

Registration number: 03664605

Merlin Cinemas Limited

Annual Report and Financial Statements

for the Year Ended 31 March 2016

Walker Moyle Ltd
Alverton Pavilion
Trewithen Road
Penzance
Cornwall
TR18 4LS



Merlin Cinemas Limited

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Merlin Cinemas Limited

Company Information

Directors	Geoffrey Greaves
Company secretary	Gregory John Adams
Registered office	Savoy Suite 16 Causewayhead Penzance Cornwall TR18 2SN
Auditors	Walker Moyle Ltd Alverton Pavilion Trewithen Road Penzance Cornwall TR18 4LS

Merlin Cinemas Limited

Strategic Report for the Year Ended 31 March 2016

The Director presents his strategic report for the year ended 31 March 2016.

Principal activity

The principal activity of the company is the operation of cinemas.

Fair review of the business

It has been another good year for Merlin Cinemas, we operate cinemas, some with bars and restaurants; across Cornwall, Devon, Norfolk and Gloucestershire, this year we have also acquired the leases of a three screen cinema in Kingsbridge, also in Devon and a modern two screen cinema in Thurso, Caithness, the latter which was in receivership after failing as a business twice. We believe that both these sites will be valuable additions to the Merlin group with the possibility of expanding the business further at Thurso by adding extra screens and therefore improving profitability. We literally operate now from Land's End to John O'Groats and the company continues the ambition to grow our very traditional cinema brand further in the future.

The past year has seen a significant increase in turnover of around 30%, but rising operational costs will continue to present a challenge, average film hire is almost 50% after VAT and PRS, which leaves the business significantly dependent on generating income from sales of popcorn, soft drinks and revenue from our bars and restaurants.

The Merlin Cinemas Movie Magic Card at an annual subscription of £10 generates considerable loyalty to individual cinemas, encouraging regular attendance by saving customers at least £2.50 on every visit. Offering great value, it rewards our regular local cinema goers whilst ensuring that occasional patrons, or those on holiday, who only go if the weather is inclement, pay full price. We believe this has been part of the reason why our admissions have increased above the national trend. Sales of cards increased by 32% during the year and around 40,000 regular customers now have cards.

The company enjoys a good trading relationship with the many distributors we rent films from and the range of new films available to play in our cinemas continues to be varied. 2015-2016 has been another good year for product, however the product available seems to divide between that which is very successful, and those films that achieve barely average, in terms of box-office. It is accepted that around 10% of the film titles released account for almost 90% of the UK box office. The first week of release of new films is frequently responsible for almost 50% of the total take from a film, so week one bookings are in the main very important to us. The popularity of 3D films continues to diminish, we envisage only screening films in 3D for very exceptional films over the coming year, and rarely for family films. The 2016-2017 slate of future films looks every bit as good as this last year with lots of new and original product as well as further instalments of several popular franchises.

The industry continues to usually have an exclusivity window of 16 weeks to exploit a film at the cinema, before it goes onto other formats. This agreed window is important so as to capture the "must see now" audience that would be lost with simultaneous release to cinema and wide spread home on demand availability. Film piracy continues to be a threat, especially with youth appeal films, an audience who are happy to see the film without the cost of going to the cinema. We need to continue to persuade audiences that cinema offers the best place to see a film - which it is all about enjoying the complete experience.

Merlin Cinemas Limited

Strategic Report for the Year Ended 31 March 2016

“Event Cinema”, with live events delivered to audiences by satellite continues to be popular, this facility is now available at all of our cinemas, but the regularity of repeat product, albeit performed by different production companies and the frequency of these shows is seeing a reduction in admissions to individual shows, although overall attendances still remain high and the income from Event Cinema remains largely static. In the coming year we will probably reduce the number of event performances and the number of locations for some events, as customers appear to be willing to travel a distance for these presentations if they appeal.

The Virtual Print Fee arrangement, a financial mechanism that funded the conversion of cinemas to digital projection, continues to work well with fees coming back to the company from the distributors allowing us to continue to pay off our loan to Bell Theatre Services who partly financed our conversion to digital. Two of our locations are now completely free of VPF fees.

ADMIT ONE, our preferred box office system is now fully operational and provides excellent up to date reporting in detail of all of our box office and sales income and some of the operational costs.

Income from admissions and hire, at our live theatre located in the Regal Redruth increased by over 35% this year as audience numbers continue on an upwards trend. This is a very expensive element of our overall operation, it will take continued confidence to invest in this use of the Regal in the belief that eventually the theatre will become profitable. The shows we do put on however drive a considerable spend in the Regal bars and restaurant mitigating some of the direct losses of the cost of booking artists.

Overall our bars and restaurants in our cinemas have had another good year showing 27% growth helped by building an extra 50 cover extension and dual purpose function room upstairs at the Regal. These facilities where we are able to offer them very much enhance the cinema experience and create a one stop destination for a complete night out.

Our concession sales, popcorn, soft drinks, confectionary etc., remain vital to our profitability and increased admissions and improved sales facilities have resulted in a 30% increase in income this year.

Screen advertising revenue has benefitted considerably this year as a result of the deployment of digital projection. The speedy and easy change of content and the higher profile of cinema all appeal more to advertising agencies. We have an excellent relationship with DCM our screen advertising partner. This year we have seen an almost 90% increase in advertising income from our cinema estate.

We now employ a full time marketing manager for the group who looks after all aspects of our publicity and advertising, including monitoring and updating the many social media elements. We produce a regular brochure for the theatre and continue to work closely with ON SCREEN magazine produced by our sister company and distributed to all of our cinemas and available free to our customers.

This year has continued to be very much one of consolidation but it has been a very good one for the company and we anticipate expanding further to take on extra cinema sites in the next year. There is also considerable potential to expand the number of screens we operate within some of our existing cinema buildings. With the expansion of the Savoy in Penzance planned for early in 2017, we have purchased an adjacent shop next door to the cinema, this will allow us to expand our catering offer as well as provide high street frontage to the property we own situated behind.

The Company's key financial and other performance indicators during the year were as follows:

	Unit	2016	2015
Increase in turnover	£	1,836,527.00	500,350.00
Gross profit margin	%	60.99	61.61
Profit before taxation	£	1,220,241.00	916,810.00

Merlin Cinemas Limited

Strategic Report for the Year Ended 31 March 2016

Principal risks and uncertainties

The following are the identified principal risks and uncertainties facing the business:

Availability of film content

With the primary output of films coming in the main from a small number of large distributors there is always going to be a risk that these main film studios may seek to negotiate less favourable terms for their film hire. The company strives to maintain a positive relationship with the distributors and feel that the range and increasing number of cinemas and locations it can provide will offer an advantage when negotiating terms for specific distributor requirements and availability of first run bookings.

Film and live performance scheduling

There are inherent risks associated with needing to predict the success of a film due to the subjective qualities of the product and the variable preferences of the audiences in different locations.

The company continues to book films in house, whilst many companies employ outside booking agencies; we believe this allows us to focus better specifically on the demographics and requirements of each of our locations. The booking of artists and live shows for the Regal Redruth theatre also has a major impact on the trading at this cinema/theatre where the investment in this type of entertainment continues to allow diversification and less film product dependency. This element of the business mix is expected to grow considerably over the next few years.

Increasing employment costs

The cinema and catering business as a service industry is very labour intensive, with few opportunities to increase productivity by reducing staff numbers. The ever increasing National Minimum Wage poses challenges especially in the smaller less profitable sites, as the costs cannot easily be passed on by increasing ticket prices. Recent increases for full time staff especially, have resulted in the need to increase pay rates throughout much of the team in order to avoid resentment caused by eroded differentials. Along with company pension contributions there continues to be a constant upward pressure on payroll costs that are difficult to constrain.

Alternative media

The rise of social media, online streaming and home entertainment create a threat both in that attendance rates are under pressure and that film distributors may decide to release their films through channels other than exhibition at cinemas. The cinema industry has long been required to work beside the existence of DVDs and has proven its ability to adapt and co-exist with alternative media. The company has invested at many sites in improvements intended to add to the experience factor. Better seating, improved picture and sound quality, the ability to enjoy good food in adjacent company restaurants as well as the move to licencing most of the company screens, so you can enjoy a glass of wine or a beer whilst watching a film, are all aimed at encouraging people to see films at the cinema rather than at home and to continue to encourage the distributors to maintain their relationship with cinemas as the primary channel for releases.

Digital conversion

Significant investment has been made in recent years. The cost of repaying the investment in digital projection equipment will take several more years, despite it being partly subsidised through a complex industry agreement with the film distributors. There is a risk that recovery of costs takes longer than anticipated however the company is confident that the arrangements in place remain beneficial to the business. To date the VPF agreement looks likely to deliver repayment of the projection equipment sooner than originally anticipated. The digital projectors are however not as durable as the original mechanical projection equipment and we already find ourselves having to replace very expensive parts occasionally, but likely more frequently; as the equipment ages.

Merlin Cinemas Limited

Strategic Report for the Year Ended 31 March 2016

Weather conditions

Unusual or extreme weather patterns, for example unseasonably warm summers or severe snowfall in winter, can impact upon audience numbers. Where this coincides with major film releases the impact can be very significant. The company, with several coastal locations, is much more affected by the vagaries of the weather than most cinema groups. It can, however, be either a very positive, or negative factor.

Film piracy

Film piracy is an ever changing and very damaging threat to the film industry, due to constantly evolving technologies and the availability of smaller, and therefore less detectable, recording devices. However most piracy takes place at studio level or at big city centre cinemas and small independents are less frequently targeted for illicit recordings. Never the less we train staff to look out for illicit recording in our cinemas.

Selection of new locations

The company is always looking for appropriate potential new locations in which to expand. The selection of a poor location, or of a site of poor construction, is likely to result in lower activity and therefore difficulty in receiving returns on that investment. The management of the company are experienced in the choice of location and development of new sites.

Failure of information technology

The industry is, especially following digitalisation, more reliant than ever on the use of good IT systems, for the delivery of films via the internet, the acceptance of payment, increasingly on line or by card transactions at site, and internet based live communication between cinemas and the support office hub. A failure in technology could impact upon the company's profitability and reputation. Management invest in the regular maintenance of systems and in the thorough training of all staff in the use of cinema technology.

Approved by the Board on 22/12/16 and signed on its behalf by:



Geoffrey Greaves
Director

Merlin Cinemas Limited

Director's Report for the Year Ended 31 March 2016

The Director presents his report and the financial statements for the year ended 31 March 2016.

Directors of the Company

The director who held office during the year was as follows:

Geoffrey Greaves

Strategic Report

A fair review of the business, details of the principal risks facing the business and the company's policies to address those risks are set out within the Strategic Report.

Going concern

The financial statements have been prepared on a going concern basis.

There are no material uncertainties related to events or conditions that may cast significant doubt on the ability of the company to continue as a going concern.

Director's liabilities

The company has taken out qualifying third party indemnity insurance in respect of the directors and officers of the company.

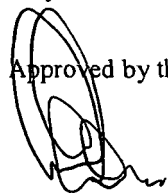
Disclosure of information to the auditors

The Director has taken steps that he ought to have 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. The Director confirms that there is no relevant information that he knows of and of which he knows the auditors are unaware.

Reappointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of Walker Moyle Ltd as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 22/12/16 and signed on its behalf by:



Geoffrey Greaves
Director

Merlin Cinemas Limited

Statement of Director's Responsibilities

The Director acknowledges his responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Director to prepare financial statements for each financial year. Under that law the Director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Director must not approve the financial statements unless he is 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 Director is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Director is 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 him to ensure that the financial statements comply with the Companies Act 2006. He is 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.

Merlin Cinemas Limited

Independent Auditor's Report to the Members of Merlin Cinemas Limited

We have audited the financial statements of Merlin Cinemas Limited for the year ended 31 March 2016, set out on pages 10 to 30. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 Statement of Director's Responsibilities (set out on page 7), the Director is 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 (APB's) Ethical Standards for Auditors to the financial statements.

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 Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

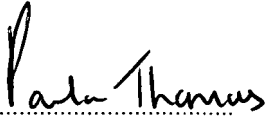
Merlin Cinemas Limited

Independent Auditor's Report to the Members of Merlin Cinemas Limited

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.



Paula Thomas BA FCA DChA (Senior Statutory Auditor)
For and on behalf of Walker Moyle Ltd, Statutory Auditor

Alverton Pavilion
Trewithen Road
Penzance
Cornwall
TR18 4LS

Date: 22nd December 2016.

Merlin Cinemas Limited

Profit and Loss Account for the Year Ended 31 March 2016

	Note	2016 £	2015 £
Turnover	3	7,447,473	5,610,946
Cost of sales		<u>(2,905,334)</u>	<u>(2,153,893)</u>
Gross profit		4,542,139	3,457,053
Administrative expenses		(3,117,343)	(2,490,923)
Other operating income	4	<u>6,361</u>	<u>4,520</u>
Operating profit	6	<u>1,431,157</u>	<u>970,650</u>
Other interest receivable and similar income	7	76	38,465
Interest payable and similar charges	8	<u>(210,992)</u>	<u>(92,305)</u>
		<u>(210,916)</u>	<u>(53,840)</u>
Profit before tax		1,220,241	916,810
Taxation	12	<u>(246,445)</u>	<u>(107,756)</u>
Profit for the financial year		<u><u>973,796</u></u>	<u><u>809,054</u></u>

The above results were derived from continuing operations.

The company has no recognised gains or losses for the year other than the results above.

Merlin Cinemas Limited

Statement of Comprehensive Income for the Year Ended 31 March 2016

	Note	2016 £	2015 £
Profit for the year		<u>973,796</u>	<u>809,054</u>
Total comprehensive income for the year		<u><u>973,796</u></u>	<u><u>809,054</u></u>

The notes on pages 15 to 30 form an integral part of these financial statements.

Merlin Cinemas Limited

(Registration number: 03664605)
Balance Sheet as at 31 March 2016

	Note	2016 £	2015 £
Fixed assets			
Intangible assets	13	63,563	75,976
Tangible assets	14	8,872,971	8,522,482
Investment property	15	284,143	507,439
		<u>9,220,677</u>	<u>9,105,897</u>
Current assets			
Stocks	16	69,982	49,618
Debtors	17	427,933	195,419
Cash at bank and in hand		900,970	811,347
		<u>1,398,885</u>	<u>1,056,384</u>
Creditors: Amounts falling due within one year	19	<u>(5,934,924)</u>	<u>(2,796,305)</u>
Net current liabilities		<u>(4,536,039)</u>	<u>(1,739,921)</u>
Total assets less current liabilities		4,684,638	7,365,976
Creditors: Amounts falling due after more than one year	19	-	(3,658,871)
Provisions for liabilities	20	<u>(127,443)</u>	<u>(99,706)</u>
Net assets		<u>4,557,195</u>	<u>3,607,399</u>
Capital and reserves			
Called up share capital	22	1	1
Profit and loss account	23	4,557,194	3,607,398
Total equity		<u>4,557,195</u>	<u>3,607,399</u>

Approved and authorised by the director on 22/12/16

Geoffrey Greaves
Director

Merlin Cinemas Limited

Statement of Changes in Equity for the Year Ended 31 March 2016

	Share capital £	Profit and loss account £	Total £
At 1 April 2015	1	3,607,398	3,607,399
Profit for the year	-	973,796	973,796
Total comprehensive income	-	973,796	973,796
Dividends	-	(24,000)	(24,000)
At 31 March 2016	1	4,557,194	4,557,195
	Share capital £	Profit and loss account £	Total £
At 1 April 2014	1	2,819,844	2,819,845
Profit for the year	-	809,054	809,054
Total comprehensive income	-	809,054	809,054
Dividends	-	(21,500)	(21,500)
At 31 March 2015	1	3,607,398	3,607,399

The notes on pages 15 to 30 form an integral part of these financial statements.

Merlin Cinemas Limited

Statement of Cash Flows for the Year Ended 31 March 2016

	Note	2016 £	2015 £
Cash flows from operating activities			
Profit for the year		973,796	809,054
Adjustments to cash flows from non-cash items			
Depreciation and amortisation	6	365,326	351,962
(Profit)/loss on disposal of tangible assets	5	(183)	5,787
Finance income	7	(76)	(38,465)
Finance costs	8	210,992	92,305
Income tax expense	12	246,445	107,756
		<u>1,796,300</u>	<u>1,328,399</u>
Working capital adjustments			
(Increase)/decrease in stocks	16	(20,364)	1,348
Increase in trade debtors	17	(232,514)	(1,837)
Decrease in trade creditors	19	<u>(6,668)</u>	<u>(86,316)</u>
Cash generated from operations		1,536,754	1,241,594
Income taxes (paid)/received	12	<u>(160,937)</u>	<u>1,827</u>
Net cash flow from operating activities		<u>1,375,817</u>	<u>1,243,421</u>
Cash flows from investing activities			
Interest received	7	76	38,465
Acquisitions of tangible assets		(295,606)	(128,568)
Proceeds from sale of tangible assets		183	500
Acquisition of intangible assets	13	(6,000)	-
Acquisition of investment properties		<u>(178,500)</u>	<u>-</u>
Net cash flows from investing activities		<u>(479,847)</u>	<u>(89,603)</u>
Cash flows from financing activities			
Interest paid	8	(210,992)	(92,305)
Repayment of bank borrowing		(253,408)	(243,269)
Repayment of other borrowing		(317,947)	(200,693)
Dividends paid	26	<u>(24,000)</u>	<u>(21,500)</u>
Net cash flows from financing activities		<u>(806,347)</u>	<u>(557,767)</u>
Net increase in cash and cash equivalents		89,623	596,051
Cash and cash equivalents at 1 April		<u>811,347</u>	<u>215,296</u>
Cash and cash equivalents at 31 March		<u><u>900,970</u></u>	<u><u>811,347</u></u>

The notes on pages 15 to 30 form an integral part of these financial statements.

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

1 General information

The company is a private company limited by share capital incorporated in England.

The address of its registered office is:

Savoy Suite
16 Causewayhead
Penzance
Cornwall
TR18 2SN

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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 years presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Basis of preparation

These financial statements have been prepared using the historical cost convention except that as disclosed in the accounting policies certain items are shown at fair value.

The financial statements are presented in sterling which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest whole £1.

Going concern

The financial statements have been prepared on a going concern basis.

Judgements

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

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

Revenue recognition

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Company's activities. Turnover is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the company.

The Company recognises revenue when:

The amount of revenue can be reliably measured;

it is probable that future economic benefits will flow to the entity;

and specific criteria have been met for each of the Company's activities.

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Tangible assets

Tangible assets are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

No depreciation charge arises in respect of the Company's freehold buildings. It is considered that the buildings have a useful economic life of at least 100 years and their residual value is estimated to be at least equal to their carrying value. As a result of these factors any depreciation charge is immaterial.

In addition, it is the company's policy to maintain its property in good condition which prolongs the useful life of the properties.

Any permanent diminution in value is charged to the profit and loss account as appropriate. Costs of repairs and maintenance are charged against revenue in the year in which they are incurred.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Plant and machinery	15% on a reducing balance basis
Motor vehicles	25% on a reducing balance basis
Office equipment	33% on a reducing balance basis
Digitalisation costs	10% on cost on a straight line basis
Short leasehold property	Straight line basis over the length of the lease
Freehold buildings	Straight line basis over 100 years
Freehold land	Not depreciated

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

Investment property

Investment property is carried at fair value, derived from the current market prices for comparable real estate, determined annually by the director. The director uses observable market prices, adjusted if necessary for any difference in the nature, location or condition of the specific asset. Changes in fair value are recognised in profit or loss.

Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date. Goodwill is amortised over its useful life, which shall not exceed ten years if a reliable estimate of the useful life cannot be made.

Intangible assets

Intangible assets are stated in the statement of financial position at cost, less any subsequent accumulated amortisation and subsequent accumulated impairment losses.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their useful life as follows:

Asset class	Amortisation method and rate
Goodwill	10 years on a straight line basis

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Trade debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to sell, after due regard for slow moving stocks.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the Company does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

Borrowings

Interest-bearing borrowings are initially recorded at fair value, net of transaction costs. Interest-bearing borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the Profit and Loss Account over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar charges.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the Company has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

Financial instruments

Classification

Financial assets are classified into either basic or other financial assets. Financial liabilities are classified into either basic or other financial liabilities. These classifications depend on certain criteria determined at the time of recognition.

The company holds only basic financial instruments.

Recognition and measurement

Financial instruments are recognised when the company becomes party to the contractual provisions of the instrument and derecognised when in the case of assets, the contractual rights to cash flows from the assets expire or substantially all the risks and rewards of ownership are transferred to another party, or in the case of liabilities, when the company's obligations are discharged, expire or are cancelled.

Basic financial assets, which include trade and other debtors, cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method, unless the arrangement constitutes a financing transaction, where the transaction is initially measured at the present value of the future receipts discounted at a market rate of interest and subsequently held at amortised cost.

Basic financial liabilities, including trade and other payables are initially measured at transaction price, unless the arrangement constitutes a financing transaction where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Impairment

Basic financial assets are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. The impairment loss is recognised in profit or loss.

3 Revenue

The analysis of the company's revenue for the year from continuing operations is as follows:

	2016	2015
	£	£
Sale of goods and services	7,383,033	5,539,973
Rental income from investment property	64,440	70,973
	<u>7,447,473</u>	<u>5,610,946</u>

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

4 Other operating income

The analysis of the company's other operating income for the year is as follows:

	2016 £	2015 £
Miscellaneous other operating income	<u>6,361</u>	<u>4,520</u>

5 Other gains and losses

The analysis of the company's other gains and losses for the year is as follows:

	2016 £	2015 £
Gain (loss) on disposal of property, plant and equipment	<u>183</u>	<u>(5,787)</u>

6 Operating profit

Arrived at after charging/(crediting)

	2016 £	2015 £
Depreciation expense	346,913	333,549
Amortisation expense	18,413	18,413
Operating lease expense - property	33,262	11,025
Operating lease expense - plant and machinery	3,593	3,255
(Profit)/loss on disposal of property, plant and equipment	<u>(183)</u>	<u>5,787</u>

7 Other interest receivable and similar income

	2016 £	2015 £
Other finance income	<u>76</u>	<u>38,465</u>

8 Interest payable and similar charges

	2016 £	2015 £
Interest on bank overdrafts and borrowings	162,938	19,266
Interest expense on other finance liabilities	<u>48,054</u>	<u>73,039</u>
	<u>210,992</u>	<u>92,305</u>

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

9 Staff costs

The aggregate payroll costs (including director's remuneration) were as follows:

	2016 £	2015 £
Wages and salaries	1,599,438	1,242,502
Social security costs	84,671	68,338
Pension costs, defined contribution scheme	38,228	11,763
Other employee expense	1,502	1,428
	<u>1,723,839</u>	<u>1,324,031</u>

The average number of persons employed by the company (including the director) during the year, analysed by category was as follows:

	2016 No.	2015 No.
Administration and support	6	4
Marketing	1	1
Other departments	165	137
	<u>172</u>	<u>142</u>

10 Directors' remuneration

The director's remuneration for the year was as follows:

	2016 £	2015 £
Remuneration	8,320	8,320
Contributions paid to money purchase schemes	25,000	-
	<u>33,320</u>	<u>8,320</u>

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2016 No.
Accruing benefits under money purchase pension scheme	<u>1</u>

11 Auditors' remuneration

	2016 £	2015 £
Audit of the financial statements	<u>7,000</u>	<u>5,000</u>

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

12 Taxation

Tax charged/(credited) in the income statement

	2016 £	2015 £
Current taxation		
UK corporation tax	220,076	169,572
UK corporation tax adjustment to prior periods	(1,368)	(9,094)
	<u>218,708</u>	<u>160,478</u>
Deferred taxation		
Arising from origination and reversal of timing differences	27,737	(37,766)
Arising from changes in tax rates and laws	-	(14,956)
Total deferred taxation	<u>27,737</u>	<u>(52,722)</u>
Tax expense in the income statement	<u>246,445</u>	<u>107,756</u>

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2015 - lower than the standard rate of corporation tax in the UK) of 20% (2015 - 21%).

The differences are reconciled below:

	2016 £	2015 £
Profit before tax	<u>1,220,241</u>	<u>916,810</u>
Corporation tax at standard rate	244,048	192,530
Effect of expense not deductible in determining taxable profit (tax loss)	3,766	1,306
UK deferred tax expense (credit) relating to changes in tax rates or laws	-	(12,645)
Deferred tax expense (credit) from unrecognised temporary difference from a prior period	-	(64,342)
Other tax effects for reconciliation between accounting profit and tax expense (income)	<u>(1,369)</u>	<u>(9,093)</u>
Total tax charge	<u>246,445</u>	<u>107,756</u>

Deferred tax

Deferred tax assets and liabilities

	Liability £
2016	
Accelerated capital allowances	<u>127,506</u>
2015	
Accelerated capital allowances	<u>99,706</u>

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

13 Intangible assets

	Goodwill £	Other intangible assets £	Total £
Cost or valuation			
At 1 April 2015	184,128	-	184,128
Additions acquired separately	-	6,000	6,000
At 31 March 2016	184,128	6,000	190,128
Amortisation			
At 1 April 2015	108,152	-	108,152
Amortisation charge	18,413	-	18,413
At 31 March 2016	126,565	-	126,565
Carrying amount			
At 31 March 2016	57,563	6,000	63,563
At 31 March 2015	75,976	-	75,976

Amortisation expense for the year and last year is included in administrative expenses.

The aggregate amount of research and development expenditure recognised as an expense during the period is £Nil (2015 - £Nil).

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

14 Tangible assets

	Land and buildings £	Furniture, fittings and equipment £	Motor vehicles £	Digitalisation costs £
Cost or valuation				
At 1 April 2015	6,326,752	76,261	26,488	1,695,875
Additions	95,061	10,120	17,070	-
Transfers to/from investment property	401,796	-	-	-
At 31 March 2016	<u>6,823,609</u>	<u>86,381</u>	<u>43,558</u>	<u>1,695,875</u>
Depreciation				
At 1 April 2015	6,220	52,952	11,553	339,175
Charge for the year	<u>11,237</u>	<u>11,033</u>	<u>8,001</u>	<u>169,588</u>
At 31 March 2016	<u>17,457</u>	<u>63,985</u>	<u>19,554</u>	<u>508,763</u>
Carrying amount				
At 31 March 2016	<u>6,806,152</u>	<u>22,396</u>	<u>24,004</u>	<u>1,187,112</u>
At 31 March 2015	<u>6,320,532</u>	<u>23,309</u>	<u>14,935</u>	<u>1,356,700</u>
			Other property, plant and equipment £	Total £
Cost or valuation				
At 1 April 2015			2,270,711	10,396,087
Additions			173,355	295,606
Transfers to/from investment property			-	401,796
At 31 March 2016			<u>2,444,066</u>	<u>11,093,489</u>
Depreciation				
At 1 April 2015			1,463,705	1,873,605
Charge for the year			<u>147,054</u>	<u>346,913</u>
At 31 March 2016			<u>1,610,759</u>	<u>2,220,518</u>
Carrying amount				
At 31 March 2016			<u>833,307</u>	<u>8,872,971</u>
At 31 March 2015			<u>807,006</u>	<u>8,522,482</u>

Included within the net book value of land and buildings above is £6,650,282 (2015 - £6,217,909) in respect of freehold land and buildings and £155,870 (2015 - £102,623) in respect of short leasehold land and buildings.

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

15 Investment properties

	2016 £
At 1 April	507,439
Additions	178,500
Transfers to and from owner-occupied property	<u>(401,796)</u>
At 31 March	<u>284,143</u>

There has been no valuation of investment property by an independent valuer.

16 Stocks

	2016 £	2015 £
Other inventories	<u>69,982</u>	<u>49,618</u>

17 Debtors

	2016 £	2015 £
Trade debtors	199,458	113,713
Other debtors	135,603	780
Prepayments	<u>92,872</u>	<u>80,926</u>
Total current trade and other debtors	<u>427,933</u>	<u>195,419</u>

18 Cash and cash equivalents

	2016 £	2015 £
Cash on hand	75,096	86,844
Cash at bank	<u>825,874</u>	<u>724,503</u>
	<u>900,970</u>	<u>811,347</u>

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

19 Creditors

	Note	2016 £	2015 £
Due within one year			
Loans and borrowings	24	4,716,730	1,629,214
Trade creditors		568,848	464,450
Director's loan account	27	106,242	315,384
Social security and other taxes		137,300	133,452
Accrued expenses		185,728	91,500
Income tax liability	12	220,076	162,305
		<u>5,934,924</u>	<u>2,796,305</u>
Due after one year			
Loans and borrowings	24	-	3,658,871

20 Deferred tax and other provisions

	Deferred tax £	Total £
At 1 April 2015	99,706	99,706
Increase (decrease) in existing provisions	<u>27,737</u>	<u>27,737</u>
At 31 March 2016	<u>127,443</u>	<u>127,443</u>

21 Pension and other schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £38,228 (2015 - £11,763).

22 Share capital

Allotted, called up and fully paid shares

	2016		2015	
	No.	£	No.	£
Ordinary shares of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

Rights, preferences and restrictions

Ordinary have the following rights, preferences and restrictions:

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

23 Reserves

Profit and loss account

The profit and loss account represents cumulative profit or losses, net of dividends paid and other adjustments.

24 Loans and borrowings

	2016 £	2015 £
Non-current loans and borrowings		
Bank borrowings	-	3,658,871
	<u>2016</u> £	<u>2015</u> £
Current loans and borrowings		
Bank borrowings	3,649,703	244,240
Other borrowings	1,067,027	1,384,974
	<u>4,716,730</u>	<u>1,629,214</u>

Bank borrowings

Bank term loan 1 is denominated in sterling with a nominal interest rate of between 3.00% and 7.42% (on different elements of the loan), and the final instalment is due on 3 February 2017. The carrying amount at year end is £3,139,850 (2015 - £3,358,817).

The above bank loan is secured on the company's land and buildings which have a carrying value of £6,520,130.

Bank term loan 2 is denominated in sterling with a nominal interest rate of 4.235%, and the final instalment is due on 13 February 2017. The carrying amount at year end is £509,853 (2015 - £544,294).

The above bank loan is secured on the company's land and buildings which have a carrying value of £5,082,441.

Other borrowings

Other loan 1 with a carrying amount of £999,027 (2015 - £1,316,973) is denominated in sterling with a nominal interest rate of 4%. The final instalment is due on 1 October 2018.

Other loan 2 with a carrying amount of £68,000 (2015 - £68,000) is denominated in sterling with a nominal interest rate of 0%.

25 Obligations under leases and hire purchase contracts

Operating leases

The total of future minimum lease payments is as follows:

	2016 £	2015 £
Not later than one year	56,483	12,185
Later than one year and not later than five years	220,865	7,298
Later than five years	153,750	-
	<u>431,098</u>	<u>19,483</u>

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

26 Dividends

	2016 £	2015 £
Interim dividend of £24,000.00 (2015 - £21,500.00) per ordinary share	<u>24,000</u>	<u>21,500</u>

27 Related party transactions

Key management personnel

Key management compensation

	2016 £	2015 £
Salaries and other short term employee benefits	<u>69,789</u>	<u>59,191</u>

Transactions with directors

	At 1 April 2015 £	Advances to directors £	Repayments by director £	Other payments made to company by director £	Written off £	Waived £	At 31 March 2016 £
2016							
Geoffrey Greaves							
Interest free loan to company, repayable on demand	<u>315,384</u>	<u>-</u>	<u>(209,142)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>106,242</u>

	At 1 April 2014 £	Advances to directors £	Repayments by director £	Other payments made to company by director £	Written off £	Waived £	At 31 March 2015 £
2015							
Geoffrey Greaves							
Interest free loan to company, repayable on demand	<u>357,699</u>	<u>-</u>	<u>(42,315)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>315,384</u>

Dividends paid to directors

	2016 £	2015 £
Geoffrey Greaves		
Dividends paid	<u>24,000</u>	<u>21,500</u>

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

Summary of transactions with other related parties

Onscreen Magazine Limited

Mr G Greaves is a director of both Onscreen Magazine Limited and Merlin Cinemas Limited.

During the year, Merlin Cinemas Limited recharged costs totalling £6,319 (2015: £NIL) (including VAT) to Onscreen Magazine Limited.

Merlin Cinemas Limited made no sales Onscreen Magazine Limited in the year (2015: £5,000).

At the balance sheet date, the amount owing to Merlin Cinemas Limited by Onscreen Magazine Limited was £6,319 (2015: £NIL).

Inn Angarrack Limited

Mr G Greaves is a director of both Inn Angarrack Limited and Merlin Cinemas Limited.

During the year, Merlin Cinemas Limited recharged costs totalling £3,619 (2015: £16,989) (including VAT) to Inn Angarrack Limited.

During the year, Merlin Cinemas Limited advanced a loan of £10,000 to Inn Angarrack Limited, which was interest free and repayable on demand.

At the balance sheet date, the amount owing to Merlin Cinemas Limited by Inn Angarrack Limited was £30,608 (2015: £16,989).

Merlin Cinemas Limited

Notes to the Financial Statements for the Year Ended 31 March 2016

28 Financial instruments

Categorisation of financial instruments

	2016 £	2015 £
Financial assets that are debt instruments measured at amortised cost	1,121,032	925,842
	<u>1,121,032</u>	<u>925,842</u>
Financial liabilities measured at amortised cost	(5,507,198)	(2,427,301)
	<u>(5,507,198)</u>	<u>(2,427,301)</u>

Items of income, expense, gains or losses

	Income £	Expense £	Net gains £	Net losses £
2016				
Financial liabilities measured at amortised cost	-	210,992	-	-
	<u>-</u>	<u>210,992</u>	<u>-</u>	<u>-</u>
2015				
Financial liabilities measured at amortised cost	-	92,305	-	-
	<u>-</u>	<u>92,305</u>	<u>-</u>	<u>-</u>

29 Transition to FRS 102

The company's financial statements have been prepared in accordance with FRS102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland. The company has transferred from previously extant UK GAAP to FRS102 as at 1 April 2014. There is no impact on the reported financial position and financial performance as a result of adopting FRS102.