



# ANNUAL REPORT & ACCOUNTS 2018

## ESCAPE HUNT

EXCITEMENT. UNLOCKED.



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# Chairman's Statement

I am delighted to report that we have made excellent progress in executing our strategy, and that trading performance has met our expectations.

Having spent time positioning our brand to underpin our ambitious roll-out plans, we are delighted with the very positive customer feedback, as evidenced by achieving #1 on TripAdvisor at all of our UK mature sites. Our brand strength also enabled us to achieve a very significant IP deal with the BBC to secure exclusive rights to Doctor Who, which has since been rolled-out across our UK network with great success.

We have completed building the team and infrastructure to underpin and support our growth plans. We have also made good progress in building a robust supply chain, overcoming some challenges we faced in our early days of operation, by moving our games design facility from Bangkok to London, and by working with a number of UK based production houses (one of which we have invested in).

The first eight owner-operated sites were opened during the year. Despite some challenges in opening these as quickly as we had originally hoped (as previously reported) and which have led to the impairment charge in 2018 mentioned in the financial review, they have achieved the desired sales levels, whilst slightly exceeding our EBITDA expectations. The first three of these have reached mature trading levels and continue their strong progress and for the five new owner-operated sites both sales and EBITDA performance are ahead of our expectations. With the marketing experience gained and applied, the subsequent five new sites are seeing higher initial revenues than the first three sites at their equivalent stage of development.

Our success and ability to attract footfall has been recognised by many retail landlords who are now offering attractive potential sites and fit-out / lease incentives which will further enhance our site investment case going forward.

Our established franchise network performed to plan during the year. We have previously stated that we wish to accelerate our overseas footprint by partnering with established operators who have sufficient scale and financial resource to achieve meaningful penetration in our chosen territories. We were recently delighted to announce the first such partnership where exclusive heads of terms have been agreed to effect a franchise roll-out across the US and Canada.

The cash raised during our IPO in May 2017 has been invested in building the infrastructure, enhanced games design capability and central resource and in setting up the first eight owner-operated sites and funding their initial trading losses. With our UK sites now being cash generative, our fit-out model now refined and landlord fit-out contributions expected, the new cash we are raising will be directed to executing our growth plans and to provide working capital.

We feel we have achieved key milestones we set ourselves during the year under review and have demonstrated our site investment case and now look forward to executing our growth plans with confidence, enthusiasm and vigour.

**Richard Rose**

*Non-Executive Chairman*

10 May 2019

# Strategic Report

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2018 was an exciting year for Escape Hunt, which saw the business execute against its strategy of developing an owner-operated business in the UK, create from scratch a game design studio in London, and set the foundations for significant future growth. We were delighted to sign our first licensed IP deal with the BBC to bring Doctor Who to life in our rooms and have been proud of the incredible customer feedback received across the estate.

The unit economics of the eight newly opened owner-operated sites have performed in line with Board expectations, and the broader market for experiential leisure continues to flourish.

**UK Owner-Operated Sites** – Escape Hunt opened three sites in the first half of 2018 and a further five in Q4 2018 to take the total of newly opened venues to eight. Showcasing games designed by our London Studio, customer feedback has been outstanding, with the first four sites to open reaching #1 on TripAdvisor, the next three reaching number #2 so far, and the last to open already at #7 and climbing.

Within the nine owner-operated sites, 38 game rooms were opened last year, a further nine rooms have opened already in 2019 and the remaining two rooms are scheduled to open in Q2 2019, so the full revenue benefit from these sites will accrue in the second half of 2019. As mentioned in our trading statement in January, the first tranche of three sites continue with their strong progress, and although still relatively immature, we are pleased to see that the second tranche of five sites opened in Q4 2018 is on a steeper revenue trajectory than the first. The relatively fixed nature of the cost base means that the majority of incremental sales flow to EBITDA, reinforcing our confidence in the overall economic model. The results for the year have been materially impacted by pre-opening costs from the newly opened owner operating business, in addition to a full year of the head office cost burden without the full scale of operating businesses being in place to support them. Impairment charges were also recorded as we updated our impairment testing to reflect our revised expectations of growth in the business; for more detail see note 2.

**Branded IP Content** – Escape Hunt identified the strategic importance of branded IP in driving occupancy and further differentiating us. The first IP content deal was signed in July 2018 with BBC Worldwide for a five-year exclusive licence to create Doctor Who themed escape rooms in the UK. The installation of the first Doctor Who game was completed in December 2018 and these games are currently playing in six UK sites. The roll-out of the second Doctor Who game is due to be completed in the coming months. There have been strong forward bookings for Doctor Who themed rooms from the outset and the average room occupancy has been running at approximately 60% in the few weeks from opening until the end of February, which is in line with expectations and well above expected occupancy rates of unbranded rooms.

The Company believes that IP will continue to play an important role in the content strategy of the business and is considering several similar opportunities to bring branded IP alive for customers and fans.

**Additional Sales Opportunities** – Escape Hunt's site performance to date has been driven predominantly by B2C sales and corporate entertainment. The Company identified an additional opportunity to tap into the market for gamified learning and launched its proprietary corporate learning and development ("L&D") proposition in February 2019. Designed to provide an immersive, gamified, experiential solution for employee engagement, its use spans staff recruitment, retention and development programmes for companies. Escape Hunt is exploiting two routes to market by contacting potential corporate clients directly and also indirectly via other L&D firms who are selling the offering to their client base. Escape Hunt expects to generate high margin, additional sales at the start of the week where customer occupancy is typically lower, whilst improving the level of repeat business by forging relationships with businesses.

**Franchise Network** – Two thirds of Escape Hunt's franchise business is generated by four master franchisees, namely France/Benelux, Australia/NZ, the Middle East and the Nordics. These territories have continued to perform well and have expanded with several new site openings.

Escape Hunt rationalised an element of its franchise tail through the year and closed a number of weak franchise performers in territories with low GDP/Capita or under-performing management. At the year end, Escape Hunt had 42 franchise sites compared with 43 at the end of 2017. Most businesses in the network have now been rebranded and the remaining few will be completed in 2019. Management's strategy to grow the franchise network by identifying well capitalised and experienced players able to open and manage multiple units is beginning to bear fruit and Escape Hunt has been negotiating a deal with a potential US partner to commence a significant roll-out of franchises across the USA and Canada. A detailed heads of terms, incorporating the key commercial terms, was signed on 26 April 2019.

# Strategic Report *continued*

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## Strategy for 2019

Conditional upon completing the Placing, the two immediate strategic targets for the Group are to open a further 4-6 sites in 2019 (taking the total UK estate to 13-15) and to embark upon the franchisee roll-out in North America.

In order to fund the UK owner-operated roll-out, the Company has announced separately today that it is conducting a Placing to raise a minimum of £4m, before expenses.

Additional focus for the Management team in 2019 will include:

- Securing new sites with significant landlord contributions towards build costs, recognizing landlord demand for experiential leisure in retail schemes
- Identifying franchise partners for the remaining territories within Europe and conclude two large scale franchise deals (including the US deal mentioned above)
- Securing further brand IP license deals to bolster the content strategy of the business
- Growing the Learning & Development offering to corporates with the ultimate objective of corporate clients using an Escape Hunt branded tool to assess their staff's capabilities

## Growth Strategy and Outlook

- The Group's strategy is to continue the roll-out of owner-operated sites in the UK, with an aim to reach 50 in the medium term, and to grow the franchise estate by two to three times over the medium term in conjunction with well-resourced partners
- We will continue our focus on game production cost reduction and monetisation and to further drive occupancy through securing new IP content deals
- We have been pleased with the customer reception to our games at our UK sites which we opened in 2018 and our game design team is currently designing the next series of games for future sites
- Trading in the first three months of 2019 has been in line with expectations and although still immature, the UK owner-operated estate is already generating positive EBITDA as a group of nine sites

**Richard Harpham,**  
*Chief Executive Officer*

10 May 2019

# Financial Review

## Group results

Revenue for the year grew from £872k in 2017 to £2,172k. The increase was partly due to a full 12 months contribution of £1,095k from the franchisee business in 2018, compared to only eight months in 2017 (£798k). The major increase in revenue was driven by the first year contribution of the owner-operated sites in the UK, which was £1,002k (2017: £74k). The first three sites in the UK were opened during March, 2018 and the next five sites were all opened on time in the last quarter of the year.

The operating loss for the year was £10,012k (2017: Loss of £4,134k) and the adjusted loss before tax, depreciation, amortisation and interest ("Adjusted EBITDA") was a loss of £3,087k (2017: £790k). Set out below is a reconciliation between the operating loss and the Adjusted EBITDA loss:-

	2018 £'000	2017 £'000
Operating loss	(10,012)	(4,134)
Amortisation of intangibles	3,656	2,375
Impairment of intangible assets	2,345	-
Depreciation	545	22
Write-off of assets	45	-
Branch closure costs	291	-
Foreign currency losses	31	34
Transaction costs	-	870
Share-based payment expense	(12)	43
Adjusted EBITDA	(3,087)	(790)

The EBITDA loss has been adjusted for the write-off of £45k of assets in the Bangkok business at the time of the closure of the office and the branch, the cash costs of £291k which were principally the employee redundancy and notice period payments to the employees and former owner of the business and the costs of vacating the two properties. A further £12k has been charged to income for the share-based payment expense which relates to the growth shares for three of the senior management which were issued in 2017. No new share options were issued in 2018.

These costs and items as shown above have been deducted from EBITDA loss to arrive at the Adjusted EBITDA loss since they are either non-cash costs or are required to be adjusted in order to provide a consistent comparison to last year in that they are one-off items which will not be expected to recur in future periods. EBITDA is used as the basis of this performance measure as it most appropriately captures the ongoing ability of the business to generate operating cash flows which contribute to capital investment that supports further growth.

Amortisation in 2018 was £3,656k (2017: £2,375k) and is comprised largely of the annual charge of £3.4m for the IP of £10.2m that was acquired at the time of the acquisition of the business in May 2017 and which is being written down over three years. The balance comprises the writing down of other intangible assets as they come into use. This includes both third party and staff costs for the creation of certain games that have been designed in the UK and the app that was acquired with the business in 2017. These are written down over two years.

The decision in 2017 to delay the UK roll-out of sites whilst we rebranded the business has proven successful, as it has underpinned our outstanding TripAdvisor scores and enabled us to secure the Doctor Who licensing agreement with the BBC. However, it had the effect of pushing back the break-even point for the business, which has led to an impairment charge of £2,345k (2017: £nil). Goodwill of £1,393k relating to the Experiential Ventures Ltd acquisition in 2017 was written off, alongside a further impairment charge of £952,000, which together comprise the impairment charge against the carrying value of intellectual property, driven by the delay in the start of our UK roll-out schedule. This non-cash balance sheet adjustment has no bearing on performance going forwards.

# Financial Review continued

## Franchisee business

In dollar terms the revenue was \$1,386k (2017: \$1,650k). This has been calculated by translating revenues into US dollars based on the prevailing rate at the time of invoicing, noting most of the franchisees are invoiced in US dollars. This has been presented as such in order to provide an indicator of overall performance by our franchisees in a manner which is unaffected by movements in foreign exchange rates during the year. For those franchisees who are not invoiced in US dollars, conversion to US dollars is made at the prevailing US dollar rate when the invoices are raised.

Franchisee numbers at 31 December 2018 were 42 (2017: 43). Smaller and unprofitable single site franchisees closed and 7 new sites opened. These new sites were mainly additional sites opened by master franchisees entering into further sub-franchisee agreements or, in the case of the Scandinavian Master Franchise Agreement, opening new wholly owned sites. The operating profit was £239k and after adding back depreciation of £118k resulted in an EBITDA of £357k (2017: £273k). Account management staff were recruited in the UK, together with games design staff, ahead of closing the Bangkok studio in July. A total of 42 new games, including adaptations of older games were produced by both the UK and the Bangkok teams in 2018 for franchisees, together with eight games that were produced in London for the UK owner-operated sites. Of these, five have already been taken up by franchisees.

The new Escape Hunt brand was rolled out to the franchisees progressively during 2018 and this programme is due to complete shortly. Escape Hunt assisted the franchisees in the process with new digital marketing collateral and contributions to each site's capital costs. The new website and improved booking engine are also due to be rolled out to franchisees in the first half of 2019 after the investment and testing in the UK in 2018.

The franchising activities recorded an operating profit of £239k (2017: £183k); which is an encouraging result given the redomiciling of the business from Bangkok to London and additional work to enhance the offering to the customers of the franchisees was undertaken during the year.

## Owner-operated business

The total revenue of the owner-operated business was £1,077k, of which £1,002k was generated in the UK and the balance of £75k from the Bangkok branch. The cost of sales was £1,950k to give a gross loss of £873k. Cost of sales comprises site property and utility costs, site staff costs as well as directly attributable marketing costs. The gross loss reflects the fact that all the Escape Hunt sites were opened during the course of the year and in addition to bearing pre-opening costs, the majority have yet to reach their full maturity, with most of the sites only opening from October onwards.

Administrative costs and other overheads of £825k were incurred, being principally central marketing and agency costs and game design management costs.

As noted above, the IP of £10.2m that was acquired as part of the consideration at the time of the acquisition is being amortised over three years and which results in an annual charge of £3.4m. This has been charged to the owner-operated activity and forms the majority of the amortisation charge of £3,656k across the Group and of the £4,109k of amortisation and depreciation charges in the owner-operated activity. The impairment charge of £2,345k relates to the owner-operated business as a result of the Company updating the assumptions from those in place during the original acquisition including the growth of the owner-operated estate arising over a more extended period of time than first anticipated.

## Central overheads

The administrative and overhead charges were £2,113k, comprising the management and marketing staff, advisory fees and the head office property costs. Staff numbers in the London office increased during the year as the business transitioned from Bangkok to London and as the owner-operated sites in the UK developed, requiring marketing, finance and operational staff.

### Cashflow and capital expenditure

The operating cashflow before working capital changes was an outflow of £3,380k, and reduced to £2,916k after working capital changes. £4,276k was incurred in fixed asset capital expenditure, of which £2,204k was in leasehold site fit-out costs and £1,813k in games and props assets. A further £495k was incurred on a wide range of intangible assets, including £302k on acquiring game software, game intellectual property, third party game design costs as well as £74k of Escape Hunt game design staff costs.

Cash at 31 December 2018 was £2.66m.

### IFRS 16

From 1 January 2019, the Group has 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 are currently charged to the Income Statement (£388k in 2018) will 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.

### Innovation

A number of innovation issues were identified in 2017 and 2018 which have led the management to develop an innovation programme for the Group. These issues related, for example, to developing puzzles for new games combined with site fit-out and site construction and which have been commented on in our trading statements during 2018. Finding suitable production partners has also been one of the problems which management have had to overcome.

A decision was made in 2018 to apply for a Research and Development grant from Scottish Enterprise to establish a programme of innovation in Scotland with three separate objectives. The first is to improve the understanding of how customers solve clues and the typical time taken so that the design of puzzles can be improved; the second is to use gaming data to analyse human behaviour in an escape room setting and provide this data to corporate clients. This brings together psychometrics and video tracking for example, together with experienced facilitators to provide an informative analysis for clients on team performance. The third is to understand how to develop puzzles that can be delivered in alternative format, such as through virtual reality or tablet based applications.

A grant for £2m was agreed in March, 2019 and will now be activated. The grant commencement date is April, 2018, which was when the application was first lodged and the grant period is two and a half years. Accordingly, the Company will now establish a total of three sites in Scotland, one of which was established in 2018, containing an average of six rooms at each site to conduct these activities. Each site will be able to carry out normal commercial activities and indeed needs to do so in order to achieve each of the three objectives outlined above.

To assist in resolving elements of the game design process, Escape Hunt Innovations Ltd subscribed a nominal sum in cash for a 51% interest in a small design and production workshop near Edinburgh in December 2018.

Two patents were also applied for in 2018. The first patent relates to a process to make an escape room more or less difficult, based on the identity of the player and the second relates to a process to obtain identity consent. The related work for these patents is expected to be performed in Scotland.

Advance Assurance was applied for to the HMRC in February, 2019 for Research and Development tax credits for the years 2017, 2018 and 2019. Separate to the work being carried out in Scotland, the London based game design studio continues to use and enhance the IP acquired at the time of the acquisition, which inter alia consisted of the large library of games and the design process. In addition, development work has been carried out in England on developing and trialling both new puzzles and prop construction with a number of manufacturers.

### Key Performance Indicators

The Directors and management have identified the following key performance indicators ('KPIs') that the Company tracked over 2018 and into future years. These will be refined and augmented as the Group's business matures:

- Numbers of owner-operated branches
- Numbers of franchised branches
- Adjusted EBITDA for the Group
- Site occupancy levels
- Ratio of site staff costs to site revenue



# Financial Review *continued*

Reporting systems were enhanced in early 2018 to obtain weekly data on site performance for the management team. The Board also receives monthly updates on the progress on site selection, site openings and weekly as well as monthly information on site occupancy levels, individual site revenue and site operating costs. Monthly management accounts are also reviewed by the Board which focusses on revenue, site profitability and adjusted EBITDA as the key figure within the management accounts.

As mentioned elsewhere, the Group opened 8 sites in the UK in 2018 which was in line with revised expectations and continued to assess site plans for further openings in 2019.

Both the number of franchised branches are monitored by the management team as well as their financial performance and assistance is provided to all branches that request it in terms of marketing advice as well as the provision of additional games. A total of 50 games were designed in 2018, of which over 40 were specifically for the franchisees.

7 new franchises were opened in the year and there were 42 franchises in operation at the end of the year. 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 who can open large numbers of owner operated branches.

The key weekly KPIs by which the UK business is operated are the occupancy levels, site revenue and staff costs and therefore 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 standard percentages of revenue. Occupancy revenue targets are set at 40% of available rooms, and assuming a certain number of players and a set price per customer. Higher rates are targeted for rooms utilizing IP, such as Doctor Who, which have been rolled out into just 6 rooms to date in early 2019. A range of lower occupancy targets are set for the initial six months of trading after each site opens. It has been encouraging to see the sites in aggregate reaching their occupancy targets. Corporate L&D activity should also assist sites reach and exceed this target.

The ratio of staff costs to the site revenue are set at the range of 30% to 35%. This target has also been reached when sites are operating at or close to their 40% occupancy targets. While staff costs will inevitably be above this range when occupancy is materially below the 40% target, management have already activated a number of plans to keep staff costs at or close to the target range during quieter trading times.

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. Site revenue, occupancy, site staff costs and gross margins are key. Working capital is reviewed by measures of absolute amounts.

Analysis of the group's performance using Adjusted EBITDA is included in the financial review section above.

## **Principal Risks and Uncertainties**

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

### ***Financial risks***

The effective management of its financial exposures is central to preserving the Company and Group's profitability. The Group is exposed to financial market risks and may be impacted negatively by fluctuations in foreign exchange rates, which may create volatility in the Group's results to the extent that they are not effectively hedged. The Group does not hedge its foreign exchange rate exposures.

The Group's finance team provides support to management to ensure accurate financial reporting and tracking of business performance. Reporting on financial performance is provided on a monthly basis to senior management and the Board. Weekly systems were introduced in 2018 ahead of site openings to provide management with performance figures from the sites.

The Group has invested in the improvement of its systems and processes in order to ensure sound financial management and reporting during the year. The finance team function has been increased in 2018 and new systems introduced.

### **Roll-out of owner-operated sites**

The Escape Hunt Group opened owner-operated sites which offer the Group growth opportunities. The Escape Hunt Group signed leasehold agreements on 8 sites by the end of March 2018, all of which were opened by the end of the year and plans to expand at a measured rate, opening new owner-operated sites in the UK. However, there is no guarantee that the Escape Hunt Group will be able to locate or secure a sufficient number of appropriate sites to meet its growth and financial targets. As announced previously, obtaining sites, together with appropriate planning permissions and completing legal documentation impacted the roll-out pace in 2018 and with the consequent impact on revenues and profits. It is also possible each site may take some time from its opening date to reach profitable operating levels due to inefficiencies typically associated with new sites, including lack of awareness, competition, the need to hire and train sufficient staff and other factors. The Group has worked to reduce this risk through strong staff recruitment and training processes and investment in marketing activities.

In addition, the opening of the first eight sites has been capital intensive. The Board believes that the real estate market for signing new leases is generally moving in tenants favour and with the appeal of Escape Hunt acting as a potential draw for customers into their sites, the Company is being offered a number of attractive opportunities where the landlord is prepared to part fund the capital required to develop new sites. The cash flows for the current year have had to bear both pre-opening costs at our newly opened owner-operated businesses and a full year of head office costs without a full year of trade from the owner-operated sites, and as such the Directors expect a substantially improved profit and cash generation in the coming year.

The ability of the Company to fund its share of the capital expenditure is dependent on obtaining further funding in terms of new equity capital. In order to fund the business strategy of growth via new openings, the Group is undergoing a fundraising via a non-pre-emptive secondary placing which is expected to raise a minimum of £4m.

The process of the issue of these shares requires that the Company holds an EGM at which 75% of existing shareholders vote in favour of the issue. The directors believe that support will be obtained from the required majority. As the outcome of any shareholder vote is outside the control of the directors, there remains a possibility that the Company could fail to obtain sufficient support for the required resolution.

If the fundraising proceeds, the additional funds will be used to deliver the business plan. These plans feature a number of new openings driving growth in the business. These plans include cash forecasts that show that the Group is able to operate within its committed facilities for at least twelve months following the issue of these financial statements.

The directors have also considered the event of failing to achieve support for the fundraise and have a secondary business plan which would be activated in event this were necessary. This business plan shows a substantially reduced number of new openings and also the need to achieve certain costs savings to reduce the scale and costs of the head office function to the reduced levels of growth. The inability to fund the same number of owner-operated new openings would lead to an increased focus on the franchise business.

In assessing going concern the directors have considered this secondary business plan and evaluated their ability to generate the cost savings required and the resilience of the forecasts to possible changes in future results, noting risks as described below, including Brexit. In this scenario the directors consider that the Group has sufficient cash reserves that it reasonably expects to be sufficient to meet its liabilities as they fall due. Accordingly, the Directors consider that the Group has adequate financial resources to continue operating for the next 12 months and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

The move from a predominantly franchised model to an owner-operated site roll-out was a new strategy for 2018 and there are risks inherent in its adoption. The Group manages a number of site opening processes. These processes include site selection and acquisition, through to fit-out, employment of staff and launch, which it had not done until the last few months of 2017, when it began the fit-out process on a small number of sites. Equally, as the owner-operated estate increases, the Group's head office and new central support functions were developed and grown to support the owner-operated branch network. Future growth could place further significant demands on the Group's operational and financial infrastructure.

In addition, initial delays in establishing fully operative and efficient owner-operated sites have affected the growth of the Group's revenue and profits and may do so again. This could materially adversely impact the Group's business, results of operations and financial performance and could have an adverse effect on the share price.

# Financial Review *continued*

## ***Roll-out of franchise sites***

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

## ***The escape game market has low barriers to entry therefore the threat of new entrants is high***

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

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

## ***Brexit***

The Company has sought advice on specific risks to which the Group might be exposed as a result of an exit of the UK from the EU. The most tangible immediate issue related to the risk to charge VAT to its EU based franchisees. The advice received is that the VAT regime would remain effectively unchanged. The second risk was that any EU citizens whom the Company employs could be forced to return to the EU. The Home Office has issued clarification that EU citizens living in the UK prior to 29 March, 2019 can apply to obtain settled or pre-settled status up to 31 December, 2020. The Company only employs 6 staff who are both EU citizens but who are non-UK citizens.

At present, the Group does not trade with the EU in terms of importing any physical props or equipment, although it is possible that its suppliers may do so.

In the event that a "hard Brexit" is the outcome of the current negotiations between the UK and the EU, it is possible that there may be a negative impact on consumer sentiment and/or on consumer spending. This may have an impact on the revenues of the Group in the UK. This may be mitigated to some extent by any weakness in sterling which may encourage a higher number of tourists to visit the UK and encourage UK citizens to remain in this country. The impact of any such change in either consumer spending or currency level is impossible to predict, but on balance could be expected to have a negative impact on the Group's UK business. The possible fall in sterling which may result from a hard Brexit will increase the value of the Group's franchise revenue, all of which is in foreign currency.

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

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



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

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

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

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

***Performance of franchisees***

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

The Board has responded to these risks by appointing directors and staff with the appropriate skills and experience and by identifying KPIs that will show how well these risks are being managed. In particular, the franchise agreements have been considerably strengthened for all new franchisees which will enable the Group to exercise greater control over new franchisees. A small franchisee team has now been formed to assist the franchisee network with better marketing advice which is expected to raise revenue for both the franchisee and therefore the Group but also strengthen the communication and relationship between the Group and the franchisee network.

***Corporate Responsibility***

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

# Financial Review continued

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## **Governance**

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

More information on our corporate governance can be found below.

## **Employees and their development**

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

Employees' performance is aligned to the Group's goals through an annual performance review process and via incentive programmes. The Group provides employees with information about its activities through regular briefings and other media. The Group operates a number of bonus and sales commission schemes and a share option scheme operated at the discretion of the Remuneration Committee.

## **Diversity and inclusion**

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

## **Health and Safety**

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

## **Alistair Rae**

*Chief Financial Officer*

10 May 2019

# Directors' Report

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for the year ended 31 December 2018

The Directors present their report together with the audited financial statements of the Group for the year ended 31 December 2018.

## Principal activities

The principal activities of the Group are that of operating and developing a network of franchised, licensed and owner-operated branches and offsite "escape the room" type games.

## Cautionary statement

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

## Results and dividends

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

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

## Business review and future developments

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

## Disclosure of information to auditor

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

## Financial instruments and risk management

Disclosures regarding financial instruments are provided within the Strategic Report and Note 28 to the Financial Statements.

## Capital structure and issue of shares

Details of the Company's share capital, together with details of the movements during the period are set out in Note 20 to the Financial Statements. The Company has one class of ordinary share which carries no right to fixed income.

## Post balance sheet events

There have been two events that have occurred since the year end that require disclosure. After the year end, the Group agreed a grant with Scottish Enterprise whereby Scottish Enterprise would make £2m available as a contribution to the development of the Group's activities in Scotland, including the site which opened in Edinburgh in October 2018. In addition to its commercial activities, the Group will base certain game design functions and activities in Scotland.

The Company has also entered into a placing agreement with Stockdale Securities Ltd and Peel Hunt Ltd by which they would procure placees to subscribe for a minimum of £4m of additional equity in the Company to fund its continued roll-out plan in the UK.



# Directors' Report continued

## Board of Directors

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

Director	Role	Date of appointment	Board Committee
Richard Rose	Independent Non-Executive Chairman	25/5/2016	N A R
Richard Harpham	Chief Executive Officer	3/5/2017	
Alistair Rae	Chief Financial Officer	3/5/2017	
Adrian Jones	Non-Executive Director	3/5/2017	
Karen Bach	Independent Non-Executive Director	3/5/2017	N A R

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

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

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

### **Richard Rose, Independent Non-Executive Chairman**

Richard has a wealth of experience chairing high profile boards. He has been Chairman of Watchstone Group plc since May 2015 and was previously Chairman of Booker Group plc where he stepped down in July 2015 having served three terms of three years each. In July 2016 Richard retired as Chairman of AO World plc after eight years. Richard is also non-executive Chairman of Currency Fair Ltd, and Innovative Bites Group Ltd.

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

### **Richard Harpham, Chief Executive Officer**

Prior to joining Escape Hunt, Richard worked for Harris + Hoole, having been Chief Financial Officer and then Managing Director, responsible for its turnaround. Before this Richard spent over four years at Pret A Manger as Global Head of Strategy. Richard has also held a number of strategic and financial positions at companies including Constellation Brands, Shire Pharmaceuticals and Fujitsu Siemens Computers.

### **Alistair Rae, Chief Financial Officer**

Alistair qualified as a chartered accountant at KPMG. Since then, he has worked in financial services firms including Touche Ross, Cazenove & Co. and HSBC. In addition, he has held financial, strategic and executive roles at Jarvis PLC, where he was the CFO appointed to handle their financial restructuring, Imagelinx plc, Simigon Ltd and Refresh Group Ltd and a number of other private and quoted companies.

### **Adrian Jones, Non-Executive Director**

Adrian has served as a non-executive director of Escape Hunt since its incorporation in 2014 and advised Paul Bartosik, the Escape Hunt founder, on the international expansion and day-to-day operations of the business. Early in his career, Adrian was the creator of WinMail, a leading email product in the early 1990s. Subsequently he has founded or managed multiple IT, sports and media companies. Adrian is the founder and executive director of the Witness Collection, one of the largest collections of Vietnamese art in the world.

**Karen Bach, Independent Non-Executive Director**

Karen is an entrepreneur and non-executive director with strong technology, international and transactional expertise. Karen is the COO of KRM22 Group and was the Chief Financial Officer at growing technology businesses IXEurope Plc, ACS Plc and Kewill Plc prior to founding KalliKids.com in 2012 where she was Chief Executive Officer. Karen gained much experience internationally and in finance with blue chip multi-nationals including EDS France, MCI WorldCom, General Motors and Ernst & Young. Karen is also the Chairman of Amino Technologies plc, a provider of digital entertainment solutions for internet television and a non-executive director of Purnoma Ltd.

Karen is Chair of the Remuneration Committee, the Audit Committee and the Nomination Committee of the Company.

**Directors' interests in shares and contracts**

Directors' interests in the shares of the Company at the date of this report are disclosed below. Directors' interests in contracts of significance to which the Company was a party during the financial period are disclosed in Note 26 to the Financial Statements.

Director	Ordinary shares held	% held
Adrian Jones	1,777,777	8.78
Richard Rose	37,000	0.18
Alistair Rae	14,800	0.07
Richard Harpham	7,400	0.04
Karen Bach	7,400	0.04

Escape Hunt plc owns all the ordinary shares in its subsidiary, Escape Hunt Group Ltd ("EHGL"). EHGL has issued a total of 1,000 Growth shares to the following directors and employees. The Growth shares carry no voting rights and are not entitled to any dividends that may be paid by EHGL.

	Growth shares held	% held
Richard Harpham	560	56
Alistair Rae	280	28
Andrew Jacobs	160	16

**Substantial interests**

As at 30-April 2019, the Company has been advised of the following significant interests (greater than 3%) in its ordinary share capital:

Shareholder	Ordinary shares held	% held
Canaccord Genuity Group Inc	3,964,000	19.57
Arrowgrass Capital Partners LLP	3,250,000	16.04
Gresham House Asset Management	2,360,105	11.65
BT Investment Management	2,305,000	11.38
Adrian Jones	1,777,777	8.78
Legal & General Group	1,705,000	8.42
Octopus Investments	1,220,000	6.02
Unicorn Asset Management	914,000	4.51
Amati Global Partners	610,000	3.01

## Directors' Report continued

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

### **Donations**

No political or charitable donations have been made in the year ended 31 December 2018.

### **Directors' insurance**

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

### **Independent auditors**

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

### **Annual General Meeting**

The Annual General Meeting (AGM) will be held on June 27, 2019 at One Wood Street, London EC2.

Signed by order of the board

**Alistair Rae**

10 May 2019



# Corporate Governance Report

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## **Chairman's governance overview**

I am pleased to present the Corporate Governance Report for the year ended 31 December 2018.

The Board believes that strong governance is a central element of the successful growth and development of the Group. The Board and its Committees play a key role in the Group's governance by providing an independent perspective to the senior management team, and by seeking to ensure that an effective system of internal controls and risk management procedures is in place. This section of the Annual Report describes our corporate governance structures and processes and how they have been applied throughout the year ended 31 December 2018.

Recent changes in the AIM Listing Rules now require companies to formally adopt a corporate governance code.

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

## **Our governance framework**

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

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

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

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

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

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

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

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

# Corporate Governance Report *continued*

## **Deliver growth**

1. Establish a strategy and business model which promote long-term value for shareholders
2. Seek to understand and meet shareholder needs and expectations:  
See the section "Communication with shareholders" in The Report of the Nomination Committee on page 22.
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success:  
See the "Corporate governance" section of our website, [www.escapehunt.com](http://www.escapehunt.com)
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation:  
See "Principal risks and uncertainties" on page 8.

## **Maintain a dynamic management framework**

5. Maintain the Board as a well-functioning, balanced team led by the Chair:  
See this section
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities:  
See this section and "Board of Directors" on page 14.
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement:  
See this section
8. Promote a corporate culture that is based on ethical values and behaviours:  
See this section and the "Corporate governance" section of our website [www.escapehunt.com](http://www.escapehunt.com)
9. Maintain governance structures and processes that are fit for purpose and support good decision making by the Board:  
See the section "Our Governance framework" below and the "Corporate governance" section of our website [www.escapehunt.com](http://www.escapehunt.com)

## **Build trust**

10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders:  
See this section "Our governance framework" and the "Corporate governance" section of our website, [www.escapehunt.com](http://www.escapehunt.com)

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

## **Our governance framework**

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

### **Board of Directors**

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

Biographical details of the Directors are included above.

The Board comprises two executive and three non-executive directors, including the Chairman. All Directors bring a wide range of skills and international experience to the Board. The Non-Executive Directors hold meetings without the executive Directors present. The Non-Executive Chairman is primarily responsible for the working of the Board of the Company. The Chief Executive's office is primarily responsible for the running of the business and implementation of

the Board's strategy and policy. The Chief Executive is assisted in the managing of the business on a day-to-day basis by the Chief Financial Officer.

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

The Board regulations define a frame work of high-level authorities that maps the structure of delegation below Board level, as well as specifying issues which remain within the Board's preserve. The Board typically expects to meet at least four times a year to consider a formal schedule of matters including the operating performance of the business and to review the Company's financial plan and business model.

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

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

### **Communication with shareholders**

The Board attaches great importance to communication with both institutional and private shareholders.

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

The Directors seek to build on a mutual understanding of objectives between the Company and its shareholders. Institutional shareholders are in contact with the Directors through presentations and meetings to discuss issues and to give feedback regularly throughout the year. With private shareholders, this is not always practical.

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

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

The Company operates a website at. <http://investors.escapehunt.com/>

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

### **Board Committees**

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

#### **Audit Committee**

The Audit Committee was formed in May 2017 on completion of the acquisition of Experiential Ventures Limited and comprises Karen Bach who chairs the committee and Richard Rose. The Committee has held three meetings to date including the meeting held to approve this report. Further details on the Audit Committee are provided below in the Report of the Audit Committee.

#### **Remuneration Committee**

The Remuneration Committee was formed in May 2017 on completion of the acquisition of Experiential Ventures Limited and comprises Karen Bach, who chairs the committee, and Richard Rose. The Committee holds three meetings each year. The committee adopted the arrangements for Directors' remuneration put in place upon admission. Further details on the Remuneration Committee are provided below in the Report of the Remuneration Committee.

#### **Nomination Committee**

The Nomination Committee was formed in May 2017 on completion of the acquisition of Experiential Ventures Limited and comprises Karen Bach who chairs the committee and Richard Rose. The Committee holds two meetings each year. No significant resolutions were made. Further details on the Nomination Committee are provided below in the Report of the Nomination Committee.



# Corporate Governance Report *continued*

## Report of the Audit Committee

### Audit Committee

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

### Internal controls

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

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

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

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

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

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

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

Following the Audit Committee's recommendation, the Board considers the internal control system to be adequate for the Company. The Audit Committee reviews the scope and scale of the non-audit services undertaken by the auditors in order to ensure that their independence and objectivity is safeguarded. The Committee is satisfied with the objectivity and performance of the external auditor. In the period before the acquisition of the Escape Hunt business, the business was simple and the control environment reflected this. The Directors recognise the acquisition increases this complexity and they continue to review the internal control system to ensure it responds to this change.

**Impairment reviews** – the first eight owner-operated sites were opened during the year. The challenges in opening these as quickly as we had originally hoped (as previously reported) led to an impairment charge of £2.3m in 2018 as noted in the financial review section of the Strategic Report.

## Report of the Remuneration Committee

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

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

The duties of the Committee are to:

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

The Committee is authorised by the Board to:

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

### Service contracts

The executive and non-executive Directors have signed service agreements that contain notice periods of six months and three months respectively. There are no additional financial provisions for termination.

### Share options

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.

# Corporate Governance Report continued

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## **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 three eligible employees inviting such employees 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.

The price payable for a G Share pursuant to an invitation was also determined by the Remuneration Committee.

## **Report of the Nomination Committee**

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

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

# Statement of Directors' Responsibilities

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in respect of the Annual Report and the Financial Statements

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

## **Provision of information to auditors**

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

- so far as that Director is aware, there is no information relevant to the audit of which the Company's auditors are unaware, and;
- each Director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Signed by order of the board

**Richard Rose**

10 May 2019



# Independent Auditor's Report

to the Members of Escape Hunt plc

## 1 Our opinion is unmodified

We have audited the financial statements of Escape Hunt Plc ("the Company") for the year ended 31 December 2018 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Changes in Cash flows, Company Statement of Financial Position, Company Statement of Changes in Equity and the related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Overview

<b>Materiality:</b> group financial statements as a whole	£100,000 (2017:£70,000) 1.3% (2017: 4.1%) of Group loss before tax	
<b>Coverage</b> by full scope audit procedures	90% (2017: 100%) of total profits and losses that made up group profit before tax <sup>(i)</sup>	
<b>vs 2017</b>		
<b>Key audit matters</b>		
<b>Event driven</b>	The impact of uncertainties due to the UK exiting the European Union on our audit	New
	Going Concern	New
<b>Recurring Risks</b>	Owned branch revenue recognition	New
	Recoverability of carrying value of goodwill, IP assets and the parent Company's amounts due from group undertakings	▲

(i) Total loss coverage is calculated by considering absolute profits and losses before tax.

## 2 Key audit matters: including our assessment of risks of material misstatement

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

	The risk	Our response
<p><b>The impact of uncertainties due to the UK exiting the European Union on our audit</b></p> <p><i>Refer to page 10 (Principal Risks) and page 40 (accounting policy).</i></p>	<p><b>Unprecedented levels of uncertainty:</b></p> <p>All audits assess and challenge the reasonableness of estimates, in particular as described in going concern and recoverability of carrying value of goodwill, IP assets and parent Company's amounts due from group undertakings below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance.</p> <p>In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure.</p> <p>Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.</p>	<p>We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included:</p> <ul style="list-style-type: none"> <li>• <b>Our Brexit knowledge</b> – We considered the Directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks.</li> <li>• <b>Sensitivity analysis</b> – When addressing going concern and recoverability of carrying value of goodwill, IP assets and the parent Company's amounts due from group undertakings and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty.</li> <li>• <b>Assessing transparency</b> – As well as assessing individual disclosures as part of our procedures on going concern, recoverability of goodwill, IP assets and the parent Company's amounts due from group undertakings we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.</li> </ul>

# Independent Auditor's Report continued

	The risk	Our response
<b>Going Concern</b> <i>Refer to page 9 (Principal Risks), and page 40 (accounting policy.)</i>	<p><b>Disclosure quality</b></p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company.</p> <p>That judgement is based on the status of the company's share placing as at the date of this report and an evaluation of the inherent risks to the Group's secondary business plan, including the impact of Brexit, and how those risks might affect the Group's generation of revenue via occupancy and cash flows which therefore impact the ability of the Group to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>The risk for our audit is whether or not those risks are such that they amount to a material uncertainty that may cast significant doubt about the ability to continue as a going concern. If so, that fact is required to be disclosed (as has been done) and, along with a description of the circumstances, is a key financial statement disclosure.</p>	<p>Our procedures included:</p> <p><b>Assessing cash flow forecasts:</b></p> <ul style="list-style-type: none"> <li>Evaluating the directors' forecasts against actual cashflows and revenue achieved, including the rates of occupancy achieved.</li> </ul> <p><b>Sensitivity analysis:</b></p> <ul style="list-style-type: none"> <li>Considering the sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively, including evaluating the plausibility of the timing and nature of the cost saving actions the Directors consider they would take to improve the position of the secondary business plan.</li> </ul> <p><b>Our sector experience:</b></p> <ul style="list-style-type: none"> <li>Creating our own downside scenario based on our knowledge of the business and sector to assess reasonableness of the cash flow forecast.</li> </ul> <p><b>Key dependency assessment:</b></p> <ul style="list-style-type: none"> <li>Assessing the status of the company's placing and probability of its successful completion up to the date of the audit report.</li> </ul> <p><b>Assessing transparency:</b></p> <ul style="list-style-type: none"> <li>Assessing the completeness and accuracy of the matters covered in the going concern disclosure by comparing the disclosures drafted by the directors to the findings from our procedures described above.</li> </ul>

	The risk	Our response
<p><b>Owned branch revenue recognition</b> (Revenue £1.077,000; 2017: £75,000. Deferred revenue £98,000; 2017: £nil)</p> <p><i>Refer to page 47 (accounting policy) and pages 53-55 (financial disclosures).</i></p>	<p><b>Processing error:</b> In addition to the high volume of low value transactions, revenue from the owned branches also involve manual processes around deferral of receipts from advance bookings and their subsequent release from deferred revenue. Consequently, individual errors could be difficult to detect and if systematic, could in aggregate lead to material error.</p> <p>Given the revenue stream from owned branches was newly established during the year, and in light of the inherent risks described above, this was an area our audit focused on.</p>	<p>Our procedures included:</p> <p><b>Test of detail:</b></p> <ul style="list-style-type: none"> <li>• For a sample of revenue transactions taken from: <ul style="list-style-type: none"> <li>– transactions throughout the year;</li> <li>– targeted sample around the reporting date; and</li> <li>– amounts included within deferred revenue</li> </ul> </li> </ul> <p>checking when games have been played and cash has been received to assess that revenue has been recorded in the correct period.</p>



# Independent Auditor's Report continued

	The risk	Our response
<p><b>Recoverability of carrying value of goodwill, IP assets and the parent Company's amounts due from group undertakings</b></p> <p>Goodwill: £29,000; 2017: £1,404,000</p> <p>IP: £3,579,000; 2017: £7,929,000</p> <p>Impairment charges: £2,345,000; 2017: £nil.</p> <p>Parent company amounts due from subsidiary £9,487,364; 2017: £17,013,000</p> <p>Parent company impairment charges: £10,000,000; 2017: £nil</p> <p><i>Refer to pages 20-21 (Audit Committee Report), page 45 (accounting policy) and pages 62-63 (financial disclosures).</i></p>	<p><b>Forecast based valuation</b></p> <p>The group has significant goodwill, largely arising on acquisition of the Escape Hunt business in 2017, which has been tested for impairment in the owner operated business, a group of cash generating unit to which it was allocated.</p> <p>The owner operated business also has significant balance of IP allocated to it.</p> <p>Both goodwill and IP are significant and at risk of irrecoverability due to a lower than expected occupancy rate. The estimated recoverable amount is subjective, due to the inherent uncertainty involved in forecasting market participant views of future cash flows, in particular revenues and site occupancy when the owner operated businesses have in many cases only recently commenced trading and so have not demonstrated a long track record of historic performance. There is also uncertainty around determining the appropriate discount rate and allocation of central costs.</p> <p>The carrying amount of the parent company's amounts due from group undertakings are significant and at risk of irrecoverability due to the same factors and uncertainties described above.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of goodwill, IP asset and the parent company's intra-group debtor balances have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 3) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <p><b>Our sector experience:</b></p> <ul style="list-style-type: none"> <li>Evaluating assumptions used, in particular those relating to forecast revenue growth and central costs allocated to owner operated business using our understanding of the business.</li> </ul> <p><b>Benchmarking assumptions:</b></p> <ul style="list-style-type: none"> <li>comparing discount rates against market data, including peer comparison;</li> </ul> <p><b>Sensitivity analysis:</b></p> <ul style="list-style-type: none"> <li>Performing breakeven analysis on the key assumptions including site occupancy.</li> </ul> <p><b>Comparing assumptions:</b></p> <ul style="list-style-type: none"> <li>Assessing the reasonableness of market participant assumptions used, such as occupancy, by comparing them to those used by the directors in the cash flow forecasts used in the going concern assessment.</li> </ul> <p><b>Assessing transparency:</b></p> <ul style="list-style-type: none"> <li>assessing whether the directors sensitivity disclosures regarding the impairment testing adequately reflects the risks inherent in the impairment test.</li> </ul>

We continue to perform procedures over revenue recognition from the sale of franchise rights. However this risk was not significant as new franchisee arrangements in the year were not of a size that gave rise to a significant risk. Similarly, we continue to perform procedures over acquisition accounting, however the acquisition in the year was not material.

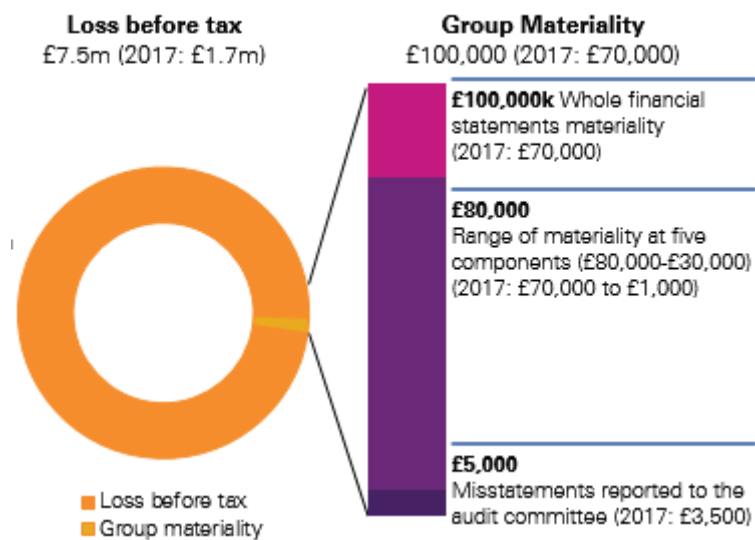
Accordingly, we have not assessed these some of the most significant risks in our current year audit and, therefore, they are not separately identified in our report this year.

**3 Our application of materiality and an overview of the scope of our audit**

Materiality for the group financial statements as a whole was set at £100,000 (2017: £70,000) determined with reference to a benchmark of group loss before tax, of £7.5m, of which it represents 1.3% (2017: 4.1%). Losses have increased from 2017 to 2018 and we have limited our materiality due to the stage this businesses is in its life cycle, hence the movement in the benchmark percentage.

Materiality for the parent company financial statements as a whole was set at £80,000 (2017: £40,000), determined with reference to a benchmark of company total assets, of which it represents 0.4% (2017: 2.9% of Loss before Tax) after taking account of component materiality.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £5,000 (2017: £3,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.



Of the Group’s seven (2017: seven) reporting components, we subjected five (2017: seven) to full scope audits for group purposes and the remaining two (2017: zero) to specified risk-focussed audit procedures over revenue. The latter were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages illustrated opposite.

# Independent Auditor's Report continued



## 4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects.

## **5 We have nothing to report on the other information in the Annual Report**

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

### ***Strategic report and directors' report***

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## **6 We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

## **7 Respective responsibilities**

### ***Directors' responsibilities***

As explained more fully in their statement set out on page 23, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

### ***Auditor's responsibilities***

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## **8 The purpose of our audit work and to whom we owe our responsibilities**

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

**James Childs-Clarke (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
Gateway House, Tollgate  
Chandlers Ford  
Southampton  
SO53 3TG

10 May 2019

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

All figures in £'000s	Note	Year ended 31 December 2018	Year ended 31 December 2017
Continuing operations			
<b>Revenue</b>	4	2,172	872
Cost of sales		(2,137)	(364)
Gross profit		35	508
Transaction expenses		-	(957)
Administrative expenses		(10,047)	(3,685)
<b>Operating loss</b>	6	(10,012)	(4,134)
Adjusted EBITDA		(3,087)	(790)
Amortisation of intangibles	11	(3,656)	(2,375)
Impairment of intangible assets	11	(2,345)	-
Depreciation	10	(545)	(22)
Loss on disposal of tangible assets		(45)	-
Branch closure costs		(291)	-
Foreign currency losses		(31)	(34)
Transaction costs		-	(870)
Share-based payment expense	22	(12)	(43)
Operating loss		(10,012)	(4,134)
Interest received		34	9
<b>Loss before taxation</b>		(9,978)	(4,125)
Taxation	8	(26)	(4)
<b>Loss after taxation</b>		(10,004)	(4,129)
<b>Other comprehensive income:</b>			
Items that may or will be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		26	(15)
<b>Total comprehensive loss</b>		(9,978)	(4,144)
<b>Loss attributable to:</b>			
Equity holders of Escape Hunt plc		(10,004)	(4,129)
Non-controlling interests		-	-
		(10,004)	(4,129)
<b>Total comprehensive loss attributable to:</b>			
Equity holders of Escape Hunt plc		(9,978)	(4,144)
Non-controlling interests		-	-
		(9,978)	(4,144)
Loss per share attributable to equity holders:			
Basic and diluted (Pence)	9	(49.38)	(24.77)

The notes on pages 37 to 76 are an integral part of these financial statements.



# Consolidated Statement of Financial Position

As at 31 December 2018

	Note	As at 31 December 2018 £'000	As at 31 December 2017 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	4,366	670
Intangible assets	11	4,792	10,280
Rent deposits		36	32
Loan to franchisee	13	300	–
		9,494	10,982
<b>Current assets</b>			
Inventories	15	15	–
Trade receivables	14	121	15
Other receivables and prepayments	14	501	305
Cash and bank balances	16	2,657	10,645
		3,294	10,965
<b>TOTAL ASSETS</b>		<b>12,788</b>	<b>21,947</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	17	670	507
Deferred income	18	244	83
Other payables and accruals	17	967	479
		1,881	1,069

## Consolidated Statement of Financial Position continued

As at 31 December 2018

	Note	As at 31 December 2018 £'000	As at 31 December 2017 £'000
<b>Non-current liabilities</b>			
Deferred income	18	419	456
Provisions	19	40	–
		459	456
<b>TOTAL LIABILITIES</b>		2,340	1,525
<b>NET ASSETS</b>		10,448	20,422
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of Escape Hunt Plc</b>			
Share capital	20	253	253
Share premium account	25	21,076	21,076
Merger relief reserve	25	4,756	4,756
Accumulated losses	25	(15,741)	(5,737)
Currency translation reserve	25	11	(15)
Capital redemption reserve	25	46	46
Share-based payment reserve	25	55	43
		10,456	20,422
Non-controlling interests		(8)	–
<b>TOTAL EQUITY</b>		10,448	20,422

The notes on pages 37 to 76 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 10 May 2019 and are signed on its behalf by:

**Alistair Rae**

Director

Registered company number 10184316

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the parent									
	Share capital £'000	Share premium account £'000	Merger relief reserve £'000	Currency translation reserve £'000	Capital redemption reserve £'000	Share-based payment reserve £'000	Accumulated losses £'000	Total £'000	Non-controlling interest £'000	Total £'000
Year ended 31 December 2018										
Balance as at 1 January 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 charge	-	-	-	-	-	12	-	12	-	12
Transactions with owners	-	-	-	-	-	12	-	12	(8)	4
Balance as at 31 December 2018	253	21,076	4,756	11	46	55	(15,741)	10,456	(8)	10,448
Year ended 31 December 2017:										
Balance as at 1 January 2017	125	8,941	-	-	-	-	(1,608)	7,458	-	7,458
Loss for the period	-	-	-	-	-	-	(4,129)	(4,129)	-	(4,129)
Other comprehensive income	-	-	-	(15)	-	-	-	(15)	-	(15)
Total comprehensive loss	-	-	-	(15)	-	-	(4,129)	(4,144)	-	(4,144)
Issue of shares	174	13,870	4,756	-	-	-	-	18,800	-	18,800
Share issue costs	-	(1,689)	-	-	-	-	-	(1,689)	-	(1,689)
Buy-back of shares	(46)	(46)	-	-	46	-	-	(46)	-	(46)
Share-based payment charges	-	-	-	-	-	43	-	43	-	43
Transactions with owners	129	12,135	4,756	-	46	43	-	17,109	-	17,109
Balance as at 31 December 2017	253	21,076	4,756	(15)	46	43	(5,737)	20,422	-	20,422

The notes on pages 37 to 76 are an integral part of these financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
<b>Cash flows from operating activities</b>		
Loss before income tax	(9,978)	(4,125)
Adjustments:		
Depreciation of property, plant and equipment	545	22
Amortisation of intangible assets	3,655	2,375
Impairment of intangible assets	2,345	-
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	43
Interest income	(34)	(9)
Operating cash flow before working capital changes	(3,380)	(1,694)
Increase in trade and other receivables	(273)	(161)
Increase in inventories	(11)	-
Increase in provisions	40	1
Increase in trade and other payables	584	298
Increase / (decrease) in deferred income	124	(48)
Cash used in operations	(2,916)	(1,604)
Income taxes paid	(8)	(28)
<b>Net cash used in operating activities</b>	<b>(2,924)</b>	<b>(1,632)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(4,276)	(585)
Purchase of intangibles	(495)	(240)
Payment of deposits	(4)	(32)
Loan made to master franchisee	(300)	-
Acquisition of subsidiary, net of cash acquired	(10)	(7,044)
Interest received	34	9
<b>Net cash used in investing activities</b>	<b>(5,051)</b>	<b>(7,892)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary shares (net of buy-back)	-	13,954
Proceeds from issue of G shares	-	1
Share issue costs	-	(1,688)
<b>Net cash from financing activities</b>	<b>-</b>	<b>12,267</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>	<b>(7,975)</b>	<b>2,743</b>
Cash and cash equivalents at beginning of year	10,645	7,923
Effects of exchange rate changes on the balance of cash held in foreign currencies	(13)	(21)
<b>Cash and cash equivalents at end of year</b>	<b>2,657</b>	<b>10,645</b>

# Notes to the Financial Statements

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## 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 is the holding company of the Escape Hunt Group which is 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.

On 2 May 2017, the Company's name was changed to Escape Hunt plc.

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

The consolidated financial information represents the consolidated results of the Company and its subsidiaries, (together referred to as "the Group"). The 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 consolidated financial statements have been prepared and approved by the directors 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; these are presented on pages 77 to 87.

The 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.

The Group early adopted IFRS 15 – Revenue from Contracts with Customers in the year ended 31 December 2017. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group receives payment for initial "upfront exclusivity fees" upon the signing of a franchise agreement. Since certain of the services which the Group is required to provide under the franchise agreement persist throughout the life of the agreement, typically 10 years, the initial fee is recognised on a straight-line basis over the period of the agreement rather than at the point of payment of the initial fee. Consequently, the Group has recorded total deferred income in respect of such exclusivity fees of £663,000 as at 31 December 2018 (31 December 2017: £539,000) and which will be released over the remaining life of the franchise agreements.

### **Changes in accounting policy**

The Group has adopted the following new standards and interpretations which became effective on 1 January 2018 with no significant impact on its consolidated financial in these financial statements:

- IFRS 9 'Financial Instruments'.
- IFRIC 22 'Foreign currency transactions and advance consideration'.
- Amendments to IFRS 2 'Classification and measurement of share-based payment transactions'.
- Annual improvements to IFRS standards 2014–2016 cycle: IFRS 1 and IAS 28.



## Notes to the Financial Statements continued

None of the new standards and interpretations have not had an impact on these financial statements. Further disclosures are contained in Note 2 below.

### **IFRSs published but not yet effective**

At the date of authorisation of the financial statements, statements, certain new standards, amendments and interpretations to existing standards applicable to the Group have been published but are not yet effective. The only standard expected to have an impact is IFRS 16 as summarised below.

Standard/ Interpretation	Content	Applicable for financial years beginning on/ after
IFRS 16 Leases	IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 completes the IASB's project to improve the financial reporting of leases and replaces the previous leases Standard, IAS 17 Leases, and related Interpretations.	1 January 2019

### **IFRS 16 Leases**

IFRS 16 supersedes IAS 17 Leases and introduces a new single lessee accounting model which eliminates the current distinction between operating and finance leases for lessees. IFRS 16 requires lessees to capitalise all leases on the statement of financial position by recognising a 'right-of-use' asset and a corresponding lease liability for the present value of the obligation to make lease payments, except for certain short-term leases and leases of low-value assets. Subsequently, the lease assets will be amortised and the lease liabilities will be measured at amortised cost.

IFRS 16 also requires enhanced disclosures by both lessees and lessors.

On initial adoption of this standard, there will be a significant impact on the accounting treatment for the Group's leases, particularly rented properties, which the Group, as lessee, currently accounts for as operating leases. On initial adoption of IFRS 16 the Group will be required to capitalise its rented properties at the lease commencement date in the statement of financial position by recognising them as right-of-use assets and their corresponding lease liabilities. The right-of-use asset will be amortised over the term of each lease and a finance charge will be made by reference to the lease liability and discount rate. The liability is initially to be measured at the present value of future minimum lease payments. The discount rate is the rate implicit in the lease, if readily determinable.

The Group plans to adopt the standard in the financial year beginning on 1 January 2019 with full retrospective effect in accordance with the transitional provisions and will include required additional disclosures in its financial statements for that financial year. The Group has made a detailed assessment of the impact of this standard as set out below.

The right-of-use asset will be amortised over the term of each lease and a finance charge will be made by reference to the lease liability and discount rate. The liability is initially to be measured at the present value of future minimum lease payments. 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.

As at 31 December 2018, the Group had entered into 10 property leases which had commenced prior to the year-end (2017: 5 leases). The tables below summarise the balance sheet and profit and loss account treatment as at and for the years ended 31 December 2017 and 31 December 2018 for these leases:

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Right-of-use asset	2,809	808
Lease liability:		
- Current liability	284	235
- Non-current liability	2,594	575
Total lease liability	2,878	810

	Year Ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Rental lease expense in the profit and loss as adjusted for leases terminated in the year	388	17
Replaced by:		
Depreciation of right-of-use asset	302	9
Finance charges on lease liability	158	5
Total expense to profit and loss	460	14
Net increase / (reduction) in expense	72	(3)

### Going concern

As at 31 December 2018 the Group has current assets of £1,414,000 and cash and bank balances of £2,657,000. During the year the Group suffered a loss after tax of £10,004,000 and had net cash outflows from operating activities of £2,939,000. The cash flows for the current year have had to bear both pre-opening costs at our newly opened owner-operated businesses and a full year of head office costs without a full year of trade from the owner-operated sites, and as such the Directors are expecting a substantially improved profit and cash generation in the coming year. These accounts have been prepared on a going concern basis as described below.

In order to fund the business strategy of growth via new openings, the Group is undergoing a fundraising via a non-pre-emptive secondary placing which is expected to raise a minimum of £4m.

The process of the issue of these shares requires that the Company holds a General Meeting at which 75% of existing shareholders vote in favour of the issue. The directors believe that support will be obtained from the required majority. As the outcome of any shareholder vote is outside the control of the directors, there remains a possibility that the Company could fail to obtain sufficient support for the required resolution.

The Directors have considered alternatives for the business in the event of the placing failing to complete in accordance with its terms and have developed a secondary business plan which would be activated in event this were necessary. This would involve increased focus on the less capital intensive franchise business and generating cost savings by scaling the head office function to match the size of the business. When preparing cash flow forecasts for the secondary business plan, the directors have also considered the risks as described on pages 8-11 (Principal Risks and Uncertainties) including Brexit and consider that the Group has sufficient cash reserves that it reasonably expects to be sufficient to meet its liabilities as they fall due. Accordingly, the Directors consider that the Group has adequate financial resources to continue operating for the next 12 months and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

## Notes to the Financial Statements continued

### 2. Significant accounting policies

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

#### Basis of consolidation

The consolidated financial information incorporates the 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, plus any costs directly attributable to the business combination. 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. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under FRS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or joint venture.

In the separate financial statements of the Company, investments in subsidiaries are carried at cost, less any impairment loss that has been recognised in profit or loss.

#### **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. 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 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 consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments, are taken to the 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.

#### **Change of accounting policy: IFRS 9 - Classification of financial instruments issued by the Group**

The Company has adopted IFRS 9 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments:

## Notes to the Financial Statements continued

### **Recognition and Measurement**

The new standard is based on the concept that financial assets should be classified and measured at fair value, with changes in fair value recognized through profit and loss as they arise ("FVTPL"), unless restrictive criteria are met for classifying and measuring the asset at either Amortized Cost or Fair Value Through Other Comprehensive Income ("FVOCI").

IFRS 9 makes other changes to the IAS 39 requirements for classifying and measuring financial assets and liabilities. These include:

- Allowing trade receivables that don't have a significant financing component to be measured at undiscounted invoice price rather than fair value.
- Restricting optional FVPL and FVOCI designations.
- Permitting OCI treatment of changes in the fair value attributable to the issuer's credit risk for liabilities designated as FVPL.
- Setting new criteria for reclassifying of financial assets and liabilities.

### **Measurement at initial recognition**

IFRS 9 carries forward with one exception the IAS 39 requirement to measure all financial assets and liabilities at fair value at initial recognition (adjusted in some cases for transaction costs). The exception is for trade receivables that do not contain a significant financing component, as defined by IFRS 15, Revenue from Contracts with Customers. As the Group's trade receivables do not contain a financing element with terms of less than one year, these are measured at the transaction price (e.g., invoice amount excluding costs collected on behalf of third parties, such as sales taxes).

### **Classification and subsequent measurement**

Financial assets:

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

### **Transition**

The general requirement is that the Group must apply IFRS 9 to financial assets and liabilities existing at the date of initial recognition retrospectively.



The Group has gone through the process of re-evaluating its accounting policies, financial statement note disclosures and other areas affected by the new requirements and made appropriate changes to accounting systems and internal controls.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively.

#### **Impairment of financial assets**

IFRS 9 eliminates impairment assessments for equity instruments and establishes a new approach for loans and receivables, an “expected loss” model. In particular, in respect of the Group’s loans and receivables, including short-term trade receivables, the “expected loss” model focuses on the risk that a loan or receivable will default rather than whether a loss has been incurred.

#### **Expected credit losses**

Under the “expected credit loss” model, the Group has calculated the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The allowance is the sum of these probability weighted outcomes. Because every loan and receivable carries with it some risk of default, every such asset has an expected loss attached to it—from the time of its origination or acquisition.

Because expected credit losses represent possible outcomes weighted by the probability of their occurrence, these amounts are not necessarily “expected” nor “losses”. In effect, they represent measures of an asset’s credit risk.

The allowance for expected credit losses and any changes to it are recognized by recognizing impairment gains and losses in profit and loss.

#### **Impact of the Adoption of IFRS 9**

The requirement under IFRS 9 to use an expected loss method of impairment of financial assets did not have a material effect on the Group due to the short-term nature of the Group’s trade and other receivables.

#### **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.

## Notes to the Financial Statements continued

### 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 discounted at the asset's original effective interest 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.

## Notes to the Financial Statements continued

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, 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 18 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 18.

### **Contract costs**

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

### **Leases**

#### **Operating lease payments**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

### **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



## Notes to the Financial Statements *continued*

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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 21 and 22 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 £11m, 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

## Notes to the Financial Statements continued

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 offset against the losses of the owner-operated segment.

### Key estimates in the prior year

#### **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 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 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%.

### Key estimates in the current year

#### **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;

- average occupancy rate of an escape room;
- 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 five-year 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.

Goodwill of £1.4 million relating to the acquisition of EV in 2017 was allocated to the owner-operated business and represents a group of Cash Generating Units ("CGU") and 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% based on the rate that would be used by a market participant. As described in Note 11 below, these impairment tests indicated an impairment loss is required and this loss has been first taken to reduce the carrying value of goodwill, with the remaining impairment allocated to intellectual property.

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

#### **Occupancy rates**

The impairment tests have assumed an average occupancy rate of the owner-operated escape rooms of 42% of available rooms. If the occupancy rate achieved is 1% lower than budget, this would lead to the recognition of an additional impairment loss on the intellectual property of £1.37m.

#### **Discount rate**

If the discount rate was increased by 1%, this would have led to the recognition of an additional impairment loss on the intellectual property of £1m.

#### **EBITDA growth**

If growth in EBITDA was on average £100,000 lower in each year, this would lead to the recognition of an additional impairment loss on the intellectual property of £628,000.

#### **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 1%, this would have led to the recognition of an additional impairment loss on the intellectual property of £593,000.

#### **Capital expenditure**

Total capital expenditure of £6,740,000 over the five-year strategic plan has been assumed. If such expenditure was 10% higher than budgeted, this would lead to the recognition of an additional impairment loss on intellectual property of £533,000.

#### **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 £1,709,000 (year ended 31 December 2017: £1,133,000).

#### **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. The basis for determining the useful life for the most significant categories of intangible assets is as follows:

Property, plant and equipment represent a significant proportion of the asset base of the Group being 28.9% (2017: 3.1%) 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.

## Notes to the Financial Statements continued

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 £344,000 (year ended 31 December 2017: £14,000).

### 4. Revenue

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
New branch upfront location exclusivity fees	123	101
Game design fees	118	88
Support and administrative fees	94	65
Franchise revenues	741	540
Owned branch revenues	1,077	75
Other	19	3
	<b>2,172</b>	<b>872</b>

#### Revenues from contracts with customers:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Revenue from contracts with franchise customers	1,095	797
Revenue from customers at owner operated branches	1,077	75
Total revenue from contracts with customers	<b>2,172</b>	<b>872</b>

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Upfront exclusivity fees	123	101
Game design fees, support, admin and other fees	231	155
Revenue-based service fees	1,818	616
Revenue from contracts with customers	<b>2,172</b>	<b>872</b>

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 £1,077,000 (2017: £75,000) 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 9 sites in the UK.

The Group operates on a global basis. At present, the Company has active franchisees in 22 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.



## Notes to the Financial Statements continued

The cost of sales in the owner-operated business comprise site staff costs, premises costs, including rent, rates, service charges and utilities, and site-specific marketing and also including any pre-opening costs. Cost of sales also includes site pre-opening costs. In the franchisee business, the cost of sales comprises principally game design fees and game design staff costs.

Year ended 31 December 2018	Owner operated £'000	Franchise operated £'000	Unallocated £'000	Total £'000
<b>Revenue</b>	1,077	1,095	–	2,172
Cost of sales	(1,950)	(187)	–	(2,137)
Gross profit/(loss)	(873)	908	–	35
<b>Profit/(loss) from operations</b>				
Interest income	–	–	34	34
Expenses				
- Administrative	(825)	(551)	(2,113)	(3,489)
- Depreciation and amortisation	(4,109)	(118)	–	(4,227)
- Impairment losses	(2,345)	–	–	(2,345)
- Share-based payment expenses	–	–	(12)	(12)
Profit/(loss) from operations before tax	(8,126)	239	(2,091)	(9,978)
Taxation	(26)	–	–	(26)
Profit/(loss) for the year	(8,152)	239	(2,091)	(10,004)
<i>Other information:</i>				
Non-current assets	8,508	986	–	9,494

Year ended 31 December 2017	Owner operated £'000	Franchise operated £'000	Unallocated £'000	Total £'000
<b>Revenue</b>	74	798	–	872
Cost of sales	(55)	(275)	(34)	(364)
Gross profit/(loss)	19	523	(34)	508
<b>Profit/(loss) from operations</b>				
Interest income	–	–	9	9
Expenses				
- Administrative	(18)	(250)	(977)	(1,245)
- Depreciation and amortisation	(2,307)	(90)	–	(2,397)
- Transaction	–	–	(957)	(957)
- Share-based payment expenses	–	–	(43)	(43)
Profit/(loss) from operations before tax	(2,306)	183	(2,002)	(4,125)
Taxation	(2)	(2)	–	(4)
Profit/(loss) for the year	(2,308)	181	(2,002)	(4,129)
<i>Other information:</i>				
Non-current assets	10,056	893	–	10,949

**Significant customers:**

Revenues derived from major customers in the franchise operated segment, which individually represent 10% or more of total revenue are as follows:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Customer A	354	253
Customer B	197	125
Others individually less than 10%	1,621	494
	2,172	872

## Notes to the Financial Statements continued

### 6. Operating loss before taxation

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

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Auditor's remuneration:		
- Audit of the financial statements	65	60
- Reporting accountants to AIM admission and acquisition	-	157
- Review of interim financial statements	6	9
Operating lease expenses	476	60
Impairment of trade receivables	6	33
Foreign exchange losses	31	34
Staff costs including directors, net of amounts capitalised	1,987	672
Depreciation of property, plant and equipment (Note 10)	545	22
Amortisation of intangible assets (Note 11)	3,656	2,375
Impairment of intangible assets (Note 11)	2,345	-
Share-based payment costs (non-employees)	12	43

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 (2017: £nil). In addition, £482,000 was paid to KPMG in connection with the Company's acquisition of EV and re-admission to AIM in May 2017. Those costs attributable to issuing share capital have been charged to share premium.

Detailed information on statement of profit or loss items:

	Year Ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Cost of sales		
Wages and salaries	922	312
Minimum lease payments recognised as an operating lease expense	413	9
Game expenses	131	-
Marketing expenses	245	26
Other costs of sale	426	17
	2,137	364

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Administrative expenses		
Depreciation	545	22
Amortisation	3,656	2,375
Impairment of intangible assets	2,345	–
Write-off of assets	45	–
Minimum lease payments recognised as an operating lease expense	63	51
Staff costs including directors, net of amounts capitalised	1,077	360
Share-based payments	12	43
Foreign currency losses	31	34
Other administrative expenses	2,273	800
	10,047	3,685

## 7. Staff costs

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Wages salaries and benefits (including directors)	1,921	626
Share-based payments	12	13
Social security costs	180	69
Other post-employment benefits	36	22
Less amounts capitalised	(150)	(45)
	1,999	685

### Key management personnel:

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Wages, salaries and benefits (including directors)	604	400
Share-based payments	12	13
Social security costs	71	47
Other post-employment benefits	12	15
Less amounts capitalised	(90)	(45)
	609	430

## Notes to the Financial Statements continued

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

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	10	216
Alistair Rae	140	4	6	150
Adrian Jones	20	–	–	20
Karen Bach	30	–	5	35
Other key management	127	2	5	134
	577	12	33	622
Amounts capitalised	(90)	–	–	(90)
Profit and loss expense	487	12	33	532

Year ended 31 December 2017	Salary and fees £'000	Share-based payments £'000	Other benefits £'000	Total £'000
Richard Rose	40	–	4	44
Richard Harpham	133	7	2	142
Alistair Rae	93	4	5	102
Adrian Jones	13	–	–	13
Karen Bach	20	–	2	22
Other key management	101	2	2	105
	400	13	15	428
Amounts capitalised	(45)	–	–	(45)
Profit and loss expense	355	13	15	383

The average monthly number of employees was as follows:

	Year ended 31 December 2018 No.	Year ended 31 December 2017 No.
Management	4	4
Administrative	23	16
Operations	43	–
	70	20

## 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 2018 £'000	Year Ended 31 December 2017 £'000
Loss before taxation	(9,978)	(4,125)
Tax calculated at the standard rate of tax of 19% (2017:19.25%)	(1,896)	(794)
Tax effects of:		
Non-deductible expenditure	273	561
Effect of different tax rates in foreign jurisdictions	25	(51)
Unrecognised tax losses	1,668	316
Capital allowances less depreciation	(32)	(32)
Other	(12)	-
	26	4

The Group had losses for tax purposes of approximately £11m as at 31 December 2018 (£2.7m as at 31 December 2017) which, subject to agreement with taxation authorities, are available to carry forward against future profits. The tax value of such losses amounted to approximately £1.88m (£0.46m as at 31 December 2017).

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 2018 and the year ended 31 December 2017 was 1,829,576 in both years.

	Year Ended 31 December 2018	Year Ended 31 December 2017
Loss after tax attributable to owners of the Company (£'000)	(10,004)	(4,129)
Weighted average number of shares:		
- Basic and diluted	20,259,258	16,667,376
Loss per share		
- Basic and diluted (Pence)	(49.38)	(24.77)



## Notes to the Financial Statements continued

### 10. Property, plant and equipment

	Leasehold property £'000	Office equipment £'000	Computers £'000	Furniture and fixtures £'000	Escape games £'000	Total £'000
<b>Cost:</b>						
At 1 January 2017	–	–	–	–	–	–
Additions	576	16	37	5	59	693
Currency translation differences	(1)	(1)	(1)	–	–	(3)
As at 31 December 2017	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
<b>Accumulated depreciation:</b>						
As at 1 January 2017	–	–	–	–	–	–
Depreciation charge	(5)	(3)	(12)	(1)	(1)	(22)
Currency translation differences	1	–	1	–	–	2
As at 31 December 2017	(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)
<b>Net book value</b>						
<b>As at 31 December 2018</b>	<b>2,519</b>	<b>9</b>	<b>65</b>	<b>161</b>	<b>1,612</b>	<b>4,366</b>
As at 31 December 2017	571	12	25	4	58	670

The amount of expenditure recognised in the carrying value of leasehold improvements in the course of construction at 31 December 2018 is £153,000 (2017: £215,000).

## 11. Intangible assets

	Goodwill £'000	Trademarks £'000	Intellectual property £'000	Internally generated IP £'000	Franchise agreements £'000	App Quest £'000	Portal £'000	Total £'000
<b>Cost</b>								
At 1 January 2017	-	-	-	-	-	-	-	-
Additions through business combinations	11	-	-	-	-	-	50	61
Arising on purchase price allocation	1,393	-	10,195	-	802	-	-	12,390
Additions arising from internal development	-	-	-	-	-	-	50	50
Other additions	-	13	-	-	-	-	141	154
Transfers	-	-	-	-	-	100	(100)	-
At 31 December 2017	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)
As at 31 December 2018	1,422	78	10,195	302	802	100	269	13,168
<b>Accumulated amortisation</b>								
At 1 January 2017	-	-	-	-	-	-	-	-
Amortisation for the year	-	-	(2,266)	-	(76)	(33)	-	(2,375)
At 31 December 2017	-	-	(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)
As at 31 December 2018	(1,393)	(11)	(6,616)	(21)	(191)	(83)	(61)	(8,376)
<b>Carrying amounts</b>								
<b>At 31 December 2018</b>	<b>29</b>	<b>67</b>	<b>3,579</b>	<b>281</b>	<b>611</b>	<b>17</b>	<b>208</b>	<b>4,792</b>
At 31 December 2017	1,404	13	7,929	-	726	67	141	10,280

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 12 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

## Notes to the Financial Statements continued

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 five 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 £6,740,000 over the five 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.

The Company has tested goodwill for impairment and determined that the recoverable amount relating to the acquisition of Experiential Ventures Limited is lower than its carrying amount and is therefore impaired. An impairment loss of £1,393,000 has therefore been recognised 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 which is highly sensitive to the expected occupancy rate of available escape rooms.

Whilst the existing owner-operated escape room sites are still at an early stage and achieving, in aggregate, their set occupancy target of 40%, with expectations that this will grow over time, there is at this stage no proof that this will be the case. The delays to site openings mean that the information available to management is not currently sufficient to support an anticipated increase in occupancy rates beyond an average of 42%. This rate has been assumed in the testing for impairment of the owner-operated segment and at this rate the tests indicate that the recoverable amount of the CGU is lower than its carrying value. The carrying amount of the owner-operated asset (CGU) has therefore been reduced to its recoverable amount by recognising an impairment loss of £952,000 against the allocated intellectual property. This loss equates to approximately 3.3 months of amortisation of the intellectual property.

The remaining amortisation period of the intellectual property is approximately 16 months. The Directors have considered this life in light of the impairment charge and consider that it remains appropriate.

### **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.

The average remaining amortisation period of the franchise agreements is approximately 64 months.

## **12. Subsidiaries**

Details of the Company's subsidiaries as at 31 December 2018 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
Boundless Workshop Limited	Scotland	Design and build of interactive experiences	51

Each of the companies incorporated in England and Wales have their registered office at 3 Pear Place, London SE1 8BT.

Boundless Workshop Limited has its registered office at Unit 3 Bankhead Workspace, 25 Bankhead Terrace, Edinburgh, Scotland, EH11 4DY.

## Notes to the Financial Statements continued

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

Boundless designs and builds interactive experiences.

None of the goodwill recognised is expected to be deductible for income tax purposes.

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

	Fair value £'000
Consideration	
Cash paid to Boundless	20
<b>Total consideration</b>	<b>20</b>
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)
<b>Total identifiable net liabilities</b>	<b>(17)</b>
Goodwill	29
Non-controlling interest	8
<b>Total</b>	<b>20</b>

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

Boundless contributed £17,000 of revenue for the period between the date of acquisition and the balance sheet date and £nil profit before tax. If the acquisition of Boundless had been completed on the first day of the financial year, Group revenues would have been £323,000 higher and Group loss attributable to equity holders of the parent would have been £12,000 lower.

#### **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 £'000
Consideration	
Cash	7,200
Equity instruments (3,555,555 ordinary shares)	4,800
<b>Total consideration</b>	<b>12,000</b>
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
<b>Total identifiable net assets</b>	<b>(390)</b>
Goodwill	1,393
Intellectual Property	10,195
Franchise Business	802
<b>Total</b>	<b>12,390</b>

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.



## Notes to the Financial Statements continued

### 13. 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 majority of income receivable under the terms of the loan relates to interest at a fixed rate. The valuation of this loan also takes account of the expected income under the revenue share; however, the impact of this estimate is not significant to the valuation. The carrying value of the loan approximates fair value. Credit risk is not considered to be significant.

### 14. Trade and other receivables

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Trade receivables (customer contract balances)	121	15
Prepayments	173	47
Accrued income (customer contract balances)	76	100
Deposits and other receivables	252	158
	<b>622</b>	<b>320</b>

The Group's exposure to credit risk and impairment losses related to trade receivables is disclosed in Note 28.

#### Year ended 31 December 2018:

Significant movements in customer contract assets during the year ended 31 December 2018 are summarised below:

	Trade Receivables £'000	Accrued income £'000
Contract assets:		
Balance at 1 January 2018	15	100
Transfers from contract assets recognised at the beginning of the period to receivables	100	(100)
Settlements	(115)	-
Increases as a result of changes in the measure of progress	99	76
Impairment provisions	(6)	-
Arising on business combination	28	-
Balance at 31 December 2018	121	76

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.

The majority of the increase in accrued income was as a result of the acquisition of Experiential Ventures Limited.

## 15. Inventories

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Branch consumables (at cost)	15	-
Total inventories	15	-

## 16. Cash and cash equivalents

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Bank balances	2,657	10,645
Cash and cash equivalents in the statements of cash flow	2,657	10,645

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

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Pounds Sterling	2,009	10,446
United States Dollars	434	177
Others	214	22
	2,657	10,645

## 17. Trade and other payables (current)

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Trade payables	670	507
Accruals	796	259
Deferred income	244	83
Taxation	23	5
Other taxes and social security	112	185
Other payables	36	30
	1,881	1,069

## Notes to the Financial Statements continued

### 18. Deferred income

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Contract liabilities (deferred income):		
Balance at beginning of year	539	-
Revenue recognised in the year that was included in the deferred income balance at the beginning of the year	(103)	-
Arising on business combination	-	666
Increases due to cash received, excluding amounts recognised as revenue during the period	218	139
Decreases in deferred income as a result of changes in the measure of progress (release on recognition of revenue arising from contract liabilities)	(4)	(202)
Decreased on termination of franchises	(17)	(39)
Translation differences	30	(25)
Transaction price allocated to the remaining performance obligations	663	539

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 arising on the business combination represent revenues deferred at the time of acquiring EV. 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 2018 £'000	As at 31 December 2017 £'000
Upfront exclusivity fees	506	539
Escape room advance bookings	98	-
Gift vouchers	57	-
Other	2	-
	663	539

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Upfront exclusivity fees		
Within one year	87	83
After more than one year	419	456
	506	539

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.

## 19. Dilapidation provisions

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Within one year	-	-
After more than one year	40	-
	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. The provision to 31 December 2018 represents the full amount provided for during the year and expensed to profit and loss. No amounts have been used or reversed during the year.

The leases expire between January 2023 and February 2032.

## 20. Share capital

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
<i>Issued and fully paid:</i>		
20,259,258 (2017: 20,259,258) Ordinary shares of 1.25 pence each	253	253
	253	253

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 2018 and at the date of approval of these financial statements is 20,259,258 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.

### **G shares of Escape Hunt Group Limited**

Two Directors and one employee hold a total of 1,000 G shares which were issued by Escape Hunt Group Limited, a controlled subsidiary, under The Escape Hunt plc Executive Growth Share Plan at a cost of £1 per share in the year ended 31 December 2017.

## 21. 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 2018 (year ended 31 December 2017: £30,000).

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 2018 is 16 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 2018.

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

## Notes to the Financial Statements continued

### 22. 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.

The weighted average remaining contractual life of the options outstanding at 31 December 2018 is 18 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.

No options have been exercised or forfeited. Accordingly, all options remained in place at 31 December 2018.

The charge to profit and loss during the year was £nil (2017: £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 three eligible employees inviting such employees 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 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 (2017: £13,000).

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

## 23. Operating leases

As at the reporting date, the Group had commitments for future minimum lease payments under non-cancellable operating leases as follows:

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Within one year	388	82
Between one and five years	1,610	664
More than five years	1,981	710
	3,979	1,456
Amount recognised in profit or loss:		
Lease expenses	476	60

These lease commitments relate to the lease of Escape Hunt owned branches and offices. The lease periods typically run for a period of five to ten years with an option to renew. The annual lease rentals are usually fixed or contain mechanisms to increase in line with market changes (but also contain an option to break).

## 24. 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.

## 25. 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 arises from the requirement to value share options and warrants in existence at the year end at fair value (see Notes 20 and 21).

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.



## Notes to the Financial Statements continued

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### 26. 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 £33,000 and other benefits of £2,000 were paid to close family members of two of the directors (2017: salary of £14,000) on an arm's length basis.

#### **Interests in the share capital of the Company**

Details of the Directors' interests in the share capital and share options of the Company are disclosed in the Directors Report.

### 27. Directors and key management remuneration

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

### 28. 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 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 2018 £'000	As at 31 December 2017 £'000
Trade and other receivables	622	320
Deposits	36	32
Loan to master franchisee	300	-
Cash and cash equivalents	2,657	10,645
	<b>3,615</b>	<b>10,997</b>

#### **Financial liabilities at amortised cost:**

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Trade payables	670	507
Accruals and other payables	966	479
	<b>1,636</b>	<b>986</b>

#### **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.

#### **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.

The Group's primary exposure to credit risk arises through its cash and cash equivalents. The Group manages its exposure to credit risk by dealing exclusively with high credit rating banking counterparties, predominantly UK clearing banks.

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 2018 £'000	As at 31 December 2017 £'000
Gross amounts (before impairment):		
Not past due	67	9
Past due 0-30 days	1	13
Past due 31-60 days	11	1
Past due more than 60 days	47	4
	<b>126</b>	<b>27</b>

## Notes to the Financial Statements continued

### 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 2018 £'000	As at 31 December 2017 £'000
At beginning of year	(12)	-
Impairment losses recognised	(6)	(13)
Bad debts written off	13	-
Translation differences	-	1
At end of year	(5)	(12)

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 (2017: £nil). The terms of the loan are set out in note 13. The expected credit loss is insignificant and no impairment has been recognised in respect of the loan.

As at 31 December 2018 £2,301,000 (2017: £10,446,000) of the cash and bank balances, as detailed in Note 16 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 2018, total trade payables within one year were £670,000 (2017: £507,000), which is considerably less than the Group's cash held at the year-end of £2,657,000 (2017: £10,645,000). 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:

As at 31 December 2018	United States Dollar £'000	Thai Bhat £'000	Euro £'000	Australian £'000	Other £'000	Total £'000
<b>Financial assets:</b>						
Trade receivables	20	-	-	-	-	20
Other receivables and deposits	33	8	-	-	-	41
Cash and bank balances	433	34	110	58	14	649
	486	42	110	58	14	710
<b>Financial liabilities:</b>						
Trade payables	2	-	-	-	-	2
Deferred income	505	-	-	-	-	505
Other payables and accruals	7	23	-	-	-	30
	514	23	-	-	-	537
<b>Foreign currency exposure (net)</b>	<b>256</b>	<b>19</b>	<b>110</b>	<b>58</b>	<b>14</b>	<b>457</b>

As at 31 December 2017	United States Dollar £'000	Thai Bhat £'000	Total £'000
<b>Financial assets:</b>			
Trade receivables	15	-	15
Other receivables and deposits	134	259	393
Cash and bank balances	177	22	199
	326	281	607
<b>Financial liabilities:</b>			
Trade payables	-	1	1
Deferred income	539	-	539
Other payables and accruals	10	30	40
	549	30	579
<b>Foreign currency exposure (net)</b>	<b>(223)</b>	<b>251</b>	<b>28</b>

## Notes to the Financial Statements continued

### Sensitivity analysis

A 10% strengthening of the Pound against the following currencies at 31 December 2018 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 2018	Increase/ (Decrease) £'000 2017
Effects on profit after taxation/equity		
United States Dollar:		
- strengthened by 10%	3	22
- weakened by 10%	(3)	(22)
Thai Bhat:		
- strengthened by 10%	(2)	(25)
- weakened by 10%	2	25
Euro:		
- strengthened by 10%	(11)	-
- weakened by 10%	11	-
Australian Dollar:		
- strengthened by 10%	(6)	-
- weakened by 10%	6	-

### 29. Commitments

The Group's lease commitments are set out in Note 23.

As at 31 December 2018, the Group had capital expenditure commitments in respect of escape rooms games and leasehold improvements totalling £465,000 (2017: £340,000).

### 30. Contingencies

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

### 31. Subsequent events

There have been two events that have occurred since the year end that require disclosure. After the year end, the Group agreed a grant with Scottish Enterprise whereby Scottish Enterprise would make £2m available as a contribution to the development of the Group's activities in Scotland, including the site which opened in Edinburgh in October 2018. In addition to its commercial activities, the Group will base certain game design functions and activities in Scotland.

In order to fund the business strategy of growth via new openings, the Group is undergoing a fundraising via a non-pre-emptive secondary placing which is expected to raise a minimum of £4m. The Placing is subject to approval by shareholders at a General Meeting to be held on 31 May 2019.

### 32. Ultimate controlling party

As at 31 December 2018, no one entity owns greater than 50% of the issued share capital. Therefore, the Company does not have an ultimate controlling party.

# Company Statement of Financial Position

As at 31 December 2018

(registered company number: 10184316)

	Note	As at 31 December 2018 £	As at 31 December 2017 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	42,861	10,796
Fixed asset investments	5	1,003	1,003
Loan to master franchisee	7	300,000	–
Deposits		25,700	7,800
		369,564	19,599
<b>Current assets</b>			
Trade and other receivables		56,293	–
Prepayments		34,184	9,714
Amounts due from subsidiaries	6	9,487,364	17,013,025
Cash and bank balances	8	1,591,141	6,177,252
		11,168,982	23,199,991
<b>TOTAL ASSETS</b>		<b>11,538,546</b>	<b>23,219,590</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	9	223,616	516,724
		223,616	516,724
<b>NET ASSETS</b>		<b>11,314,930</b>	<b>22,702,866</b>
<b>EQUITY</b>			
Share capital	10	253,241	253,241
Share premium account	11	21,076,907	21,076,907
Merger relief reserve	11	4,755,555	4,755,555
Accumulated losses		(14,872,048)	(3,472,149)
Capital redemption reserve	11	45,833	45,833
Share-based payment reserve	11	55,442	43,479
<b>TOTAL EQUITY</b>		<b>11,314,930</b>	<b>22,702,866</b>

The notes on pages 79 to 86 form an integral part of these Financial Statements. The Financial Statements on pages 77 to 86 were authorised for issue by the board of Directors on 10 May 2019 and were signed on its behalf by.

**Richard Harpham**  
Director

# Company Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital £	Share premium account £	Merger relief reserve £	Capital redemption reserve £	Share-based payment reserve £	Accumulated losses £	Total £
<b>For the year ended 31 December 2018:</b>							
<b>Balance as at 1 January 2018</b>	253,241	21,076,907	4,755,555	45,833	43,479	(3,472,149)	22,702,866
Loss for the year	-	-	-	-	-	(11,399,899)	(11,399,899)
Share-based payment charge	-	-	-	-	11,963	-	11,963
Transactions with owners							
<b>Balance as at 31 December 2018</b>	253,241	21,076,907	4,755,555	45,833	55,442	(14,872,048)	11,314,930
<b>For the year ended 31 December 2017:</b>							
Loss for the period	-	-	-	-	-	(1,863,914)	(1,863,914)
Issue of shares	174,074	13,870,370	4,755,555	-	-	-	18,799,999
Share issue costs	-	(1,688,585)	-	-	-	-	(1,688,585)
Buy-back of shares	(45,833)	(45,833)	-	45,833	-	-	(45,833)
Share-based payment charge	-	-	-	-	43,479	-	43,479
Transactions with owners	128,241	12,135,952	4,755,555	45,833	43,479	-	17,109,060
<b>Balance as at 31 December 2017</b>	253,241	21,076,907	4,755,555	45,833	43,479	(3,472,149)	22,702,866

The notes on pages 79 to 86 are an integral part of these financial statements.



# Notes to the Company Financial Statements

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for the year ended 31 December 2018

## 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 is the holding company of the Escape Hunt Group which is 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.

On 2 May 2017, the Company's name was changed to Escape Hunt plc.

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

## 2. Summary of significant accounting policies

### (a) Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006.

These financial statements are prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange of assets. The principal accounting policies are set out below.

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included a Profit and Loss account in these separate financial statements. The loss attributable to members of the Company for the year ended 31 December 2018 is £11,399,899 (year ended 31 December 2017: loss of £1,863,914).

The Company has taken advantage of the following disclosure exemptions in preparing these Financial Statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7:  
Statement of Cash Flows
- the requirements of Section 11:  
Financial Instruments
- The disclosure of the compensation of Key Management Personnel of the Company
- The disclosures required by Section 26 Share Based Payments in respect of Group settled share-based payments for its own separate financial statements.

The Company produces true and fair consolidated accounts which include the results of the Company.

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

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

## Notes to the Company Financial Statements continued

for the year ended 31 December 2018

The Company has prepared forecasts and projections which reflect the expected trading performance of the Company and the Group on the basis of best estimates of management using current knowledge and expectations of trading performance.

As at 31 December 2018, the Company had £1,591,141 in cash which is considered sufficient for its present needs.

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

### **(b) Fixed asset investments**

Fixed asset investments are carried at cost less, where appropriate, any provision for impairment.

### **(c) Loans to subsidiaries**

Loans to subsidiaries are measured at the present value of the future cash payments discounted at a market rate of interest for a similar debt instrument unless such amounts are repayable on demand. The present value of loans that are repayable on demand is equal to the undiscounted cash amount payable reflecting the Company's right to demand immediate repayment.

### **(d) Foreign currencies**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

### **(e) Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, bank balances, deposits with financial institutions and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **(f) Trade and other receivables**

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

### **(g) Income taxes**

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively

enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

#### **(h) Leases**

Assets that are held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases. Operating lease rentals are charged to profit and loss on a straight-line basis over the period of the lease.

#### **(i) 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 Company obtains the goods or counterparty renders the service. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 22 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.

#### **(j) Trade and other payables**

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### **(k) 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.

#### **(l) Financial instruments**

Financial instruments are recognised in the statements of financial position when the Company has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

A financial instrument is recognised initially at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

#### **(i) Financial liabilities**

Financial liabilities are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through profit or loss.

## Notes to the Company Financial Statements continued

for the year ended 31 December 2018

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. Derivatives are also classified as held for trading unless they are designated as hedges. There were no financial liabilities classified under this category.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

### (ii) **Equity instruments**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

### (iii) **Other financial instruments**

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

### (m) **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.

## 3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The key sources of judgment that have a significant effect on the amounts recognised in the financial statements are described below.

### **Impairment of fixed asset investments and amounts due from subsidiaries**

As described in Note 2 to the financial statements, fixed asset investments are stated at the lower of cost less provision for impairment. The present value of loans to subsidiaries that are repayable on demand is equal to the undiscounted cash amount payable reflecting the Company's right to demand immediate repayment.

At each reporting date fixed asset investments and loans made to subsidiaries are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss. The Directors have carried out an impairment test on the value of the loans due from subsidiaries and have concluded that an impairment provision of £10m is required to write down the loans to their estimated recoverable amount.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

The investments in and loans to subsidiaries are supported by the intangible assets in the subsidiaries, most notably intellectual property and franchise agreements as well as tangible fixed assets, cash and receivables.

The Company tests the receivables and intangible assets for impairment only if there are indications that these assets might be impaired. The Company considers that there are no such indications of impairment and impairment testing has not been performed. Accordingly, the Company considers that the value of investments in and loans to subsidiaries are not impaired.

#### 4. Property, plant and equipment

	Computer equipment £	Furniture and fittings £	Computers £	Total £
<b>Cost</b>				
At 1 January 2017	–	–	–	–
Additions	12,732	–	298	13,030
At 31 December 2017	12,732	–	298	13,030
Additions	8,124	21,706	14,600	44,430
At 31 December 2018	20,856	21,706	14,898	57,460
<b>Accumulated depreciation</b>				
At 1 January 2017	–	–	–	–
Depreciation charge for the year	2,168	–	66	2,234
At 31 December 2017	2,168	–	66	2,234
Depreciation charge for the year	5,851	3,276	2,815	12,365
At 31 December 2018	8,019	3,276	3,304	13,224
<b>Carrying amounts</b>				
At 31 December 2018	12,837	18,430	11,594	42,861
At 31 December 2017	10,564	–	232	10,796

## Notes to the Company Financial Statements continued

for the year ended 31 December 2018

### 5. Fixed asset investments

#### Investments in subsidiary undertakings

	£
At cost:	
Brought forward and carried forward	1,003

The Company's investments comprise 100% holdings in the issued share capital of the following companies:

- Escape Hunt Franchises Limited
- Escape Hunt Group Limited
- Escape Hunt IP Limited
- Escape Hunt Innovations Limited

No impairment provision has been made against the investments in subsidiaries.

Note 12 to the consolidated financial statements contains further information on the Company's holdings in subsidiaries including their activities and address of registered office.

### 6. Amounts due from subsidiaries

	As at 31 December 2018 £	As at 31 December 2017 £
Balance brought forward at beginning of year	17,013,025	–
Provision for impairment	(10,000,000)	–
Amounts advanced	2,474,339	17,013,025
Balance at end of year	9,487,364	17,013,025

The amounts owing from subsidiaries are unsecured, interest-free and repayable on demand. The amounts owing are to be settled in cash. The present value of amounts that are repayable on demand is equal to the undiscounted cash amount payable reflecting the Company's right to demand immediate repayment.

### 7. Loan to master franchisee

	As at 31 December 2018 £	As at 31 December 2017 £
Loan to franchisee	300,000	–

The loan to the master franchisee is unsecured, 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 amounts owing are to be settled in cash.

The majority of income receivable under the terms of the loan relates to interest at a fixed rate. The valuation of this loan also takes account of the expected income under the revenue share; however the impact of this estimate is not significant to the valuation. The carrying value of the loan approximates fair value. Credit risk is not considered to be significant.

## 8. Cash and cash equivalents

	As at 31 December 2018 £	As at 31 December 2017 £
Bank balances	1,591,141	6,177,252
Cash and cash equivalents	1,591,141	6,177,252

## 9. Trade and other payables

	As at 31 December 2018 £	As at 31 December 2017 £
Trade payables	52,522	92,497
Accruals	127,050	201,800
Taxes and social security	32,818	193,348
Other payables	4,617	5,193
Amounts due to subsidiaries	6,609	23,886
	223,616	516,724

The amounts owing to subsidiaries are unsecured, interest-free and repayable on demand. The amounts owing are to be settled in cash.

The directors consider that the carrying amounts of amounts falling due within one year approximate to their fair values.

## 10. Share capital

Details of the Company's allotted, called-up and fully paid share capital are set out in Note 20 to the Consolidated Financial Statements.

## 11. Reserves

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

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.

The share-based payment reserve arises from the requirement to value share options and warrants in existence at the year end at fair value (see Notes 21 and 22 to the Consolidated Financial Statements).

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.

## 12. Share based payments

Details of the Company's share options and warrants are contained in Notes 21 and 22 to the Consolidated Financial Statements.

A subsidiary of Escape Hunt plc, Escape Hunt Group Ltd, has issued 1,000 Growth shares for £1 each to three employees of Escape Hunt plc. In the event that any or all of the Growth shares become eligible for exercise, it is the obligation of Escape Hunt plc to settle the consideration due upon exercise.

The options issued under the CSOP have been issued to two employees employed by Experiential Development Ltd. No charge has been made to the Income Statement in the year to 31st December 2018 due to the amounts being considered immaterial (2017: £nil).



## Notes to the Company Financial Statements continued

for the year ended 31 December 2018

### 13. Segment information

Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the Board. Until its acquisition of Experiential Ventures Limited on 2 May 2017, the Company was an investing company (as defined in the AIM Rules for Companies) and did not trade. On the completion of the acquisition of Experiential Ventures Limited and its subsidiaries, the Company became the holding company of the Group. Its subsidiaries provide live 'escape the room' experiences through a network of franchised, licensed and owner-operated branches and offsite "escape the room" type games.

The Company has one segment, namely that of a parent company to its subsidiaries. Accordingly, no segmental analysis has been provided in these financial statements.

### 14. Employees

The average monthly number of employees including directors was as follows:

	Year ended 31 December 2018 No.	Period ended 31 December 2017 No.
Management	5	5
	5	5

### 15. Related party transactions

The only key management personnel of the Company are the Directors. Details of their remuneration are contained in Note 7 to the Consolidated Financial Statements.

Details of amounts due between the Company and its subsidiaries are shown in Notes 6 and 9 above.

### 16. Subsequent events

In order to fund the business strategy of growth via new openings, the Group is undergoing a fundraising via a non-pre-emptive secondary placing which is expected to raise a minimum of £4m. The Placing is subject to approval by shareholders at a General Meeting to be held on 31 May 2019.

### 17. Ultimate controlling party

As at 31 December 2018, no one entity owns greater than 50% of the issued share capital. Therefore, the Company does not have an ultimate controlling party.

# Company information

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## **Directors**

Richard Rose, Independent Non-Executive Chairman  
Richard Harpham, Chief Executive Officer  
Alistair Rae, Chief Financial Officer  
Adrian Jones, Non-Executive Director  
Karen Bach, Non-Executive Director

## **Company secretary**

Alistair Rae

## **Company number**

10184316

## **Registered address**

3 Pear Place  
London  
SE1 8BT

## **Independent auditors**

KPMG LLP  
Gateway House, Tollgate  
Chandlers Ford  
Southampton  
SO53 3TG

## **Nominated adviser and joint broker**

Stockdale Securities Ltd  
100 Wood Street  
London EC2V 7AN

## **Joint broker**

Peel Hunt LLP  
Moor House  
120 London Wall  
London EC2Y 5ET

## **Registrars**

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