

**Escape Hunt plc (AIM: ESC)**

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

**Final results for the year ended 31 December 2020**

Escape Hunt is pleased to announce its audited final results for the year ended 31 December 2020.

**FINANCIAL HIGHLIGHTS**

- Group Adjusted EBITDA loss reduced to £1.4m (2019: loss £1.7m) despite COVID-19 restrictions
- > 25% like-for-like sales growth on a 12 week rolling basis in the two months prior to lockdown
- Group revenue of £2.7m (2019: £4.9m) was 46% lower than FY19, driven by COVID-19
- Revenue from digital and other play at home products was £230k (2019: nil)
- £0.4m positive site level Adjusted EBITDA from owner-operated sites (2019: £1.0m) was driven by a strong performance pre-lockdown and encouraging trading when allowed to open under COVID-19 restrictions
- Franchise EBITDA of £0.3m (2019: £0.4m)
- Group operating loss of £6.4m (2019: loss of £5.9m)
- £4.0m net of expenses successfully raised through an equity placing and open offer, share subscription, and a convertible loan note in July 2020
- Cash at year end £2.7m (2019: £2.2m) and £3.3m on 31 March 2021

**OPERATIONAL HIGHLIGHTS**

- Owner-operated estate expanded by 56% to 14 sites (2019: 9 sites) including Watford (which was scheduled to open on December 27<sup>th</sup>) and the acquisition of Dubai
- Record opening performances at each of Norwich and Basingstoke sites
- All eight sites open for more than 12 months were named by TripAdvisor™ as a Travellers' Choice Winner in August 2020 and continued five star TripAdvisor™ ratings across the UK estate
- Transition to new, lower cost games supplier and installation of first fully modular games in Watford
- COVID-19 closures of all UK sites resulted in 45% of available days lost and restrictions impacted a further 36% of available trading days
- Estimated 40% of trading days lost by franchise estate due to COVID-19 closures and a further 42% of days operating under COVID-19 restrictions
- Successful launch of digital and remote play propositions
- Acquisition of Middle East master franchise, including owner-operated site in Dubai

**POST YEAR END**

- Full UK lockdown enforced shortly after Christmas 2020 with UK sites re-opened on 17 May 2021
- Acquisition of French and Belgian master franchise including owner-operated sites in Paris and Brussels

- Placing to raise £1.3m (after expenses) in January 2021 to fund French and Belgian acquisition and provide further working capital
- Majority of French franchise agreements extended for further six years
- Kingston opened on May 17, taking the owned and operated estate to 17 sites
- Heads of terms agreed on site in Milton Keynes; legals close to completion
- Work commencing shortly at new site in Lakeside
- Inclusive of Milton Keynes and Lakeside, owner operated estate will have grown 111% compared to 31 Dec 2019
- Digital and downloadable sales continuing to perform, generating £92k revenue in the 3 months to 31 March 2021.
- £1.0m convertible loan note facility put in place to provide further flexibility to continue UK roll-out in the event of further lockdown restrictions or continued adverse impact on trading from COVID-19

**Richard Harpham, Chief Executive of Escape Hunt, commented:**

*“We are delighted that our UK sites have finally been able to re-open and are excited to be building on the substantial strategic progress we have been able to make in the last year, notwithstanding the extremely tough conditions brought about by Covid-19. Escape Hunt is in a much stronger position today than it was twelve months ago, and subject to reasonable assumptions on demand returning, we are confident that we now have a platform established capable of supporting a profitable business. We have significantly grown our owner-operated estate, launched our digital and remote-play propositions, made progress with our franchisees, and re-capitalised the business. We are hopeful that consumer and corporate demand will return strongly in the coming months and look forward with cautious optimism.”*

**This announcement is available on the Company’s website, <https://escapehunt.com/investors/>**

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**About Escape Hunt plc**

The Escape Hunt Group is a global leader in providing escape-the-room experiences delivered through a network of owner-operated sites in the UK, an international network of franchised outlets in five continents, and through digitally delivered games which can be played remotely. Its products enjoy consistent premium customer ratings and cater for leisure or teambuilding, in small groups or large, and are suitable for consumers, businesses and other organisations. Having been re-admitted to AIM in May

2017, the Company has a strategy of creating high quality premium games and experiences delivered through multiple formats and which can incorporate branded IP content. (<https://escapehunt.com/>)

Facebook: EscapeHuntUK

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## **Chairman's Statement**

2020 was undoubtedly the most difficult year for the leisure industry in recent history, with government enforced closures impacting businesses in all parts of the world. Notwithstanding the challenges, the Company has used the time productively, launching new digital and play-at-home products, significantly expanding its UK owner-operated estate, establishing improved games manufacturing and installation processes, progressing the potential for the business in North America, and acquiring the Middle East master franchises along with negotiating the acquisition of the French and Belgian master franchises. As a result, the Group finds itself significantly better positioned for the future than was the case a year ago.

The progress would not have been possible without the support of stakeholders at all levels. Firstly from our shareholders who have demonstrated their belief in the future of the business, supporting a £4.3m fund raise in July 2020 to provide development and working capital, and a further £1.4m fund raise after the year end in January 2021 to support the acquisition of our French and Belgian master franchisee and to provide further working capital. The Group has also been able to benefit from a number of government support schemes put in place to help businesses through the COVID-19 pandemic. Cash has been preserved through effective use of these schemes and careful management of costs, whilst investment in new sites has continued. I would also like to extend my thanks to all our employees who have had to endure through uncertain and difficult circumstances. Many have spent large portions of the last year on furlough, whilst all have had to cope with significant changes to the working environment. Throughout the period they have continued to work with passion and enthusiasm, helping deliver innovative new games to support our strategy, implementing the social distancing requirements at our sites, and accepting changes to their working conditions. During the first lockdown, all our head office staff agreed to a pay reduction whilst continuing to work, a sacrifice which was enormously helpful and appreciated. A number of our landlords agreed concessions on rent, allowing deferred or reduced rents, whilst number of our suppliers reduced or deferred costs. Their support was likewise both welcome and valued.

Outside of the obvious adverse impact of COVID-19, the Company delivered on a number of important milestones, further details of which are provided in the sections of the strategic report that follow. Importantly costs were managed carefully and cash preserved where possible, leaving the Company in a stronger position to take advantage of a return of demand once Government restrictions are lifted and sites are re-opened. A few highlights from the period in question are worth mentioning:

- Strong trading from 1 January 2020 to 29 February 2020 with revenue and owner-operated site performance comfortably ahead of the Board's expectations
- Careful cash management and encouraging return of demand after lockdowns when sites were open
- Adjusted Group EBITDA loss reduced by 15% to £1.45m from £1.71m despite Covid closures
- Raised £4.0m net of expenses through an equity placing and open offer, share subscription, and convertible loan note issue in July 2020
- Successful launch of digital and other play at home products generating revenue of £230k (2019: nil)
- In the year to 31 December 2020, the owner-operated estate expanded by 56% to 14 sites (2019: 9 sites) including the acquisition of Dubai
- Constructive progress within our franchise estate, both in the US and the rest of the world
- Post year end completion of a new site in Kingston, acquisition of the France and Belgium master franchises together with £1.4m fundraise by way of an equity placing

The year started positively, with both our owner-operated and franchise estates entering January 2020 on the back of strong sales performances over Christmas. Performance in the period before Covid-19 restrictions came into effect was ahead of the Board's expectations.

In March, the onset of COVID-19 forced immediate action which saw significant cost cuts and a period in which the business was effectively put into hibernation. The team worked proactively to launch new products which could be played remotely, initially launching a range of print-and-play games, followed by ‘zoom-in-a-room’ and other digital propositions. We have been pleased with the success of these products and it is our expectation that they will continue to be an important part of our portfolio of games in future.

At the same time, significant effort was put into seeking further investment to secure the future of the Company. In July we were delighted to raise £4.3m (£4.0m net of expenses) through an issue of new equity and convertible loan notes which was supported by our major shareholders as well as a number of new investors who joined the register. At the same time, the Board announced a five-point plan as follows to build shareholder value.

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

I am pleased to report good progress in all of these objectives, details of which are given in the sections of the strategic report that follow.

The Board saw a number of changes during the year. Graham Bird joined as Chief Financial Officer on 3 January 2020 and has worked extremely well with the existing team, playing an important role in securing the support of our shareholders in the two fund-raises whilst adding significant additional experience and capability to our senior leadership team. Adrian Jones, who was one of the original management team which established Escape Hunt prior to its acquisition by Dorchester and Admission to AIM in 2017, stepped down from the Board as a Non-Executive Director at the end of May 2020. At the end of September 2020, we welcomed John Story to the Board in his place as a Non-Executive Director. We took steps to ensure that our key employees are aligned with shareholders, implementing a new executive share incentive scheme in July 2020. Since the year end, we have implemented a wider scheme available to all our employees in the UK which will enable anyone working for the Company to acquire shares in a tax efficient manner and to be rewarded with matching share awards after a three year holding period.

The pace at which the vaccination programme is being rolled out in the UK and the reduction in serious cases of the disease together with the fact that our UK sites have been able to open on 17 May 2021 as was initially indicated by the Government sets a positive outlook. Evidence on re-opening after the 2020 spring/summer lockdown was very encouraging and, as a result, the Board is hopeful that both consumer and corporate demand will return strongly when the restrictions currently in place are lifted. At the same time, property market conditions in the UK are increasingly favourable for those seeking to take on new space and the Company has been able to capitalise upon that opportunity. There is clearly a growing demand for experiential leisure and the Board has been actively exploring ways to broaden our sphere of activities.

In February 2020, the Company had 9 Escape Hunt branded owner-operated sites, all in the UK. Post year end, the completion of the acquisition of our French and Belgian master franchises and the build-out at Kingston, has expanded the network to 17. Heads of terms have been signed for a site in Milton Keynes and, in addition, the Company has carved out a space at a unit at the Lakeside shopping centre in Essex which was previously trading as Market Halls. These two further sites will potentially become the Company’s 18<sup>th</sup> and 19<sup>th</sup> owner operated sites respectively. Further sites are now also in contemplation. When we raised money in July 2020 we set a target of 20 owner-managed sites within two years. We

expect to achieve this before the end of 2021, six months ahead of our target. Importantly, with the footprint already established, the Directors believe that once new site performance has matured and conditions and demand have normalised post COVID-19, the Escape Hunt network should be capable of supporting positive EBITDA and positive cash generation, subject to reasonable assumptions in other areas of the Group.

On the international front, the Board is excited about the potential of bringing the French and Belgian master franchises in-house alongside the Middle East business which was acquired in September 2020, and the progress being made in the US with partners Proprietors Capital Holdings, is encouraging. Whilst a small number of the Company's existing international franchise network look like they will not survive the challenges of the pandemic, the opportunity for the other parts of the network to rejuvenate after COVID-19 is now much closer to being a reality.

Finally, the significant progress made by the Company in establishing digital and other play-at-home products has provided a new, scalable revenue stream and growth opportunity, which the Directors expect to remain an important part of the product suite in the future.

We are still at an early stage in delivery against the objectives we set in July last year. However, it has been very pleasing to see a positive response by the markets so far. Money was raised at 7.5p per share in July 2020 whilst the placing conducted in January 2021, partly to fund the French acquisition, was completed at 17.5p per share.

We remain confident that we have a valuable business and that if we deliver on our objectives, we have an opportunity to create significant further value for our shareholders. As a result, notwithstanding the continued uncertainty that the coming weeks and possibly months hold for the whole leisure industry, the Board has reason to look forward with cautious optimism.

**Richard Rose**

**Chairman**

17 May 2021

## **Chief Executive's Report**

Notwithstanding the huge disruption caused by COVID-19, the Group ended the year in a significantly stronger position than before the onset of the crisis, and much better placed to benefit from a return of demand. Throughout the year, the team continued work on delivering the strategic plans across all five areas identified. With the benefit of the COVID-19 related Government support schemes, the outturn for the year was better than expected given the pro-longed enforcement of restrictions.

Importantly, the expansion of the Group's owner-operated network together with the launch of our digital and other remote-play products has created a platform which we believe is capable of supporting a profitable, cash-generative group, once COVID-19 restrictions are removed, trading normalises, new sites have matured and subject to reasonable assumptions in other parts of the business.

### **Owner-Operated site performance**

Revenue from our owner-operated sites fell 46% to £2.1m (2019: £3.8m), inclusive of digital and remote-play turnover of £230k (2019: £nil). The fall in revenue reflects the significant impact of both enforced closures and social distancing rules prohibiting households mixing which were implemented by the UK Government in response to the pandemic.

Prior to COVID, the first two months of 2020 were very strong for the business and we saw continued growth across all Escape Hunt branded UK sites, with target site economics for turnover and EBITDA contribution being met. Moreover, the like-for-like sales growth was particularly encouraging, with even the most mature sites delivering 25% growth vs prior year on a 12 week rolling basis.

**Table 1: Like-for-Like Growth in first two months of 2020**

<b>Data as at 1 March 2020</b>	<b>Year-on-Year Growth (Rolling average period)</b>		
	<b>4 weeks</b>	<b>12 weeks</b>	<b>24 weeks</b>
First 3 sites	18%	25%	30%
Next 5 sites	70%	99%	N/A
All 8 mature sites	44%	59%	N/A

### **The impact of COVID**

Around the second week in March 2020, the impact of COVID-19 began to be felt, culminating in the implementation of the first UK national lockdown on 23 March 2020.

In July 2020 we raised £4.0m (net of expenses) by way of a placing, open offer, share subscription and convertible loan note issue. This additional funding enabled the group to continue its planned roll-out of sites and provided working capital to survive the pandemic.

Whilst all UK sites were closed during the national lockdowns, sites were also affected differently during periods when the UK Government applied a tiered regional approach to restrictions. In total, we estimate 45% of trading days in the year were completely lost due to closures and a further 36% of trading days in the year were impacted by varying levels of restrictions, such as the 'rule of six', bans on household mixing or other social distancing measures.

Notwithstanding the restrictions, we were encouraged by the performance of our sites between July and October, after re-opening at the end of the first national lockdown. In the first eight weeks after re-opening, sales grew from an initial level of around 25% of the equivalent week's sales in 2019 to over 90% of the equivalent prior year sales in each of the last two weeks of the first eight-week period. In September, the pace of recovery softened as expected, notably as the UK Government began to implement

incrementally stringent social distancing and mixing rules. Nevertheless, revenue inclusive of digital and remote sales over the week beginning 26 October 2020, which coincided with schools' half term week, was 25% ahead of the same period in 2019. During that week, on a like-for-like basis, the Company's eight mature UK sites traded at 96% of the 2019 level, despite four of the sites being adversely affected by either the Government's tier 2, tier 3 or the Scottish COVID-related restrictions.

Throughout the year, when sites were open, we continued to delight our customers. Before the onset of the pandemic, all nine of our sites had five star ratings on TripAdvisor™ and in August 2020, all eight of our sites that had been opened for more than 12 months were named by TripAdvisor™ as a Travellers' Choice Winner. The awards placed all our longer standing sites in the top 10% of attractions worldwide. We were equally delighted that our then newest site at Birmingham Resorts World, which only opened in December 2019, was ranked the top attraction in Birmingham and the West Midlands, and #7 across the whole of the UK. We have continued to receive positive customer feedback, and at the time of writing, all our UK sites are five star rated by TripAdvisor™.

The strong performance prior to the onset of the pandemic, coupled with encouraging trading performance after the first lockdown and positive consumer feedback gave us confidence to continue with the UK site roll-out strategy we outlined in July 2020. During the year and subsequently, we expanded our Escape Hunt branded owner-operated estate by 89% from 9 to 17 sites, inclusive of the acquisitions of our Middle East master franchisee ("EHE LLC"), and French and Belgian master franchises ("BGP") which brought sites in Dubai, Paris and Brussels into our owner-managed estate respectively. All three of these were previously franchised sites.

We opened a new site in Norwich on 23 September 2020. The site had originally been planned to be opened in the spring, but had to be delayed when all capital expenditure was put on hold and construction work was halted in the first national lockdown. We were delighted with the performance of the site in the few weeks during which trading was permitted, as performance was in line with a number of our mature sites.

Basingstoke was opened on 29 October 2020 only a few days before the second national lockdown came into force on 3 November 2020. Trading in its opening three days was the strongest of any of the Company's new sites to date.

A new site in Cheltenham opened on 3 December 2020. Early trading was encouraging, although the tiered restrictions and subsequent closures in the run up to Christmas curtailed any meaningful launch.

Two additional sites have been able to open in the week beginning May 17 2021. Watford was completed and was due to open before the year end, but was prevented from doing so by the COVID-19 restrictions. Kingston too is now complete, and at both we have newly recruited teams that are excited to begin welcoming customers.

Work is soon to begin on a unit in Lakeside shopping centre in Essex, where Escape Hunt has carved out 4,000 square feet in a space that was previously trading as Market Halls. Lakeside is a very high dense and popular retail and entertainment destination, and the business will be well positioned amid some strong adjacent operators. The site is expected to open in Q4 2021.

Additionally, we have also ordered games for a further site, most likely Milton Keynes, where we have agreed heads of terms and are in the final stages of legal agreements.

### **Government support through COVID**

A total of 152 employees in the Group were registered on the UK Government's Coronavirus Job Retention Scheme ("CJRS") at some point during the year to 31 December 2020. Of these, 145 were employed within the owner-operated segment. The total benefit received from the CJRS during the year was £756k, of which £699k is attributable to the owner-operated segment.



Importantly, the ‘flexible furlough’ version of the scheme was critical in ensuring that sites were able to make a positive contribution when they re-opened but remained subject to restrictions. This flexibility led us to re-examine our service contracts to ensure that the business will be able to manage fluctuations in revenue better in future, when the scheme will no longer be in place. In November we implemented changes which have enabled us to convert over 80% of what were previously fixed costs to variable costs. This change will result in lower break-even points at all our UK sites and ultimately should lead to higher operating margins as a result of the better flexibility the changes afford.

The pandemic has been extraordinarily tough on all kinds of businesses and people, and many of our owner-operated employees have spent a large proportion of the year on furlough, facing uncertainty about the future. However, I have been humbled by the loyalty and dedication shown by our teams, and am delighted to welcome everybody back to once again delight our customers as we reopen.

### **Franchise network**

Our franchise network has had a broadly similar experience of 2020 as our owner-operated segment. Whilst the impact of the pandemic has differed regionally, turnover from our franchise network fell 46% to £0.6m (2019: £1.1m), whilst EBITDA from the segment fell 18% to £297k (2019: £361k).

In total, we estimate that our franchisee base lost 40% of their potential trading days in 2020 to government mandated closures, whilst a further 42% of trading days would have been impacted by some form of COVID-19 restrictions.

The pandemic has put many of our franchisees under tremendous financial strain. In some parts of the world there has been little or no financial assistance. Sadly, as a result, a number of our franchisees have closed permanently, including Amman and Jeddah, and since the year end, two sites in Buenos Aires look certain to close. Dubai became an owner-operated site, joined by Paris and Brussels post year end. At the date of writing, we have 29 franchise sites in the estate.

Given the uncertainty from the pandemic, there was little we could do by way of direct financial assistance to our franchise network. However, we have provided support by way of relief against fixed fees whilst franchisee sites have been closed and, in addition, we have made our digital and remote play propositions available to the network. Where taken on by the franchisees, these remote-play products have contributed meaningfully to their respective underlying performance.

In the USA, progress was slowed by the pandemic, but we have nevertheless moved forward. We achieved an important milestone when our first US franchise disclosure document was filed in December 2020. This enables our area representative, PCH through its subsidiary GoXperia, to begin selling proactively. Since the year end, we have held our first ‘discovery day’ for potential franchisees and conversions in the US, and the pipeline of potential franchisees is beginning to build. GoXperia has recruited a senior brand director to augment its team and we remain optimistic about the potential for the region.

During the year we have invested in our communications and user journeys for franchisees, introduced new global communications tools and forums, improved the user experience on our websites, introduced country level homepages and made other enhancements to the service provided to the network.

With the majority of our existing franchisee base now converted to the catalogue approach and our improving level of interaction and communication with the network, we are again beginning to look at opportunities to expand our franchise estate, and plan to leverage the capabilities and experience which have joined the Group through our Middle Eastern, French and Belgian acquisitions. Whilst the size of the network has reduced during the pandemic, it has been pleasing to a number of sites recording strong recovery performances in the early months of 2021. We have seen sites in both the Middle East and Australia performing at record levels. We believe that the changes made during the last year are a step towards significantly improving the level of service we provide our franchisees and will, in time, lead to a stronger, larger and more profitable network.

## **Content strategy**

A year ago we outlined our strategy to broaden our customer mix and to create games which are not constrained by the size and capacity of our physical sites.

During the year we introduced three new remote-play formats including print-and-play, ‘zoom-in-a-room’ and digital games. In total, our remote games generated £230k of revenue within our owner-operated network. Of this print-and-play contributed £94k and £21k came from ‘zoom-in-a-room’. The balance of £115k was almost all earned in December, shortly after launching our digital products aimed predominantly at the corporate market as part of our *EH for Business* proposition.

We currently have 20 remote play products in the portfolio which we intend to expand further.

We have made progress in building our product set for *EH Retail*. As mentioned above, the downloadable print-and-play games have proved successful and are aimed predominantly at a retail audience. Whilst we launched our first virtual reality rooms in December 2019 at our site in Birmingham Resorts World, the onset of the pandemic has meant that it is still too early to judge the full potential of this format. We have nevertheless established VR rooms at all our new sites opened since then, bringing the total number of VR rooms that will be open in May to 7 and eagerly await for the return of customers. We have also invested in the outdoor formats, utilising the software license signed in the Autumn, which enables us to develop our own content for outdoor games.

The success of our digital products in particular, has advanced our *EH for Business* proposition. In December we were delighted with the response from corporates and now have a truly scalable proposition. In the run up to Christmas performance surpassed our expectations, as we received over 200 bookings, comprising over 1000 corporate teams and 6000 individuals. The largest single game had 347 people playing, split between 57 teams playing from multiple countries.

*EH for Brands* saw a major success in September when we secured an agreement with Netflix™ to develop a game based on the Netflix™ original film, *Enola Holmes*©. The game, which was free to download, led to c.19k downloads from individuals, many of whom have since returned and purchased other Escape Hunt products. We also launched a Doctor Who themed print-and-play game, “The Hollow Planet” in conjunction with the BBC. This followed the launch of our newest Doctor Who escape game, “A Dalek Awakens”, which was launched just before the pandemic struck in March 2020. We plan to roll out further instances of “A Dalek Awakens” at a number of our new sites.

We are in discussions with other IP owners about forming partnerships which make sense for both parties, and believe that there is a role for these types of opportunities. However, we have also found that games built around IP that is out of copyright, such as Aladdin and Alice in Wonderland, have proved hugely successful and are much more cost-effectively deployed. We therefore expect to continue with a product portfolio which has a mix of genre, copyright-free IP and bigger brands.

## **Strategic progress and objectives**

In June 2020, the Board set out a five point plan for value creation which was implemented following our fundraising in July 2020. As set out above, significant progress has been made in all aspects of the plan since then, placing the business in a substantially stronger position to benefit from any recovery in demand when COVID-19 restrictions are lifted.

The progress since July 2020 under each of the five components of the strategic plan is summarised as follows:

### *1. Roll out of owner operated sites*

- 89% increase vs 2019 in the size of the Escape Hunt branded owner-operated estate, including sites acquired and completed post 31 December 2020
    - 5 sites completed in the UK
    - Acquisition of the Escape Hunt Middle East master franchise, including Dubai as owner-operated site
    - Post year end acquisition of BGP Escape and the resulting addition of the Paris and Brussels sites to the owner operated estate
  - Heads of terms signed for Milton Keynes; games ordered
  - Lakeside due to open in Q4 2021; work commencing shortly
  - Expect to achieve target of 20 owner-operated sites by end of 2021, six months ahead of plan
2. *US Franchise network progress*
- Franchise disclosure document filed in December 2020
  - Decision to use the Houston site as the ‘master site’ and education centre for North America
  - Two instances of the new generation games have been ordered and are in transit to be installed in Houston. A pipeline of both new and potential conversion franchisees is now in active development
  - Two ‘discovery days’ held with potential franchisees
3. *International Franchise network progress*
- Acquisition of Middle East master franchise
  - Acquisition of France and Belgium master franchises
  - Australian franchisees moved to catalogue approach with new terms
  - Majority of French franchisees extended to 2027 and moved to catalogue approach
4. *New products and markets*
- Launch of first remote-play products, generating £230k revenue in 2020
  - Proof of concept for large scale, scalable products
  - Development of ‘Escape Hunt for Business’ concept
5. *Investment in Infrastructure*
- Completion and implementation of software which allows game masters to manage multiple games at the same time at new sites

Whilst a number of other projects to improve efficiency and improve scalability have been identified, the Board intends to delay further work on these until COVID-19 restrictions are lifted.

### **Strategic objectives for 2021**

The Board plans to build on the success in progressing the strategic objectives in 2020 and believes that the focus for delivering growth by continuing to focus on the same objectives. At the same time, property market conditions in the UK are increasingly favourable for those seeking to take on new space and we are therefore actively looking at ways in which we can capitalise on the opportunity and build our platform to cater for the growing demand for experiential leisure activities and engagement. We believe there will be opportunities to expand the range of products and markets we serve in the wider experiential market.

We have taken steps to ensure that we can continue to pursue our strategic objectives notwithstanding the continuing uncertainty over the ongoing impact of COVID-19 on our trading, or the possibility of a further temporary lockdown and have therefore established a £1.0m convertible loan note facility with one of the Company's non-executive directors, John Story. The availability of this facility ensures we can continue to commit to capital expenditure in new sites such as Lakeside and Milton Keynes without the need to preserve cash in the event of further, unforeseen adverse impacts from COVID-19. There is no obligation to draw any of the facility. Details of the facility are given in note 35 of the consolidated financial statements.

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

## **Outlook**

The pace at which the vaccination programme is being rolled out in the UK and the reduction in cases attributable to COVID-19 together with the fact that our UK sites have been able to open on 17 May 2021 sets a positive outlook which we have planned for. Many economic commentators are expecting a strong recovery in the UK economy in the second half of the year, which would be positive for Escape Hunt. As mentioned above, evidence on re-opening after the 2020 spring/summer lockdown was very encouraging and, as a result, the Board is hopeful that both consumer and corporate demand will return strongly when the restrictions are lifted. At the same time, property market conditions in the UK are increasingly favourable for those seeking to take on new space. We have already been able to benefit from these favourable conditions in recent property negotiations and the Board is actively looking at further ways in which the Company can capitalise on the opportunity and build on the platform to cater for the growing demand for experiential leisure activities and engagement.

Within Escape Hunt, we are confident we can build on the progress we have made in our owner-operated estate, and look forward to working closely with our new colleagues in France and Belgium and the UAE. We believe all these acquisitions will contribute meaningfully in future. Progress in the US remains encouraging, and our challenge now is to provide the level of support to allow it to reach its true potential, which itself could be transformational for the business as a whole.

Finally, the significant progress made by the Company in establishing digital and other play-at-home products has provided a new, scalable revenue stream and growth opportunity, which we expect to remain an important part of our product suite in the future.

As a result, notwithstanding the continued uncertainty that the coming weeks and possibly months hold for the whole leisure industry, the Board has reason to look forward with cautious optimism.

**Richard Harpham**

**Chief Executive Officer**

17 May 2021

## **Financial Review**

### **Group Results**

#### ***Revenue***

Group revenue fell by 46% to £2.7m from £4.9m as a result of the impact of COVID-19 on both our owner-operated estate and the franchise network.

	<b>Year ended 31 December 2020 £'000</b>	<b>Year ended 31 December 2019 £'000</b>	<b>Increase / (decrease)</b>
New site upfront location exclusivity fees	122	138	(12%)
Support and administrative fees	146	221	(34%)
Franchise revenues	309	717	(57%)
Owned branch revenues	2,070	3,832	(46%)
Other	11	7	57%
	<b>2,658</b>	<b>4,915</b>	<b>(46%)</b>

Owner-operated revenues included £230k from digital and remote play propositions launched during the year and, in aggregate, constituted 78% of revenue (2019: 78%).

Within the franchise business, recognition of upfront location exclusivity fees fell modestly, largely as a result of the termination of a small number of contracts in 2019 which led to the accelerated recognition of upfront fees in 2019, but revenue recognised from this source was in line with 2018. Fees linked to franchise revenues were down 57% compared to the prior year, reflecting the significant impact of COVID-19 on our network. We estimate that our franchise network lost 40% of available days during the year due to full closures, whilst a further 42% of trading days in the year were impacted by COVID-19 related restrictions imposed in different parts of the world between March and December 2020.

#### ***Gross profit***

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

Gross margin rose from 67% in 2019 to 70% in 2020. The primary driver of this improvement was the flexible furlough scheme which was operating when sites were open, which afforded more flexibility to manage labour costs than previously. As set out above, we have since made changes to our labour contracts to maintain as much of this flexibility as possible to safeguard the business against future, unexpected revenue fluctuations and to lower the breakeven levels at each site.

#### ***Adjusted EBITDA***

Group Adjusted EBITDA loss reduced by 15% from £1.7m to £1.4m and is a key performance measure for the Group. This reduction was achieved notwithstanding the significant adverse impact of COVID-19 on trading. The Adjusted EBITDA result is after recognising the benefit of £135k property-related grant income, £259k of Research and Development claims made under the SME Scheme, and £756k from the Coronavirus Job Protection Scheme ("CJPS"). However, it also includes £187k of pre-opening losses relating to new sites in Norwich, Basingstoke, Cheltenham and Watford and bad debt provisions relating to historic franchise fees of £105k. Whilst some of this pre-dates the onset of the Coronavirus pandemic, the financial strain placed on the underlying franchisees as a result of the pandemic has meant it has

become significantly less likely that we will be able to recover the full amounts. A reconciliation between statutory operating loss and Adjusted EBITDA is shown below.

	<b>2020</b>	<b>2019</b>	<b>Increase / (decrease)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Owner-operated EBITDA – Site level	446	976	(530)
Centrally incurred overheads	(69)	(99)	30
Other income	186	-	186
Owner-operated EBITDA after central overheads	563	877	(314)
Franchise EBITDA after central overheads	297	361	(64)
Unallocated central costs	(2,305)	(2,945)	640
Adjusted Group EBITDA	(1,445)	(1,707)	262

### ***Operating loss***

Group operating loss increased by 7.5% to £6.4m (2019: £5.9m). The extraordinary circumstances brought about by COVID-19 in 2020 means that there are several significant items in the 2020 result which might be considered one-off and it is therefore difficult to draw a meaningful comparison from underlying performance alone. COVID-related property grants of £135k and the CJPS benefit of £756k were received and offset a proportion of property and employment costs incurred whilst sites were closed. At total of £259k of R&D claims made under the SME Scheme in respect of 2018 have been recognised, whilst the result also includes a £300k provision against a loan to a franchisee which is doubtful as the franchisee is expecting to be evicted from its most profitable site. Further provisions of £105k have been made against other franchisee balances due to their impaired financial position.

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Operating loss	(6,367)	(5,932)
Amortisation of intangibles	2,299	2,124
Depreciation	1,819	1,733
Rent concessions recognized	(22)	
Depreciation of right of use assets	380	347
Loss on disposal of assets	30	-
Branch closure costs	52	-
Provision against loan to franchisee	300	
Exceptional professional fees	35	7
Foreign currency losses		1
Share-based payment expense	29	12
Adjusted Group EBITDA	(1,445)	(1,707)

### ***Owner-Operated sites***

Three new sites were opened during 2020, whilst a further site had been scheduled to open before the year end, but was unable to do so due to Coronavirus restrictions. These new sites contributed £72k to revenue, whilst incurring a total of £186k costs before they were open. In addition, an existing franchise site in Dubai was acquired and has become an owner managed site and is included in the owner-operated result for three months, contributing £57k to revenue. Digital and other remote-play products are also included in the owner-operated site revenue and contributed £230k to the segment revenue. As mentioned above, revenue from our owner-operated sites fell to £2.1m from £3.8m in 2019.

Site level EBITDA fell 55% to £446k from £976k in 2019, driven by the COVID-19 restrictions and closures, but also impacted by a number of one-off items as described above. Total site labour as a percentage of total sales is, under normal circumstances, a key performance indicator. Although nominally the ratio was 41.7% for the year, a further improvement on 2019, it is not considered meaningful in the context of irregular sales and the operation of the flexible operation of the CJRS. Whilst the costs were controlled, the ratio is not meaningful in comparison to 2019.

### ***Franchise estate***

Revenue from our franchise estate fell 46% to £577k. We were able to reduce the costs directly associated with managing our franchise estate such that adjusted EBITDA from our franchise estate fell only 18% to £297k from £361k in 2019. Following the acquisition in the year and some further rationalisation of our franchise estate, the number of active franchisees at the end of the year was 35 which compares to 40 at the end of 2019. Since the year end, a further two sites have been acquired and will form part of our owner-operated estate, and there have been further rationalisations driven by the pandemic. The number of active franchisees at the date of this report is 29.

### ***Central overheads***

In March 2020, the Company took immediate action to reduce overheads and defer capital expenditure to preserve cash as the UK went into its first national lockdown. We were able to maintain many of the cost savings implemented during the first lockdown such that the centrally incurred overhead costs, including costs allocated to the owner-operated and franchise segments, reduced to £2.8m from £3.9m in 2019. Whilst we expect to retain some of the benefit of the cost savings on an ongoing basis, the savings include £56k from CJRS grants which will not continue once the scheme ends and other costs will also return as business activity normalises.

### ***Cashflow and capital expenditure***

Cash and cash equivalents at the year-end was £2.7m (2019: £2.2m).

In July 2020, the Company raised £4.0m (net of expenses) through a placing, open offer, share subscription and convertible loan note issue. Hence, total cash used during the year was £3.5m. EBITDA losses absorbed approximately £1.5m whilst working capital movements released £0.6m. We expect this to reduce in future as the benefit of deferred rent and taxes is caught up. Hence the net cash used in operations was restricted to £0.9m.

The total deferred rentals and HMRC payments at the year end which are expected to be caught up in the course of 2021 was £299k.

£2.0m was utilised for capital investment, of which £1.8m was on property plant and equipment, including new games and site fit out, and £0.2m on intangibles, much of it capitalised staff costs. The majority of this expenditure was for the new sites at Norwich, Basingstoke, Cheltenham and Watford, but also including the production of the new Doctor Who game, “A Dalek Awakens” launched in Reading and Birmingham Resorts World in March 2020.

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

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

### **Key Performance Indicators**

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

- Numbers of owner-operated sites
- Numbers of franchised sites
- Site level revenue and like-for-like growth
- Site level EBITDA
- Adjusted EBITDA for the Group
- Head office costs

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

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

The Group changed its approach in 2018 to issuing new franchises to focus on its Master Franchisees as well as larger, well capitalised businesses which can open large numbers of owner operated branches. The agreement signed with PCH in the US in September 2019 is the first agreement signed since this new approach. Since then, the Group has bought the master franchises in the Middle East, France and Belgium in-house. The acquisitions have brought these regions closer to the business' core, giving greater control over the future strategic direction. In each of these cases, the core management teams have been retained and provide monthly performance updates to the Group senior leadership team.

The key weekly KPIs by which the UK and owner-operated business is operated are the site revenue, marketing spend and staff costs and consequent ratio of staff costs to revenue. Total revenue is tracked against budget, adjusted for seasonality, number of rooms open and the stage in the site's maturity cycle. Staff costs are measured against target percentages of revenue. The effectiveness of marketing is assessed by observing revenue conversion rates and the impact on web traffic, bookings and revenue from specific marketing campaigns. With effect from January 2021, management of digital marketing will be brought in-house with the requisite skills being developed within the team.

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

**Graham Bird**

**Chief Financial Officer**

17 May 2021



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ESCAPE HUNT PLC

## Opinion

We have audited the financial statements of Escape Hunt PLC (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2020, which comprise the:

- Consolidated statement of comprehensive income;
- Consolidated and Parent Company statement of financial position;
- Consolidated and Parent Company statement of changes in equity;
- Consolidated statement of Cash Flows;
- the notes to the Consolidated and Parent Company financial statements, including a summary of significant accounting policies;

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

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the period 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 United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

We obtained management's assessment of the impact of Covid-19 to the business of the Group and the forecast financial projections.

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

- a central case where sales levels recover by the end of August 2021, where there is no impact on the capacity or occupancy levels, no further lockdowns or major restrictions and the UK site roll-out continues in accordance with plans previously announced;
- a central conservative case where the scenario assumes no debt facility, no further opening of sites in 2021 other than those already contracted, the remaining assumptions remain the same as the central case presented above;
- a downside where franchise revenues take longer to return to pre-lockdown levels, planned UK site expansion is reduced, US Franchise expansion is delayed, sites in the UK do not reopen until mid-June, sales in the UK do not recover until the end of October 2021 and there is a permanent 5% reduction in capacity enforced on the business until the end of 2023.

In all scenarios the group has surplus working capital following the share issue in the year to meet its working capital requirements for the foreseeable future.

We performed audit procedures, including challenge regarding reasonableness on the inputs into the model as follows:

- reviewed the revised forecast revenues and resulting cash flows within the assessment period;
- compared the forecast to available management information for the business post year end;
- considered the overall impact on the forecast of those parts of the business, such as franchises, where these are likely to be significantly impacted by slower vaccination rollouts and the restart of business due to health and safety requirements enforced on the business;
- considered the timing and financial impact of reduced support mechanisms instigated by government, including the Coronavirus Job Retention Scheme and business rates relief; and
- reviewed and challenged the financial impact of the steps taken by the directors to protect and manage the business during the coming period, including the expected initial reduction across the business following re-opening, reduced government support and the impact of delay to planned capital investment projects.

We considered management's sensitivity analysis and also performed an additional range of sensitivities to assess whether a reasonably likely change to a key input would result in an erosion of the revised headroom on working capital availability in the downside model used by management.

We tested to ensure the mathematical accuracy of the model presented.

We reviewed the appropriateness of the disclosures made and its consistency with our knowledge of the business as well as the impact of Covid-19 on the business as part of management's assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## **Overview of our audit approach**

### *Materiality*

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

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £115,000 (2019: £100,000), based on approximately 5% (2019: 5%) of EBITDA. As the group is in an early stage of trading this is used as a key figure of investors to demonstrate the underlying trading performance.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the Audit Committee to report to it all identified errors in excess of £5,500 (2019: £2,500). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Parent Company materiality was assessed as £55,000 based on approximately 5% of its EBITDA.

### *Overview of the scope of our audit*

There are seven components of the Group located and operating in the United Kingdom, the audits of Escape Hunt PLC and its UK subsidiary undertakings were conducted from the UK by the engagement team. Financial information from other components not considered to be individually significant individually was subject to limited review procedures carried out by the audit team.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.

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

This is not a complete list of all risks identified by our audit.

<b><i>Key audit matter</i></b>	<b><i>How the scope of our audit addressed the key audit matter</i></b>
<p><b>Revenue recognition</b></p> <p><i>Note 4 of the Group financial statements</i></p> <p>The group has various streams of revenue. The main source of revenue relates to game revenue where revenue is recognised at the point of sale. Other streams such as franchise income where there is an ongoing contractual term and obligation and recognised over the contractual term as the obligations are satisfied. Errors in revenue recognition could materially influence, the view of a user of the financial statements.</p> <p>As a key reporting metric, revenue is also subject to the risk of fraudulent misrepresentation to achieve a certain accounting presentation.</p>	<p>Our audit procedures included the following:</p> <p>We carried out procedures to test each different revenue stream and to consider whether the revenue recognition policy applied to the revenue stream was appropriate, having regard to the contractual terms and obligations.</p> <p>We agreed the performance obligations identified by management to a sample of contracts to ensure the adopted accounting policy was appropriate.</p> <p>For a sample of transactions, we obtained contracts with the franchisee and reviewed their terms and conditions. Based on this understanding, we considered if the underlying income was recognised in accordance with the stated accounting policy and IFRS 15.</p> <p>During the year, to gain assurance of completeness of income recognised. Members of the audit team played two games remotely putting transactions into the system which we followed up during our testing.</p>
<p><b>Impairment of intangible assets (including goodwill)</b></p> <p><i>Note 12 of the Group financial statements</i></p> <p>The Group’s intangible assets comprise of intellectual property, trademarks, franchise agreements, goodwill and the portal.</p> <p>The total carrying value of the intangible assets was £0.9m at 31 December 2020 (31 December 2019: £2.9m).</p> <p>The continued losses and the impact of Covid-19 indicate there could be an impairment in the</p>	<p>We obtained management’s assessment of impairment and discussed the key inputs into the assessment with management.</p> <p>We performed audit procedures, including challenge regarding reasonableness on the inputs into the model as follows:</p> <ul style="list-style-type: none"> <li>● the forecast cash flows within the assessment period;</li> <li>● the expected growth rate; and</li> <li>● the discount rate applied to the forecast.</li> </ul> <p>We reviewed management’s assessment to ensure that expected reductions in trading levels for the continued Covid-19 restrictions have been taken account.</p>

<p>carrying value of the intangible assets and as such we considered this to be a key audit matter.</p>	<p>We considered management’s sensitivity analysis and also performed an additional range of sensitivities to assess whether a reasonably likely change to a key input would result in an impairment charge;</p> <p>We tested to ensure the mathematical accuracy of the model presented; and</p> <p>We reviewed the appropriateness of the disclosure made and its consistency with our knowledge of the impairment assessment.</p>
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Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

**Other information**

The directors are responsible for the other information contained within the annual report. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion based on the work undertaken in the course of our audit

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

**Matters on which we are required to report by exception**

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

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

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

### **Responsibilities of the directors for the financial statements**

As explained more fully in the directors' responsibilities statement set out on page 37 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Company and Industry in which the company operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, Listing rules and Tax legislation.

Our procedures involved enquiries with management, review of the reporting to the directors with respect to compliance with laws and regulation, review of board meeting minutes and review of legal correspondence.

We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements. Our tested included by were not limited to:

- agreement of the financial statement disclosures to underlying supporting documentation;
- enquiries of management;
- testing of journal postings made during the year to identify potential management override of controls;
- review of minutes of board meetings throughout the period; and
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

### **Use of our report**

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

Matthew Stallabrass (Senior Statutory Auditor)

for and on behalf of

**Crowe U.K. LLP**

Statutory Auditor

London

17 May 2021

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**For the Year Ended 31 December 2020**

All figures in £'000s

		Year ended 31 December 2020	Year ended 31 December 2019
Continuing operations	Note		
<b>Revenue</b>	4	2,658	4,915
Cost of sales	6	(778)	(1,279)
Gross profit		1,880	3,636
Other income	34	394	-
Administrative expenses	6	(8,641)	(9,568)
<b>Operating loss</b>	6	(6,367)	(5,932)
Adjusted EBITDA		(1,445)	(1,707)
Amortisation of intangibles	12	(2,299)	(2,124)
Rent concessions recognised in the year	11	22	-
Depreciation of property plant and equipment	10	(1,819)	(1,733)
Depreciation of right-of-use assets	11	(380)	(347)
Loss on disposal of tangible assets	10	(23)	-
Loss on disposal of intangible assets	12	(7)	-
Branch closure costs		(52)	-
Provision against loan to franchisee	15	(300)	-
Costs arising from subsidiary liquidation		(35)	(7)
Foreign currency gains / (losses)		-	(1)
Share-based payment expense	25	(29)	(12)
Operating loss		(6,367)	(5,932)
Gain on disposal of subsidiary	13	-	30
Interest (charged)/received		(17)	33
Lease finance charges	20	(180)	(171)
<b>Loss before taxation</b>		(6,564)	(6,040)
Taxation	8	(15)	(4)
<b>Loss after taxation</b>		(6,579)	(6,044)
<b>Other comprehensive income:</b>			
Items that may or will be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(62)	(30)
<b>Total comprehensive loss</b>		(6,641)	(6,074)
<b>Loss attributable to:</b>			
Equity holders of Escape Hunt plc		(6,579)	(5,993)
Non-controlling interests		-	(51)
		(6,579)	(6,044)
<b>Total comprehensive loss attributable to:</b>			
Equity holders of Escape Hunt plc		(6,641)	(6,023)
Non-controlling interests		-	(51)
		(6,641)	(6,074)
Loss per share attributable to equity holders:			
Basic and diluted (Pence)	9	(12.36)	(24.78)



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2020**

	Note	As at 31 December 2020 £'000	As at 31 December 2019 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	3,885	3,935
Right-of-use assets	11	2,940	2,470
Intangible assets	12	913	2,906
Rent deposits		26	26
Loan to franchisee	15	2	300
		7,766	9,637
<b>Current assets</b>			
Inventories	17	16	12
Trade receivables	16	182	370
Other receivables and prepayments	16	691	473
Cash and cash equivalents	18	2,722	2,171
		3,611	3,026
<b>TOTAL ASSETS</b>		11,377	12,663
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	19	606	317
Contract liabilities	21	441	360
Lease liabilities	20	489	304
Other payables and accruals	19	815	948
		2,351	1,929

## Consolidated Statement of Financial Position

As at 31 December 2020 (continued)

	Note	As at 31 December 2020 £'000	As at 31 December 2019 £'000
<b>Non-current liabilities</b>			
Contract liabilities	21	152	262
Provisions	22	128	74
Convertible loan notes	25	289	-
Lease liabilities	20	3,253	2,298
		<hr/>	<hr/>
		3,822	2,634
		<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>		6,173	4,563
		<hr/>	<hr/>
<b>NET ASSETS</b>		5,204	8,100
		<hr/>	<hr/>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of Escape Hunt Plc</b>			
Share capital	23	1,005	336
Share premium account	28	27,758	24,717
Merger relief reserve	28	4,756	4,756
Convertible loan note reserve	25	68	-
Accumulated losses	28	(28,444)	(21,803)
Currency translation reserve	28	(81)	(19)
Capital redemption reserve	28	46	46
Share-based payment reserve	28	96	67
		<hr/>	<hr/>
		5,204	8,100
<b>Non-controlling interests</b>		-	-
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		5,204	8,100
		<hr/>	<hr/>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2020**

**Attributable to owners of the parent**

<b>Year ended 31 Dec 2020</b>	<b>Share capital</b>	<b>Share premium account</b>	<b>Merger relief reserve</b>	<b>Currency translation reserve</b>	<b>Capital redemption reserve</b>	<b>Share- based payment reserve</b>	<b>Convertible loan note reserve</b>	<b>Accumulated losses</b>	<b>Total</b>	<b>Non- controlling interest</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Balance as at 1 Jan 2020</b>	336	24,717	4,756	(19)	46	67	-	(21,803)	8,100	-	8,100
Loss for the year	-	-	-	-	-	-	-	(6,641)	(6,641)	-	(6,641)
Other comprehensive income	-	-	-	(62)	-	-	-	-	(62)	-	(62)
<b>Total comprehensive loss</b>	-	-	-	(62)	-	-	-	(6,641)	(6,703)	-	(6,703)
Issue of shares	669	3,342	-	-	-	-	-	-	4,011	-	4,011
Issue of convertible loan notes	-	-	-	-	-	-	68	-	68	-	68
Share issue costs	-	(301)	-	-	-	-	-	-	(301)	-	(301)
Share-based Payment Charges	-	-	-	-	-	29	-	-	29	-	29
Disposal of subsidiary	-	-	-	-	-	-	-	-	-	-	-
<b>Transactions with owners</b>	<b>669</b>	<b>3,041</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29</b>	<b>68</b>	<b>-</b>	<b>3,807</b>	<b>-</b>	<b>3,807</b>
<b>Balance as at 31 Dec 2020</b>	<b>1,005</b>	<b>27,758</b>	<b>4,756</b>	<b>(81)</b>	<b>46</b>	<b>96</b>	<b>68</b>	<b>(28,444)</b>	<b>5,204</b>	<b>-</b>	<b>5,204</b>
<b>Year ended 31 Dec 2019: Adjusted balance as at 1 Jan 2019</b>	253	21,076	4,756	11	46	55	-	(15,810)	10,387	(8)	10,379
Loss for the year	-	-	-	-	-	-	-	(5,993)	(5,993)	(51)	(6,044)
Other comprehensive income	-	-	-	(30)	-	-	-	-	(30)	-	(30)
<b>Total comprehensive loss</b>	-	-	-	(30)	-	-	-	(5,993)	(6,023)	(51)	(6,074)
Issue of shares	83	3,917	-	-	-	-	-	-	4,000	-	4,000
Share issue costs	-	(276)	-	-	-	-	-	-	(276)	-	(276)
Share-based payment charges	-	-	-	-	-	12	-	-	12	-	12
Disposal of subsidiary	-	-	-	-	-	-	-	-	-	59	59
<b>Transactions with owners</b>	<b>83</b>	<b>3,641</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>3,736</b>	<b>59</b>	<b>3,795</b>
<b>Balance as at 31 Dec 2019</b>	<b>336</b>	<b>24,717</b>	<b>4,756</b>	<b>(19)</b>	<b>46</b>	<b>67</b>	<b>-</b>	<b>(21,803)</b>	<b>8,100</b>	<b>-</b>	<b>8,100</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2020**

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
<b>Cash flows from operating activities</b>		
Loss before income tax	(6,564)	(6,040)
Adjustments:		
Depreciation of property, plant and equipment	1,819	1,733
Depreciation of right-of-use assets	380	347
Amortisation of intangible assets	2,299	2,124
Gain on disposal of subsidiary	-	(30)
Provision against non-current assets	300	-
Loss on disposal of plant and equipment	23	-
Loss on write off of intangibles	7	-
Share-based payment expense	29	12
Lease interest charge	180	171
Rent concessions received	(22)	-
Interest charge / (income)	17	(33)
Operating cash flow before working capital changes	(1,532)	(1,716)
Decrease / (Increase) in trade and other receivables	(30)	(224)
Decrease / (increase) in inventories	(3)	3
Increase in provisions	54	34
Increase / (decrease) in trade and other payables	296	(287)
Increase / (decrease) in deferred income	(30)	(41)
<b>Cash used in operations</b>	<b>(1,245)</b>	<b>(2,231)</b>
Income taxes paid	(12)	(23)
<b>Net cash used in operating activities</b>	<b>(1,257)</b>	<b>(2,254)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(1,809)	(1,308)
Purchase of intangibles	(237)	(266)
Receipt / (payment) of deposits	-	10
Loan made to master franchisee	(2)	-
Acquisition of subsidiary, net of cash acquired	35	-
Cash less overdrafts on disposal of subsidiary	-	29
Interest (charged) / received	(17)	33
<b>Net cash used in investing activities</b>	<b>(2,030)</b>	<b>(1,502)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of ordinary shares	3,976	4,000
Proceeds from issue of convertible loan note	340	-
Share issue costs	(301)	(276)
Lease interest charge payment	(180)	(171)
Repayment of leases	(-1)	(284)
<b>Net cash from financing activities</b>	<b>3,834</b>	<b>3,269</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>547</b>	<b>(487)</b>
Cash and cash equivalents at beginning of year	2,171	2,657
Effects of exchange rate changes on the balance of cash held in foreign currencies	4	1
<b>Cash and cash equivalents at end of year</b>	<b>2,722</b>	<b>2,171</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. General Information

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

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

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

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

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

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

#### **Basis of preparation**

The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

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

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

#### *Changes in accounting policy*

##### a) New standards, interpretations and amendments effective from 1 January 2020

New standards impacting the Group adopted in the annual financial statements for the year ended 31 December 2020, and which have given rise to changes in the Group's accounting policies are:

- IFRS 3 Business Combination (Amendment – Definition of a Business)
- COVID-19-Related Rent Concessions (Amendments to IFRS 16)

Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

(a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) The reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(c) There is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in IFRS 16 in accounting for the concession.

The Group has elected to utilise the practical expedient for all rent concessions that meet the criteria. The practical expedient has been applied retrospectively, meaning it has been applied to all rent concessions that satisfy the criteria, which in the case of the Group, occurred from March 2020 to June 2020 and again in November 2020.

Accounting for the rent concessions as lease modifications would have resulted in the Group remeasuring the lease liability to reflect the revised consideration using a revised discount rate, with the effect of the change in the lease liability recorded against the right-of-use asset. By applying the practical expedient, the Group is not required to determine a revised discount rate and the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

The effect of applying the practical expedient is disclosed in note 11.

## **2. Significant accounting policies**

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

### **Basis of consolidation**

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

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

Under the acquisition method, the results of the subsidiaries acquired or disposed of are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Consolidated Financial Statements. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Any excess of the purchase consideration of the business combination over the fair value of the identifiable assets and liabilities acquired is 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.

### **Going Concern**

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

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

The Board has prepared detailed cashflow forecasts covering a three year period from the reporting date. The forecasts take into account the impact of COVID-19 on the business during the period between 1 January 2021 and 17 May 2021 when all the Group's UK owner-operated sites are expected to be closed based on UK Government enforced temporary closures. During the same period, many of the Group's franchisee operators likewise have been and are expected to remain closed and have generally not been able to pay regular service fees. The Group has agreed to grant payment holidays for fixed fees during periods of closure. In addition, various payments have been and, in some cases, continue to be deferred during the current and earlier lockdown periods,

including employment tax and national insurance payments and, in the case of certain sites, rent payments. In a number of cases the Group has reached agreement with landlords to reduce the rent payable during some or all of the period since Covid first impacted in March 2020, however all other deferred payments will need to be caught up. Work continues at a number of new sites and there are other capital expenditure initiatives under consideration. It is also possible that there will be a need for additional expenditure to ensure that existing sites are able to re-open in accordance with guidelines in May. These factors have all been taken into account in the forecasts.

On 28 January 2021, the Group completed a fund-raising process which resulted in the receipt of £1.4 million (before expenses) raised through the issue of new shares by means of a placing. Approximately £350k of the funds were raised to fund the acquisition of the French and Belgian master franchise with the balance being available to support the working capital needs of the Group.

In addition, since the year end, the Company has entered into a convertible loan note facility with one of the directors, through which the Company has access to a further £1m in funding. The Company is able to draw down the funds as required. Details of the convertible loan note facility are given in note 35. This facility has been entered into to enable the Company to continue to invest in new sites notwithstanding the continued uncertainty brought about by the COVID-19 lockdown rules.

Taking into account the receipt of both the new equity funding and the convertible loan note facility the Group has considered a number of potential scenarios for a recovery of trading once the sites have been permitted to reopen. The Group plans to continue the roll out new sites in the UK which are expected to contribute to performance in future.

The central case is based on the re-opening of UK and franchise sites in mid May 2021 with volumes initially substantially below the levels achieved prior to entering lockdown. The model assumes that it takes thirteen weeks for trading to normalise post COVID-19. Resumption of activity at franchise sites is expected broadly to mirror that of the UK. During this time the Group expects to continue its roll out of new sites and plans to open its recently completed site in Watford, and to complete and open sites in Kingston and Lakeside, both of which are currently in build. The forecasts assume a further three sites are built before the end of 2021. With these sites completed, and taking into account the acquisitions in Dubai, France and Belgium, the Company will have 21 owner-operated sites, exceeding its objective of 20 UK owner-operated sites within two years of the July 2020 fund raising. In the central case the Group does not need to utilise the convertible loan facility and believes it has sufficient resources for its present needs.

The Group has also considered a 'downside' scenario. In this scenario the Group has assessed the potential impact of a further delay of four weeks before sites re-open with re-openings delayed until 14 June 2021. The pace of recovery is assumed to be much slower, with trading taking 26 weeks to resume to 'normal' levels. The scenario also considers a delay in progress in the US. In this scenario, the Group believes it can take mitigating actions to preserve cash. Principally the roll-out of further sites beyond the two already in build would be stopped and cost saving measures would be introduced at head office. The Group has already made significant reductions in its head office property costs, and further cost reductions could be targeted in both people and areas such as IT, professional services and marketing. Other areas of planned capital expenditure would also be curtailed. These include planned expenditure on website and system improvements. Taking into account the mitigating factors, the Group believes it would have sufficient resources for its present needs, with or without access to the convertible loan note facility.

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

## **Merger relief**



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

### **Foreign currency transactions and translation**

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

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

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

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

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

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

### **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
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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 reporting date.

### **Research and development expenditure**

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

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

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

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

### **Intangible assets**

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

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

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

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

The estimated useful lives are as follows:

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

### **Impairment of assets**

### *Financial assets*

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

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

### *Non-financial assets*

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

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

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

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

## **Employee benefits**

### *Short-term benefits*

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

### **Revenue recognition**

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

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

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

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

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

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

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

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

The initial fee is recognised as revenue on a straight-line basis over the period of the franchise agreement where this is 10 years (or less in case of sub-franchise agreements, where the term of the sub-franchise agreement typically equals to the remaining term of the master franchise

agreement). Where the franchise term is not specified or is greater than 10 years, revenue is recognised over 10 years to reflect a lack of certainty over the actual duration of the franchise arrangement. See Note 3 for more details.

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

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

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

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

#### *Franchise revenues*

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

Service revenues comprise:

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

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

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

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

#### *Deferred revenue*

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

### *Contract costs*

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

### **Government Grants**

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

### **Leases**

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

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

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

#### *Identifying Leases*

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

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

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

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

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

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

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

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

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

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

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations – see Note 21).

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

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

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

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

### **Financing income and expenses**

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

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

## **Taxation**

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

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

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

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

## **Share-based payment arrangements**

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

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

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

## **Cash and cash equivalents**

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible



to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

### **Trade and other receivables**

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

### **Inventories**

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

### **Provisions**

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

### **Dilapidation provisions**

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

### **Contingent liabilities**

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

### **Share capital**

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

## **3. Critical accounting estimates and judgements**

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

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

### Key judgements

#### *Initial upfront exclusivity fees*

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

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

#### *Recognition of deferred tax assets*

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

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

Based on detailed forward-looking analysis and the judgement of management, it has been concluded that a deferred tax asset should not be recognised for the carry forward of unused tax losses and unused tax credits totalling approximately £16m, as the uncertainties mean it is not yet considered 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, pro-longed by the onset of COVID-19, and the Directors envisage that there will be an extended period (and thus increasing uncertainty as time progresses) before it expects to recoup net operating losses. The analysis indicates that the unused losses may not be used in the foreseeable future as the Group does not yet have a history of taxable profits nor sufficiently convincing evidence that such profits will arise within the foreseeable future.

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

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

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

In relation to research and development grants, claims have been made relating to activity undertaken in 2017 and 2018. A further claim relating to activity in 2019 is possible but has not yet been made. The total claims in respect of 2017 and 2018 amount to £1.52m spread across a number of subsidiaries. Claims amounting to £73k have been received in cash and a further £186k claims have been credited to the respective subsidiary tax accounts, but not yet paid. These have all been recognised. The remaining claims of £1.26m are still being reviewed by HMRC and are thus pending. Recognition of these claims involves a judgement by management. Given the ongoing review of the claims and length of time that has elapsed since the first claim was lodged in December 2018, Management does not yet consider it sufficiently probable that the remaining claims will be paid and, as such, these claims have not been recognised as an asset.

### Key estimates

#### *Impairment of intangible assets*

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

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

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

The Group prepares and approves a detailed annual budget and strategic plan for its operations, which updated regularly to take account of actual activity and which are used in the fair value calculations.

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

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

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

#### *Occupancy rates*

If the occupancy rate achieved is 1% lower in each site within the UK owned and operated estate than as set out in the strategic plan, this would lead to a reduction in the net present value of intellectual property of £0.6m (2019: £0.6m) but would not result in the need for an impairment charge.

#### *Discount rate*

A 100 basis point increase in the discount rate reduces the net present value of intellectual property across the group by £1.3m (2019: £1.1m) but would not result in the need for an impairment charge.

#### *EBITDA growth*

If EBITDA was on average £100,000 lower in each year, the net present value of intellectual property across the group would fall by £0.9m (2019: £0.8m) but would not result in the need for an impairment charge.

#### *Long-term perpetuity growth rates*

The terminal rate used for the fair value calculation has been assumed at 2% per annum. If this rate was decreased by 100 basis points the net present value of intellectual property across the group would fall by £1.2m (2019: £0.7m) but would not result in the need for an impairment charge.

#### *Capital expenditure*

If capital expenditure over the forecast period were to be 10% higher than in the strategic plan, the net present value of intellectual property across the group would fall by £0.4m (2019: £0.5m) but would not result in the need for an impairment charge.

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

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

The estimated useful life principally reflects management's view of the average economic life of each asset and is assessed by reference to historical data and future expectations. Any reduction in the estimated useful life would lead to an increase in the amortisation charge. The average economic life of the intellectual property has been estimated at 3 years. If the estimation of economic lives was reduced by one year, the amortisation charge for IP would have increased by £203k (year ended 31 December 2019: £1.0m).

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

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

Property, plant and equipment represent a significant proportion of the asset base of the Group being 34.2% (2019: 31.1%) of the Group's total assets. Therefore, the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Group's financial position and performance.

The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's

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

The useful economic lives of property, plant and equipment has been estimated at between 2 and 5 years. If the estimation of economic lives was reduced by one year, the depreciation charge for property, plant and equipment would have increased by £1.02m (year ended 31 December 2019: £1.3m).

#### *Estimation of the debt and equity components of Convertible Loan notes*

Debt securities which carry an option to convert into equity accounted for as a debt component and an equity component. Management are required to estimate the split by valuing the underlying debt with reference to a similar debt instrument which has no conversion rights and / or by reference to the value of the option inherent in the conversion right. These calculations involve the estimate of a number of key components such as appropriate interest rates, the expected volatility of the company's share price, the company's future dividend policy, and the likelihood and future date of conversion. On 2 July 2020, the company issued £340,000 convertible loan notes repayable on 3 July 2025 if not previously converted or redeemed. Management have estimated that £272,251 of the principal related to the debt component and £67,749 related to the equity component.

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

The calculation of the annual charge in relation to share based payments requires management to estimate the fair value of the share-based payment on the date of the award. The estimates are complex and take into account a number of factors including the vesting conditions, the period of time over which the awards are recognized, the exercise price of options which are the subject of the award, the expected future volatility of the company's share price, interest rates, the expected return on the shares, and the likely future date of exercise. A new executive scheme was established during the year ended 31 December 2020 and awards were made under the scheme, details of which are set out in note [25]. Management has estimated the annual charge related to the awards made in the year to 31 December 2020 to be £51,222. The charge recognised in period was £23,477.

## 4. Revenue

	<b>Year ended 31 December 2020 £'000</b>	<b>Year ended 31 December 2019 £'000</b>
New branch upfront location exclusivity fees	122	138
Support and administration fees	146	221
Franchise revenue share	309	717
Game revenues from owned branches	2,070	3,832
Other	11	7
	<hr/> 2,658	<hr/> 4,915

Revenues from contracts with customers:

	<b>ended 31 December 2020 £'000</b>	<b>Ended 31 December 2019 £'000</b>
Revenue from contracts with franchise customers	577	1,076
Revenue from customers at owner operated branches	2,081	3,839
Total revenue from contracts with customers	<u>2,658</u>	<u>4,915</u>

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

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

A total of £2.08m (2019: £3.83m) 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.

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 as at 31 December 2020 consisted of 13 sites in the UK and one in Dubai.

The Group operates on a global basis. As at 31 December 2020, the Company had active franchisees in 17 countries. The Company does not presently analyse or measure the performance of the franchising business into geographic regions or by type of revenue, since this does not provide meaningful analysis to managing the business.

Segment results, assets and liabilities include items directly attributable to a segment as well as

those that can be allocated on a reasonable basis.

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

<b>Year ended 31 December 2020</b>	<b>Owner operated £'000</b>	<b>Franchise operated £'000</b>	<b>Unallocated £'000</b>	<b>Total £'000</b>
Revenue	2,081	577	-	2,658
Cost of sales	(740)	(38)	-	(778)
<b>Gross profit/(loss)</b>	<b>1,341</b>	<b>539</b>	<b>-</b>	<b>1,880</b>
Site level operating costs	(1,030)	-	-	(1,030)
Other income	135	-	-	135
<b>Site level EBITDA</b>	<b>446</b>	<b>539</b>	<b>-</b>	<b>985</b>
Centrally incurred overheads	(69)	(242)	(2,379)	(2,690)
Other income	186	-	73	259
<b>EBITDA</b>	<b>563</b>	<b>297</b>	<b>(2,306)</b>	<b>(1,445)</b>
Interest charges	-	-	(17)	(17)
Lease charges	(168)	-	(12)	(180)
Depreciation and amortisation	(1,817)	(19)	(2,282)	(4,118)
Depreciation – right-of-use assets	(310)	-	(70)	(380)
Share-based payment expenses	-	-	(29)	(29)
Loss of disposal of assets	(30)	-	-	(30)
Exceptional Professional & Branch Closure Costs	(52)	(29)	(6)	(87)
Rent credits recognised	22	-	-	22
Provision against loan to franchisee	-	-	(300)	(300)
Profit/(loss) before tax	(1,792)	249	(5,022)	(6,564)
Taxation	-	(15)	-	(15)
Profit/(loss) after tax	(1,792)	234	(5,022)	(6,579)
<b>Other information:</b>				
Non-current assets	6,588	42	1,136	7,766

<b>Year ended 31 December 2019</b>	<b>Owner operated £'000</b>	<b>Franchise operated £'000</b>	<b>Unallocated £'000</b>	<b>Total £'000</b>
Revenue	3,837	1,078	-	4,915
Cost of sales	(1,275)	-	(4)	(1,279)
<b>Gross profit/(loss)</b>	<b>2,562</b>	<b>1,078</b>	<b>(4)</b>	<b>3,636</b>
Site level operating costs	(1,586)	-	-	(1,586)
<b>Site level EBITDA</b>	<b>976</b>	<b>1,078</b>	<b>(4)</b>	<b>2,050</b>
Centrally incurred overheads	(99)	(717)	(2,941)	(3,757)
<b>EBITDA</b>	<b>877</b>	<b>361</b>	<b>(2,945)</b>	<b>(1,707)</b>
Interest income	-	-	32	32
Finance lease charges	(155)	-	(16)	(171)
Depreciation and amortisation	(1,702)	(18)	(2,137)	(3,857)
Depreciation – right-of-use assets	(278)	-	(69)	(347)
Foreign currency gains	-	-	(1)	(1)
Share-based payment expenses	-	-	(12)	(12)
Exceptional Professional Costs	-	(7)	-	(7)
Gain on disposal of subsidiary	-	-	30	30
Profit/(loss) before tax	(1,258)	336	(5,118)	(6,040)
Taxation	-	-	(4)	(4)
Profit/(loss) after tax	(1,258)	336	(5,122)	(6,044)
<b>Other information:</b>				
Non-current assets	8,780	857	-	9,637

In 2020, the company has made a provision against the full amount of a loan made to a franchisee in 2018 as a result of the impact of COVID-19. The loan was made to provide funding for the fit-out of sites in the Nordic region, has previously been held as a non-current asset, and is not related to trading activity. The company does not have a policy of lending money to franchisees and for this reason the provision is separately disclosed.

*Significant customers:*

No customer provided more than 10% of total revenue in either the year ended 31 December 2020 or 2019.



## 6. Operating loss before taxation

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

	<b>Year ended 31 December 2020 £'000</b>	<b>Year ended 31 December 2019 £'000</b>
Auditor's remuneration:		
- Audit of the financial statements	33	33
- Review of interim financial statements	2	3
Impairment of trade receivables	101	117
Exceptional impairment of loan to franchisee	300	-
Foreign exchange losses / (gains)	(21)	(7)
Staff costs including directors, net of amounts capitalized	2,656	3,764
Depreciation of property, plant and equipment (Note 10)	1,819	1,733
Depreciation of right-of-use assets (Note 11)	395	347
Amortisation of intangible assets (Note 12)	2,299	2,124
Impairment of intangible assets (Note 11)	-	-
Share-based payment costs (non-employees)	29	12

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

<b>Cost of sales</b>	<b>Year ended 31 December 2020 £'000</b>	<b>Year ended 31 December 2019 £'000</b>
Wages and salaries	608	1,068
Food and beverages	10	44
Other costs of sale	160	167
	<hr/> 778	<hr/> 1,279

**Administrative expenses**

	<b>Year ended 31 December 2020 £'000</b>	<b>Year ended 31 December 2019 £'000</b>
Depreciation of property, plant and equipment	1,819	1,732
Depreciation of right-of-use assets	395	347
Amortisation	2,299	2,123
Write-off of assets	30	-
Staff costs including directors, net of amounts capitalized	1,535	2,001
Share-based payments	29	12
Foreign currency (gains) / losses	(21)	26
Other administrative expenses	2,570	3,327
	<hr/> <b>8,656</b>	<hr/> <b>9,568</b>

**7. Staff costs**

	<b>Year Ended 31 December 2020 £'000</b>	<b>Year Ended 31 December 2019 £'000</b>
Wages salaries and benefits (including directors)	2,796	2,868
Share-based payments	29	12
Social security costs	227	239
Other post-employment benefits	111	108
Less amounts capitalised	(286)	(146)
Less amounts received under the CJRS scheme	(756)	-
	<hr/> <b>2,138</b>	<hr/> <b>3,081</b>

**Key management personnel:**

	<b>Year ended 31 December 2020 £'000</b>	<b>Year Ended 31 December 2019 £'000</b>
Wages, salaries and benefits (including directors)	544	581
Share-based payments	24	12
Social security costs	71	75
Other post-employment benefits	35	39
Less amounts capitalised	(87)	(23)
Less amounts received under the CJRS scheme	(40)	-
	<hr/> <b>547</b>	<hr/> <b>684</b>

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

<b>Year ended 31 December 2020</b>	<b>Salary and fees £'000</b>	<b>Share- based payments £'000</b>	<b>Other benefits £'000</b>	<b>Total £'000</b>
Graham Bird	137	6	10	153
Richard Rose	47	-	4	51
Richard Harpham	198	10	12	220
Adrian Jones	4	-	-	4
Karen Bach	26	-	-	26
John Story	8	-	-	8
Other key management	124	8	9	141
	545	24	35	603
Amounts capitalised	(87)	-	-	(87)
Furlough claims	(40)	-	-	(40)
Profit and loss expense	417	24	35	476

<b>Year ended 31 December 2019</b>	<b>Salary and fees £'000</b>	<b>Share- based payments £'000</b>	<b>Other benefits £'000</b>	<b>Total £'000</b>
Richard Rose	60	0	8	68
Richard Harpham	220	6	14	240
Alistair Rae	126	4	4	134
Adrian Jones	20	0	0	20
Karen Bach	30	0	2	32
Other key management	125	2	11	138
	581	12	39	632
Amounts capitalised	(23)	-	-	(23)
Profit and loss expense	558	12	39	609

The average monthly number of employees was as follows:

	<b>Year ended 31 December 2020 No.</b>	<b>Year ended 31 December 2019 No.</b>
Management	4	4
Administrative	22	21
Operations	120	110
	146	134

## 8. Taxation

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

	<b>Year Ended 31 December 2020 £'000</b>	<b>Year Ended 31 December 2019 £'000</b>
Loss before taxation	(6,564)	(6,040)
Tax calculated at the standard rate of tax of 19% (2019:19%)	(1,247)	(1,148)
Tax effects of:		
Non-deductible expenditure	118	58
Unrecognised tax losses	1,113	1,026
Capital allowances less depreciation	4	197
Other	27	(129)
	<hr/> 15	<hr/> 4

The Group had losses for tax purposes of approximately £21m as at 31 December 2020 (£16m as at 31 December 2019) which, subject to agreement with taxation authorities, are available to carry forward against future profits. The tax value of such losses amounted to approximately £4m (£2.78m as at 31 December 2019).

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 conversion rights outstanding excluded from consideration in the calculation of diluted loss per share for the year ended 31 December 2020 was 19,699,481 shares (year ended 31 December 2019: 1,967,507 shares).

	<b>Year Ended 31 December 2020</b>	<b>Year Ended 31 December 2019</b>
Loss after tax attributable to owners of the Company (£'000)	(6,641)	(5,993)
Weighted average number of shares:		
- Basic and diluted	53,720,694	24,186,199
Loss per share		
- Basic and diluted (Pence)	(12.36)	(24.78)

## 10. Property, plant and equipment

	Leasehold improvements	Office equipment	Computers	Furniture and fixtures	Escape games	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<i>Cost:</i>						
At 1 January 2019	2,751	11	69	167	1,872	4,870
Additions	25	7	6	71	1,199	1,308
Disposals	-	(9)	-	-	-	(9)
<b>As at 31 December 2019</b>	<b>2,776</b>	<b>9</b>	<b>75</b>	<b>238</b>	<b>3,071</b>	<b>6,169</b>
Additions	793	6	35	24	980	1,838
Additions arising from acquisition	336	-	12	-	-	347
Disposals	-	-	-	-	(89)	(89)
<b>As at 31 December 2020</b>	<b>3,905</b>	<b>15</b>	<b>122</b>	<b>262</b>	<b>3,962</b>	<b>8,266</b>
<i>Accumulated depreciation:</i>						
As at 1 January 2019	(232)	(2)	(4)	(5)	(260)	(504)
Depreciation charge	(517)	(7)	(30)	(45)	(1,133)	(1,732)
Disposals	-	1	-	-	-	1
<b>As at 31 December 2019</b>	<b>(749)</b>	<b>(8)</b>	<b>(34)</b>	<b>(50)</b>	<b>(1,393)</b>	<b>(2,234)</b>
Additions arising from acquisition	(318)	-	(9)	-	-	(327)
Depreciation charge	(584)	(5)	(43)	(60)	(1,128)	(1,820)
Disposals	-	-	-	-	-	-
<b>As at 31 December 2020</b>	<b>(1,651)</b>	<b>(13)</b>	<b>(86)</b>	<b>(110)</b>	<b>(2,521)</b>	<b>(4,381)</b>
<b>Net book value</b>						
<b>As at 31 December 2020</b>	<b>2,254</b>	<b>2</b>	<b>36</b>	<b>152</b>	<b>1,441</b>	<b>3,885</b>
As at 31 December 2019	2,027	1	41	188	1,678	3,935

The amount of expenditure recognised in the carrying value of leasehold improvements in the course of construction at 31 December 2020 is £62,000 (2019: £nil).

## 11. Right-of-use assets

	<b>Year ended 31 December 2020 £'000</b>	<b>Year ended 31 December 2019 £'000</b>
Land and buildings – right-of-use asset	3,127	3,119
Closures / leases ended for renegotiation during the year	(336)	-
Additions during the year	1,034	8
Newly negotiated leases	152	-
Less: Accumulated depreciation b/f	(657)	(310)
Depreciation charged for the year	(380)	(347)
Net book value	<u>2,940</u>	<u>2,470</u>

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

During the year ended 31 December 2020, £22k of rent concessions have been recognised in the profit and loss to reflect credits provided by landlords during the COVID-19 pandemic. Only those rent concessions which adequately fulfil the criteria of paragraph 46A of the amendment to IFRS 16 on this subject have been included in the profit and loss.

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

## 12. 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 2019	1,422	78	10,195	302	802	100	269	13,168
Additions arising from internal development	-	-	-	266	-	-	-	266
Disposals	(29)	-	-	-	-	-	-	(29)
At 31 December 2019	1,393	78	10,195	568	802	100	269	13,405
Additions arising from internal development	-	-	-	294	-	-	-	294
Additions arising from acquisition	19	-	-	-	-	-	-	19
Disposals	-	-	-	(7)	-	-	-	(7)
As at 31 December 2020	1,412	78	10,195	855	802	100	269	13,711
<b>Accumulated amortisation</b>								
At 1 January 2019	(1,393)	(11)	(6,616)	(21)	(191)	(83)	(61)	(8,376)
Amortisation for the year	-	(18)	(1,737)	(130)	(115)	(17)	(106)	(2,123)
Impairment provision	-	-	-	-	-	-	-	-
At 31 December 2019	(1,393)	(29)	(8,353)	(151)	(306)	(100)	(167)	(10,499)
Amortisation for the year	-	(18)	(1,842)	(254)	(114)	-	(71)	(2,299)
Disposals	-	-	-	-	-	-	-	-
As at 31 December 2020	(1,393)	(47)	(10,195)	(405)	(420)	(100)	(238)	(12,798)
<b>Carrying amounts</b>								
<b>At 31 December 2020</b>	<b>19</b>	<b>31</b>	<b>-</b>	<b>450</b>	<b>382</b>	<b>-</b>	<b>31</b>	<b>913</b>
At 31 December 2019	-	49	1,842	417	496	-	102	2,906

Goodwill and acquisition related intangible assets recognised have arisen from the acquisition of Experiential Ventures Limited in May 2017 and of Escape Hunt Entertainment LLC in September 2020. Refer to Notes 13 and 14 for further details.

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

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

The Group tests goodwill annually for impairment or more frequently if there are indications that these



assets might be impaired. The recoverable amounts of the CGU are determined from fair value less costs to sale. The value of the goodwill comes from the future potential of the assets rather than using the assets as they are (i.e. there is assumed expansionary capex which supports growth in revenues and the value of the business and therefore goodwill).

The key assumptions for the fair value less costs to sale approach are those regarding capital expenditure which supports a consequent growth in revenues and associated earnings and a discount rate. The Group monitors its pre-tax Weighted Average Cost of Capital and those of its competitors using market data. In considering the discount rate applying to the CGU, the Directors have considered the relative sizes, risks and the inter-dependencies of its CGUs. The impairment reviews use a discount rate adjusted for pre-tax cash flows. The Group prepares cash flow forecasts derived from the most recent financial plan approved by the Board and extrapolates revenues, net margins and cash flows for the following four years based on forecast growth rates of the CGU. Cash flows beyond this period are also considered in assessing the need for any impairment provisions. A discount rate of 13.7% and capex of £4.6 million over the three years has been assumed. Growth in years 4- 6 is assumed at 3% per annum. 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.

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

#### *Franchise agreements*

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

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

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

- Economic life – The valuation did not assume income for a period longer than the asset’s economic life (the period over which it will generate income). The contractual nature of the Franchise Agreements (with terms typically between 6 and 10 years) means it is possible to forecast with a reasonable degree of certainty the remaining term of each agreement and therefore the period in which it will generate revenue. Only contracts which were signed at the acquisition date were included.
- Renewal – No provision for the renewal of existing Franchise Contracts has been included with the valuation. This reflects the fact that potential contract renewals will only take place several years in the future, and the stated strategy of management has been to focus on the development of owner-managed sites rather than renewing the franchises when they are due for renewal – as they may be bought out.
- Contributory Asset Charges (CACs) - The projections assumed after returns are paid/charged to

complementary assets which are used in conjunction with the valued asset to generate the earnings associated with it. The only CAC identified by management is the charge relating to IP – a charge has been included to take into account the Intellectual Property used within the franchise operation. This is considered key in generating earnings at the franchised sites. Management has applied the same royalty rate of 10% used to value this asset.

- Discount Rate – The Capital Asset Pricing Model (“CAPM”) has been used to calculate a discount rate of 13.7%.
- Taxation – At the time of acquisition, the franchise profits were earned within a group subsidiary which was incorporated in the Labuan province of Malaysia. The tax rate applicable in Labuan was applied to the earnings generated from franchise operations.

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

### 13. Subsidiaries

Details of the Company’s subsidiaries as at 31 December 2020 are as follows:

<b>Name of subsidiary</b>	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>Effective equity interest held by the Group (%)</b>
Experiential Ventures Limited	Seychelles	Former holding company - In dissolution	100
Escape Hunt Group Limited	England and Wales	Operator of escape rooms	100
Escape Hunt Operations Ltd	Malaysia	Former operator of escape rooms - In dissolution	100
E V Development Co. Ltd	Thailand	Formerly game design - In dissolution	99.9
Escape Hunt IP Limited	England and Wales	IP licensing	100
Escape Franchises Limited	England and Wales	Franchise holding	100
Escape Hunt Innovations Limited	England and Wales	Game design	100
Escape Hunt USA Limited	England and Wales	Franchise holding	100
Escape Hunt USA Franchises Ltd	England and Wales	Franchise holding	100
Escape Hunt Entertainment LLC	United Arab Emirates	Operator of Escape Rooms in Dubai and master franchise to the Middle East	100

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

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

The registered address of each overseas subsidiary is as follows:

*Experiential Ventures Limited*

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

*Escape Hunt Operations Ltd*

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

*E V Development Co. Ltd*

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

*Escape Hunt Entertainment LLC*

Retail Space 26, Galleria Mall, Al Wasl Road, Bur Dubai, Dubai,

#### 14. Business Combination

On 30 September 2020, Escape Hunt Plc acquired 100% of the equity interest in Escape Hunt Entertainment LLC (EH LLC), thereby obtaining control. EH LLC holds the master franchise for the territory of the Middle East and runs an owner operated escape room venue in Dubai.

We applied the amendment to IFRS 3 for accounting periods starting 1 January 2020 regarding the definition of a business combination. We consider this acquisition to be classified as such and have consolidated in full.

The details of the business combination are as follows:

	<b>£'000</b>
<b>Fair value of consideration transferred</b>	
Amounts settled in cash	39
Total purchase consideration	<u>39</u>

There were no shares or other contingent consideration to be included in the total purchase price.

Further acquisition related costs of £8k that were not directly attributable to the issue of shares are included in administrative expenses under the owner operated segment.

	<b>£'000</b>
<b>Assets and liabilities recognised as a result of the acquisition</b>	
Cash	74
Trade receivables (net of provisions)	5
Other receivables and deposits	15
Property, plant and equipment	21
Trade payables	(8)
Provisions	(3)
Dividends payable	(85)
Net identifiable assets acquired	<u>20</u>
Goodwill arising on consolidation	19
Net assets acquired	<u>39</u>

The fair value of acquired trade receivables is £5k. The gross contractual amount for trade receivables due is £14k of which £9k had been provided against as at the date of acquisition.

The dividend payable relates to post tax profit from the period prior to acquisition that has been formally authorised by the company to be paid to the former shareholders. The cash for this dividend was paid on 4 October 2020.

Goodwill of £19k is primarily related to growth expectations, expected future profitability and the expertise and experience of EH LLC's workforce. Goodwill has been allocated to the owner operated segment and is not expected to be deductible for tax purposes.

EH LLC contributed revenues of £57k and net profits of £15k in the three months between acquisition and 31 December 2020. If the acquisition had occurred on 1 January 2020, consolidated revenue would have been £86k higher, however consolidated net profits would have been £80k lower due to reduced revenues in 2020 during the COVID-19 pandemic.

#### 15. Loan to franchisee

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

The majority of income receivable under the terms of the loan relates to interest at a fixed rate. The impact of COVID-19 on the borrower in 2020 has been significant, as a result of which it is considered unlikely that the loan will be repaid. The pandemic has caused the franchisee to fall into arrears on rent and as a result, it may not be economic for the company to exercise its right to take over locations operated by the borrower unless a compromise can be reached between the franchisee and the respective landlords. As at 31 December 2020 this loan has been provided for in full.

#### 16. Trade and other receivables

	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2019 £'000</b>
Trade receivables (customer contract balances)	182	370
Prepayments	208	328
Accrued income (customer contract balances)	20	78
Accrued interest	-	10
Deposits and other receivables	491	57
	<hr/> 901	<hr/> 843

The Group's exposure to credit risk and impairment losses related to trade receivables is disclosed in Note 31.

Significant movements in customer contract assets during the year ended 31 December 2020 are summarised below:

**Year ended 31 December 2020:**

	<b>Trade Receivables £'000</b>	<b>Accrued income £'000</b>
Contract assets:		
Balance at 1 January 2020	370	78
Transfers from contract assets recognised at the beginning of the period to receivables	78	(78)
Net increases as a result of changes in the measure of progress	(82)	20
Provisions for doubtful amounts	(184)	-
Balance at 31 December 2020	182	20

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 14<sup>th</sup> 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.

**17. Inventories**

	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2019 £'000</b>
Branch consumables (at cost)	16	12
Total inventories	16	12

**18. Cash and cash equivalents**

	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2019 £'000</b>
Bank balances	2,722	2,171
Cash and cash equivalents in the statement of cash flow	2,722	2,171

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

	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2019 £'000</b>
Pounds Sterling	2,337	1,656
Australian Dollars	34	197
United States Dollars	7	174
Euros	235	117
Others	108	27
	2,722	2,171

## 19. Trade and other payables (current)

	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Trade payables	606	317
Accruals	652	733
Deferred income	441	360
Taxation	17	4
Other taxes and social security	82	180
Other payables	65	31
	1,861	1,625

## 20. Lease liabilities

	Year ended 31 Dec 2020 £'000	Year ended 31 Dec 2019 £'000
<b>In respect of right-of-use assets</b>		
Balance at beginning of period / recognised on adoption of IFRS 16 on 1 January 2019	2,602	2,878
Closures / leases ended for renegotiation during the year	(317)	-
Additions during the year	1,034	8
Newly negotiated leases	152	-
Interest incurred	180	171
Rent concessions received	(22)	-
Repayments during the period	(181)	(454)
Reallocated from accruals and trade payables	294	
Lease liabilities at end of period	3,742	2,602
	As at 31 Dec 2020 £'000	As at 31 Dec 2019 £'000
<b>Maturity</b>		
Current	489	304
Non-current	3,253	2,298
Total lease liabilities	3,742	2,602

In the accounts for the year ended 31 December 2019, part of the lease liability balance was presented in accruals. During the year ended 31 December 2020 it was deemed more relevant to show all balances relating to lease liabilities as part of the lease liability balance and therefore accrued rental items have been reclassified to lease liabilities to ensure total liabilities are all presented together. No adjustment has been made to previous period numbers.

## 21. Deferred income

	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2019 £'000</b>
Contract liabilities (deferred income):		
Balance at beginning of year	622	663
Revenue recognised in the year that was included in the deferred income balance at the beginning of the year	(335)	(200)
Increases due to cash received, excluding amounts recognised as revenue during the period	343	284
Decreased on termination of franchises	(35)	(136)
Translation differences	(3)	11
Transaction price allocated to the remaining performance obligations	<u>592</u>	<u>622</u>

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

	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2019 £'000</b>
Upfront exclusivity fees	212	368
Escape room advance bookings	13	129
Gift vouchers	367	125
	<u>592</u>	<u>622</u>

	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2019 £'000</b>
<i>Upfront exclusivity fees</i>		
Within one year	60	106
After more than one year	152	262
	<u>212</u>	<u>368</u>

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 four years. All other deferred revenue is expected to be recognised as revenue within one year.

## 22. Dilapidation provisions

	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2019 £'000</b>
Within one year	-	-
After more than one year	125	74
	<hr/> 125	<hr/> 74

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

The leases expire between January 2023 and February 2032.

## 23. Share capital

	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2019 £'000</b>
<i>Issued and fully paid:</i>		
At beginning of the year: 26,925,925 (2019: 20,259,258) Ordinary shares of 1.25 pence each	336	253
Issued during the year: 53,443,119 Ordinary shares	<hr/> 669	<hr/> 83
As at end of period / year - 80,369,044 (2019: 26,925,925) Ordinary shares of 1.25 pence each	<hr/> 1,005	<hr/> 336

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

Subsequent to the period end, a further 8,251,047 shares have been issued. The number of shares in issue at 31 December 2020 was 80,369,044 and at the date of approval of these financial statements is 88,620,091 ordinary shares of 1.25 pence each.

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

During the year ended 31 December 2020, the following changes in the issued share capital of the Company occurred:

- On 1 July 2020 the Company issued 53,017,013 new shares at 7.5 pence per share in a fund raise comprising a placing, open offer and share subscription, raising £4.0 million (before expenses of £301,000). The expenses have been deducted from the premium of £3,313,563 arising from the fund raise. On the same date a further 426,106 new shares were issued at 7.5 pence per share to certain executives as pay reduction catch up equity, partially compensating the executives for a voluntary reduction in salary during April, May and June 2020 whilst the group's sites were closed due to restrictions related to COVID-19.
- The resultant 53,443,119 new shares were admitted to trading on AIM on 2 July 2020



## 24. Warrants

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

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

No warrants were exercised during the year ended 31 December 2020 and as such all warrants expired during the year.

## 25. Convertible loan notes

	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2019 £'000</b>
<i>Amounts due in more than one year:</i>		
Principal	272	-
Rolled up interest	17	-
As at end of period / year	<u>289</u>	<u>-</u>

On 1 July 2020, the Company issued £340,000 convertible loan notes ("Notes"). The Notes are unsecured and interest rolls up at a fixed rate of 10 per cent. per annum. The Notes are repayable in full on 2 July 2025, inclusive of rolled up interest, although they may be prepaid in whole or in part at the Company's discretion after the period of 18 months from the date of issue, provided that the holders of the Convertible Loan Notes will first be given the opportunity to serve notice to convert their respective Notes and unpaid interest into new Ordinary Shares.

The Notes are convertible at the election of the holders of the Notes at any time up until and including the date of repayment at the price which is the lower of 9 pence for each new Ordinary Share or the placing price of the most recent placing by the Company of new Ordinary Shares prior to conversion.

At the date of issue, the Company determined that £272,251 of the principal related to the debt component of the loan note with the balance of £67,749 be classified as the equity component of the convertible loan note. This gives an effective underlying interest rate on the Notes of 13.4% per annum.

Application will not be made for the Convertible Loan Notes to be admitted to trading on AIM or any other exchange. The Company has adequate authority to issue the maximum number of new Ordinary Shares which could result from the conversion of all the Notes. Any new Ordinary Shares arising on conversion will rank pari passu with the Ordinary Shares in issue at that time and application for admission to trading on AIM will be made at the appropriate time.

## 26. Share option and incentive plans

### *2018 EMI Scheme*

On 24 January 2019, the Company issued options to subscribe for 137,931 ordinary shares of 1.25 pence each at an exercise price of 87 pence per share to an employee of the Company, under the terms of the Escape Hunt Plc Enterprise Management Incentive Scheme 2018 ("2018 EMI Scheme"). No options were exercised prior to 15 July 2020 on which date all the options were cancelled. The 2018 EMI Scheme has since been withdrawn. As at 31 December 2020, there were no options outstanding under the scheme and no further awards will be made pursuant to the scheme.

The charge to profit and loss during the year was £nil (2019: £nil) due to the immateriality of the value of the options.

### *Escape Hunt plc Enterprise Management Incentive Plan*

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

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

On 15 July 2020, in aggregate 13,333,332 qualifying options and 2,400,000 non-qualifying options were awarded to four executives, including two executive directors of the Company. The options are exercisable at 7.5 pence per share and vest in three equal tranches on each of the first, second and third anniversary of the grants, subject to the employee not having left employment other than as a Good Leaver. The number of options that vest are subject to a performance condition based on the Company's share price. This will be tested on each vesting date and again between the third and fourth anniversaries of awards. If the Company's share price at testing is 11.25 pence (being 1.5 times the issue price), one third of the vested options will be exercisable. If the Company's share price at testing is 18.75 pence (being 2.5 times the issue price), 90 per cent of the vested options will be exercisable. If the Company's share price at testing is 25 pence (being 3.33 times the issue price), 100% of the vested options will be exercisable. The proportion of vested options exercisable for share prices between 11.25 pence and 18.75 pence will scale proportionately from one third to 90 per cent. Similarly, the proportion of options exercisable for share prices between 18.75 pence and 25 pence will scale proportionately from 90 per cent to 100 per cent.

The options will all vest in the case of a takeover. If the takeover price is 7.5 pence per share, no options will be exercisable. If the takeover price is 18.75 pence per share, 100 per cent of the options will be exercisable. The proportion of options exercisable between 7.5 pence and 18.75 pence per share will scale proportionately from nil to 100 per cent.

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

As at 31 December 2020, 15,733,332 options were outstanding under the 2020 EMI Plan (2019: nil) all exercisable at 7.5 pence per share. No options were exercised during the period, and no options expired or had lapsed and none had vested or were exercisable as at 31 December 2020.

The sum of £23,477 has been recognised as a share-based payment and charged to the profit and loss during the year (2019: £nil). The fair value of the options granted during the period has been calculated using the Black & Scholes formula with the following key assumptions:

Exercise price	7.5 pence per share
Volatility	34.6%
Share price at the date of award	7.375p
Option exercise	15 July 2024
Risk free rate	-0.05%

The performance conditions were taking into account as follows:

The value of the options have then been adjusted to take account of the performance hurdles by assuming a lognormal distribution of share price returns, based on an expected return on the date of issue of 16.8% per annum. This results in the mean expected return calculated using a lognormal distribution equalling the implied market return on the date of issue validating that the expected return relative to the volatility is proportionately correct. This was then used to calculate an implied probability of the performance hurdles being achieved within the four-year window and the Black & Scholes derived option value was adjusted accordingly.

Time based vesting: It has been assumed that all four executives remain employed on the first anniversary and that there is a 95% probability of remaining in each consecutive year thereafter.

The weighted average remaining contractual life of the options outstanding at 31 December 2020 is 54.5 months.

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

#### *Share incentive plan*

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

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

The sum of £5,000 has been recognised as a share-based payment and charged to the profit and loss during the year (2019: £12,000).

In accordance with EGSP’s Articles of Association, a Put Option Period commenced on 3 May 2020 which entitled a holder of G Shares at his discretion within the Put Option Period to serve notice to a Designated Purchaser (being EHGL or its majority shareholder, Escape Hunt plc) to acquire all of that holder’s Growth Shares at the ‘G Share Put Price’. Similarly, a Designated Purchaser has a reciprocal Call Option which can be exercised during a Call Option Period (which similarly commenced on 3 May 2020) by serving notice on the holder of Growth Shares to acquire the Growth Shares at the ‘G Share Call Price’. Both the G Share Put Price and G Share Call price are calculated with reference to the share price of Escape Hunt plc up to 3 May 2020. The scheme has now ended and both the G Share Put price and G Share Call prices have been determined to be £nil per share. No options were exercised during the year. Subsequent to year end, Escape Hunt plc has issued notice to exercise its Call Option and the Growth Shares, which are now valueless, are held by Escape Hunt plc.

## **27. 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.

## **28. Reserves**

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

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

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

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

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

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

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

## **29. 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:

Fees of £4,875 and other benefits of £92 were paid to a close family member of one of the directors (2019: salary of £27,558 and other benefits of £1,128).

## **30. Directors and key management remuneration**

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

## 31. Financial risk management

### General objectives, policies and processes

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

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

### Categories of financial assets and liabilities

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

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

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

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

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

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

#### Financial assets at amortised cost:

	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2019 £'000</b>
Trade receivables	182	370
Other receivables and deposits	511	471
Cash and cash equivalents	2,722	2,171
	<hr/> 3,415	<hr/> 3,012

#### Financial liabilities at amortised cost:

	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2019 £'000</b>
Trade payables	606	317
Accruals and other payables	815	764
Lease liabilities	3,742	2,602
	<hr/> 5,163	<hr/> 3,683

## Credit risk

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

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

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

### *Impairment of financial assets*

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

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

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

	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2019 £'000</b>
Gross amounts (before impairment):		
Not past due	94	197
Past due 0-30 days	8	24
Past due 31-60 days	7	38
Past due more than 60 days	447	211
	<hr/> 556	<hr/> 470

### *Impairment losses:*

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

	<b>As at 31 December 2020 £'000</b>	<b>As at 31 December 2019 £'000</b>
At beginning of year	(100)	(5)
Impairment losses recognised	(104)	(95)
Bad debts written off	20	-
At end of year	<hr/> (184)	<hr/> (100)

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

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

During the year the Group recognised an impairment in full against both the capital and accrued interest portions of the loan receivable from a master franchise. Therefore as at 31 December 2020 the net balance outstanding on this loan per these financial statements is nil (2019: £300,000).

As at 31 December 2020 £2,509,000 (2019: £2,068,000) of the cash and bank balances, as detailed in Note 17 to the financial statements are held in financial institutions which are regulated and located in the UK, which management believes are of high credit quality. Management does not expect any losses arising from non-performance by these counterparties.

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

### **Liquidity risk**

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

The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The principal liabilities of the Group arise in respect of trade and other payables which are all payable within 12 months. At 31 December 2020, total trade payables within one year were £822,000 (2019: £317,000), which is considerably less than the Group's cash held at the year-end of £2,722,000 (2019: £2,171,000). 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 is also exposed to foreign currency risk on sales and purchases that are denominated in foreign currencies. The currencies giving rise to this risk are primarily the United States ("US") dollar, the Euro ("EUR"), Australian ("AUD") dollars, and Thai Baht ("THB"). Currently, the Group does not hedge its foreign currency exposure. However, management monitors the exposure closely and will consider using forward exchange or option contracts to hedge significant foreign currency exposure should the need arise.

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

	UK Pound Sterling	United States Dollar	Thai Bhat	Euro	Australian Dollar	Other	Total
As at 31 December 2020	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets:</b>							
Trade receivables	172	-	-	-	-	10	182
Other receivables and deposits	509	2	-	-	-	-	511
Cash and bank balances	2,264	81	36	235	34	72	2,722
	2,945	83	36	235	34	82	3,415
<b>Financial liabilities:</b>							
Trade payables	584	6	-	-	-	15	606
Other payables and accruals	771	43	-	-	-	1	815
Lease liabilities	3,649	-	-	-	-	93	3,742
	5,004	49	-	-	-	109	5,163
<b>Foreign currency exposure (net)</b>	-	<b>34</b>	<b>36</b>	<b>235</b>	<b>34</b>	<b>(27)</b>	<b>312</b>

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

### *Sensitivity analysis*

A 10% strengthening of the Pound against the following currencies at 31 December 2020 would increase/(decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Increase/ (Decrease) £'000	Increase/ (Decrease) £'000
	2020	2019
Effects on profit after taxation/equity United States Dollar:		



- strengthened by 10%	(8)	(17)
- weakened by 10%	8	17
<hr/>		
Thai Bhat:		
- strengthened by 10%	(4)	(2)
- weakened by 10%	4	2
<hr/>		
Euro:		
- strengthened by 10%	(24)	(12)
- weakened by 10%	24	12
<hr/>		
Australian Dollar:		
- strengthened by 10%	(3)	(20)
- weakened by 10%	3	20
<hr/>		

### 32. Commitments

As at 31 December 2020, the Group had capital expenditure commitments in respect of escape rooms games and leasehold improvements totalling £152,921 (2019: £70,000).

### 33. Contingencies

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

### 34. Government grants

The following Government grants have been recognised during the period:

	<b>Year ended 31 Dec 2020 £'000</b>	<b>Year ended 31 Dec 2019 £'000</b>
Local authority Small Business Grants	135	-
R&D Claims made under the SME Scheme	259	-
Total	<hr/> <hr/> 394	<hr/> <hr/> -

In addition, the Company benefitted from Business Rates Relief introduced for the retail, hospitality and leisure industries. The benefit in the period was £188k (2019: £nil)

The Group also benefitted from the Coronavirus Job Retention Scheme from furloughing some of its staff. The benefit in the period was £756k (2019: £nil)

The claim made under the SME R&D Scheme related to 2018. As at the date of signing these accounts, £73k of these monies had been received.

### 35. Events after the reporting period

#### *COVID-19*

Since the year end, it has become clear that the spread of the COVID-19 coronavirus will continue to have a material impact on many economies globally both through the effects of the virus itself and the measures taken by governments to restrict its spread.

Given the emergence and spread of the COVID-19 virus is not considered to provide more information about conditions that existed as at the reporting period end date, this is considered to be a non-adjusting post balance sheet event and so the measurement of assets and liabilities in the accounts have not been adjusted for its potential impact. The directors have set out the post year end impact on going concern in the relevant section to the Directors Report.

#### *Fund raise*

On 28 January 2021 the Company announced a placing to raise £1.4m (before expenses) to fund the acquisition of the French and Belgian master franchises and to provide additional working capital.

The fund raise resulted in the issue of 8,036,904 Ordinary Shares at 17.5 pence per share.

#### *R&D Credits*

In 2019 and again in 2020, the company and certain of its subsidiaries submitted claims for R&D tax credits under the SME Scheme relating to R&D expenditure incurred in 2017 and 2018. The total claims in respect of 2017 and 2018 amount to £1.52m spread across a number of subsidiaries. Since the year end, claims amounting to £73k have been received in cash and a further £186k claims have been credited to the respective subsidiary tax accounts, but not yet paid. Since these payments and credits relate to claims which were made prior to the year end, they are treated as events which give information about circumstances that existed at the reporting period end date and those elements of the claims have all been recognised accordingly. The remaining claims of £1.26m are still being reviewed by HMRC and are thus pending. Recognition of these claims involves a judgement by management. Given the ongoing review of the claims and length of time that has elapsed since the first claim was lodged in December 2018, Management does not yet consider it sufficiently probable that the remaining claims will be paid and, as such, these claims have not been recognised as an asset.

#### *Convertible Loan note facility*

The company has entered into a Convertible Loan Note facility with John Story, a non executive director. Under the terms of the facility, John Story has undertaken to subscribe for up to £1m in convertible loan notes, subject to receiving a drawdown notice from the company. The principal terms of the notes are as follows:

- The term of the Convertible Loan Note facility is from the date of issue to 30 June 2023
- The notes can be issued in denominations of £50,000;
- The notes can be issued by the company at any time during the term, subject to providing 10 days notice of a drawdown; John Story has undertaken to subscribe for up to £1m principal notes
- The notes carry a 7 per cent coupon, payable quarterly;
- the notes are repayable on 30 June 2023 if not previously repaid or converted
- The Noteholder has the right to convert the notes into ordinary shares on a Conversion Date
- A Conversion Date is any date on which the company undertakes an equity issue for cash comprising 5 per cent or more of the company's issued share capital; 30 June 2022; or 30 June 2023.
- The notes are convertible at the issue price of any new equity raise undertaken before 30 September 2021 subject to a 2 per cent early redemption fee; or at a 10 per cent discount to any new equity raise undertaken after 30 September 2021 but before 30 June 2023.

- If converted on 30 June 2022 or 30 June 2023, the conversion price is calculated as a 10 per cent discount to the volume weighted average trading price of the shares in the 30 days before the conversion.
- The notes are unsecured.

**36. Ultimate controlling party**

As at 31 December 2020, no one entity owns greater than 50% of the issued share capital. Therefore, the Company does not have an ultimate controlling party.