goodwill	(29)
Non-current assets	(7)
Current assets	(20)
Current liabilities	125
Less: Non-controlling interests	(59)
Gain on disposal of subsidiary	<u>30</u>

Acquisition of Experiential Ventures Limited

On 13 April 2017, the Company conditionally agreed to purchase the entire issued share capital of Experiential Ventures Limited for a consideration of £12 million on a cash free and debt free basis, with a normalised level of working capital. The consideration (following adjustments for cash/debt and working capital) was payable by £7.2 million in cash on Completion and by the issue of Ordinary Shares (the “Consideration Shares”) for £4.8 million.

In order to fund the cash consideration payable and associated costs and expenses, as well as working capital, the Company agreed the conditional placing of 10,370,370 Ordinary Shares (the “Placing Shares”) at 135 pence per share to raise £14 million (£10.8 million net of expenses).

On the same date, the Company issued 3,555,555 Ordinary Shares (the Consideration Shares) at £1.35 each to the holders of the entire issued share capital of Experiential Ventures Limited, pursuant to the Company’s acquisition of the Escape Hunt Group. The Acquisition was approved on 2 May 2017 and admission of the share capital on AIM took effect on 3 May 2017.

The following table summarises the consideration paid for Experiential Ventures, the fair value of assets acquired and liabilities assumed at the acquisition date:

	Fair Value
Consideration	£'000
Cash	7,200
Equity instruments (3,555,555 ordinary shares)	4,800
Total consideration	12,000
Cash and cash equivalents	152
Property, plant and equipment	130
Gross trade and other receivables	134
Trade and other payables	(142)
Deferred income	(667)
Tax liabilities	(29)
Intangible assets identified on acquisition	31
Total identifiable net assets	(390)

Goodwill	1,393
Intellectual Property	10,195
Franchise Business	802
Total	12,390

The fair value of the ordinary shares given as part of the consideration (£4,800,000) was determined by reference to the Company's share price at the date of acquisition, being £1.35 per share. The Directors do not consider that any fair value adjustments were necessary to the book values of the assets and liabilities assumed on acquisition.

14. Loan to franchisee

A secured loan of £300,000 is due from a master franchisee which bears interest at 5% per annum plus 2% of the franchisee's revenues and is repayable in instalments between January 2021 and June 2023. The loan is secured by means of an option agreement with the franchisee which gives the lender the rights to take over the locations operated by the borrower in the event of any default.

The majority of income receivable under the terms of the loan relates to interest at a fixed rate. This loan is being held at amortised cost. The carrying value of the loan approximates fair value. Credit risk is not considered to be significant.

15. Trade and other receivables

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Trade receivables (customer contract balances)	370	121
Prepayments	328	173
Accrued income (customer contract balances)	78	76
Accrued interest	10	-
Deposits and other receivables	57	252
	843	622

The Group's exposure to credit risk and impairment losses related to trade receivables is disclosed in Note 29.

Significant movements in customer contract assets during the year ended 31 December 2019 are summarised below:

Year ended 31 December 2019:

	Trade Receivables £'000	Accrued income £'000
Contract assets:		
Balance at 1 January 2019	121	76
Transfers from contract assets recognised at the beginning of the period to receivables	76	(76)
Net increases as a result of changes in the measure of progress	268	78
Provisions for doubtful amounts	(95)	-
Balance at 31 December 2019	370	78

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

We receive payments from customers based on terms established in our contracts. In the case of franchise revenues, amounts are billed within five working days of a month end and settlement is due by the 14th of the month.

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

16. Inventories

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Branch consumables (at cost)	12	15
Total inventories	<u>12</u>	<u>15</u>

17. Cash and cash equivalents

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Bank balances	2,171	2,657
Cash and cash equivalents in the statement of cash flow	<u>2,171</u>	<u>2,657</u>

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

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Pounds Sterling	1,656	2,009
Australian Dollars	197	58
United States Dollars	174	434
Others	144	156
	<u>2,171</u>	<u>2,657</u>

18. Trade and other payables (current)

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Trade payables	317	670

Accruals	733	796
Deferred income	360	244
Taxation	4	23
Other taxes and social security	180	112
Other payables	31	36
	<u>1,625</u>	<u>1,881</u>

19. Lease liabilities

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
In respect of right-of-use assets		
Recognised on adoption of IFRS 16 on 1 January 2019	2,878	-
Additions during the year	8	-
Interest Incurred	171	-
Payments during the period	(454)	-
Lease liabilities at end of period	<u>2,602</u>	<u>-</u>
	As at 31 Dec 2019 £'000	As at 31 Dec 2018 £'000
Maturity		
Current	304	-
Non-current	2,298	-
Total lease liabilities	<u>2,602</u>	<u>-</u>

20. Deferred income

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Contract liabilities (deferred income):		
Balance at beginning of year	663	539
Revenue recognised in the year that was included in the deferred income balance at the beginning of the year	(200)	(103)
Increases due to cash received, excluding amounts recognised as revenue during the period	284	218
Decreases in deferred income as a result of changes in the measure of progress (release on recognition of revenue arising from contract liabilities)	-	(4)
Decreased on termination of franchises	(136)	(17)
Translation differences	11	30
Transaction price allocated to the remaining performance obligations	<u>622</u>	<u>663</u>

All of the above amounts relate to contracts with customers and include amounts which will be recognised within one year and after more than one year. The amounts on the early termination of

upfront franchise fees were recognised as revenue as all performance obligations have been satisfied.

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Upfront exclusivity fees	368	506
Escape room advance bookings	129	98
Gift vouchers	125	57
Other	-	2
	622	663

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
<i>Upfront exclusivity fees</i>		
Within one year	106	87
After more than one year	262	419
	368	506

Deferred revenues in respect of upfront exclusivity fees are expected to be recognised as revenues over the remaining lifetime of each franchise agreement. The average remaining period of the franchise agreements is approximately five years. All other deferred revenue is expected to be recognised as revenue within one year.

21. Dilapidation provisions

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Within one year	-	-
After more than one year	74	40
	74	40

Provisions represent future liabilities for property dilapidations and are recognised on a lease by lease basis based on the Group's best estimate of the likely committed cash outflow. No amounts have been used or reversed during the year.

The leases expire between January 2023 and February 2032.

22. Share capital

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
<i>Issued and fully paid:</i>		
At beginning of the year: 20,259,258 (2018: 20,259,258) Ordinary shares of 1.25 pence each	253	253
Issued during the year: 6,666,667 Ordinary shares	83	-

As at end of period / year		
- 26,925,925 (2018: 20,259,258)	336	253
Ordinary shares of 1.25 pence each		

Escape Hunt plc does not have an authorised share capital and is not required to have one.

The number of shares in issue at 31 December 2019 and at the date of approval of these financial statements is 26,925,925 ordinary shares of 1.25 pence each.

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

During the year ended 31 December 2019, the following changes in the issued share capital of the Company occurred:

- On 13 May 2019, the Company completed a placing of a total of 6,666,667 Ordinary shares at the Placing Price of 60 pence per share (“Placing Shares”), raising £4.0 million (before expenses of £276,000). The expenses have been deducted from the premium of £3,917,000 arising from the Placing.
- Admission of the 6,666,667 Placing Shares to trading on AIM and dealings in these shares commenced on 4 June 2019.

23. Warrants

A warrant instrument was entered into by way of deed poll on 13 April 2017 under which the Company created and issued warrants to Stockdale Securities to subscribe for 202,592 Ordinary Shares on the terms and conditions of the instrument. The warrants were issued to Stockdale Securities on Admission and may be exercised within 3 years of the date of the instrument at a price of £1.35 per Ordinary Share (being equal to the Placing Price) subject to the terms and conditions of the instrument. The sum of £nil has been recognised as a share-based payment and charged to the Income Statement in the year ended 31 December 2019 (year ended 31 December 2018: £nil).

The weighted average fair value of the warrants granted was 0.15p per share.

The weighted average remaining contractual life of the warrants outstanding at 31 December 2019 is 4 months.

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

No warrants have been exercised or forfeited. Accordingly, all warrants remained in place at 31 December 2019.

These fair values were calculated using the Black Scholes option pricing model. The inputs in the model were as follows:

Stock price	135p
Exercise price	135p
Interest rate	1%
Volatility	15%
Time to maturity	3 years

24. Share option and incentive plans

Share option plan

The Escape Hunt plc Company Share Option Plan 2017 (“CSOP”) was established on 2 May, 2017. The CSOP is designed to be a Schedule 4 CSOP Scheme. All employees (including full time executive directors) of the Company and any of its subsidiaries may be granted options over Ordinary Shares under the CSOP provided that they are not prohibited under the relevant legislation relating to Schedule 4 CSOP Schemes from being granted an option by virtue of having, or having had, a material interest in the Company. On 10 July 2017, two employees were each granted options over 20,833 shares each at an exercise price of £1.44 per ordinary share.

On 24 January 2019, the Company issued options to subscribe for 137,931 ordinary shares of 1.25 pence each at an exercise price of 87 pence per share to an employee of the Company, under the terms of the Escape Hunt Plc Enterprise Management Incentive Scheme 2018. No options were exercised, forfeited or lapsed during the period. Accordingly, all options remained in place at 31 December 2019.

The weighted average remaining contractual life of the options outstanding at 31 December 2019 is 28 months.

The share options vest on the third anniversary of the grant date and, on exercise, will be settled by the issue of ordinary shares in the Company.

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

The charge to profit and loss during the year was £nil (2018: £nil) due to the immateriality of the value of the options.

Share incentive plan

The Escape Hunt plc Executive Growth Share Plan (“EGSP”) was established on 2 May 2017. Three directors and full-time employees of the Company were invited to participate under the EGSP.

Under the EGSP invitations were issued to two directors and an employee to subscribe for a specified number of G Shares each at a specified price per G Share. The Remuneration Committee has absolute discretion to select the persons to whom invitations were issued and in determining the number of G Shares which may be acquired pursuant to each invitation. Two Directors and one employee subscribed for a total of 1,000 shares under the EGSP at a cost of £1 per share in the year ended 31 December 2017. The price payable for a G Share pursuant to an invitation is also determined by the Remuneration Committee. The vesting period for the G Shares is 3 years.

During the year, 280 G shares were transferred to Escape Hunt plc following the resignation of a director.

The G share exercise price for 71.43% of the G shares is currently £2.33 and is currently £3.37 for the balance.

The sum of £12,000 has been recognised as a share-based payment and charged to the Income Statement during the year (2018: £12,000)

These fair values were calculated using the Black Scholes option pricing model. The inputs in the model were as follows:

Stock price	135p
Exercise price (71.4%)	233p

56

Exercise price (28.6%)	337p
Interest rate	1%
Volatility	15%
Time to maturity	3 years

25. Capital management

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

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

The Company is not subject to externally imposed capital requirements.

26. Reserves

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

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

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

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

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

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

27. Related party transactions

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

During the period under review, in addition to those disclosed elsewhere in these financial statements, the following significant transactions took place at terms agreed between the parties:

A salary of £27,558 and other benefits of £1,128 were paid to close family members of one of the directors (2018: salary of £33,000 and other benefits of £2,000) on an arm's length basis.

28. Directors and key management remuneration

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

29. Financial risk management

General objectives, policies and processes

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

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

Categories of financial assets and liabilities

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

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

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

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

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

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

Financial assets – loans and receivables

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Trade and other receivables	515	449
Deposits	26	36
Loan to master franchisee	300	300
Cash and cash equivalents	2,171	2,657
	<hr/> 3,012	<hr/> 3,442

Financial liabilities at amortised cost:

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Trade payables	317	670
Accruals and other payables	764	832
Lease liabilities	2,602	-
	<hr/> 3,683	<hr/> 1,502

Credit risk

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

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

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

Impairment of financial assets

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

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

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

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Gross amounts (before impairment):		
Not past due	197	67
Past due 0-30 days	24	1
Past due 31-60 days	38	11
Past due more than 60 days	211	47
	<hr/> 470	<hr/> 126

Impairment losses:

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

	As at 31 December 2019 £'000	As at 31 December 2018 £'000
At beginning of year	(5)	(12)
Impairment losses recognised	(95)	(6)
Bad debts written off	-	13
At end of year	<hr/> (100)	<hr/> (5)

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

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

The Group has outstanding a loan receivable from a master franchisee totaling £300,000 (2018: £300,000). The terms of the loan are set out in Note 14. The expected credit loss is insignificant and no impairment has been recognised in respect of the loan.

As at 31 December 2019 £2,068,000 (2018: £2,301,000) of the cash and bank balances, as detailed in Note 17 to the financial statements are held in financial institutions which are regulated and located in the UK, which management believes are of high credit quality. Management does not expect any losses arising from non-performance by these counterparties.

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

Liquidity risk

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

The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The principal liabilities of the Group arise in respect of trade and other payables which are all payable within 12 months. At 31 December 2019, total trade payables within one year were £317,000 (2018: £670,000), which is considerably less than the Group's cash held at the year-end of £2,171,000 (2017: £2,657,000). The Board receives and reviews cash flow projections on a regular basis as well as information on cash balances.

Market risk

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

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

Foreign currency risk

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

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

	UK Pound Sterling	United States Dollar	Thai Bhat	Euro	Australian	Other	Total
As at 31 December 2019	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets:							
Trade receivables	256	-	4	110	-	-	370
Other receivables and deposits	470	1	-	-	-	-	471
Cash and bank balances	1,656	174	11	117	197	16	2,171
	2,382	175	15	227	197	16	3,012
Financial liabilities:							
Trade payables	317	-	-	-	-	-	317
Other payables and accruals	3,359	7	-	-	-	-	3,366
	3,676	7	-	-	-	-	3,683
Foreign currency exposure (net)	-	168	15	227	197	16	623

	UK Pound Sterling	United States Dollar	Thai Bhat	Euro	Australian	Other	Total
As at 31 December 2018	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets:							
Trade receivables	101	20	-	-	-	-	121
Other receivables and deposits	623	33	8	-	-	-	664
Cash and bank balances	2,008	433	34	110	58	14	2,657
	2,732	486	42	110	58	14	3,442
Financial liabilities:							
Trade payables	668	2	-	-	-	-	670
Other payables and accruals	802	7	23	-	-	-	832
	1,470	9	23	-	-	-	1,502
Foreign currency exposure (net)	-	477	19	110	58	14	687

Sensitivity analysis

A 10% strengthening of the Pound against the following currencies at 31 December 2019 would increase/(decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Increase/ (Decrease) £'000	Increase/ (Decrease) £'000
	2019	2018
Effects on profit after taxation/equity		
United States Dollar:		
- strengthened by 10%	(17)	3
- weakened by 10%	17	(3)

Escape Hunt Unaudited Preliminary Results for period ended 31 Dec 2019

Thai Bhat:		
- strengthened by 10%	(2)	(2)
- weakened by 10%	2	2
Euro:		
- strengthened by 10%	(12)	(11)
- weakened by 10%	12	11
Australian Dollar:		
- strengthened by 10%	(20)	(6)
- weakened by 10%	20	6

Company information

Directors

Richard Rose, Independent Non-Executive Chairman

Richard Harpham, Chief Executive Officer

Graham Bird, Chief Financial Officer

Adrian Jones, Non-Executive Director

Karen Bach, Non-Executive Director

Company secretary

Graham Bird

Company number

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