

## Top Ten Holdings plc: Interim Statement for the period ending 28 September 2008

24<sup>th</sup> November 2008

**Top Ten Holdings plc, is the third largest UK bingo operator with 37 bingo clubs predominantly in the Midlands and North West of England, and in Wales.**

### Key Points

- Results impacted by turmoil resulting from the effects of the "Credit Crunch" and commodity inflation.
- Following cost cutting in 2007, the results reflect a drop in overheads of over £600,000 in the first half.
- Total VAT refund claims now amount to £13.2 million.
- In spite of losses, the Group's trading operation was cash generative.
- Net assets of £9.3 million (2007: £23.7 million).
- Current trading: remaining unpredictable in difficult market conditions.

Commenting on the results Sir Aubrey Brocklebank, Chairman, said,

***"Events over the last 18 months have seen the Group survive the introduction of the smoking ban, the impact of the Gambling Act and the current financial turmoil with its inevitable impact on consumer confidence. However the Group continues to make profits and generate cash at the operational level. The second half of the year may bring further challenges but we enjoy the support of our customers, staff, suppliers, bankers and shareholders."***

### For Further Information:

Top Ten Holdings plc

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**Sir Aubrey Brocklebank, Chairman**

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## **CHAIRMAN'S STATEMENT**

### **Introduction**

The period of 26 weeks ending 28<sup>th</sup> September 2008, on which the interim results are based, has been one of unprecedented turmoil in the world's financial markets with considerable falls in property prices. This combined with very high inflation in basic commodities and fuel has left many of our customers considerably worse off putting pressure on their disposable income. Against this background your board has managed the business with the generation and conservation of cash as its number one priority.

### **Results**

Operating profits declined to £0.07 million (2007: £1.4 million). Pre-tax losses were £1.36 million (2007: £0.38 million profit) after taking into account exceptional items which comprised closed site and reorganisation costs. Loss per share was (5.7p) after exceptional items (Earnings per share 2007: 1.2p). Net asset value was £9.3 million (2007: £23.7 million).

Whilst it is disappointing to report a loss the group has managed to make a positive cash contribution from operating activities. The results reflect some but not all of the cost cutting measures instigated last year.

Spend per head is running slightly higher than last year but the number of visits has reduced as customers are making fewer visits per week due to their own cash constraints.

### **Disposals**

Subsequent to the period, Top Ten sold a closed site realising proceeds of £180,000, equivalent to book value.

### **Capital Expenditure**

Whilst the group has an active capital expenditure programme, in the current economic climate we have done very little beyond normal repairs and renewals

### **Internet Bingo**

Our internet bingo site [www.toptenbingo.com](http://www.toptenbingo.com). made a small but useful contribution during the year.

### **VAT Reclaim**

As previously reported we have made VAT refund claims totalling c. £8 million which splits into that claimed in respect of Fruit Machine income and Bingo income totalling £ 2.6 million and £5.4 million respectively. As a result of the Conde Nast case the period over which we can claim has been extended and further claims have been made for prior periods for an additional £5.2 million.

Rank won its Tribunal claim in respect of interval bingo income but HMRC has appealed this and the case is due to be heard in the High Court in the first half of 2009.

We have continued to withhold payment of VAT on interval and main stage bingo income and at 28<sup>th</sup> September there was a contingent liability for VAT of £2.1 million.

### **Banking**

At 28<sup>th</sup> September 2008 the Group had net bank debt of £28.4 million. Given the current reduced level of profitability and the depressed state of the property market this is not considered to be sustainable. The Company is holding constructive discussions with its bankers about how best to address its financial position.

### **Prospects**

It seems unlikely that we will see any marked improvement in trading until the economy picks up and our customers have more disposable income. How long this will take is hard to predict but we do not forecast any dramatic changes to the good in the forthcoming year. However we are encouraged to see that oil and food prices are falling which may ease the liquidity of our customers. We are focussed on maintaining positive cash flow and retaining the income that we have.

**Sir Aubrey Brocklebank**  
**Chairman**

**21<sup>st</sup> November 2008**

## Condensed consolidated interim income statement (unaudited)

	26 weeks to 28 September 2008	Non- recurring	26 weeks to 28 September 2008	26 weeks to 30 September 2007	52 weeks to 30 March 2008
	£000	£000	£000	£000	£000
<b>Continuing operations</b>					
Revenue	11,580	-	11,580	13,654	25,829
Cost of sales	(1,766)	-	(1,766)	(2,181)	(4,085)
<b>Gross profit</b>	<b>9,814</b>	-	<b>9,814</b>	11,473	21,744
Operating costs	(8,374)	-	(8,374)	(9,092)	(17,603)
Administrative expenses	(1,128)	-	(1,128)	(1,014)	(2,949)
Other operating income	58	-	58	290	432
Other operating expenses	-	(301)	(301)	(202)	(7,740)
Operating profit	370	(301)	69	1,455	(6,116)
Finance costs	(1,427)	-	(1,427)	(1,074)	(2,736)
<b>(Loss)/profit before tax</b>	<b>(1,057)</b>	<b>(301)</b>	<b>(1,358)</b>	381	(8,852)
Taxation	(85)	-	(85)	(71)	1,875
<b>(Loss)/profit for the period</b>	<b>(1,142)</b>	<b>(301)</b>	<b>(1,443)</b>	310	(6,977)
<b>(Loss)/profit for the period attributable to ordinary shareholders</b>	<b>(1,142)</b>	<b>(301)</b>	<b>(1,443)</b>	310	(6,977)
<b>(Loss)/Earnings per share:</b>					
Basic (loss)/earnings per share			(5.7p)	1.2p	(27p)
Diluted (loss) /earnings per share			(5.7p)	1.2p	(27p)

## Condensed consolidated interim balance sheet (unaudited)

	28 September 2008	30 September 2007	30 March 2008
	£000	£000	£000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	11,386	16,600	11,457
Property, plant and equipment	21,654	25,397	22,451
Other financial assets	124	912	-
Other non-current assets	10,668	11,249	10,837
	<u>43,832</u>	<u>54,158</u>	<u>44,745</u>
<b>Current assets</b>			
Inventories	257	480	447
Trade and other receivables	1,512	1,597	584
Cash and cash equivalents	964	1,172	1,319
Assets classified as for resale	324	-	324
Tax repayment	11	-	615
	<u>3,068</u>	<u>3,249</u>	<u>3,289</u>
<b>Total assets</b>	<u>46,900</u>	<u>57,407</u>	<u>48,034</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Interest bearing loans and borrowings	(2,760)	(3,126)	(1,798)
Trade and other payables	(3,199)	(915)	(3,382)
Tax payable	-	-	-
Other financial liabilities	-	-	(81)
	<u>(5,959)</u>	<u>(4,041)</u>	<u>(5,261)</u>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	(26,933)	(29,057)	(27,624)
Provisions	(80)	-	(80)
Deferred tax liabilities	(4,638)	(561)	(4,495)
<b>Total non-current liabilities</b>	<u>(31,651)</u>	<u>(29,618)</u>	<u>(32,199)</u>
<b>Total liabilities</b>	<u>(37,610)</u>	<u>(33,659)</u>	<u>(37,460)</u>
<b>Net assets</b>	<u>9,290</u>	<u>23,748</u>	<u>10,574</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	5,101	5,101	5,101
Share premium	8,879	8,879	8,879
Share options reserve	-	12	-
Other reserve	101	912	(58)
Retained earnings	(4,791)	8,844	(3,348)
<b>Total equity</b>	<u>9,290</u>	<u>23,748</u>	<u>10,574</u>

## Condensed consolidated statement of changes in equity

	Share Capital £000	Share Premium £000	Other Reserves £000	Retained Profits £000	Total Equity £000
<b>Balance at 30 March 2008</b>	5,101	8,879	(58)	(3,348)	10,574
Profit/(loss) for the period	-	-	-	(1,443)	(1,443)
Changes in fair value of cash flow hedges	-	-	148	-	148
<b>Total recognised income and expense for the period</b>	5,101	8,879	90	(4,791)	9,279
Shares issued during period	-	-	-	-	-
Dividend	-	-	-	-	-
Share Option charge	-	-	11	-	11
<b>Balance at 28 September 2008</b>	5,101	8,879	101	(4,791)	9,290

**Condensed consolidated interim cash flow statement (unaudited)**

	26 weeks to 28 September 2008 £000	26 weeks to 30 September 2007 £000	52 weeks to 30 March 2008 £000
<b>Cash flows from operating activities</b>			
(Loss)/profit for period	(1,443)	310	(6,977)
Adjustments for:			
Share based payment	-	1	-
Depreciation, amortisation and impairment	1,017	937	9,037
Financial income	-	(1)	-
Financial expense	1,427	1,075	2,736
Gain on sale of property, plant and equipment	12	(290)	(432)
Taxation	(85)	71	(1,875)
	<u>928</u>	<u>2,103</u>	<u>2,489</u>
Decrease/(increase) in inventories	190	9	41
Decrease/(increase) in trade and other receivables	(650)	(847)	166
Increase in trade payables	(41)	242	504
Increase in provisions and employee benefits	-	-	80
	<u>427</u>	<u>1,507</u>	<u>3,280</u>
Taxation repaid/(paid)	603	(314)	(622)
<b>Net cash from operating activities</b>	<u>1,030</u>	<u>1,193</u>	<u>2,658</u>
<b>Cash flows from investing activities</b>			
Interest received	-	1	-
Investment in intangible assets	-	(15)	-
Acquisition of Property, plant and equipment	(25)	(732)	(1,314)
Proceeds from sale of Property, plant and equipment	35	599	1,102
<b>Net cash from investing activities</b>	<u>10</u>	<u>(147)</u>	<u>(212)</u>
<b>Cash flows from financing activities</b>			
Repayments of obligations under finance leases	(367)	(591)	(323)
Interest paid	(1,028)	(1,075)	(2,194)
Proceeds from new loan	-	402	-
Dividends paid to shareholders	-	(255)	(255)
<b>Net cash from financing activities</b>	<u>(1,395)</u>	<u>(1,519)</u>	<u>(2,772)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<u>(355)</u>	<u>(473)</u>	<u>(326)</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>1,319</u>	<u>1,645</u>	<u>1,645</u>
<b>Cash and cash equivalents at end of period</b>	<u><u>964</u></u>	<u><u>1,172</u></u>	<u><u>1,319</u></u>

## **Notes to the condensed consolidated interim financial statements**

### **1 Basis of preparation**

The unaudited interim financial statements of Top Ten Holdings plc are for the twenty six weeks ended 28<sup>th</sup> September 2008 and have been prepared in accordance with International Financial Reporting Standards (IFRS).

These interim financial statements have been prepared in accordance with the Group's accounting policies under IFRS and have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value. The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies.

This financial information does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The Group's statutory financial statements for the period ended 30<sup>th</sup> March 2008, prepared under IFRS, received an unqualified audit report, did not contain statements under section 237(2) of the Companies Act 1985 and have been filed with the Registrar of Companies.

The auditors report for the period ended 30<sup>th</sup> March 2008 included a reference in respect of the existence of a material uncertainty which may cast significant doubt over the group and company's ability to continue as a going concern. The auditors drew attention to this matter by way of emphasis without qualifying their audit report.

#### ***Going concern***

The condensed consolidated interim financial statements are prepared on a going concern basis which the directors consider appropriate.

The directors have prepared future financial forecasts, including cash flow forecasts, for the next twelve months from the date of these interim financial statements. The group's performance during 2008 continues to be adversely affected by the smoking ban in England and Wales, the costs and negative impact of the Gambling Act and the current economic climate impacting on our customers' disposable income. The group breached covenants in June and September 2008 and the forecasts, based upon current trading, show that the group is unable to meet future covenants set out within the banking facilities. The forecasts exclude any receipt of VAT claims submitted by the company or repayment of VAT withheld by the company. There are significant uncertainties surrounding the treatment of VAT on bingo related income (as set out below) which could significantly affect the future receipts and payments of VAT within the forecast period.

#### ***Uncertainty surrounding the treatment of VAT on bingo income***

For some years, the bingo industry has been urging reform of the double taxation (VAT and gross profit tax) on bingo income. The trade association has argued that the tax treatment is not only excessive but unlawful. As a result there is significant uncertainty surrounding the treatment of bingo income and a number of relevant test cases are currently in progress.

Following the advice of tax counsel, from 1 July 2007 the group has prepared its VAT returns and made VAT payments on the basis that both mechanised cash bingo and participation fees are exempt from VAT. Additionally the group made claims to HMRC for the repayment of £5.4 million relating to VAT paid on income from mechanised cash bingo and participation fees in earlier periods. The result of a recent VAT tribunal case between HMRC and another bingo operator confirms the group's position regarding mechanised cash bingo and provides support to the position adopted on participation fees. However HMRC have appealed the result of the tribunal, indicated that they do not agree with the group's position and raised a protective assessment. In addition to the claims for mechanised cash bingo and participation fees the group has an additional claim pending the repayment of £2.6 million relating to VAT on fruit machine income (a VAT Tribunal decision is currently awaited).

## **Notes** (continued)

### **Going concern** (continued)

Ultimately if HMRC's interpretation of the legislation were proved correct then the group estimate they would have to make additional VAT payments in relation to both mechanised cash bingo and participation fees of £1,767,000 covering VAT quarters from 1<sup>st</sup> July 2007 to 28<sup>th</sup> September 2008 plus interest and potentially penalties. As set out earlier the directors do not believe these amounts are payable and have not included the payments within their cash flow forecasts. The current facilities are not sufficient to make these additional payments if payment were demanded in the forecast period. If the directors were not successful in their claim that participation fees are VAT exempt then their initial analysis shows that a number of games would be VAT exempt under the gambling for small prizes section of the Gambling Act significantly reducing the amounts which would become payable.

### *Financial forecasts and bank support*

The group breached one of its agreed covenants in June 2008 and breached two covenants in September 2008 and the financial forecasts show the group is likely to breach future covenants. The forecasts exclude any potential VAT payments for mechanised cash bingo and participation fees if HMRC were ultimately successful in their interpretation of the legislation.

The bank have waived the covenant breach in June 2008 and indicated their intention to assist the company in restructuring its facilities. Additionally, the bank recognises the uncertainty surrounding the timing of receipts from claims for overpaid VAT and therefore the requirement to restructure the banking facilities. On this basis the directors consider it appropriate to prepare the financial statements on a going concern basis.

However, until such time as the new facilities are agreed and the proceeds from the sale of property and repayments of VAT are finalised and received by the group there is material uncertainty which may cast significant doubt over the group's ability to continue as a going concern. If the group is unable to agree facilities (including revised covenants) which meet its future cash flow requirements then the group may be unable to realise its assets and discharge its liabilities in the normal course of business.

## **2 Summary of significant accounting policies**

The accounting policies used in the interim statement are expected to be consistent with those used in the financial statements for the 52 weeks ended 29<sup>th</sup> March 2009.

Key accounting policies are summarised below:

### **a Basis of Consolidation**

#### **Subsidiaries**

Subsidiaries are entities over which the Company has power to control the financial and operating policies so as to obtain benefits from its activities.

Investments in subsidiary undertakings are accounted for using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Company's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

## Notes to the condensed consolidated interim financial statements (continued)

### b Revenue Recognition

Revenue results from the operation of bingo clubs, snooker clubs, and amusement arcades. Bingo revenue is recorded as the customer stake, less applicable gaming duties and cash prizes. Revenues from admission prices, fruit machines, sundry income and the sale of food and beverages are recorded net of VAT.

### c Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, joint ventures and associates. In respect of business acquisitions goodwill represents the difference between the cost of acquisition and the fair value of the net identifiable assets acquired. Goodwill is allocated to cash generating units and is tested annually for impairment at a consistent time each year. Goodwill is stated at cost or deemed cost less any accumulated impairment losses.

### d Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of depreciation and any provisions for impairment.

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement. The gain or loss arising from the sale of held for sale assets is included in "other income" or "other expense" in the income statement.

Depreciation is calculated to write off the cost of the assets less estimated residual value over their expected useful lives. Depreciation is provided at the following rates:

Freehold property	2% straight line
Leasehold property	Over life of lease
Plant, property and equipment	12.5% - 20% reducing balance
Motor vehicles	25% reducing balance

The carrying values of property, plant and equipment are reviewed for impairment when there is an indication that they may be impaired.

## 3 Segmental reporting

The Group has only one business segment, the operation of bingo clubs in England and Wales.

Notes to the condensed consolidated interim financial statements  
(continued)

4 Taxation

	<b>26 weeks to 28 September 2008 £000</b>	26 weeks to 30 September 2007 £000	52 weeks to 30 March 2008 £000
Current tax expense/(credit):			
Corporation tax current period	-	71	(610)
	<hr/>	<hr/>	<hr/>
Current tax expense/(credit)	-	71	(610)
	<hr/>	<hr/>	<hr/>
Deferred tax expense/(credit):			
Origination and reversal of temporary differences	85	-	(757)
Tax losses recognised	-	-	(115)
Reduction in tax rate	-	-	(393)
	<hr/>	<hr/>	<hr/>
Deferred tax expense/(credit)	85	-	(1,265)
	<hr/>	<hr/>	<hr/>
Tax expense/(credit) in income statement	<b>85</b>	71	(1,875)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

5 Earnings per share

The calculation of basic (loss)/earnings per share is based on a (loss)/profit for the period of £(1.44 million) (2007: £0.31 million) and on 25,505,751 (2007: 25,505,751) ordinary shares, being the weighted average number of ordinary shares in issue during the period.

The loss attributable to ordinary shareholders and the weighted average number of ordinary shares for the purpose of calculating the diluted loss per share has not been adjusted for the warrants issued during the period amounting to 10% of the issued share capital, equivalent to 2,833,972 additional ordinary shares. The adjusted loss attributable to ordinary shareholders and the weighted average number of ordinary shares for the purposes of calculating the diluted adjusted loss per share are identical to those used for the adjusted loss per share.

6 Dividends

No dividend was proposed (2007: 1p per share totalling £255,056) which was approved at the Annual General Meeting on 24<sup>th</sup> September 2008.

7 Contingencies

VAT on mechanised cash bingo

Following the advice of tax counsel from 1 July 2007 the group has prepared its VAT returns and made VAT payments on the basis that mechanised cash bingo is exempt from VAT. Additionally the group made claims to HMRC for the repayment of £3.1 million relating to VAT paid on income from mechanised cash bingo in earlier periods. The result of a recent VAT tribunal case between HMRC and

## **Notes to the condensed consolidated interim financial statements (continued)**

another bingo operator, regarding mechanised cash bingo, confirms the group's position. However HMRC have appealed the result of the tribunal, indicated that they do not agree with the group's position and raised a protective assessment. The directors believe a repayment of this VAT is highly likely but given the current legal position cannot be virtually certain and so have not recognised the asset or additional income arising if the repayment were successful. A further claim has been submitted for repayment of £2.2 million relating to VAT paid on income from mechanised cash bingo as the claims originally submitted were subject to a three year time cap.

Ultimately if HMRC's interpretation of the legislation were proved correct then the directors estimate they would have an additional liability to VAT on mechanised cash bingo for the period from 1 July 2007 to 28 September 2008 of £1.2 million plus interest and potentially penalties (less the additional amounts of unrecoverable VAT and GPT already paid).

### VAT on participation fees

Additionally the group made claims to HMRC for the repayment of £2.3 million relating to VAT paid on income from participation fees. The principles of the case are similar to those in the mechanised cash bingo tribunal and ultimately the directors are confident of successfully pursuing this repayment but have not recognised any asset or recorded the income within these financial statements in relation. If the directors were not successful in their claim that participation fees are VAT exempt then they would submit a repayment claim based upon the VAT exemption for gambling for small prizes. Initial analysis demonstrates that a significant proportion of their bingo games from 2007 onwards would be VAT exempt following the increase in limits for gambling for small prizes within the 2005 Gambling Act (implemented in 2007). A further claim has been submitted for repayment of £2.9 million relating to VAT paid on income from participation fees as the claims originally submitted were subject to a three year time cap.

### VAT on fruit machine income

Following a judgment in the European Court, the company has submitted a claim for a refund of £2.6 million of VAT previously paid. A related case has recently been heard by a VAT tribunal and the decision is awaited. There is no effect on current trading.

## **8 Interim Statement**

This interim statement is unaudited. The interim statement will be sent to shareholders and will also be available from the investor relations section of the Group's website at [www.toptenbingo.com](http://www.toptenbingo.com). Copies may be obtained from the Company Secretary, Top Ten Holdings plc, Unit 8, Verulam Industrial Estate, 224 London Road, St Albans, Hertfordshire AL1 1JF.