

ANNUAL REPORT AND FINANCIAL
STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2019

MEGABET UK LTD

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MEGABET UK LTD

COMPANY INFORMATION

Directors	I Blackburn N D Burt (appointed 24 April 2019) C S Elsey (appointed 5 November 2019)
Company secretary	I Blackburn
Registered number	2050734
Registered office	Pinetree Business Centre Pinetree Centre Durham Road Birtley Chester Le Street DH3 2TD
Independent auditor	Menzies LLP Chartered Accountants & Statutory Auditor Lynton House 7-12 Tavistock Square London WC1H 9LT

MEGABET UK LTD

CONTENTS

	Page
Strategic Report	3 - 4
Directors' Report	5 - 6
Independent Auditor's Report	7 - 9
Statement of Comprehensive Income	10
Statement of Financial Position	11
Statement of Changes in Equity	12
Notes to the Financial Statements	13 - 28

MEGABET UK LTD

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Principal activities

The principal activity of the group during the year under review was that of off-course bookmaking.

Business review

2019 was a year of substantial change for the industry and for Megabet in particular. However, despite challenging conditions, Megabet undertook a successful restructuring and ended the year with a smaller, but profitable and cash-generative estate of 42 shops (2018: 90).

In March 2019 a change of control ended more than 40 years of family ownership. Thanks and best wishes are due to the departing Fisher family.

Legislative changes to the maximum stakes on Fixed Odds Betting Terminals in April 2019 produced mass closures and rationalisation across the industry. Megabet started the year with a tail of loss-making shops which acted as a drag on the profitability of the core business. It was clear that the legislation change would severely strain the viability of the Company.

Bet 21 Ltd acquired the business on the eve of the April changes. After a subsequent review of all available strategies it was considered that a Company Voluntary Arrangement (CVA) was the only viable option. During the July process of closing 45 loss-making shops with onerous leases we lost a lot of hard-working friends and colleagues, but crucially were able to maintain the support of key business partners and suppliers.

The outcome of the CVA was a smaller, but profitable, cash-generative shop estate creating the foundation for future organic and acquisition growth. The approval of the CVA has subsequently allowed the company's management team to focus on implementing an operational plan which led to significantly improved financial performance.

The 2019 accounts are a hybrid of the difficult conditions before the CVA, the impact of the CVA with an exceptional reversing of provisions, and a very successful post-CVA period of trading that provides the Board with much reason for optimism.

Principal risks and uncertainties

Covid-19

As part of the Government Covid-19 restrictions on leisure businesses, Megabet temporarily closed all forty-two shops on 20th March 2020 and furloughed staff. As with all businesses, the unprecedented uncertainty of when and how the Covid-19 crisis will end produces financial risk.

However, existing cash resources, Government support & initiatives, cost-cutting and temporary re-negotiating of contracts have provided Megabet with a sustainable position for the short and medium term position. The Board continue to closely monitor and assess the developments.

Financial Risk management

The Company's principal financial instruments comprise cash and cash equivalents. The directors do not consider that there is any significant credit risk due to the cash nature of the business.

In order to maintain liquidity and have funding available for future developments the company maintains surplus funds in readily accessible bank and deposit accounts.

MEGABET UK LTD

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Principal risks and uncertainties (continued)

Bookmaking Risk management

To maximise profits and minimise financial risk, the company actively manages trading risk by maintaining staking limits to levels appropriate to our size of business. The betting patterns of high-risk customers are monitored and reviewed at regular periods. A strategic review of trading policies resulted in the dual benefit of reducing volatility and increasing margins in the second half of the year.

Being cognisant that we are primarily a cash-based business, we have integrated a wide range of security tools into our business processes to minimise the opportunity for customer or staff fraud.

The company has installed high quality alarms, CCTV and other physical security features to help protect the welfare of staff and customers from physical security breaches.

Competitor risk

Whilst the Company faces strong competition on the High Street from the National Bookmakers, we remain confident in our ability to provide a highly competitive offering for our customers. The Board and senior management constantly monitor and review the strategic and promotional activity of our peers and have the ability to react quickly to any significant changes.

The continued growth of the internet and mobile betting platforms provides a threat to business levels within the shop estate. Rolling-year trends and comparatives are routinely measured and the board remain vigilant for new ideas and technologies that will improve the experience of our retail customers.

Business environment and outlook

The continued rationalisation within the industry – very likely to be exacerbated by the Covid-19 crisis – will present opportunities for organic and acquisition growth.

The successful CVA in July 2019 has significantly improved the profitability of the shop estate and with new ownership and strategies it has positioned the company to benefit from such opportunities when they arise.

Financial key performance indicators

The board consider EBITDA and cash generation to be key financial performance measures. Whilst 2019 was a year of restructuring, the Board are satisfied that very good progress has been made during difficult trading conditions.

EBITDA in 2019 was £3.39m (£1.0m loss in 2018).

Other key performance indicators

In addition to the financial key performance indicators, Megabet are committed to supporting, managing and measuring compliance to the Gambling Commission's three key licensing objectives:

- Keep crime out of gambling,
- Ensure gambling is conducted fairly and openly, and
- Protect children and vulnerable people from being harmed or exploited by gambling.

The objectives are incorporated into training and working practices and compliance monitored by senior management on a routine and regular basis.

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

I Blackburn

Director

Date: 1 May 2020

MEGABET UK LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, 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 year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to 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.

Results and dividends

The profit for the year, after taxation, amounted to £3,000,824 (2018 - loss £1,846,774).

No ordinary dividends were paid. The directors do not recommend payment of a further dividend.

Directors

The directors who served during the year were:

S D Fisher (resigned 28 March 2019)
A P Fisher (resigned 28 March 2019)
E McCormick (resigned 24 April 2019)
I Blackburn
N D Burt (appointed 24 April 2019)
C S Elsey (appointed 5 November 2019)

Engagement with employees

We update our employees on a regular basis on business developments through formal Quarterly Business Meetings with Regional Managers, off-site training meetings, intranet publications, updates and newsletters.

Disabled employees

In accordance with our Equal Opportunities Policy, we recruit, train and develop employees who meet the requirements of the job role regardless of gender, ethnic origin, age, religion, sexual orientation or disability. The policy recognises that people with disabilities can often be denied a fair chance at work because of misconceptions about their capabilities and seeks to enhance the opportunities available by attempting, wherever possible, to overcome obstacles, such as the need to modify equipment, restructure jobs or to improve access to premises, provided such action does not compromise health and safety standards.

MEGABET UK LTD

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

Matters covered in the strategic report

The Company has chosen in accordance with Section 414C(II) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 to set out within the Company's Strategic Report, the information required by Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulation 2008. This include information that would have been included in the business review, details of the principal risks and uncertainties.

Disclosure of information to auditor

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The auditor, Menzies LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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

I Blackburn
Director

Date: 1 May 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MEGABET UK LTD

Opinion

We have audited the financial statements of Megabet UK Ltd (the 'Company') for the year ended 31 December 2019, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council'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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the 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.

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

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MEGABET UK LTD (CONTINUED)

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the 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 the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept, 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.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MEGABET UK LTD
(CONTINUED)**

Use of our report

This report is made solely to the Company's members 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 for our audit work, for this report, or for the opinions we have formed.

Robin Hopkins FCA (Senior Statutory Auditor)
for and on behalf of

Menzies LLP
Chartered Accountants
Statutory Auditor
Lynton House
7-12 Tavistock Square
London
WC1H 9LT

1 May 2020

MEGABET UK LTD

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £	2018 £
Gross amounts wagered		<u>93,735,597</u>	<u>143,812,313</u>
Turnover	4	16,769,234	24,954,630
Cost of sales		(9,539,266)	(15,782,948)
Exceptional cost of sales		-	(1,351,491)
Gross profit		<u>7,229,968</u>	<u>7,820,191</u>
Administrative expenses		(7,440,813)	(9,778,234)
Exceptional administrative expenses		(427,850)	-
Other operating income	5	130,961	189,427
Exceptional other operating income		3,414,777	-
Operating profit/(loss)	6	<u>2,907,043</u>	<u>(1,768,616)</u>
Amounts written off investments		243,981	114,513
Interest receivable and similar income	10	2,130	4,569
Interest payable and expenses	11	(152,330)	(197,240)
Profit/(loss) before tax		<u>3,000,824</u>	<u>(1,846,774)</u>
Profit/(loss) for the financial year		<u><u>3,000,824</u></u>	<u><u>(1,846,774)</u></u>

There was no other comprehensive income for 2019 (2018:£NIL).

The notes on pages 13 to 28 form part of these financial statements.

MEGABET UK LTD
REGISTERED NUMBER:2050734

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 £	2018 £
Fixed assets			
Intangible assets	14	419,907	457,545
Tangible assets	15	1,158,939	1,748,586
Investments	16	-	340,671
		1,578,846	2,546,802
Current assets			
Stocks		16,832	32,567
Debtors: amounts falling due within one year	17	1,223,721	1,390,875
Cash at bank and in hand		1,465,627	2,777,581
		2,706,180	4,201,023
Creditors: amounts falling due within one year	18	(1,559,224)	(4,258,097)
Net current assets/(liabilities)		1,146,956	(57,074)
Total assets less current liabilities		2,725,802	2,489,728
Creditors: amounts falling due after more than one year	19	(358,334)	-
Provisions for liabilities			
Other provisions	20	(752,135)	(3,875,219)
		(752,135)	(3,875,219)
Net assets/(liabilities)		1,615,333	(1,385,491)
Capital and reserves			
Called up share capital	21	124	124
Profit and loss account	22	1,615,209	(1,385,615)
		1,615,333	(1,385,491)

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

I Blackburn
 Director
 Date: 1 May 2020

The notes on pages 13 to 28 form part of these financial statements.

MEGABET UK LTD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2018	124	461,159	461,283
Loss for the year	-	(1,846,774)	(1,846,774)
At 1 January 2019	124	(1,385,615)	(1,385,491)
Profit for the year	-	3,000,824	3,000,824
At 31 December 2019	124	1,615,209	1,615,333

The notes on pages 13 to 28 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. General information

Megabet UK Ltd. ("the company") is a private company limited by shares and is registered and incorporated in England and Wales. The address of the registered office is given on the company information page. The principal activity of the company and the nature of its operations are set out in the strategic report on page 1.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

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

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Bet 21 Limited as at 31 December 2019 and these financial statements may be obtained from Companies House.

2.3 Going concern

The Company produced a profit for the financial year of £3m after exceptional items (2018: 1.8m loss). At the year end the Company has net current assets of £1.1m (2018: £57k net current liabilities) and on the same date it's total assets exceeded total liabilities including provisions by £1.6m (2018: total liabilities exceeded total assets by £1.3m).

Following the successful CVA in July 2019, the Company has traded profitably and forecasts for 2020 were to further improve profitability and strengthen the balance sheet. The Directors have been very satisfied with the progress made.

In common with businesses around the world, the Covid-19 outbreak and the subsequent temporary closure of our 42 shops provides uncertainty and significantly impacts the forecasts. However, Megabet entered into the period of stricter social distancing in late March 2020 in good financial health and with available cash resources.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

Going concern (continued)

To minimise the business risk the Company has furloughed retail & support staff and taken full advantage of the UK government initiatives of business rates holidays and the leisure property grants in all 42 locations. These schemes are available immediately to Megabet and in aggregate provide a substantial level of cash support to the Company. In addition, key contracts have been renegotiated and short-term costs reduced where possible.

The Directors are currently assessing the need for application to the Coronavirus Business Interruption Loan scheme (CBILS) through Santander. Megabet has a long history of good working relationships with Santander. Given the strong fundamentals of the restructured business, the Directors are confident that any application would be viewed favourably by Santander.

Planning and preparations are underway for the return of business when the Covid-19 lockdown restrictions are eased. The Directors recognise that varying degrees of social distancing are likely to be required for a significant time and steps are being taken to safeguard staff and customers. This will enable our shops to reopen safely at the earliest opportunity, even taking into account that continuing social distancing measures may be required. The Directors believe that this people-first approach is also the best way to rebuild business and cash levels.

The uncertainty of how and when the Covid-19 virus will be controlled creates an unsure future for all, but the Megabet Board believe that with existing cash resources, government initiatives and the continued support of suppliers that the Business is well-placed and viable for current expectations of the outbreak. They have prepared flexible cash models to provide themselves comfort in the regard, and on the basis of their review of this information they anticipate that the Company will trade as a Going Concern for the foreseeable future and at least 12 months from the date of approval of these financial statements.

Having taken into consideration all of the above factors, the Directors have prepared the Accounts on a Going Concern basis.

2.4 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.5 Revenue

Revenue represents stakes received by the company in respect of bookmaking transactions placed on events which occurred before the period end, less the amounts paid to winning customers.

Stakes received are not recognised as turnover until the result of the event(s) on which the stake is placed is known. The amount is included as deferred income until this time. The policy is considered reasonable as it matches the stake with any payout made.

2.6 Operating leases: the Company as lessee

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

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.7 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

2.8 Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

2.9 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.10 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.11 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the Company but are presented separately due to their size or incidence.

2.12 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Statement of Comprehensive Income over its useful economic life.

Other intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

The estimated useful lives range as follows:

Goodwill	-	5	years
Licences	-	10	years

2.13 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

MEGABET UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.13 Tangible fixed assets (continued)

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold property	-	2%
Leasehold property	-	Over the lease period
Motor vehicles	-	25%
Fixtures and fittings	-	12.5-20%
Computer equipment	-	25-50%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

2.14 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

2.15 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in listed company shares are remeasured to market value at each Statement of Financial Position date. Gains and losses on remeasurement are recognised in profit or loss for the period.

2.16 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. Accounting policies (continued)

2.17 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

2.18 Onerous leases

Where the unavoidable costs of a lease exceed the economic benefit expected to be received from it, a provision is made for the present value of the obligations under the lease.

2.19 Financial instruments

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

MEGABET UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of the accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates. The key estimates and assumptions used in these consolidated accounts are set out below.

Taxation

The company establishes provisions based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provision is based on various factors, such as experience with previous tax submissions. Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment if the effect of future tax planning strategies.

Provisions against underperforming shops

Each Megabet shop is considered to be a Cash Generating Unit (CGU) for the group as they are able to generate revenue individually. Each CGU is assessed at each period end to ascertain whether there are any indications of impairment or whether onerous lease provisions are required. These calculations are based on the future cash flow projections of each shop on an individual basis, based on management's best estimations from their prior knowledge of each shops and the expected performance going forward.

Dilapidations

Each shop that has an ongoing lease has been allocated a provision against dilapidations that it is contractually to pay for at the end of its lease period. There is a proportion of estimation and uncertainty over the amounts that will be eventually be paid, however management have provided for amounts based on its prior knowledge and its expectations of amounts to be paid.

Tangible fixed assets

Tangible fixed assets are depreciated over their useful lives by taking into accounts residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. Residual value assessments consider issues such as the remaining life of the asset and projected disposal values.

4. Turnover

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

	2019 £	2018 £
Gross amounts wagered	93,735,597	143,812,313
Less amounts paid on winning bets	(76,966,363)	(118,857,683)
	<u>16,769,234</u>	<u>24,954,630</u>

All turnover arose within the United Kingdom.

MEGABET UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

5. Other operating income

	2019 £	2018 £
Other operating income	86,164	98,342
Net rents receivable	44,797	91,085
	<u>130,961</u>	<u>189,427</u>

6. Operating profit/(loss)

The operating profit/(loss) is stated after charging:

	2019 £	2018 £
Exchange differences	4,834	16,531
Other operating lease rentals	1,418,150	2,382,166
Loss (profit) on disposal of tangible and intangible fixed assets	<u>(397,155)</u>	<u>(169,271)</u>

7. Auditor's remuneration

	2019 £	2018 £
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	<u>23,750</u>	<u>23,000</u>

MEGABET UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

8. Employees

Staff costs, including directors' remuneration, were as follows:

	2019 £	2018 £
Wages and salaries	4,670,835	6,444,165
Social security costs	356,954	461,369
Cost of defined contribution scheme	85,105	84,782
	<u>5,112,894</u>	<u>6,990,316</u>

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

	2019 No.	2018 No.
Administration and head office	18	9
Sales	277	421
	<u>295</u>	<u>430</u>

9. Directors' remuneration

	2019 £	2018 £
Directors' emoluments	167,408	298,698
Company contributions to defined contribution pension schemes	5,319	5,392
	<u>172,727</u>	<u>304,090</u>

During the year retirement benefits were accruing to no directors (2018 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £92,544 (2018 - £110,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £10,188 (2018 - £702).

10. Interest receivable

	2019 £	2018 £
Share of joint ventures' interest receivable	-	2,363
Bank interest receivable	2,130	2,206
	<u>2,130</u>	<u>4,569</u>

MEGABET UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

11. Interest payable and similar expenses

	2019 £	2018 £
Bank interest payable	-	48
Other interest payable	152,330	197,192
	<u>152,330</u>	<u>197,240</u>

MEGABET UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

12. Taxation

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2018 - higher than) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019 £	2018 £
Profit/(loss) on ordinary activities before tax	<u>3,000,824</u>	<u>(1,846,774)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	570,157	(350,887)
Effects of:		
Non-tax deductible amortisation of goodwill and impairment	29,320	117,154
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	64,971	26,828
Capital allowances for year in excess of depreciation	3,910	5,620
Profit on disposal of fixed assets	(34,786)	(32,156)
Profit on disposal of investments	(46,356)	-
Changes in provisions leading to an increase (decrease) in the tax charge	(2,690)	(250)
Utilisation of tax losses	(584,526)	-
Unrelieved tax losses carried forward	-	233,691
Total tax charge for the year	<u>-</u>	<u>-</u>

Factors that may affect future tax charges

There were no factors that may affect future tax charges.

MEGABET UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

13. Exceptional items

	2019 £	2018 £
Cost of Sales	-	1,351,491
Administrative expenses	427,850	-
Other operating income	(3,414,777)	-
	<u>(2,986,927)</u>	<u>1,351,491</u>

Cost of Sales exceptional costs relate to onerous lease provisions of £Nil (2018: £848,058) and impairment of assets of £Nil (2018: £503,433) on underperforming shops.

Administrative exceptional costs relate fully to one off redundancy and consultancy costs.

Exceptional other operating income relates to the reversal of prior year provisions for onerous leases (£2,151,605), dilapidations on shops that closed during the year in relation to the CVA (£1,029,284) and the net income following the CVA, made up of the creditors written off, less payments to the CVA fund and other related costs (£233,888).

14. Intangible assets

	Development expenditure £	Computer software £	Goodwill £	Total £
Cost				
At 1 January 2019	-	394,661	5,835,559	6,230,220
Additions	96,000	1,579	-	97,579
Disposals	-	-	(2,576,697)	(2,576,697)
At 31 December 2019	<u>96,000</u>	<u>396,240</u>	<u>3,258,862</u>	<u>3,751,102</u>
Amortisation				
At 1 January 2019	-	76,099	5,696,576	5,772,675
Charge for the year on owned assets	-	51,896	55,929	107,825
On disposals	-	-	(2,549,305)	(2,549,305)
At 31 December 2019	<u>-</u>	<u>127,995</u>	<u>3,203,200</u>	<u>3,331,195</u>
Net book value				
At 31 December 2019	<u>96,000</u>	<u>268,245</u>	<u>55,662</u>	<u>419,907</u>
At 31 December 2018	<u>-</u>	<u>318,562</u>	<u>138,983</u>	<u>457,545</u>

MEGABET UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

15. Tangible fixed assets

	Freehold property £	Leasehold property £	Motor vehicles £	Fixtures and fittings £	Computer equipment £	Total £
Cost or valuation						
At 1 January 2019	310,799	439,445	34,440	4,957,332	1,785,917	7,527,933
Additions	-	-	-	95,751	10,717	106,468
Disposals	(55,200)	(207,282)	-	(2,150,910)	-	(2,413,392)
At 31 December 2019	255,599	232,163	34,440	2,902,173	1,796,634	5,221,009
Depreciation						
At 1 January 2019	50,512	371,457	18,940	3,859,910	1,478,528	5,779,347
Charge for the year on owned assets	4,061	15,115	4,650	233,873	115,802	373,501
Disposals	(17,654)	(173,868)	-	(1,997,644)	-	(2,189,166)
Impairment charge	-	-	-	-	98,388	98,388
At 31 December 2019	36,919	212,704	23,590	2,096,139	1,692,718	4,062,070
Net book value						
At 31 December 2019	218,680	19,459	10,850	806,034	103,916	1,158,939
At 31 December 2018	260,287	67,988	15,500	1,097,422	307,389	1,748,586

MEGABET UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

16. Fixed asset investments

	Investments in subsidiary companies £
At 1 January 2019	340,671
Disposals	(340,671)
At 31 December 2019	-

17. Debtors

	2019 £	2018 £
Trade debtors	8,878	2,546
Amounts owed by group undertakings	788,090	249,556
Other debtors	39,447	337,209
Prepayments and accrued income	387,306	801,564
	<u>1,223,721</u>	<u>1,390,875</u>

18. Creditors: Amounts falling due within one year

	2019 £	2018 £
Trade creditors	246,482	759,056
Other taxation and social security	642,387	1,368,221
Other creditors	335,694	1,456,123
Accruals and deferred income	334,661	674,697
	<u>1,559,224</u>	<u>4,258,097</u>

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

	2019 £	2018 £
Other creditors	358,334	-
	<u>358,334</u>	<u>-</u>

MEGABET UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

20. Provisions

	Dilapidations £	Onerous leases £	Total £
At 1 January 2019	1,674,389	2,200,830	3,875,219
Charged to profit or loss	74,824	77,506	152,330
Released in the year	(1,068,084)	(2,207,330)	(3,275,414)
At 31 December 2019	681,129	71,006	752,135

21. Share capital

	2019 £	2018 £
Allotted, called up and fully paid		
124 (2018 - 124) Ordinary share capital shares of £1.00 each	124	124

22. Reserves

Profit and loss account

This reserve records retained earnings and accumulated losses.

23. Commitments under operating leases

At 31 December 2019 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2019 £	2018 £
Not later than 1 year	721,364	1,807,972
Later than 1 year and not later than 5 years	1,715,681	3,487,689
Later than 5 years	700,877	676,740
	3,137,922	5,972,401

24. Related party transactions

The company is exempt under Paragraph 33.1A of FRS 102 from disclosing related party transactions with entities that are part of the group, where 100% of the voting rights are controlled within the group.

At the year end, Megabet UK Limited owed £1,857 to directors (2018: £1,002,335). No interest is charged on the loan.

MEGABET UK LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

25. Controlling party

The ultimate parent company prior to 28 March 2019 was PFDF Holdings Limited, a company incorporated in Gibraltar, by virtue of its majority shareholding in Megabet UK Ltd.

Following this date and at the year end, the parent and ultimate parent company is Bet 21 Limited.

There is not considered to be one ultimate controlling party.

The parent company of largest and smallest group in which the company's results are consolidated is Bet 21 Limited. Copies of these accounts may be obtained from its registered office, being 2 Jardine House Harrovia Business Village, Bessborough Road, Harrow, Middlesex, HA1 3EX.

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