

**GROSVENOR CASINOS LIMITED**  
**Registered No. 877080**

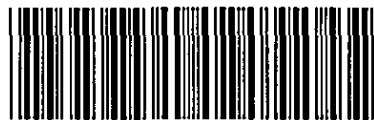
**DIRECTORS' REPORT**

**AND**

**FINANCIAL STATEMENTS**

**30 JUNE 2012**

THURSDAY



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## **GROSVENOR CASINOS LIMITED**

### **DIRECTORS' REPORT**

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The directors present their report and financial statements for the 18 months ended 30 June 2012. The comparative period covers 12 months to 31 December 2010.

#### **Business review and principal activities**

The Company is a limited company incorporated and domiciled in England and Wales.

The principal activity of the Company is the operation of a number of clubs in the UK providing gaming and restaurant facilities for members.

The results for the Company show a pre-tax profit of £35.3m for the 18 month period (12 months ended 31 December 2010: £29.7m) and revenue of £352.4m (12 months ended 31 December 2010: £221.1m). In 2012 the Company recorded exceptional income of £1.3m (12 months ended 31 December 2010: £8.5m) and incurred exceptional costs of £11.1m (12 months ended 31 December 2010: £0.9m).

On 3 March 2011, the entire issued ordinary share capital of the Company was transferred from Rank Group Gaming Division Limited to Rank Gaming Group Limited. Both Rank Group Gaming Division Limited and Rank Gaming Group Limited are wholly owned subsidiary undertakings of The Rank Group Plc.

On 21 October 2011, the company changed its accounting reference date to 30 June. This extends the current accounting period to 18 months to cover the period from 1 January 2011 to 30 June 2012. The comparative period covers the 12 month period to 31 December 2010. The change brings the Company's accounting reference date into line with its ultimate parent company.

The directors do not recommend the payment of a dividend (2010: £nil).

#### **Research and development**

The Company continues to invest in the design and layout of its clubs, which include its G Casino brand, a concept designed specifically for the mainstream leisure gaming market. The directors regard the investment in research and development as integral to the continuing success of the business.

#### **Future outlook and uncertainties**

The Company operates in a competitive market with limited supply and the action of its competitors, particularly new or relocated casinos, can impact on the performance of the Company. The Company actively defends its position against new entrants to the market in existing locations.

The Company's aim is to capitalise on the market growth opportunity through the development of its 10 non-operating licences, the relocation or conversion of existing casinos and participation in the process to allocate new '2005 Gambling Act' casino licences.

The directors' focus is on increasing customer visits to the Company's businesses by bringing enjoyable gaming-based leisure experiences to a broader base of customers. Against this backdrop, the key elements of the strategy are:

- Customer focus – using customer insight (based on analysis of quantitative data and qualitative intelligence) to guide service and product evolution,
- Responsible operation – the way that our customers are looked after not only determines the sustainability of our customer relationships but also our position with regard to regulators, governments and the broader communities within which we operate, and
- Constructive political engagement – to work with government and regulators to shape a regulatory and fiscal environment that supports both our own development and responsible policy objectives.

The principal risks to the successful implementation of this strategy are:

- Taxation and regulation – adverse change (fiscal and regulatory) in legislation continues to be our biggest risk,
- Security – in keeping with our focus on customer and employee safety given the predominantly cash-based nature of our businesses, our security function has a physical bias. However, with online growth and the deployment of more technology into our clubs and as we move to a more cashless society, the balance between our physical security resource and IT security resource will shift,
- External events – customers may be prevented or deterred from accessing our clubs due to factors such as extreme weather, illness or disease epidemics, terrorist threats, strikes and public transport system failures,

## **GROSVENOR CASINOS LIMITED**

### **DIRECTORS' REPORT**

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#### **Future outlook and uncertainties (continued)**

- Loss of licences – gaming licences are fundamental to our operations, and
- Economic environment – the uncertain economic environment, higher indirect taxation and public sector job cuts could adversely affect our customers' expenditure on leisure activities

The Company will continue to look for opportunities to expand the G Casino portfolio through relocations and conversions of existing operations. In the 18 months to 30 June 2012, the Company converted the Grosvenor Casinos at Walsall, Plymouth and Cardiff to the G Casino format, and opened three further G Casinos at Stockton-on-Tees, Didsbury and New Brighton. The Company aims to have built a portfolio of 20 G Casinos in Britain by the end of 2012 by developing new casinos and re-branding existing casinos to the G casino format.

#### **Key performance indicators (KPI)**

The directors of The Rank Group Plc manage the Group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance, and position of the casino division of the Group, which includes the Company, is discussed in more detail on pages 22 to 27 of the Group's 2012 annual report and financial statements which do not form part of this report. The directors do not anticipate any immediate or substantial variations to the Company's current activities.

#### **Directors**

The following were directors of the Company during the period and up to the date of these accounts -

Mr M I Burke

Mr P C Urban

Mr P J Gallagher (resigned 31 August 2011)

Mr C A R Jennings (appointed 31 August 2011)

#### **Human resources**

The Company recognises that the contribution made by its employees is crucial to the success of the business. Substantial investment is therefore made in the training, development and motivation of employees with particular attention to ensuring customer satisfaction through the consistent achievement of high standards of service and delivery of quality products.

Employee involvement in the direction and objectives of the business is encouraged through the use of incentive schemes to focus employees on key performance indicators. In addition, communication and consultation programmes exist at site and Company level. The Company endorses the active application of equal opportunities policies and programmes to provide fair and equitable conditions for all employees regardless of sex, family status, religion, creed, colour, ethnic origin, age, disability or sexual orientation.

#### **Policy on payment of suppliers**

The Company agrees terms and conditions for its business transaction with its suppliers, and suppliers are made aware of these terms and conditions. Payment is then made on these terms, subject to the terms and conditions being met by the supplier. The number of days' purchases outstanding at 30 June 2012 is calculated at 30 days (at 31 December 2010 24 days).

#### **Statement of directors' responsibilities**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- present fairly the financial position, financial performance, and cash flows of the Company,
- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- make judgements that are reasonable,

## **GROSVENOR CASINOS LIMITED**

### **DIRECTORS' REPORT**

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#### **Statement of directors' responsibilities (continued)**

- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and final performance,
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements for the Company on the going concern basis, unless it is appropriate to assume that the Company will not continue in business, in which case there should be supporting assumptions or qualifications

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

So far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each director has taken all the steps that ought to have been taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### **Insurance and indemnities**

The Rank Group Plc, a parent company, has arranged insurance cover in respect of legal action against the directors of the Company. To the extent permitted by English law, the Company also indemnifies the directors. Neither the insurance nor the indemnity provides cover in situations where a director has acted fraudulently or dishonestly.

#### **Auditors**

In accordance with s487(2) of the Companies Act 2006, Ernst and Young LLP will continue as auditors of the Company.

By order of the board



Mr M I Burke

Director

Registered Office: Statesman House, Stafferton Way, Maidenhead, Berkshire, SL6 1AY

Registered Number: 877080

Date: 17 December 2012

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GROSVENOR CASINOS LIMITED**

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We have audited the financial statements of Grosvenor Casinos Limited for the period ended 30 June 2012 which comprise the Income statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the Accounting Policies and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on pages 2 and 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 30 June 2012 and of its profit for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

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

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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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.

*Ernst & Young LLP*

Iain Wilkie (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

Date 17 December 2012

**GROSVENOR CASINOS LIMITED**  
**INCOME STATEMENT**  
**FOR THE 18 MONTHS ENDED 30 JUNE 2012**

		<b>18 months ended 30 June 2012 £000</b>	<b>12 months ended 31 December 2010 £000</b>
	<b>Note</b>		
<b>Revenue</b>		352,400	221,092
Cost of sales		(215,659)	(135,275)
<b>Gross profit</b>		136,741	85,817
Other operating costs		(100,946)	(65,185)
Exceptional operating income	2	1,310	8,505
Exceptional operating costs	2	(11,100)	(907)
Total net exceptional (costs) income		(9,790)	7,598
<b>Operating profit</b>	2	26,005	28,230
<b>Financing</b>			
– finance income	3	9,902	1,641
– finance costs	3	(625)	(187)
Total net finance income		9,277	1,454
<b>Profit before tax</b>		35,282	29,684
<b>Taxation</b>	4	(7,971)	(8,622)
<b>Profit for the period</b>		27,311	21,062

All results are from continuing operations

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE 18 MONTHS ENDED 30 JUNE 2012**


	<b>18 months ended 30 June 2012 £000</b>	<b>12 months ended 31 December 2010 £000</b>
Profit for the period	27,311	21,062
<b>Total recognised income for the period</b>	27,311	21,062

**GROSVENOR CASINOS LIMITED**  
**BALANCE SHEET**  
**AT 30 JUNE 2012**

		<b>At 30 June 2012 £000</b>	<b>At 31 December 2010 £000</b>
	<b>Note</b>		
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	6	69,496	69,705
Property, plant and equipment	7	101,198	78,767
Investments	8	495	7,843
		<u>171,189</u>	<u>156,315</u>
<b>Current assets</b>			
Inventories	9	817	901
Other receivables	11	150,332	130,641
Cash at bank and in hand	16	18,545	16,689
		<u>169,694</u>	<u>148,231</u>
<b>Total assets</b>		<u>340,883</u>	<u>304,546</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Financial liabilities	12	(1,521)	(51)
Trade and other payables	13	(35,252)	(37,632)
Income tax payable		(2,264)	-
Provisions for other liabilities and charges	14	(178)	(396)
		<u>(39,215)</u>	<u>(38,079)</u>
<b>Net current assets</b>		<u>130,479</u>	<u>110,152</u>
<b>Non-current liabilities</b>			
Financial liabilities	12	(6,637)	(1,447)
Trade and other payables	13	(2,755)	(2,928)
Deferred tax liability	10	(13,289)	(9,865)
Provisions for other liabilities and charges	14	(759)	(1,325)
		<u>(23,440)</u>	<u>(15,565)</u>
<b>Total liabilities</b>		<u>(62,655)</u>	<u>(53,644)</u>
<b>Net assets</b>		<u>278,228</u>	<u>250,902</u>
<b>Shareholder's equity</b>			
Ordinary share capital	15	39,000	39,000
Other reserves		239,228	211,902
<b>Total equity</b>		<u>278,228</u>	<u>250,902</u>

The notes on pages 8 to 26 are an integral part of these financial statements

These accounts were approved by the board on 17 December 2012 and signed on its behalf by

  
Mr M I Burke  
Director

Date 17 December 2012

**GROSVENOR CASINOS LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE 18 MONTHS ENDED 30 JUNE 2012**

	Ordinary share capital	Other reserves	Total
	£000	£000	£000
<b>At 1 January 2010</b>	39,000	190,782	229,782
<b>Comprehensive Income:</b>			
Profit for the year	-	21,062	21,062
<b>Transactions with owners:</b>			
Credit in respect of employee share schemes	-	58	58
<b>At 31 December 2010</b>	39,000	211,902	250,902
<b>Comprehensive Income:</b>			
Profit for the period	-	27,311	27,311
<b>Transactions with owners</b>			
Credit in respect of employee share schemes	-	15	15
<b>At 30 June 2012</b>	39,000	239,228	278,228

Other reserves include retained earnings and an amount of undistributable reserves related to a previous revaluation of properties. The Company adopted a policy of revaluing these fixed assets under UK GAAP, and, in accordance with IFRS 1, these values have been frozen and treated as deemed cost on transition to IFRS.

**CASH FLOW STATEMENT**  
**FOR THE 18 MONTHS ENDED 30 JUNE 2012**

	Note	18 months ended 30 June 2012 £000	12 months ended 31 December 2010 £000
<b>Cash flows from operating activities</b>			
Cash generated from operations	17	53,351	34,235
Interest (paid) received		(570)	536
<b>Net cash from operating activities</b>		52,781	34,771
<b>Cash flows from investing activities</b>			
Acquisition of business		(160)	(80)
Proceeds from sale of property, plant and equipment		50	-
Purchase of property, plant and equipment		(34,038)	(19,110)
<b>Net cash used in investing activities</b>		(34,148)	(19,190)
<b>Cash flows from financing activities</b>			
Finance lease principal repayment		(1,593)	(51)
Funding provided to other fellow subsidiary undertakings		(15,184)	(16,964)
<b>Net cash used in financing activities</b>		(16,777)	(17,015)
<b>Net increase (decrease) in cash and cash equivalents</b>		1,856	(1,434)
Cash and cash equivalents at start of period		16,689	18,123
<b>Cash and cash equivalents at end of period</b>	16	18,545	16,689



# GROSVENOR CASINOS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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### 1 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### A Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and IFRIC interpretations as adopted by the European Union, and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss. A summary of the more important Company accounting policies is set out below.

The Company is itself a subsidiary company and is exempt from the requirement to prepare group financial statements by virtue of section 400 of the Companies Act 2006. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

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 accounting policies. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are set out in the relevant accounting policies below. The best estimate of the directors may differ from the actual results.

On 21 October 2011, the company changed its accounting reference date to 30 June by extending the current accounting period to 18 months to cover the period from 1 January 2011 to 30 June 2012. The comparative period covers the 12 months to 31 December 2010. The change brings the Company's accounting reference date in to line with its ultimate parent undertaking.

#### *(i) Standards, amendments and interpretations to existing standards adopted by the Company*

The following new standards, amendments and interpretations to existing standards are mandatory for the first time for the financial period beginning 1 January 2011:

- IAS 24 Related Party Disclosures (Amendment)
- IAS 32 Financial Instruments Presentation – Classification of Rights Issues (Amendment)
- IFRIC 13 Customer Loyalty Programmes (Determining the fair value of credit awards)
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRSs (issued May 2010)

The Company has not been materially impacted by the adoption of any of these standards, amendments or interpretations.

The Company has not early adopted any other standard, amendment or interpretation that was issued but is not yet effective.

#### *(ii) Standards, amendments to and interpretations of existing standards that are not yet effective*

The following standards, amendments to and interpretations of existing standards have been published and are mandatory for accounting periods beginning after 1 July 2012 or later periods, but they have not been early adopted by the Company:

- IFRS 9 Financial Instruments Classification and Measurement - Effective 1 January 2015
- IFRS 7 Financial Instruments Disclosures (Amendment) - Effective 1 July 2011
- IFRS 7 Financial Instruments Disclosures - Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS7 – Effective 1 January 2013
- IFRS 10 Consolidated Financial Statements - Effective 1 January 2013
- IFRS 11 Joint Arrangements - Effective 1 January 2013
- IFRS 12 Disclosure of Interest in Other Entities - Effective 1 January 2013

## GROSVENOR CASINOS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

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#### 1 Accounting Policies (continued)

- IFRS 13 Fair Value Measurement - Effective 1 January 2013
- IAS 1 Presentation of Items of Other Comprehensive Income (Amendments to IAS1) - Effective 1 July 2012
- IAS 12 Income Taxes (Amendment) - Deferred Taxes Recovery of Underlying Assets – Effective 1 July 2012
- IAS 19 Employee Benefits (Revised) - Effective 1 January 2013
- IAS 27 Separate Financial Statements - Effective 1 January 2013
- IAS 28 Investments in Associates and Joint Ventures – Effective 1 January 2013
- IAS 32 Financial Instruments Presentation – Offsetting Financial Assets and Financial Liabilities – Amendments to IAS32 – Effective 1 January 2014

It is not anticipated that the adoption of the above standards, amendments and interpretations of existing standards will have a material impact on the Company financial statements in the period of initial application

#### B Revenue

Revenue consists of casino gaming win, net of the fair value of promotions and customer bonuses, and before deduction of gaming duty, membership fees and guest fees. Food and beverage revenue is stated net of value added tax and is recognised at the point of sale. Although disclosed as revenue, gaming win is accounted for and meets the definition of a gain under IAS 39 Financial Instruments Recognition and Measurement. The Company's business operates solely in the United Kingdom.

#### C Intangible assets

(i) *Computer software and other development costs* - Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis over their estimated useful lives (three to four years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include employee costs for software development.

Computer software development costs recognised as assets are amortised on a straight-line basis over their estimated useful lives (three to five years).

(ii) *Casino licences* - The Company capitalises purchased casino licences. The amount capitalised is the difference between the price paid for a casino property and the associated licence and the fair value of a similar property without a casino licence. Management believes that casino licences have indefinite lives as based on all relevant factors there is no foreseeable limit to the period over which the licences are expected to generate net cash inflows and each licence holds a value outside the property in which it resides. Each licence is reviewed annually for impairment. Any costs incurred to obtain a 'cold' casino licence or renewing casino licences annually are expensed as incurred.

#### D Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and impairment. Such cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on assets using the straight line method to allocate their cost less residual values over their estimated useful lives, as follows:

- freehold and leasehold property 50 years or lease term if less,
- refurbishment of property 5 -20 years, and
- fixtures, fittings, plant and machinery 3 - 20 years

## **GROSVENOR CASINOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **1. Accounting Policies (continued)**

Residual values and useful lives are reviewed, and adjusted prospectively if appropriate, at each balance sheet date. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement.

Pre-opening costs are expensed to the income statement as incurred.

#### **E Impairment of intangible assets and property, plant and equipment**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). The expected cash flows generated by the assets are discounted using appropriate discount rates, which reflect the time value of money and risks associated with the groups of assets.

If an impairment loss is recognised, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an exceptional expense in the income statement immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Any impairment is allocated equally across all assets in a cash generating unit unless there is an indication that a class of assets should be impaired in the first instance or a fair market value exists for one or more assets. Once an asset has been written down to its fair value less costs to sell and any remaining impairment is allocated equally amongst the remaining assets. Casino licences are generally not impaired as they have an infinite life and a fair value in excess of their carrying value.

#### **F Investments in subsidiaries**

Investments in subsidiaries are held at cost less impairment.

#### **G Taxation**

Current tax assets and liabilities for the current and prior periods are measured as the amount expected to be paid or to be recovered from the taxation authorities. The tax rates and tax laws used to compute the amount are the ones that are enacted or substantively enacted by the reporting date.

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

## **GROSVENOR CASINOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **1. Accounting Policies (continued)**

##### **H Employee benefit costs**

(i) *Pension obligations* – The Company participates in a group defined contribution plan under which the company pays fixed contributions to a separate entity. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

(ii) *Share-based compensation* – The Company operates an equity-settled, share-based compensation plan relating to The Rank Group Plc. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

(iii) *Bonus plans* – The Company recognises a liability in respect of the best estimate of bonuses payable where contractually obliged to do so or where past practice has created a constructive obligation.

##### **I Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost of inventory is determined on a "first in – first out" basis. The cost of finished goods comprises goods purchased for resale. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. When necessary, provision is made for obsolete and slow moving inventories.

##### **J Other receivables**

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

##### **K Cash and cash equivalents**

Cash and short-term deposits in the balance sheet include cash at banks and in hand and short-term deposits with an original maturity of three months or less.

##### **L Trade payables**

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

##### **M Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

(i) *Onerous contracts* – The Company is party to a number of leasehold property contracts. Provision has been made against those leases where the property is now vacant and the unavoidable costs under the lease exceed the economic benefit expected to be derived from potential sub-letting arrangements. Provision has also been made against leases where impairment testing has indicated that, after recognising an impairment charge, the estimated discounted cash flows derived from the property and its associated operations are insufficient to cover the unavoidable lease costs and the lease is therefore deemed onerous.

## **GROSVENOR CASINOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **1. Accounting Policies (continued)**

(ii) *Provision for restructuring* – Once the company is committed to the restructuring of a club, provision is made for the unavoidable costs associated with the restructuring

#### **N Leases**

Leases are tested to determine whether the lease is a finance or operating lease and treated accordingly. Property leases comprising a lease of land and a lease of buildings within a single contract are split into their two component parts before testing.

(i) *Finance leases* - Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property, plant and equipment or the present value of minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in other long-term borrowings. The interest element of the finance cost is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

(ii) *Operating leases* - Leases of property, plant and equipment where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of lease incentives or premiums, are charged to the income statement on a straight-line basis over the period of the lease.

#### **O Exceptional items**

The Company defines exceptional items as those items which, by their size or nature, are separately disclosed in order to give a full understanding of the Company's financial performance and aid comparability of the Company's results between periods.

**GROSVENOR CASINOS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**2 Profit for the period**

The following items have been included in arriving at profit for the period

		<b>18 months ended 30 June 2012 £000</b>	<b>12 months ended 31 December 2010 £000</b>
	<b>Note</b>		
Staff costs	18	116,166	80,305
Cost of inventories recognised as expense		12,311	7,656
Depreciation of property, plant and equipment			
- owned assets		17,180	8,935
- finance lease assets		1,936	57
Amortisation of intangibles		378	286
Loss on disposal of fixed assets		248	179
Exceptional costs (income) (see below)		9,790	(7,598)
Operating lease rentals			
- minimum lease payments		21,490	17,081
- sub lease income		(563)	(506)
Repairs and maintenance expenditure on property, plant and equipment		2,170	1,362

Audit fees have been borne by a parent company, Rank Group Gaming Division Limited

The analysis of the exceptional items during the period is as follows

		<b>18 months ended 30 June 2012 £000</b>	<b>12 months ended 31 December 2010 £000</b>
Exceptional operating income			
Reversal of impairment on property, plant and equipment	7	(737)	-
Reversal of provision for onerous lease	14	(573)	-
VAT refund		-	(4,024)
VAT partial exemption accrual release		-	(4,481)
		(1,310)	(8,505)
Exceptional operating costs			
Net loss on club closures and disposals		1,083	582
Impairment charge on property, plant and equipment	7	1,522	-
Provision for onerous leases	14	1,147	325
Write off of Investments	8	7,348	-
		11,100	907
Total exceptional operating cost (income)		9,790	(7,598)

## **GROSVENOR CASINOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **2. Profit for the period (continued)**

##### **18 months ended 30 June 2012**

The company has impaired the carrying value of its investment in two of its subsidiary undertakings by £7,348,000 consequent to their being struck off (see note 8)

The Company recognised an impairment charge of £1,522,000 on five individual clubs. The only individually significant charge was £816,000 in respect of the E-casino in Liverpool. This club had not performed in line with expectations and closed on 15 February 2012. The Company also reversed previous impairment charges of £737,000 in respect of the casino in Cardiff where performance has seen a sustained improvement following the successful conversion to the G-Casino concept.

The Company has incurred a charge of £1,147,000 in respect of unavoidable rental payments resulting from the restructuring activities outlined below. The Company also released £573,000 of onerous lease obligations following the favourable settlement of a number of lease obligations arising from previously closed clubs.

The Company also recognised a further exceptional cost of £1,083,000 relating to the closure of three casinos. The cost includes the creation of restructuring provisions of £908,000.

##### **12 months ended 31 December 2010**

On 21 May 2010, the Company received £4,024,000 in overpaid VAT from HMRC. The repayment covers VAT paid on amusement machines (between 2002 and 2005). The claim concerns the inconsistent application of VAT to revenue and it is the Company's contention that this practice contravenes the European Union principle of fiscal neutrality. On 7 June 2010, the Company received £657,000 of interest in respect of the repayment. The repayment follows successive rulings in the Company's favour in both the First-tier Tribunal's tax chamber (formerly the VAT and Duties Tribunal) and the Upper Tribunal. HMRC appealed these rulings and the claim was referred to the European Court of Justice (ECJ).

On 10 November 2011, the ECJ released its findings on the Group's VAT case on fiscal neutrality. However, the ECJ's decision on the amusement machines claim was not conclusive and therefore referred back to the UK courts. If HMRC is successful in its appeal, the Company will be required to return the payment with interest (see note 22).

Details of the exceptional finance income and taxation related to the VAT refunded are disclosed in notes 3 and 4 respectively.

The Company has been in negotiation with HMRC for several years on the means by which it calculates the amount of irrecoverable VAT. Since July 2007, the Company has accounted for irrecoverable VAT on the basis that HMRC were correct. As a result, the amount of irrecoverable VAT suffered by the Company exceeded the amount that the Company believed was due. In 2010, the point of dispute between the Company and HMRC was the subject of litigation by another, similar, taxpayer. In that case, the First-tier Tribunal and the Upper Tribunal have ruled that HMRC's position was incorrect. While HMRC have appealed, precedent case law indicates that the Company's position is correct and on that basis the irrecoverable VAT accrual was reduced by £4,481,000. In the event this was the case, the Group would have to pay the VAT in dispute (see note 22).

The Company also recognised an exceptional loss of £582,000, together with an associated increase of £325,000 in the provision for onerous leases, following the closure of one casino at Hove, East Sussex.

**GROSVENOR CASINOS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**3. Financing**

	18 months ended 30 June 2012 £000	12 months ended 31 December 2010 £000
<b>Finance income</b>		
Interest receivable from Group companies	2,247	984
Exceptional finance income	-	657
Dividend income	7,655	-
<b>Total</b>	<u>9,902</u>	<u>1,641</u>

The exceptional finance income in the prior period relates to the exceptional VAT refund disclosed in note 2

**Finance costs**

Interest payable on finance leases	(570)	(121)
Preference dividends payable	-	(21)
Unwinding of discount in provisions	(55)	(45)
<b>Total</b>	<u>(625)</u>	<u>(187)</u>

**4. Taxation**

	18 months ended 30 June 2012 £000	12 months ended 31 December 2010 £000
<b>Current tax</b>		
UK corporation tax in respect of current period	6,920	11,193
Adjustment in respect of prior years	(2,373)	18
Total current tax	4,547	11,211
<b>Deferred tax</b>		
Origination and reversal of timing differences	2,832	(2,205)
Deferred tax adjustment	(1,552)	(365)
Adjustment in respect of prior years	2,144	(19)
Total deferred tax	3,424	(2,589)
<b>Tax charge in the income statement</b>	<u>7,971</u>	<u>8,622</u>

In the prior year, current tax on exceptional items includes a tax charge of £1,126,000 relating to VAT refunds, a £1,256,000 tax charge on the release of the VAT accrual and a tax credit of £166,000 relating to club closures



**GROSVENOR CASINOS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**4 Taxation (continued)**

The tax on the Company's profit before tax differs from the standard rate of UK corporation tax in the period of 26.0% (2010 28.0%). The differences are explained below

	18 months ended 30 June 2012 £000	12 months ended 31 December 2010 £000
Profit before tax	35,282	29,684
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.0% (2010 28.0%)	9,173	8,312
Effects of		
Expenses not deductible for tax purposes	2,569	676
Income not subject to tax	(1,990)	-
Deferred tax adjustment (see below)	(1,552)	(365)
Adjustment in respect of prior years	(229)	(1)
<b>Tax charge in the income statement</b>	<b>7,971</b>	<b>8,622</b>

On 23 March 2012, the Chancellor of the Exchequer announced the reduction in the main rate of UK corporation tax to 24.0% with effect from 1 April 2012. This change was enacted on 26 March 2012 under the Provisional Collection of Taxes Act 1968. The effect of the rate reduction creates a reduction in the net deferred tax asset. The above numbers are shown net of a deferred tax credit of £1,552,000 resulting from the reduction in the headline UK corporation tax rate from 26% to 24% applicable at the balance sheet date of 30 June 2012.

On 23 March 2012 the Chancellor of the Exchequer also announced the reduction in the main rate of UK corporation tax to 23% for the year starting 1 April 2013 and a further 1% reduction to 22% in April 2014. On 5 December 2012 the Chancellor of the Exchequer also announced the further reductions in the main rate of UK corporation tax to 21% for the year starting 1 April 2014. The proposed rate reduction will reduce the amount of cash tax payments to be made by the Company.

**5. Impairment review of intangible assets**

The carrying value of indefinite life casino licences as at 30 June 2012 was £69,281,000 (at 31 December 2010 £69,281,000).

The inherent value of casino licences is deemed to be an intrinsic part of the value of the operation of casinos as a whole and is therefore not split out from each Grosvenor casino in an impairment review. Each Grosvenor casino has been treated as a separate CGU, and tested for impairment on that basis. The recoverable amount of each Grosvenor casino, including the licence, has been determined based on the higher of fair value less costs to sell and value in use. The value in use has been determined using cash flow projections, over the length of the associated lease or 50 years for freehold properties, based on the Company's budget for 2012-13, the Company's strategic plan for the following two years and a growth rate of 2.0% (2010 2.0%) thereafter. Both the Company's budget and strategic plan have been approved by the board of directors. Estimates of the fair value less costs to sell are performed internally by experienced senior management supported by knowledge of similar transactions or, where applicable, offers received.

The key assumptions in the calculation of value in use are customer visits, spend per visit, casino duty, competition and the discount rate. Customer visits are the number of discrete visits by members to the casino and have been based on historic trends. Spend per visit comprises the average amount of money (net of winnings) spent per visit on gaming tables, machines and food and beverages. This has also been determined by historic trends. Casino duty is levied in bands of between 15% and 50% depending upon the level of gaming win at each casino. The bands and rates have been assumed to remain at current levels without indexation.

**GROSVENOR CASINOS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**5. Impairment review of intangible assets (continued)**

As a result of the impairment review, the directors do not believe the carrying value of the casino licences to be impaired. However, there are possible changes in key assumptions that could cause the carrying value of individual licences to exceed their recoverable amount. These are

<b>Key Factors</b>	<b>Key assumption impacted</b>
Increased or improved competition	Customer visits
Poor or decreased promotional activity	Customer visits
Failure to respond to technological advances	Customer visits, Spend per visit
Deterioration in economic conditions	Customer visits, Spend per visit
Changes in regulation	Customer visits, Spend per visit
Changes in taxation	Casino duty

With the exception of a prolonged non-operation of a UK casino licence arising from one or more of the possible changes outlined above, the directors do not believe that there are any reasonably possible changes to the key assumptions that would result in a material impairment of a UK casino licence.

**6 Intangible assets**

	<b>Computer software</b>	<b>Casino licences</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost</b>			
At 1 January 2010	2,222	78,232	80,454
Additions	79	-	79
Disposals	(21)	-	(21)
<b>At 31 December 2010</b>	<b>2,280</b>	<b>78,232</b>	<b>80,512</b>
Additions	203	-	203
Disposals	(56)	-	(56)
<b>At 30 June 2012</b>	<b>2,427</b>	<b>78,232</b>	<b>80,659</b>
<b>Aggregate amortisation and impairment</b>			
At 1 January 2010	(1,591)	(8,951)	(10,542)
Charge for the year	(286)	-	(286)
Disposals	21	-	21
<b>At 31 December 2010</b>	<b>(1,856)</b>	<b>(8,951)</b>	<b>(10,807)</b>
Charge for the period	(378)	-	(378)
Disposals	22	-	22
<b>At 30 June 2012</b>	<b>(2,212)</b>	<b>(8,951)</b>	<b>(11,163)</b>
<b>Net book value</b>			
<b>At 31 December 2009</b>	<b>631</b>	<b>69,281</b>	<b>69,912</b>
<b>At 31 December 2010</b>	<b>424</b>	<b>69,281</b>	<b>69,705</b>
<b>At 30 June 2012</b>	<b>215</b>	<b>69,281</b>	<b>69,496</b>

**GROSVENOR CASINOS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**7. Property, plant and equipment**

	Freehold land and buildings	Leasehold land and buildings	Fixtures, fittings, plant and machinery	Total
	£000	£000	£000	£000
<b>Cost</b>				
At 1 January 2010	10,254	24,783	105,147	140,184
Additions	223	1,545	17,294	19,062
Inter group transfer	-	-	(42)	(42)
Disposals	-	(351)	(1,285)	(1,636)
<b>At 31 December 2010</b>	<b>10,477</b>	<b>25,977</b>	<b>121,114</b>	<b>157,568</b>
Additions	61	2,751	39,841	42,653
Inter group transfer	10	(11)	(56)	(57)
Disposals	-	(1,030)	(2,688)	(3,718)
<b>At 30 June 2012</b>	<b>10,548</b>	<b>27,687</b>	<b>158,211</b>	<b>196,446</b>
<b>Aggregate depreciation and impairment</b>				
At 1 January 2010	(5,685)	(10,864)	(54,426)	(70,975)
Charge for the year	(40)	(856)	(8,096)	(8,992)
Inter group transfer	-	-	37	37
Disposals	-	195	934	1,129
<b>At 31 December 2010</b>	<b>(5,725)</b>	<b>(11,525)</b>	<b>(61,551)</b>	<b>(78,801)</b>
Charge for the period	(71)	(1,398)	(17,647)	(19,116)
Impairment charge (see note 2)	(170)	(105)	(1,247)	(1,522)
Impairment reversal (see note 2)	-	143	594	737
Disposals	-	1,026	2,428	3,454
<b>At 30 June 2012</b>	<b>(5,966)</b>	<b>(11,859)</b>	<b>(77,423)</b>	<b>(95,248)</b>
<b>Net book value</b>				
<b>At 31 December 2009</b>	<b>4,569</b>	<b>13,919</b>	<b>50,721</b>	<b>69,209</b>
<b>At 31 December 2010</b>	<b>4,752</b>	<b>14,452</b>	<b>59,563</b>	<b>78,767</b>
<b>At 30 June 2012</b>	<b>4,582</b>	<b>15,828</b>	<b>80,788</b>	<b>101,198</b>

Assets held under finance leases are capitalised and included in leasehold land and buildings and fixtures, fittings, plant and machinery

**Assets held under finance leases**

	At 30 June 2012 £000	At 31 December 2010 £000
Cost	10,290	2,007
Aggregate depreciation and impairment	(3,195)	(1,172)
<b>Net book value</b>	<b>7,095</b>	<b>835</b>

Fixtures, fittings, plant and machinery include assets held under finance leases with a net book value of £6.4m (12 months ended 31 December 2010 nil). Leasehold land and buildings include buildings held under finance leases with a net book value of £0.7m (12 months ended 31 December 2010 £0.8m).

**GROSVENOR CASINOS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**8. Investment in subsidiaries**

	<b>Investments</b>
	<b>£000</b>
<b>Cost</b>	
At 1 January 2010 and 31 December 2010	14,785
Disposal	<u>(14,276)</u>
	<u>509</u>
<b>Impairment</b>	
At 1 January 2010 and 31 December 2010	(6,942)
Disposal	<u>6,928</u>
<b>At 30 June 2012</b>	<u>(14)</u>
<b>Net book value</b>	
<b>At 31 December 2009</b>	<u>7,843</u>
<b>At 31 December 2010</b>	<u>7,843</u>
<b>At 30 June 2012</b>	<u>495</u>

At 30 June 2012, the Company owned directly 100% of the ordinary share capital and voting rights of Kingsway Casinos Limited, a dormant company. Kingsway Casinos Limited is incorporated and registered in England and Wales.

At 31 December 2010 the Company held investments in Society Club (Swansea) Limited, Casino Royale Club (Newcastle) Limited and Zealcastle Limited. During the period these companies were struck off and consequently the Company's investment in these companies was written off.

**9. Inventories**

	<b>At 30 June 2012 £000</b>	<b>At 31 December 2010 £000</b>
Finished goods	<u>817</u>	<u>901</u>

There were no write downs of inventory in either period.

**10 Deferred tax**

	<b>At 30 June 2012 £000</b>	<b>At 31 December 2010 £000</b>
Accelerated capital allowances	2,926	8,204
Other temporary differences	412	637
<b>Deferred tax asset</b>	<u>3,338</u>	<u>8,841</u>
Casino licences	(16,627)	(18,706)
<b>Deferred tax liability</b>	<u>(16,627)</u>	<u>(18,706)</u>
<b>Net deferred tax liability</b>	<u>(13,289)</u>	<u>(9,865)</u>
Accelerated capital allowances	(5,278)	1,921
Business combinations	-	12
Casino licences	2,079	692
Other temporary differences	(225)	(36)
<b>Deferred tax (expense) credit in the income statement</b>	<u>(3,424)</u>	<u>2,589</u>

**GROSVENOR CASINOS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**10 Deferred tax (continued)**

The reconciliation of movement in the net deferred tax liability is as follows

Net deferred tax liability at start of period	(9,865)	(12,454)
Deferred tax (expense) credit in the income statement	(3,424)	2,589
<b>Net deferred tax liability at end of period</b>	<b>(13,289)</b>	<b>(9,865)</b>

**11 Other receivables**

	<b>At 30 June 2012 £000</b>	<b>At 31 December 2010 £000</b>
Amounts owed by parent and fellow subsidiary undertakings	141,622	122,862
Other receivables	229	2,159
Prepayments and accrued income	8,481	5,620
<b>Amounts falling due within one year</b>	<b>150,332</b>	<b>130,641</b>

No receivables were impaired at either balance sheet date and accordingly no provision for receivables was held. Other receivables do not contain impaired or past due assets.

The carrying values of receivables are assumed to approximate to their fair value due to the short term nature of the receivables. This includes amounts owed by related undertakings which are unsecured and repayable on demand.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable disclosed above. The Company does not hold any collateral as security.

**12 Financial liabilities**

	<b>At 30 June 2012 £000</b>	<b>At 31 December 2010 £000</b>
Finance lease obligations	1,521	51
<b>Current</b>	<b>1,521</b>	<b>51</b>
Finance lease obligations	6,637	1,447
<b>Non-current</b>	<b>6,637</b>	<b>1,447</b>

**13 Trade and other payables**

	<b>At 30 June 2012 £000</b>	<b>At 31 December 2010 £000</b>
Trade payables	3,534	5,798
Amounts owed to subsidiary undertakings	4,125	8,192
Other tax and social security	13,835	12,718
Accruals	13,678	10,844
Deferred consideration	80	80
<b>Current</b>	<b>35,252</b>	<b>37,632</b>
Other payables	2,675	2,688
Deferred consideration	80	240
<b>Non-current</b>	<b>2,755</b>	<b>2,928</b>

**GROSVENOR CASINOS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**13 Trade and other payables (continued)**

The Company's trade payables are all due within one year. Due to the short term nature of these payables the carrying value equates to the contractual amount due as the impact of discounting is not considered material.

Amounts owed to subsidiary undertakings are repayable on demand and accordingly have no set maturity date. The Company has provided no collateral as security.

On 23 April 2009, the Company acquired the casino at the Ricoh Arena in Coventry from Isle of Capri Limited for a total purchase consideration of £693,000. The consideration included £400,000 of deferred consideration payable in five equal annual instalments on the anniversary of the date of acquisition, £160,000 (2010: £320,000) of the deferred consideration remained outstanding at the period end. No goodwill arose on the acquisition.

**14 Provision for other liabilities and charges**

	<b>Onerous Leases</b>	<b>Restructuring Provision</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 January 2011	1,721	-	1,721
Charged to the income statement	1,147	908	2,055
Utilised in period	(1,413)	(908)	(2,321)
Unwinding of discount	55	-	55
Released to the income statement	(573)	-	(573)
<b>At 30 June 2012</b>	<b>937</b>	<b>-</b>	<b>937</b>

	<b>At 30 June 2012 £000</b>	<b>At 31 December 2010 £000</b>
Current	178	396
Non-current	759	1,325
<b>Total</b>	<b>937</b>	<b>1,721</b>

**Onerous leases** - The Company is party to a number of leasehold property contracts. Provision has been made against those leases where the property or part of a property is now vacant and the unavoidable costs under the lease exceed the economic benefit expected to be derived from potential sub-letting arrangements. Provision has also been made against leases where impairment testing has indicated that, after recognising an impairment charge, the estimated discounted cash flows derived from the property and its associated operations are insufficient to cover the unavoidable lease costs and the lease is therefore deemed onerous. These leases have a weighted average life of 6 years. Provisions have been discounted at a risk free interest rate of 2.5% (2010: 3.5%) where the effect of inflation will have a material impact.

**Restructuring provision** – Details of the restructuring provision are provided in note 2.

**15 Ordinary share capital**

	<b>At 30 June 2012 £000</b>	<b>At 31 December 2010 £000</b>
<b>Authorised, issued and fully paid</b>		
39,000,000 ordinary shares of 100p each	39,000	39,000

**GROSVENOR CASINOS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**16 Cash and cash equivalents**

For the purposes of the Cash Flow statement, cash and cash equivalents comprise the following

	At 30 June 2012 £000	At 31 December 2010 £000
Cash at bank and in hand	18,545	16,689

**17. Cash generated from operations and acquisition of business**

	18 months ended 30 June 2012 £000	12 months ended 31 December 2010 £000
Reconciliation of operating profit to cash generated from operations		
Operating profit	26,005	28,230
Exceptional items	9,790	(7,598)
Cash utilisation of provisions	(2,314)	(593)
Depreciation and amortisation	19,494	9,278
Net cash receipts in respect of exceptional items	-	4,024
Loss on sale of asset	38	
Decrease in working capital	338	894
<b>Cash generated from operations</b>	<b>53,351</b>	<b>34,235</b>

**18. Employees and directors**

	18 months ended 30 June 2012 £000	12 months ended 31 December 2010 £000
<b>Employee benefit expense during the period</b>		
Wages and salaries	105,287	72,098
Social security costs	9,328	7,325
Other pension costs	1,536	824
Share based payments	15	58
<b>Total</b>	<b>116,166</b>	<b>80,305</b>

The average monthly number of employees in the period was 3,917 (12 months ended 31 December 2010 3,562)

	18 months ended 30 June 2012 £000	12 months ended 31 December 2010 £000
<b>Directors</b>		
Aggregate emoluments	1,950	1,232
Company contributions to pension schemes	209	138
<b>Total</b>	<b>2,159</b>	<b>1,370</b>

**Highest paid director**

Aggregate emoluments	886	508
Company contributions to pension schemes	138	92
<b>Total</b>	<b>1,024</b>	<b>600</b>

**GROSVENOR CASINOS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**18 Employees and directors (continued)**

Directors are not paid directly by Grosvenor Casinos Limited. The figures shown represent the proportion of directors' emoluments relevant to the estimated time allocated to Grosvenor Casinos Limited which has been recharged to the Company. No director exercised any share options or made any gains on the exercise of share options in either period. All key management are directors of the Company.

**19 Retirement benefits**

The Company participates in a group defined contribution plan under which the Company pays fixed contributions to a separate entity. Company contributions in the 18 months ended 30 June 2012 were £1,536,000 (12 months ended 31 December 2010: £824,000).

**20. Lease commitments**

(i) Operating leases - The Company has entered into commercial leases on certain properties and items of machinery. The leases have durations between from under one year to 33 years. Future minimum rentals payable under non-cancellable operating leases are as follows:

	At 30 June 2012 £000	At 31 December 2010 £000
Not later than one year	9,932	12,465
After one year but not more than five years	38,175	37,617
After five years	74,981	78,246
Total future minimum rentals payable	<u>123,088</u>	<u>128,328</u>
 Total future minimum sub-lease income expected	 <u>2,505</u>	 <u>1,443</u>

(ii) Finance leases - The minimum lease payments under finance leases, together with the present value of the minimum lease payments, are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	At 30 June 2012 £000	At 31 December 2010 £000	At 30 June 2012 £000	At 31 December 2010 £000
Not later than one year	1,906	172	1,521	51
After one year but not more than five years	6,326	687	5,590	250
After five years	1,731	1,989	1,047	1,197
	<u>9,963</u>	<u>2,848</u>	<u>8,158</u>	<u>1,498</u>
Less future finance charges	(1,805)	(1,350)		
Present value of minimum lease payments	<u>8,158</u>	<u>1,498</u>		
 Total future minimum sub-lease income expected			 <u>7</u>	 <u>2</u>



**GROSVENOR CASINOS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**21 Capital commitments**

	At 30 June 2012 £000	At 31 December 2010 £000
Contracts placed for future capital expenditure but not provided in the financial information	589	968

**22 Contingent liabilities**

On 10 November 2011, the ECJ ruled on the Company's amusement machines claim in relation to the application of VAT to certain types of amusement machines contravening the European Unions principle of fiscal neutrality. In May 2010, the Company received £4,681,000 (VAT of £4,024,000 plus interest of £657,000) relating to a claim for repayment of overpaid VAT on amusement machines. The ECJ's decision on the Company's claim was not conclusive and was therefore referred back to the UK courts. The Company anticipates that it will take approximately one year for this litigation to be settled, and is currently taking advice on its options.

The Company has been in negotiation with HMRC for several years on the means by which it calculated the amount of irrecoverable VAT. The difference in the Company's position as against HMRC's position for the period under negotiation (July 2007 to July 2012) amounts to an estimate of £8.8m.

The point of dispute between the Company and HMRC was the subject of litigation by another, similar, taxpayer. In that case, the Court of Appeal ruled that HMRC's position was incorrect. This was the latest in a string of appeals on this project. Precedent case law indicated that the Company's position is correct and on that basis the irrecoverable VAT charge has been adjusted accordingly. In the event this was the case, the Company would have to pay the VAT in dispute (see above) plus interest.

**23 Financial assets and liabilities**

The accounting policies for financial assets have been applied to the line items below

	<b>Loans and receivables</b>	
	At 30 June 2012 £000	At 31 December 2010 £000
Trade and other receivables	141,622	122,862
Cash at bank and in hand	18,545	16,689
Total	160,167	139,551

The accounting policies for financial liabilities have been applied to the line items below

	<b>Other financial liabilities</b>	
	At 30 June 2012 £000	At 31 December 2010 £000
Finance lease obligations	8,158	1,498
Onerous leases	937	1,721
Trade and other payables	26,436	27,842
Total	35,531	31,061

## **GROSVENOR CASINOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **24. Financial risk management**

The Company's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk. However, as a wholly owned subsidiary of The Rank Group Plc many of these risks are combined on a group basis and managed by a centralised treasury team. The treasury team identifies, evaluates and hedges financial risk in close co-operation with the Company and with the overall aim to minimise potential adverse effects on performance.

##### **Market risk**

###### **(i) Foreign currency risk**

The Company's operations are all located in the UK and transacted in UK Sterling. Accordingly the Company has no foreign exchange risk arising from foreign currency exposures.

###### **(ii) Cash flow and fair value interest rate risk**

The Company's interest rate risk arises from loan balances between related parties and on finance leases. Interest on the related party loans is fixed annually by the central treasury team at the commencement of each financial period, and all finance leases are at fixed rates of interest.

As a result of no significant foreign exchange or interest rate risk exposure of financial instruments on an entity level, changes in the risk variables are not considered to have a significant effect on the Company's income statement or equity.

##### **Credit risk**

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions and outstanding receivables (including amounts owed by related undertakings).

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the finance director, and may be updated throughout the period subject to the approval of the group's finance committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

The creditworthiness of each counterparty is checked against independent credit ratings on at least a weekly basis, with a minimum rating of 'BBB' required.

No credit limits were exceeded during the period and management does not expect any loss from non-performance of its counterparties.

All retail sales are settled by cash or using major credit cards. There were no material balances outstanding at either balance sheet date.

The Company is exposed to credit risk on amounts owed by related undertakings. The performance of all subsidiary undertakings of The Rank Group Plc are monitored at group level, including frequent projections of future performance to ensure funding to related undertakings provide a suitable return to the group and remain recoverable. Where losses are forecast actions are taken to mitigate the loss and maximise the recoverability of receivables. Further credit quality information on trade and other receivables is disclosed in note 11.

##### **Liquidity risk**

The Rank Group Plc manages the liquidity risk of its subsidiaries on a Group basis. Regular cash forecasts, which include forecasts of the Company, are produced to identify the liquidity requirements of the Group. The cash forecasts are sensitivity tested for different scenarios and are reviewed regularly to ensure sufficient headroom exists for at least a 12 month period.

Due to the dynamic nature of the business, the central treasury team aim to maintain flexibility in funding by keeping committed credit lines available. A four year strategic forecast is prepared annually to facilitate planning for future financing needs. Management actively manages the group's financing requirements and the range of maturities on its debt.

The Group's core debt facility is a £80.0m (2010: £300.0m) bank facility comprising four £20.0m bi-lateral bank facilities which expire in January 2017. The funding policy of the group is to maintain, as far as practicable, a broad portfolio of debt diversified by source and maturity, and to maintain committed facilities sufficient to cover seasonal peak anticipated borrowing requirements.

## **GROSVENOR CASINOS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **24 Financial risk management (continued)**

##### **Capital risk management**

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. The Company defines shareholders' equity as capital and aims to maintain positive equity. In order to monitor the capital structure the Company performs regular forecasts and carries out an annual strategic plan for the next four years. The Company may pay dividends, return capital to shareholders or issue new shares to adjust capital.

#### **25 Parent undertakings and related party transactions**

The Company's immediate parent undertaking is Rank Gaming Group Limited. Prior to 3 March 2011 the Company's immediate parent undertaking was Rank Group Gaming Division Limited. Both of these companies are incorporated in England and Wales.

Until 6 June 2011, the ultimate parent undertaking was The Rank Group Plc, a company incorporated and registered in England and Wales. On 7 June 2011 Guoco Group Limited (Guoco), a company incorporated in Bermuda, and listed on the Hong Kong stock exchange, acquired a controlling interest in The Rank Group Plc. The ultimate parent undertaking of Guoco, and consequently the ultimate parent undertaking of the Company from 7 June 2011, is Hong Leong Company (Malaysia) Berhad (Hong Leong), which is incorporated in Malaysia.

The Rank Group Plc, was the parent undertaking of the smallest group to consolidate these financial statements. Copies of The Rank Group Plc consolidated financial statements can be obtained from [http://www.rank.com/downloads/annual\\_reports/2012/annual\\_report\\_and\\_financial\\_statements\\_2012.pdf](http://www.rank.com/downloads/annual_reports/2012/annual_report_and_financial_statements_2012.pdf) or by written request to the Company Secretary at Statesman House, Stafferton Way, Maidenhead, Berkshire, SL6 1AY. Hong Leong is the parent undertaking of the largest group to consolidate these financial statements (from the date Hong Leong became the ultimate parent undertaking).

Amounts due from the immediate parent and fellow subsidiary undertakings are unsecured, repayable on demand and incurred interest at 1.13% (2010 0.75%). Amounts owed to subsidiary undertakings are unsecured, repayable on demand and interest free.

Details of compensation of key management are disclosed in note 18.