

Hollywood Bowl Group plc

Final Results for the year ended 30 September 2018

**CONTINUED STRONG REVENUE AND PROFIT GROWTH ENABLING ENHANCED CASH RETURNS,
ALL DELIVERED THROUGH THE SUCCESSFUL EXECUTION OF OUR STRATEGY**

Hollywood Bowl Group plc, (“Hollywood Bowl” or the “Group”), the UK’s market leading ten-pin bowling operator, is pleased to announce its audited results for the year ended 30 September 2018 (“FY2018”).

Financial Highlights

	12 months ended 30 September 2018	12 months ended 30 September 2017 (“FY2017”)	% Movement
Total revenues	£120.5m	£114.0m	+5.8%
Like for like (LFL ¹) revenues	+1.8%	+3.5%	
Group adjusted ² EBITDA	£36.2m	£33.4m	+8.3%
Group adjusted ² EBITDA margin	30.0%	29.3%	+70bps
Operating profit	£24.9m	£22.2m	+12.1%
Profit before tax	£23.9m	£21.1m	+13.4%
Basic earnings per share	12.52p	12.17p	+2.9%
Net debt	£2.5m	£8.1m	-69.1%
Interim ordinary dividend paid per share	2.03p	1.80p	
Final ordinary dividend per share	4.23p	3.95p	+7.1%
Special dividend per share	4.33p	3.33p	+30.0%
Total dividend per share	10.59p	9.08p	+16.6%

Operational Highlights

- **Strong returns on investment across the existing estate – on track to outperform 33% ROI target**
 - Four Bowlplex rebrands completed in the period and delivering improved returns since completion: all 11 former Bowlplex sites now rebranded as Hollywood Bowl centres and fully integrated into the estate
 - Two further rebrands of the AMF estate completed
 - Three other refurbishments completed
- **New centre pipeline committed to the end of FY2022, on track to open two new centres per annum**
 - Opened two new centres in prime locations in Dagenham and Yeovil; both performing in line with expectations
 - Two new centres will open in the financial year ending 30 September 2019 (“FY2019”); intu Watford and at the intu Lakeside leisure extension
 - Agreed new leases in York, Swindon and Southend, securing our pipeline to FY2022
- **Customer-led strategy and new initiatives driving increased average spend per game**
 - Average spend per game increased 6.1% to £9.22 (FY2017: £8.70)
 - Successful roll out of new Hollywood Diner menu underpinned an increase in food spend per game of 5.4%, boosted by new i-Serve lane ordering system which was introduced in the last quarter of the year and is now in all centres
 - All revenue lines in LFL growth year on year

- **Strong cash generation underpinning £15.9m of cash return to shareholders**
 - Total ordinary dividend for FY2018 of 6.26 pence per share (FY2017: 5.75p)
 - Special dividend of 4.33 pence per share (FY2017: 3.33p)
 - Total dividend for the year of 10.59 pence per share (FY2017: 9.08p)
 - Since IPO in September 2016, the Company will have returned a total of £29.8m to shareholders, including for the year FY2018, representing 12.4% of the Company's market capitalisation at IPO

Stephen Burns, Chief Executive of Hollywood Bowl Group, commented:

"I am very pleased with the Group's full year performance. Operating our business in line with our customer led strategy has delivered another strong revenue performance which, combined with our continued focus on cost management, has resulted in a year of record profits and significant operating cash generation. The investment into our high quality portfolio of 58 profitable centres continues to deliver significant, above target, returns. Our new centres are performing very well and we have secured a strong pipeline of new openings that will further enhance the quality of our portfolio.

We will continue to invest in the overall quality of our estate, in technology initiatives that enhance our industry-leading proposition and in initiatives to attract and retain only the very best talent, all with a view to continually improving the experience for our customers.

In line with our capital allocation policy outlined in our FY2017 results, we are pleased to announce a special dividend for the second consecutive year. Together with the total ordinary dividend, this equals a proposed £15.9m return to shareholders for the year, all funded through internally-generated cash flow. This will mean that since IPO, we will have returned a total of £29.8m to shareholder in the form of dividends."

- 1 LFL revenue is defined as total revenue excluding any new centre openings from the current financial year until they are LFL (FY2018: £4.9m) and closed centres from the current or prior year and is used as a key measure of constant centre growth.
- 2 Group adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) reflects the underlying trade of the overall business. It is calculated as operating profit plus depreciation, amortisation and any exceptional costs, and is considered by Management to be a measure investors look at to reflect the underlying business. The reconciliation to statutory operating profit is set out in the Finance Review section of this announcement.

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CHAIRMAN'S STATEMENT

Relentless focus on our purpose

I am very pleased to say that this has been a year of strong delivery against our strategy. In FY2018, the Group continued to focus relentlessly on its purpose of growing the business organically and driving growth through

the effective deployment of capital, resulting in Group adjusted EBITDA² growth of 8.3 per cent and like-for-like (LFL)¹ revenue growth of 1.8 per cent.

The high-quality family-friendly experience, underpinned by our simple customer-led strategy, has resulted in revenues growing to £120.5m, an increase of 5.8 per cent. This was driven by LFL sales growth¹ in the core estate, continued investment in refurbishments and rebrands, as well as the opening of two new centres, Dagenham and Yeovil. Our strong balance sheet has been further strengthened on the back of positive trading, and net debt has reduced to £2.5m, with the net debt to Group adjusted EBITDA² ratio at 0.07 times.

This year's performance reinforces our position as the market leader, and is particularly impressive given the more challenging trading backdrop caused by extreme weather conditions and consumer uncertainty. The significant cash generation from our core business and returns from our ongoing investment programme, combined with our excellence in operations, has enabled the Board to recommend a special dividend for the second year running. In line with our progressive dividend policy we have announced an increase in the final ordinary dividend to 4.23 pence per share (FY2017: 3.95 pence per share) and, I am delighted to say, a special dividend of 4.33 pence per share, resulting in a total of £15.9m returned to shareholders in respect of FY2018.

The business continues to invest in its existing centres and we have completed nine transformational refurbishments and rebrands during the year. Our centre in Cribbs Causeway in Bristol is a great example of some of the success we are enjoying. Following a £277,000 refurbishment, completed within five weeks, the centre has delivered one of the highest rates of centre EBITDA growth in the Company. We will continue to invest in our refurbishment programme in FY2019.

We have now fully completed the Bowlplex rebrand programme, the success of which reinforces what an excellent investment Bowlplex was. We will continue to enjoy the benefits of that in the next financial year and beyond. Additional innovation, and investment in 'Pins on strings' and our scoring system are delivering customer experience improvements.

Alongside these capital investments, and in line with our stated capital structure and cash allocation policy, we continue to seek selective opportunities for profit enhancing acquisitions.

Good corporate governance remains a focus for the Board. We are ably supported by a full complement of outstanding Non-Executive Directors (NEDs); Nick, Claire and Ivan, who have all been in office for at least 12 months and who have each established themselves as important members of the Board.

Key to the success of the Group is our incredible team and on behalf of the Board, I thank them for the exceptional job they have done in FY2018. The Company has remained committed to delivering against our strategy throughout some difficult weather conditions, and every team member has remained focused on providing an outstanding customer experience. I derive enormous pride from the fact that our financial and customer satisfaction measures clearly indicate that the strength of our team and our customer-focused culture, achieve industry-leading performance.

One of the great benefits of my role is the opportunity to go out and have fun at our centres! I am delighted to say that this 'perk' is fully enjoyed by my NED colleagues too. Bowling scores are much discussed when we compete but, importantly, our visits ensure that the Board 'lives the product', stays in touch with our centres and their teams, and fully understands the results of our decisions and the impact they have on our customers.

Whilst Brexit continues to create an uncertain market backdrop, we are confident that Hollywood Bowl Group is particularly well positioned to face the future. The nature of our business means that we will continue to thrive, given our wide customer appeal, attractive price point and quality customer experience.

I look forward to the year ahead with enthusiasm and confidence. We are well placed to create more value for all our stakeholders, with the whole team working every day to deliver the best possible experience for our customers. I am very grateful to those members of the team I work most closely with and would like to express my thanks to Stephen, Laurence, Melanie and Mathew, all of whom lead with distinction and are the embodiment of our culture and relentless desire to succeed.

Peter Boddy

Chairman

10 December 2018

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CHIEF EXECUTIVE'S REVIEW

I am delighted to report FY2018 has been another very successful year for Hollywood Bowl Group. Revenues of £120.5m are 5.8 per cent higher than FY2017, and 1.8 per cent higher on an LFL¹ basis. Our simple, customer-led strategy to drive revenue, whilst managing our cost base to improve margin and profit, enabled us to grow Group adjusted EBITDA² by 8.3 per cent, to £36.2m. Profit before tax also grew, to a record £23.9m, an increase of 13.4 per cent over the prior year.

Hollywood Bowl Group remains the UK ten-pin bowling market leader. We have a national presence, operating out of 58 high-quality, leasehold centres. We lead the market not just in size, but also profitability and margin. The shift in customer spending towards experiential leisure continues to play to our advantage, thanks to our all-inclusive, family-focused offer, which delivers an experience that cannot be matched at home. We continue to enhance our offer and develop our brand to strengthen our appeal to our core family customer group, who, as a consequence, are spending more in our centres. We also continue to enhance our relationship with our property partners, delivering best-in-class refurbishments, rebrands and new centres that enhance the quality of the leisure parks from which we operate, making the Group the bowling operator of choice, with the strongest covenant and most innovative product offering.

Strategic progress

Our simple and effective strategy remains unchanged. Our strategy is to focus on growing the business organically and drive growth through the effective deployment of capital. We are very pleased with the progress made on this during FY2018.

Like-for-like growth

We are very pleased with our LFL revenue growth of 1.8 per cent given that LFL revenues were impacted, to some degree in FY2018, by factors outside of our control, such as the extreme weather and England's World Cup performance.

Underpinning the positive LFL numbers is the 5.5 per cent growth in spend per game, with total spend per game up from £8.70 to £9.22 in FY2018. The full-year effect of the dynamic pricing initiative that was rolled out in July 2017, coupled with new pricing trials, helped mitigate the impact of the year-on-year drop in LFL

bowling games sold whilst maintaining our competitive price point, still the lowest of the branded bowling operators. Game volumes in the year were marginally down as a result of the snow-affected weeks in the early part of the year as well as the May to July heatwave. The continued investment in our digital marketing and customer relationship management (CRM) capabilities enabled us to effectively deploy tactical offers during the weather-affected trading periods, delivering over £2m of incremental revenue.

We continually look for ways to enhance the customer experience and this year, in addition to the rollout of proven initiatives, we have introduced new trials and concepts. The Hollywood Diner menu has been successfully rolled out across the Group, underpinning an increased food spend per game of 5.4 per cent. A new drinks menu was launched, adopting learnings and customer feedback from earlier trials, which helped us grow bar spend per game by 7.0 per cent. New product, exciting game formats and a focus on merchandising standards saw amusement spend per game grow by 8.3 per cent in the year. The amusement 'Play for prizes' redemption offer, now in 47 centres, new virtual reality (VR) game formats, and some encouraging results from the cashless hybrid trials have all helped deliver a very credible performance in this revenue category.

Refurbishments and rebrand programme

Nine full refurbishments were completed in FY2018, including the rebranding of four Bowlplex centres and two further rebrands of the AMF estate to the Hollywood Bowl brand. The final Bowlplex centre was rebranded as Hollywood Bowl at the end of the financial year, meaning the estate now consists of 50 Hollywood Bowl and 8 AMF centres. We continue to push the design brief with our refurbishments and rebrands, taking into account customer feedback and resulting in impressive returns from the capital deployed. The nine refurbishments are on track to outperform the 33 per cent targeted return on investment.

Property portfolio

We successfully opened two new prime location centres in FY2018. Hollywood Bowl Dagenham, previously trading as Namco Funscape which was an acquisition brought to us by the landlord at nil cost, opened in October 2017. After a net capital spend of £391,000, the centre is trading in line with management expectations. Hollywood Bowl Yeovil, a 23,000 square foot centre, also brought to us for nil cost by the landlord, is co-located with cinema on a high footfall leisure park. It opened its doors in March, and after a net capex spend of £630,000 is on track to pay back this investment in under 18 months.

AMF Gravesend closed in July following an end of lease redevelopment plan, but our new centre in Lakeside, scheduled for a second half FY2019 opening, should attract customers from this catchment area. Our rent per centre continues to be a focus for the Group, ensuring we are maintaining our position of having no loss-making centres in the portfolio. The average rent per centre reduced to £245,701 from £247,785.

Property pipeline

We have a strong pipeline of new centres secured to the end of FY2022 and a delivery plan of an average of two new openings per annum. We are opening two centres during FY2019 including at the intu scheme in Watford, where we are creating a 14 lane, 20,000 square foot centre scheduled to open pre-Christmas 2018. We are also on site at the intu Lakeside leisure extension. At 34,000 square feet and 24 lanes, Lakeside will be the largest bowling centre to be opened in the UK in the last ten years. It is scheduled for completion early in the second half of FY2019.

This year we have agreed leases for new bowling centres in York, Swindon and Southend, all of which are in locations which meet our investment criteria for a successful centre: ample parking; co-location with the area's number one cinema; limited competition; and a strong local demographic to attract through our doors.

In line with our medium to long term growth strategy, we have agreed a lease on a first floor unit above the new centre in York, where we will trial our new indoor putting concept. Both York sites will open in FY2020.

Our people

We have continued to invest in training to ensure that we can provide an even higher level of service to all of our valued customers. We are delighted that our Net Promoter Scores have been maintained, and our overall satisfaction scores have improved during FY2018. Our team continues to be an integral part of the success of our business, and to that end we have implemented Long Term Incentive Plans for centre managers, assistant managers and senior support centre team members. As a result of our strategy to support our team members in developing a rewarding career, 103 team members successfully completed our internal management training programmes during the financial year.

I am incredibly fortunate to be supported by such a hard-working, entrepreneurial team. They are growth leaders who are proud of our culture and pleased to serve our customers. I thank them for all their efforts this year.

Technology-driven growth

Developing our technology platforms and our consumer marketing capability are both key drivers for further sustainable growth.

Our online channels continue to perform well as revenue increased by 27 per cent year-on-year, with 37 per cent revenue gains from mobile. This performance has been supported by strong sales growth from our performance digital advertising channels, the returns from which recovered quickly after a temporary downturn following the introduction of the General Data Protection Regulation (GDPR) in May.

Our contactable marketing database has increased above its pre-GDPR levels. It remains a key revenue driver for us, facilitating tactical and automated email campaigns to our closed user groups.

At the start of the year, we centralised all of our social media activity and have seen followers and engagement levels increase as a result. We are working with a number of social influencers to extend the reach of our public relations activity through social media channels and I am pleased to report signs of success from these initiatives.

Our technology team and partners have been working hard on exciting key initiatives that will be introduced next year, including a new website and upgraded booking engine, the next iteration of our dynamic pricing functionality, as well as our next generation scoring system which will be rolled out to the whole estate over the next two years.

Brexit

Given the nature of our activities, which have huge customer appeal throughout the country and through all economic cycles, we do not believe the exit of the UK from the EU will have an impact on the underlying performance of the business.

Outlook

We have a well thought out, and proven, capital investment plan to continue the refurbishment of our estate, opening of new centres that will enhance the quality of our portfolio and investment in technology to further boost our industry-leading proposition. I am confident that our plan for the coming year will continue our strong growth trajectory, strengthen the business and deliver value for our shareholders.

Stephen Burns

Chief Executive Officer

10 December 2018

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FINANCE REVIEW

	30 September 2018	30 September 2017	Movement
Number of centres	58	57	+1
Average spend per game	£9.22	£8.70	+6.1%
Revenue ¹	£120.5m	£114.0m	+5.8%
Gross profit margin	86.1%	86.5%	-0.4%pts
Group adjusted EBITDA ²	£36.2m	£33.4m	+8.3%
Group profit before tax margin	19.9%	18.5%	+1.3%pts
Group profit before tax	£23.9m	£21.1m	+13.4%
Net debt	£2.5m	£8.1m	-69.1%
Group adjusted operating cash flow ³	£24.7m	£26.7m	-7.2%
Group expansionary capital expenditure	£4.3m	£6.9m	-37.4%

1 FY2017 excludes Dagenham which was acquired on 18 September 2017 but did not open until 4 October 2017.

2 Group adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) reflects the underlying trade of the overall business. It is calculated as operating profit plus depreciation, amortisation and any exceptional costs, and is considered by Management to be a measure investors look at to reflect the underlying business. A reconciliation between Group adjusted EBITDA and statutory operating profit is provided in note 3 to the financial statements

3 Group adjusted operating cash flow is calculated as Group adjusted EBITDA less working capital movements and maintenance capital expenditure.

We are pleased to have delivered a strong set of financial results with total revenue growth of 5.8 per cent and Group adjusted EBITDA² growth of 8.3 per cent.

The growth in Group adjusted EBITDA² has been achieved as we continued to focus on delivering an exceptional customer experience, which led to increased spend per game and LFL revenue growth in all areas of the business, despite the closure of our AMF centre in Gravesend and the periods of extreme weather experienced in the year.

This, alongside managing our cost base effectively without negatively impacting on the customer experience, has contributed to record profits before tax of £23.9m, an increase of £2.8m (13.4 per cent) on FY2017. Group adjusted operating cash flow³ was £24.7m in FY2018, a slight decrease on FY2017. The decrease was driven by a lower working capital movement in FY2018 than the prior year, and an incremental £2.1m in corporation tax paid in the financial year given the increased profitability of the Group, partially offset by an increase in Group adjusted EBITDA² of £2.8m.

Revenue growth

The 5.8 per cent increase in revenue has been driven through LFL revenues growing at 1.8 per cent as well as 4.3 per cent from new centre openings, offset by the closure of our centre in AMF Gravesend (0.3 per cent). This resulted in record revenues of £120.5m, over the 12 months to 30 September 2018.

Game volumes were marginally down year-on-year, with LFL games slightly impacted by the snow-affected weeks earlier in the year, as well as the summer heatwave experienced across the country. We are pleased to see average spend per game grow by 6.1 per cent as customers continued to spend more across all areas of the business and consequently, all areas saw LFL revenue growth in FY2018.

Over the past year, we have continued on our investment strategy, completing the final four Bowlplex rebrands, rebranding two further AMFs to Hollywood Bowls and refurbishing three further centres. These investments are transformational for the customer experience and are leading to increased average spend as well as higher overall revenue. The average returns continue to be above our 33 per cent hurdle rate.

LFL revenue is defined as total revenue excluding any new centre openings (FY2018: £4.9m) and closed centres (FY2018: £1.1m) from the current or prior year and is used as a key measure of constant centre growth.

Gross margin

Gross profit margin for FY2018 was 86.1 per cent, in line with management expectations. Gross profit margin reduced slightly year-on-year, in part due to a slightly higher amusement revenue mix, as well as customers trading up into more premium drink products within our packages. Our focus on gross profit has seen it grow to £103.8m (+5.3 per cent) from £98.6m in FY2017. Cost of sales includes the cost of food and drink, as well as amusements.

Administrative expenses

Administrative expenses increased by £2.4m, up 3.2 per cent on the prior year.

The increase is primarily due to new centres at £2.8m and depreciation of £0.5m. These increases were netted off by a decrease in constant centre costs of £0.3m, a smaller loss on disposal of property, plant and equipment against the prior year, of £0.5m, and the closure of AMF Gravesend which resulted in lower administrative costs in that centre, of £0.1m.

The largest cost within administrative expenses is property costs, of which rent accounts for £14.1m (FY2017: £13.5m). Total property costs increased by £1.7m, with new centres accounting for £1.5m of this increase year-on-year. Centre employee costs form a significant part of administrative costs and increased from £21.6m to £22.3m for the 12-month period to 30 September 2018. On a constant centre basis, the centre employee costs decreased by £0.4m (1.7 per cent), through the tight controls exhibited in centres through the second half, offset by the increase in National Living / Minimum wage (NL/NMW) increases, where we have continued to maintain the differential for our team members. With the recent announcement of the April 2019 NL/NMW increases, we expect constant centre employee costs in FY2019 to increase by 3.8 per cent on a normalised weather basis.

Corporate costs were in line with FY2017, at £10.9m, with cost increases offset by lower bonus payments for the year. As a percentage of total sales, corporate costs reduced to 9.0 per cent in FY2018, against 9.5 per cent in FY2017.

Group adjusted EBITDA and operating profit

Group adjusted EBITDA² increased by 8.3 per cent during the year, mainly due to revenue growth, tight cost control and the solid performance of the two new centres opened. Constant centre EBITDA continued to grow and increased by 2.9 per cent compared with the prior period. Depreciation increased by £0.5m to £10.5m, largely as a result of the new centres. As a percentage of total sales, depreciation represented 8.7 per cent in FY2018, against 8.8 per cent in FY2017. Operating profit margin increased by 1.2 percentage

points, to a record 20.6 per cent of total sales in FY2018. The new openings in the year, Dagenham and Yeovil, continued to perform well.

Management use EBITDA adjusted for exceptional items (Group adjusted EBITDA) as a key performance measure of the business.

	30 September 2018 £'000	30 September 2017 £'000
Operating profit	24,892	22,201
Depreciation	10,494	9,990
Amortisation	504	540
Loss on property, plant and equipment and software	148	640
EBITDA	36,038	33,371
Exceptional items	118	3
Group adjusted EBITDA	36,156	33,374

Exceptional costs

Exceptional costs continue to be low in FY2018. The Group has a clear policy that exceptional costs should be one-off costs which are not forecast to continue, will not affect future years and are not a trend, and therefore should not be included in the underlying trade of the business.

	30 September 2018 £'000	30 September 2017 £'000
VAT rebate ¹	–	80
IPO related expenses ²	–	(102)
Non-recurring expenditure on strategic projects ³	(118)	(100)
Bank charges ⁴	–	(116)
Dilapidations provision ⁵	–	235
	(118)	(3)

1 The Group was able to make a one-off retrospective reclaim in respect of overpaid VAT relating to customers who were 'no-shows' and childrens' shoe hire. This was classified as other income in the consolidated statement of comprehensive income for the year ended 30 September 2017. The amount recognised in FY2017 relates to a historic claim for no shows from FY2015 to FY2016.

2 Costs associated with the IPO of Hollywood Bowl Group plc on the London Stock Exchange on 21 September 2016. Costs include legal and accounting transaction fees along with corporate banking costs.

3 Costs (comprising legal and professional fees) relating to an aborted acquisition.

4 Card payment processing fees relating to prior periods that were not previously invoiced.

5 The release of a dilapidation provision for a site that was exited in FY2018 with no associated costs expected.

Share-based payments

During the year, the Group granted further Long Term Incentive Plan (LTIP) shares to the senior leadership team, including the CEO and CFO. These awards vest in three years providing continuous employment during this period and certain performance conditions are attained relating to earnings per share (EPS). The Group recognised a charge of £403,537 (FY2017: £139,408) in relation to these non-cash share-based payments.

We opened our first Sharesave scheme to all team members in February 2018. We had over 200 employees join the scheme. The scheme will vest in three years subject to continued employment and the Group recognised a charge of £15,498 (FY2017: nil) in relation to the Sharesave scheme.

None of the above costs are classified as exceptional costs.

Finance costs

Finance costs decreased from £1.1m to £1.0m as a result of margin reductions in line with the bank quarterly covenant tests. The Group currently has gross debt of £28.5m with the next debt repayment of £0.75m due in December 2018. The Group has an undrawn revolving credit facility of £5.0m and capital expenditure facility of £5.0m.

Taxation

The Group has incurred a tax charge of £5.1m for the year which represents an effective tax rate on statutory profit before tax of 21.5 per cent. Within this charge is an amount of £0.6m, which is an adjustment in respect of prior years and relates to an Advance Thin Capitalisation Agreement tax liability. This is still being finalised with HMRC. The normalised tax charge would be £4.6m, which represents an effective tax rate on statutory profit before tax of 19.1 per cent.

Earnings

Profit before tax for the year was £23.9m, which was higher than the comparable period in the prior year by £2.8m (13.4 per cent) as a result of the factors discussed above.

The Group delivered an increased profit after tax of £18.8m (FY2017: £18.3m) and basic earnings per share was 12.52 pence (FY2017: 12.17 pence).

Dividend and special dividend

For the year ended 30 September 2018, the Board is recommending a final ordinary dividend of 4.23 pence per share, giving a total ordinary dividend for the year of 6.26 pence per share.

The final dividend will be paid, subject to shareholder approval at the Company's AGM on 31 January 2019, on 27 February 2019 to shareholders on the register on 1 February 2019.

As outlined in our capital and cash allocation policy in our FY2017 results, our top priority is to maintain a strong balance sheet. As at 30 September 2018, net debt stood at £2.5m (0.07 times Group adjusted EBITDA).

Our priorities for use of cash continue to be:

- capital investment in existing centres as well as new centre opportunities;
- appropriate acquisition opportunities;
- to pay and grow the ordinary dividend every year within a cover ratio of approximately 2 times; and
- thereafter, any excess cash will be available for additional distribution to shareholders as the Board deems appropriate.

To the extent that there is surplus cash within the business, the Board continues to expect to return the surplus to shareholders.

In line with this strategy, this year the Board has proposed a special dividend of 4.33 pence per share be paid to shareholders alongside the ordinary dividend. This will mean that the Group has returned a total of £15.9m in cash to shareholders for the year, equating to 10.59 pence per share. All of the dividend will be paid using cash on the balance sheet. Since IPO we will have returned a total of £29.8m to shareholders, including for the year FY2018.

Cash flow

The Group continues to deliver strong cash generation with Group adjusted operating cash flow at £24.7m with an increase in EBITDA and small working capital movement in FY2018, offset by £5.0m in corporation tax payments in the financial year and maintenance capital spend of £6.7m.

	30 September 2018 £'000	30 September 2017 £'000
Group adjusted EBITDA	36,156	33,374
Movement in working capital	278	2,052
Maintenance capital expenditure ¹	(6,660)	(5,856)
Taxation	(5,030)	(2,905)
Adjusted operating cash flow (OCF)²	24,744	26,665
Adjusted OCF conversion	68.4%	79.9%
Expansionary capital expenditure	(4,316)	(6,896)
Disposal proceeds	24	–
Exceptional items	(234)	(3,153)
Net interest paid	(606)	(961)
Cash flows from financing activities	(1,500)	–
Dividends paid	(13,964)	(2,985)
Net cash flow	4,148	12,670

1 In this table, maintenance capital expenditure includes amusements capital.

2 Adjusted operating cash flow is calculated as Group adjusted EBITDA less working capital, maintenance capital expenditure and taxation. This represents a good measure for the cash generated by the business after taking into account all necessary maintenance capital expenditure to ensure the routine running of the business. This excludes one-off exceptional items and net interest paid.

3 Working capital excludes any exceptional items. These are noted separately above. Working capital includes an amount relating to share based payments for LTIPs of £0.4m in FY2018 (FY2017: £0.1m).

Strong cash generation in the past 12 months has resulted in a decrease in net debt to £2.5m.

Capital expenditure

Total net capital expenditure was down 5.6 per cent year-on-year, to £12.4m. The largest decrease was in respect of new centres, where during FY2017 we spent £4.0m (net of landlord contributions) compared with £1.0m (net of landlord contributions) in FY2018. FY2018 includes capital for the two new centres opened in the year, plus £0.5m for the new Watford centre which will open pre-Christmas 2018. As we continued on our refurbishment and rebrand programme, this expenditure increased year-on-year, by £0.3m, to £3.3m.

Laurence Keen

Chief Financial Officer

10 December 2018

**CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME
YEAR ENDING 30 SEPTEMBER 2018**

	Note	30 September 2018 £'000	30 September 2017 £'000
Revenue		120,548	113,968
Cost of sales		(16,748)	(15,349)
Gross profit		103,800	98,619
Administrative expenses	5	(78,908)	(76,498)
Other income		–	80
Operating profit		24,892	22,201
Underlying operating profit		25,010	22,204
Exceptional items	4	(118)	(3)
Finance income	7	18	12
Finance expenses	7	(976)	(1,158)
Movement in derivative financial instrument		–	55
Profit before tax		23,934	21,110
Tax expense	8	(5,150)	(2,848)
Profit for the year attributable to equity shareholders		18,784	18,262
Other comprehensive income		–	–
Total comprehensive income for the year attributable to equity shareholders		18,784	18,262
Basic earnings per share (pence)	9	12.52	12.17
Diluted earnings per share (pence)	9	12.49	12.17

**CONSOLIDATED STATEMENT
OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018**

	Note	30 September 2018 £'000	30 September 2017 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	41,077	39,709
Intangible assets	11	78,648	78,867
		119,725	118,576
Current assets			
Cash and cash equivalents		26,042	21,894
Trade and other receivables		6,563	7,144
Inventories		1,254	1,189
		33,859	30,227
Total assets		153,584	148,803
LIABILITIES			
Current liabilities			
Trade and other payables	12	16,626	16,857
Loans and borrowings	13	1,380	1,380
Corporation tax payable		2,840	2,461
		20,846	20,698
Non-current liabilities			
Other payables	12	7,616	6,145
Loans and borrowings	13	26,763	28,143
Deferred tax liabilities		487	746
Accruals and provisions		2,934	3,308
		37,800	38,342
Total liabilities		58,646	59,040
NET ASSETS		94,938	89,763
Equity attributable to shareholders			
Share capital		1,500	1,500
Merger reserve		(49,897)	(49,897)
Retained earnings		143,335	138,160
TOTAL EQUITY		94,938	89,763

**CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2018**

	Share capital £'000	Share premium £'000	Merger reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Equity at 30 September 2016	71,512	51,832	(49,897)	99	817	74,363
Share capital reorganisation	(70,012)	(51,832)	–	(99)	121,943	–
Dividends paid	–	–	–	–	(2,985)	(2,985)
Share-based payments	–	–	–	–	123	123
Profit for the period	–	–	–	–	18,262	18,262
Equity at 30 September 2017	1,500	–	(49,897)	–	138,160	89,763
Dividends paid	–	–	–	–	(13,964)	(13,964)
Share-based payments	–	–	–	–	355	355
Profit for the period	–	–	–	–	18,784	18,784
Equity at 30 September 2018	1,500	–	(49,897)	–	143,335	94,938

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2018**

	Note	30 September 2018 £'000	30 September 2017 £'000
Cash flows from operating activities			
Profit before tax		23,934	21,110
Adjusted by:			
Depreciation	10	10,494	9,990
Amortisation of intangible assets	11	504	540
Net interest expense		958	1,145
Loss on disposal of property, plant and equipment and software		148	640
Movement on derivative financial instrument		–	(55)
Share-based payments		355	123
Operating profit before working capital changes		36,393	33,493
Increase in inventories		(65)	(171)
Decrease in trade and other receivables		581	2,490
Decrease in payables and provisions		(709)	(3,035)
Cash inflow generated from operations		36,200	32,777
Interest received		19	12
Income tax paid – corporation tax		(5,030)	(2,905)
Interest paid		(625)	(975)
Net cash inflow from operating activities		30,564	28,909
Investing activities			
Purchase of property, plant and equipment		(10,687)	(13,551)
Purchase of intangible assets		(289)	(196)
Sale of assets		24	493

Net cash used in investing activities	(10,952)	(13,254)
Cash flows from financing activities		
Repayment of bank loan	(1,500)	–
Dividends paid	(13,964)	(2,985)
Net cash flows used in financing activities	(15,464)	(2,985)
Net change in cash and cash equivalents for the period	4,148	12,670
Cash and cash equivalents at the beginning of the period	21,894	9,224
Cash and cash equivalents at the end of the period	26,042	21,894

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The financial information set out above does not constitute the company's statutory accounts for the years ended 30 September 2018 or 2017, but is derived from these accounts. Statutory accounts for 2017 have been delivered to the registrar of companies, and those for 2018 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Hollywood Bowl Group plc (together with its subsidiaries, the Group) is a public limited company whose shares are publicly traded on the London Stock Exchange and is incorporated and domiciled in England and Wales. The registered office of the Parent Company is Focus 31, West Wing, Cleveland Road, Hemel Hempstead, HP2 7BW, United Kingdom. The registered Company number is 10229630.

The Group's principal activities are that of the operation of ten-pin bowling centres as well as the development of new centres and other associated activities.

The Directors of the Group are responsible for the consolidated Financial Statements.

2. Accounting policies

Basis of preparation

The consolidated Financial Statements have been prepared on a going concern basis under the historical cost convention as modified by the recognition of certain financial assets/liabilities (including derivative instruments) at fair value through the statement of comprehensive income.

Judgements made by the Directors, in the application of these accounting policies, that have significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed below..

Critical accounting judgements

Critical judgements are discussed below:

Accounting for the acquisition of amusement machines

The Group, on an ongoing basis, obtains control over amusement machines using extended credit terms over 4 years. Management has concluded that these arrangements should be accounted for as the purchase of property, plant and equipment under IAS 16, with an associated creditor with respect to the extended credit, although the machines return to the supplier at the end of 4 years.

The risk with the amusement machine passes to the Group on completion of delivery and over the predominant useful life of the asset of 4 years. The contract grants rights that include the ability to select

the make and model of the machines as well as control the location and use. These machines are therefore recognised as an asset within property, plant and equipment, and not as a finance lease under IAS17, even though the machines are returned to the supplier at the end of the predominant useful life. The associated amount due to the supplier is recognised within current and non-current liabilities.

The total amount included within non-current liabilities at 30 September 2018 has been discounted during the current year resulting in a credit to property, plant and equipment of £219,000. The creditor balance of £3,366,000 at 30 September 2017 was not discounted and the effect of £139,000 is not considered material. Within the consolidated Group Statement of Cash Flows, cash repayments of the capital are included within purchases of property, plant and equipment in investing activities.

Accounting for this contract under IAS 17 Leases would result in the disclosure of a finance lease liability under debt within the consolidated balance sheet. The total cost recognised would not be materially different compared to the existing policy, as the impact of accounting for this contract as a finance lease would primarily affect balance sheet reclassifications as explained above. Within the consolidated Group Statement of Cash Flows, the cash repayments included within property, plant and equipment would be included as finance lease principal payments within financing activities rather than in the investing activities. The total cash payments would be the same under IAS 17.

Key sources of estimation uncertainty

The key estimates about the future at the reporting period end that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of lanes and pinspotters

The Group determines whether the lanes and pinspotters are impaired, based on the annual impairment assessment, or when there are specific indicators. The pinspotter machines have been in existence for over 40 years and form an integral part of the bowling activity. Whilst there have been technological advancements, in particular 'Pins on strings', management do not intend to replace all existing pinspotters with 'Pins on strings'. This is due to a number of factors including the fact that the 'Pins on strings' technology has not been proved financially or operationally to provide significant benefits in an existing centre where the skills to utilise and maintain the current pinspotters exist. However, should this view change in the future, this could result in an impairment charge being recorded in the financial statements, on account of pinspotters.

'Pins on strings' will be installed for all new builds given the space restrictions that tend to exist, the cost per square foot of space required for the older pinspotters, as well as the lower capital cost of these machines.

3. Reconciliation of operating profit to Group adjusted EBITDA

	30 September 2018 £'000	30 September 2017 £'000
Operating profit	24,892	22,201
Depreciation (note 10)	10,494	9,990
Amortisation (note 11)	504	540
Loss on disposal of property, plant and equipment and software (notes 10 and 11)	148	640
EBITDA	36,038	33,371

Exceptional items (note 4)	118	3
Group adjusted EBITDA	36,156	33,374

Group adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) reflects the underlying trade of the overall business. It is calculated as operating profit plus depreciation, amortisation and any exceptional costs.

Management use Group adjusted EBITDA as a key performance measure of the business and it is considered by management to be a measure investor's look at to reflect the underlying business.

4. Exceptional items

Exceptional items are disclosed separately in the Financial Statements where the Directors consider it necessary to do so to provide further understanding of the financial performance of the Group. They are material items or expenses that have been shown separately due to the significance of their nature or amount:

	30 September 2018 £'000	30 September 2017 £'000
VAT rebate ¹	–	80
IPO related expenses ²	–	(102)
Non-recurring expenditure on strategic projects ³	(118)	(100)
Bank charges ⁴	–	(116)
Dilapidations provision ⁵	–	235
	(118)	(3)

1 The Group was able to make a one-off retrospective reclaim in respect of overpaid VAT relating to customers who were 'no-shows' and children's shoe hire. This has been classified as other income in the consolidated statement of comprehensive income for the year ended 30 September 2017. The amount recognised in FY2017 relates to a historic claim for 'no shows' from FY2015 to FY2016.

2 Costs associated with the IPO of Hollywood Bowl Group plc on the London Stock Exchange on 21 September 2016. Costs include legal and accounting transaction fees along with corporate banking costs.

3 Costs (comprising legal and professional fees) relating to an aborted acquisition.

4 Card payment processing fees relating to prior periods that were not previously invoiced.

5 The release of a dilapidations provision for a site that was exited in FY2018 with no associated costs.

5. Profit from operations

Profit from operations includes the following:

	30 September 2018 £'000	30 September 2017 £'000
Amortisation of intangible assets	504	540
Depreciation of property, plant and equipment	10,494	9,990
Operating leases:		
– Property	14,229	13,648
– Other	50	46
Loss on disposal of property, plant and equipment and software	148	640
Auditor's remuneration:		
– Fees payable for audit of these financial statements	79	75
Fees payable for other services		
– Audit of subsidiaries	30	30
– Review of interim financial statements	25	22
– Other services	3	2
	137	129

6. Staff numbers and costs

The average number of employees (including Directors) during the period was as follows:

	30 September 2018	30 September 2017
Directors	6	6
Administration	70	62
Operations	1,968	1,887
Total staff	2,044	1,955

The cost of employees (including Directors) during the period was as follows:

	30 September 2018 £'000	30 September 2017 £'000
Wages and salaries	25,435	24,651
Social security costs	1,780	1,736
Pension costs	261	180
Shared-based payments	355	123
Total staff cost	27,831	26,690

7. Finance income and expenses

	30 September 2018 £'000	30 September 2017 £'000
Interest on bank deposits	15	9
Other interest	3	3
Finance income	18	12
Interest on bank borrowings	910	1,091
Unwinding of discount on provisions	66	67
Finance expense	976	1,158

8. Taxation

	30 September 2018 £'000	30 September 2017 £'000
The tax expense is as follows:		
– UK corporation tax	4,766	4,667
– Adjustment in respect of prior years	643	(335)
Total current tax	5,409	4,332
Deferred tax:		
Origination and reversal of temporary differences	(253)	(820)
Effect of changes in tax rates	27	22
Adjustment in respect of prior years	(33)	(686)
Total deferred tax	(259)	(1,484)
Total tax expense	5,150	2,848

Factors affecting current tax charge/(credit):

The tax assessed on the profit for the period is different to the standard rate of corporation tax in the UK of 19 per cent (30 September 2017: 19.5 per cent). The differences are explained below:

	30 September 2018 £'000	30 September 2017 £'000
Profit excluding taxation	23,934	21,110
Tax using the UK corporation tax rate of 19% (2017: 19.5%)	4,547	4,116
Change in tax rate on deferred tax balances	27	22
Non-deductible expenses	13	(235)
Tax exempt revenues	(47)	(34)
Adjustment in respect of prior years	610	(1,021)
Total tax expense included in profit or loss	5,150	2,848

The Group's standard tax rate for the year ended 30 September 2018 was 19 per cent (30 September 2017: 19.5 per cent).

£577,000 of the adjustment in respect of prior years for current taxation relates to an expected Advance Thin Capitalisation Agreement tax liability. This is still being finalised with HMRC.

Factors that may affect future current and total tax charges

A reduction in the UK corporation tax rate from 19 per cent to 17 per cent (effective from 1 April 2020) was substantively enacted on 15 September 2016. This will reduce the Group's future current tax charge accordingly and the deferred tax liability at 30 September 2018 has been calculated based on these rates.

9. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of Hollywood Bowl Group plc by the weighted average number of shares outstanding during the year, excluding invested shares held pursuant to Long Term Incentive Plans.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. During the years ended 30 September 2018 and 30 September 2017, the Group had potentially dilutive shares in the form of unvested shares pursuant to Long Term Incentive Plans.

	30 September 2018	30 September 2017
Basic and diluted		
Profit for the year after tax (£'000)	18,784	18,262
Basic weighted average number of shares in issue for the period (number)	150,000,000	150,000,000
Adjustment for share awards	384,101	104,367
Diluted weighted average number of shares	150,384,101	150,104,367
Basic earnings per share (pence)	12.52	12.17
Diluted earnings per share (pence)	12.49	12.17

Adjusted underlying earnings per share

Adjusted earnings per share is calculated by dividing adjusted underlying earnings after tax by the weighted average number of shares issued during the year.

	30 September 2018	30 September 2017
Adjusted underlying earnings after tax (before exceptional costs) (£'000)	18,902	18,256
Basic adjusted earnings per share (pence)	12.60	12.17
Diluted adjusted earnings per share (pence)	12.57	12.16

Adjusted underlying earnings after tax is calculated as follows:

	30 September 2018	30 September 2017
	£'000	£'000
Profit before taxation	23,934	21,110
Exceptional items (note 4)	118	3
Adjusted underlying profit before taxation	24,052	21,113
Less taxation	(5,150)	(2,857)
Adjusted underlying earnings after tax	18,902	18,256

10. Property, plant and equipment

	Long leasehold property £'000	Short leasehold property £'000	Lanes and pinspotters £'000	Amusement machines £'000	Plant & machinery, fixtures and fittings	Total £'000
Cost						
At 1 October 2016	1,224	10,349	7,390	11,439	20,938	51,340
Additions	27	5,921	512	2,716	4,375	13,551
Disposals	–	(950)	–	(1,286)	(3,139)	(5,375)
At 30 September 2017	1,251	15,320	7,902	12,869	22,174	59,516
Discounting of creditors arising on assets purchased in prior years on extended credit terms (note 12)	–	–	–	(68)	–	(68)
Additions	–	3,035	742	4,810	4,008	12,595
Disposals	–	(44)	(83)	(2,699)	(483)	(3,309)
At 30 September 2018	1,251	18,311	8,561	14,912	25,699	68,734
Accumulated depreciation						
At 1 October 2016	110	3,311	3,442	6,050	1,163	14,076
Depreciation charge	49	1,969	144	2,217	5,611	9,990
Disposals	–	(697)	–	(793)	(2,769)	(4,259)
At 30 September 2017	159	4,583	3,586	7,474	4,005	19,807
Depreciation charge	48	1,945	165	2,903	5,433	10,494
Disposals	–	(36)	(83)	(2,204)	(321)	(2,644)
At 30 September 2018	207	6,492	3,668	8,173	9,117	27,657
Net book value						
At 30 September 2018	1,044	11,819	4,893	6,739	16,582	41,077
At 30 September 2017	1,092	10,737	4,316	5,395	18,169	39,709
At 30 September 2016	1,114	7,038	3,948	5,389	19,775	37,264

Lanes and pinspotters have been disclosed as a separate item of property, plant and equipment in the comparative and current year to enable an improved understanding of what the property, plant and equipment comprises of. This disclosure enhancement has been done to enable an improved understanding of a key estimation uncertainty (note 2).

Impairment

Impairment testing is carried out at the cash-generating unit (CGU) level on an annual basis. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Each individual centre is considered to be a CGU.

The Group determines whether property, plant and equipment are impaired when indicators of impairments exist or based on the annual impairment assessment. The annual assessment requires an estimate of the value in use of the CGU to which the property, plant and equipment are allocated.

11. Intangible assets

	Goodwill £'000	Brand ¹ £'000	Trademark ¹ £'000	Software £'000	Total £'000
Cost					
At 1 October 2016	75,034	3,360	802	1,040	80,236
Additions	–	–	–	196	196
Disposals	–	–	–	(65)	(65)
At 30 September 2017	75,034	3,360	802	1,171	80,367
Additions	–	–	–	289	289
Disposals	–	–	(4)	(5)	(9)
At 30 September 2018	75,034	3,360	798	1,455	80,647
Accumulated amortisation					
At 1 October 2016	–	348	116	544	1,008
Amortisation charge	–	168	51	321	540
Disposals	–	–	–	(48)	(48)
At 30 September 2017	–	516	167	817	1,500
Amortisation charge	–	168	50	286	504
Disposals	–	–	(1)	(4)	(5)
At 30 September 2018	–	684	216	1,099	1,999
Net book value					
At 30 September 2018	75,034	2,676	582	356	78,648
At 30 September 2017	75,034	2,844	635	354	78,867
At 30 September 2016	75,034	3,012	686	496	79,228

1 This relates to the Hollywood Bowl brand and trademark only.

Impairment testing is carried out at the cash-generating unit (CGU) level on an annual basis. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Each individual centre is considered to be a CGU. However, for the purposes of testing goodwill for impairment, it is acceptable under IAS36 to group CGUs, in order to reflect the level at which goodwill is monitored by management. The whole Group is considered to be one CGU, for the purposes of goodwill impairment test, on the basis of the level at which goodwill is monitored by management and historical allocation of goodwill upon acquisition.

The recoverable amount of the CGU is determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by the Board covering a three-year period. Cash flows

beyond this period are extrapolated using the estimated growth rates stated in the key assumptions. The key assumptions used in the value-in-use calculations are:

	2018	2017
Discount rate (pre-tax)	8.7%	8.9%
Growth rate	2.0%	2.0%

Discount rates reflect management's estimate of return on capital employed required and assessment of the current market risks. This is the benchmark used by management to assess operating performance and to evaluate future capital investment proposals. These discount rates are derived from the Group's weighted average cost of capital. Changes in the discount rates over the years are calculated with reference to latest market assumptions for the risk free rate, equity market risk premium and the cost of debt. Other assumptions also include the number of games and spend per game.

Based on these assumptions there is no impairment required.

Goodwill is tested for impairment on at least an annual basis, or more frequently if events or changes in circumstance indicate that the carrying value may be impaired. In the years under review management's value-in-use calculations have indicated no requirement to impair.

Sensitivity to changes in assumptions

The estimates of the recoverable amounts associated with the CGU affords reasonable headroom over the carrying value.

Management have sensitised the key assumptions in the goodwill impairment tests and under both the base case and sensitised cases no impairment exists. The key assumptions used and sensitised were forecast growth rates and the discount rate, which were selected as they are the key variable elements of the value in use calculation.

A reduction of 1% or 2% in growth rates for each CGU or an increase in the discount rate applied to the cashflows of each CGU of 1% would not cause the carrying value to exceed its recoverable amount. Therefore, management believe that any reasonably possible change in the key assumptions would not result in an impairment charge.

12. Trade and other payables

	30 September 2018 £'000	30 September 2017 £'000
Current		
Trade payables	3,548	3,534
Other payables	3,364	3,225
Accruals and deferred income	7,091	7,298
Taxation and social security	2,623	2,800
Total trade and other payables	16,626	16,857
	30 September 2018 £'000	30 September 2017 £'000
Non-current		
Other payables	7,616	6,145

Accruals and deferred income includes a staff bonus provision of £2,312,000 (2017: £2,730,000).

Non-current other payables include lease incentives received of £2,560,000 (30 September 2017: £2,780,000) which are expected to be released to the statement of comprehensive income on a straight-line basis over the remaining term of each lease, which range from 1 to 25 years, and extended credit of £5,056,000 (30 September 2017: £3,365,000) from an amusement machine supplier. The total amount outstanding due to the amusement machine supplier as at 30 September 2018 is £8,133,000 (30 September 2017: £6,369,000), out of which £3,077,000 (30 September 2017: £3,003,000) is disclosed within the current liabilities. The balance as at 30 September 2017 was not discounted but the effect of discounting would not have been material.

13. Loans and borrowings

	30 September 2018 £'000	30 September 2017 £'000
Current		
Bank loan	1,380	1,380
Borrowings (less than 1 year)	1,380	1,380
Non-current		
Bank loan	26,763	28,143
Borrowings (greater than 1 year)	26,763	28,143
Total borrowings	28,143	29,523

Bank borrowings have the following maturity profile:

	30 September 2018 £'000	30 September 2017 £'000
Due in less than 1 year	1,500	1,500
Less issue costs	(120)	(120)
	1,380	1,380
Due 2 to 5 years	27,000	28,500
Due over 5 years	–	–
Less issue costs	(237)	(357)
Total borrowings	28,143	29,523

The bank loans are secured by a fixed and floating charge over all assets. The loans carry interest at LIBOR plus a variable margin.

	30 September 2018 £'000	30 September 2017 £'000
Loans and borrowings brought forward	29,523	29,643
Repayment during the year	1,500	–
Amortisation of issue costs	(120)	(120)
Loans and borrowings carried forward	28,143	29,523

On 21 September 2016, the Group entered into a £30m facility with Lloyds Bank plc. This facility is due for repayment in instalments over a five-year period up to the expiry date of 20 September 2021. The first repayment of £0.75m was due 31 December 2017, and every six months up to 31 December 2020. The remaining balance of £24.75m will be repayable at the expiry date of 20 September 2021. As at 30 September 2018, the outstanding loan balance, excluding the amortisation of issue costs, was £28,500,000 (30 September 2017: £30,000,000). In addition, the Group had an undrawn £5m revolving credit facility and undrawn £5m capex facility at 30 September 2018 and 30 September 2017. All loans carry interest at LIBOR plus a margin, which varies in accordance with the ratio of net debt divided by EBITDA and cash flow cover. The margin at 30 September 2018 was 1.75 per cent and at 30 September 2017 was 2.25 per cent.

14. Related party transactions

30 September 2018

During the period here were no transactions with related parties.

30 September 2017

During the period Epiris Managers LLP charged a management fee of £25,000 to the Group.

15. Dividends paid and proposed

	30 September 2018 £'000	30 September 2017 £'000
The following dividends were declared and paid by the Group		
Final dividend year ended 30 September 2016 – 0.19p per Ordinary share	–	285
Interim dividend year ended 30 September 2017 – 1.8p per Ordinary share	–	2,700
Final dividend year ended 30 September 2017 – 3.95p per Ordinary share	5,925	–
Special dividend year ended 30 September 2017 – 3.33p per Ordinary share	4,995	–
Interim dividend year ended 30 September 2018 – 2.03p per Ordinary share	3,044	–
	13,964	2,985
Proposed for approval by shareholders at AGM (not recognised as a liability at 30 September 2018)		
Final dividend year ended 30 September 2018 – 4.23 p per Ordinary share (2017: 3.95p)	6,347	5,925
Special dividend year ended 30 September 2018 – 4.33 p per Ordinary share (2017: 3.33p)	6,495	4,995

Responsibility statement of the Directors

The following statement will be contained in the 2018 Annual Report and Accounts

We confirm that to the best of our knowledge:

the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

On behalf of the Board

Stephen Burns
Chief Executive Officer
10 December 2018

Laurence Keen
Chief Financial Officer
10 December 2018

PRINCIPAL RISKS

Effective risk management

Our approach to risk

When we look at risk, we specifically consider the effects it could have on our business model, our culture and therefore our ability to deliver our long-term strategic purposes.

We consider both short- and long-term risks within a timeframe of up to three years. We consider social, governance and environmental risks as well as financial risks.

Risk appetite

This describes the amount of risk we are willing to tolerate as a business. We have a higher appetite for risks around a clear opportunity to deliver on the strategy of the business.

We have a very low appetite for, and tolerance of, risks that have a downside only, particularly when they could adversely impact health and safety or our value, culture or business model.

Our risk management process

The Board is ultimately responsible for ensuring that a robust risk management process is in place and that it is being adhered to. The main steps in this process are:

- Department heads formally review their risks on a six-monthly basis to compile their department risk register. They consider the impact each risk they are managing could have on the department and overall business, as well as the mitigating controls in place. They assess the likelihood and impact of each risk.
- The Executive team reviews each departmental risk register. Any risks which are deemed to have a level above our appetite are added to/retained on the Group Risk Register (GRR). The GRR provides

an overview of these risks and how they are being managed. The GRR also includes any risks the Executive team is managing at a Group level. The Executive team determines mitigation plans for the Board to review.

- The Board challenges and agrees the Group's key risk, appetite and mitigation actions twice yearly and uses its findings to finalise the Group's principal risks.
- The principal risks are taken into account in the Board's consideration of long-term viability as outlined in the viability statement.
- Risks and uncertainties of which we are unaware, or which we currently believe are immaterial, may have an adverse effect on the Group.




Risk management activities







Risks are identified via operational reviews by senior management; internal audits; control environments; our whistleblowing helpline; and independent project analysis.



The internal audit team provides independent assessment of the operation and effectiveness of the risk framework and process in centres, including the effectiveness of the controls, reporting of risks and reliability of checks by management.

We have undertaken an extensive review of the organisation's risk profile to verify that all risks have been identified and considered by management.

Trend change

-  Increasing
-  Unchanged
-  Decreasing

Risk type	Risk and Impact	Mitigating factors
FINANCIAL 1 	<ul style="list-style-type: none"> • Adverse economic conditions may affect Group results. • A decline in spend on discretionary leisure activity could lead to a reduction in profits. 	<ul style="list-style-type: none"> • The Board is comfortable that the majority of locations are based in high-footfall areas which should stand up to a recessionary decline. This continues to be a focus as can be seen by the new centre openings and their performance. Both Southampton and Derby have EBITDA performance in excess of £600,000 in year one and continue to provide strong returns. • A focus on opening new centres only with appropriate property costs remains high on the new-opening agenda. • The implementation of dynamic pricing has resulted in higher spend per game and a small increase in people booking early.
FINANCIAL 2 	<ul style="list-style-type: none"> • Adversely impacted by a failure to review funding arrangements when they become due, or a failure to meet banking covenants. • Covenant breach would result in a review of banking arrangements and potential liquidity issues. 	<ul style="list-style-type: none"> • The Group has considerable headroom on the current facility with net debt and cash flow cover significantly below its covenant levels, as shown in the monthly Board packs. We prepare short-term and long-term cash flow, EBITDA and covenant forecasts to ensure risks are identified early. Tight controls exist over the approval for capex and expenses. • The special dividends for FY2017 and proposed special dividend for FY2018 are excluded from the covenant test for cash flow cover, as agreed with the Group's lender.
OPERATIONAL 1 	<ul style="list-style-type: none"> • Failure in the stability or availability of information through IT systems could affect Group business and operations. • Customers not being able to book through website. Inaccuracy of data could lead to incorrect business decisions being made. 	<ul style="list-style-type: none"> • All core systems are backed up to our Disaster Recovery Centre. • The reservation/CRM systems, provided by a third party, are hosted by Microsoft Azure Cloud for added resilience and performance. This also has full business continuity provision.
OPERATIONAL 2 	<ul style="list-style-type: none"> • Operational business failures from key suppliers (non-IT). • Unable to provide customers with a full experience. 	<ul style="list-style-type: none"> • The Group has key suppliers in food and drink under contract to tight service level agreements (SLAs). Other suppliers that know our business could be introduced, if needed, at short notice. Centres hold between 14 and 21 days of food, drink and amusement product. Regular reviews and updates are held with external partners to identify any perceived risk and its resolution.
OPERATIONAL 3 	<ul style="list-style-type: none"> • Any disruption which affects Group relationship with amusement suppliers. • Customers would be unable to utilise a core offer in the centres. 	<ul style="list-style-type: none"> • Regular key supplier meetings between our Product Director, and Namco and Gamestec. There are biannual meetings between the CEO, CFO and Namco. • New Gamestec and Namco contracts, with an expiry date of September 2022, have been signed.
OPERATIONAL 4 	<ul style="list-style-type: none"> • Loss of key personnel – centre managers. • Lack of direction at centre level with effect on customers. 	<ul style="list-style-type: none"> • The Group runs centre manager in training (CMIT) and assistant manager in training (AMIT) programmes annually, which identify potential centre talent and develop staff ready for these roles. CMITs run centres, with assistance from the regional support manager as well as experienced centre managers from across the region, when a vacancy needs to be filled at short notice. • The centre manager bonus scheme has been reviewed this year to ensure

		it is still a strong recruitment and retention tool. Small amends to make it more attractive include a long-term retention plan.
OPERATIONAL 5 NEW	<ul style="list-style-type: none"> Major food incident including allergen or fresh food issues. Loss of trade and reputation, potential closure and litigation. 	<ul style="list-style-type: none"> Enhanced centre audits for FY2019 based upon learnings of prior year and food incidents seen in other companies. STRIKES training, which includes allergen and intolerance issues, to be reviewed, understood and complied with. An updated nutrition project in Q1 FY2019 will further increase awareness in this area.
TECHNICAL 1 	<ul style="list-style-type: none"> Data protection or GDPR breach. Obtaining all customer email addresses and impact on reputation with customer database. The Group does not hold any customer payment information. 	<ul style="list-style-type: none"> The Group's IT networks are protected by firewalls and secure passwords. Vulnerability scans are frequently run on firewalls to ensure their integrity. The Group plans to move to a new analytics system allowing the IT team to see real-time or historical threat analytics. A GDPR steering group was established in FY2017 and monthly steering group meetings are held to ensure that the programme and data related queries/issues are addressed as part of GDPR governance. A data protection officer has been appointed. All team members have been briefed via online presentations. A training course on GDPR awareness was created on STRIKES and all team members have completed an online training course.
REGULATORY 1 	<ul style="list-style-type: none"> Failure to adhere to regulatory requirements such as listing rules, taxation, health and safety, planning regulations and other laws. Potential financial penalties and reputational damage. 	<ul style="list-style-type: none"> Expert opinion is sought where relevant. We run continuous training and development for appropriately qualified staff. The Board has oversight of the management of regulatory risk and ensures that each member of the Board is aware of their responsibilities. Compliance documentation for centres to complete for health and safety and food safety are updated and circulated twice per year. Adherence to company/legal standards is audited by the internal audit team.