

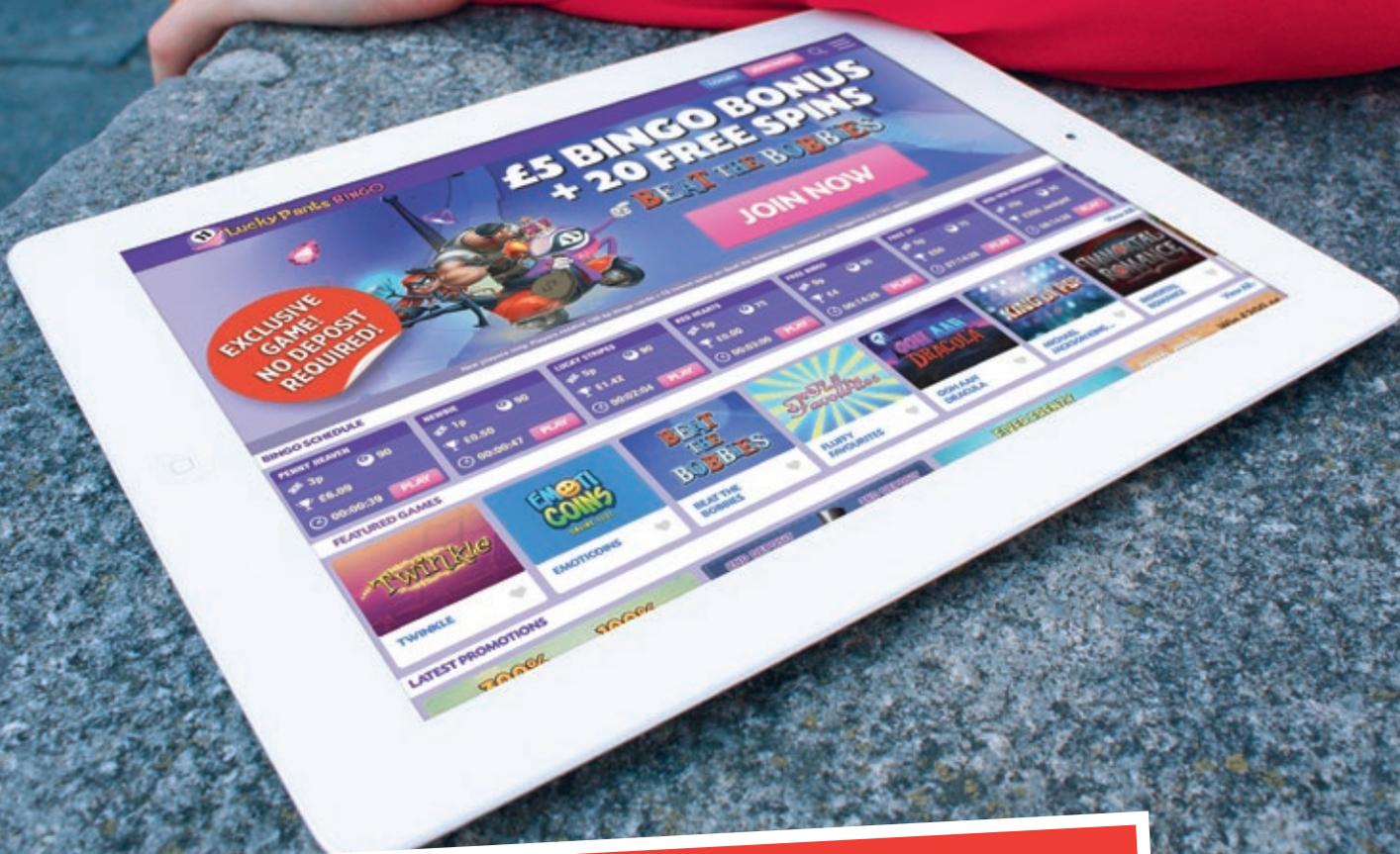


Creating entertainment

you can bet on

Stride Gaming plc Annual report and financial statements 2017

Stride
GAMING



Creating entertainment you can bet on

Our portfolio of diverse brands uses a combination of proprietary and purchased software to provide a unique and compelling online gaming experience to a rapidly growing customer base.

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Highlights

Financial highlights

Net gaming revenue (“NGR”) £’000

£89,923 +18%



Adjusted EBITDA² £’000

£20,249 +24%



Adjusted earnings² £’000

£18,508 +29%



Dividend per share pence

2.7p +8%



- Real Money Gaming NGR from in-house proprietary platform up 39% to £48.6 million (2016: reported £34.9 million)
- Real Money Gaming NGR from third-party non-proprietary platform up 16% to £33.1 million (2016: pro-forma £28.6 million)
- Strong balance sheet with gross cash at period end of £26.2 million (2016: £21.1 million)
- Social gaming NGR down 37% to £8.1 million (2016: reported £12.8 million)
- Impairment of £9.9 million (2016: £Nil) recognised in the period reflecting a weaker outlook for Social Gaming

Operational highlights

Deposits £m

£147

+26%



Yield per player⁴

£147

+29%



Funded players³

146,000

-10%



Mobile and touch devices

% of the GGR⁵

66%

+18%



- Real Money Gaming acquisitions of the Tarco Assets and 8Ball delivered strong earnings with enhancing synergies; current year adjusted EBITDA was up 62% and 101% respectively, from prior year unaudited pro-forma adjusted EBITDA
- Launched 17 new side games and 29 casino and bingo sites
- Established Stride Together, a new B2B product, and first joint venture signed with Aspers Group Limited
- Post-period-end strategic controlling investment of \$3.75 million in Passion Gaming, a Rummy-focused online gaming business operating across India

1 The financial and operational information shown for the prior year is shown on a pro-forma basis to show both periods on a like-for-like basis. That is, as if the acquisitions of 8Ball, Netboost Media and the Tarco Assets had taken place at the start of the twelve-month comparative period. A reconciliation from the prior year reported figures to the 2016 pro-forma figures is included in the Chief Financial Officer’s Review.

2 Adjusted earnings and adjusted EBITDA exclude income or expenses that relate to exceptional items and non-cash share-based charges. A reconciliation between the current year’s reported figures and the prior year’s pro-forma figures to adjusted earnings is shown in the Chief Financial Officer’s Review.

3 Funded player means an active player who has made a deposit with his own funds within the last three months of the year.

4 Yield per player means the total net cash in the last three months of the year divided by the number of funded players at the end of the year.

5 GGR means gross gaming revenue, being total bets placed by players less winnings paid to them.

Leading online gaming operator

The Company operates a multi-branded strategy, using a combination of its proprietary and non-proprietary licensed software to provide online bingo, casino and slot gaming and a social gaming mobile application.

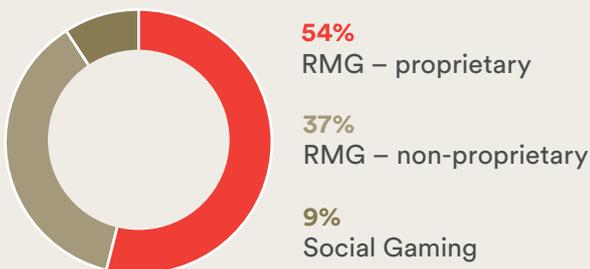


Stride Gaming's real money offering is presently focused on the UK market, where it is licensed and only operates from the regulated jurisdictions of the UK and Alderney. The Company has an international reach in the mobile social gaming market with a focus on North America.

Our products

- Online RMG bingo is a multiplayer pool-based game, which is a risk-free model
- Large number of casino and slot sites
- Social Casino, which is an app-based technology

Composition of revenue 2017

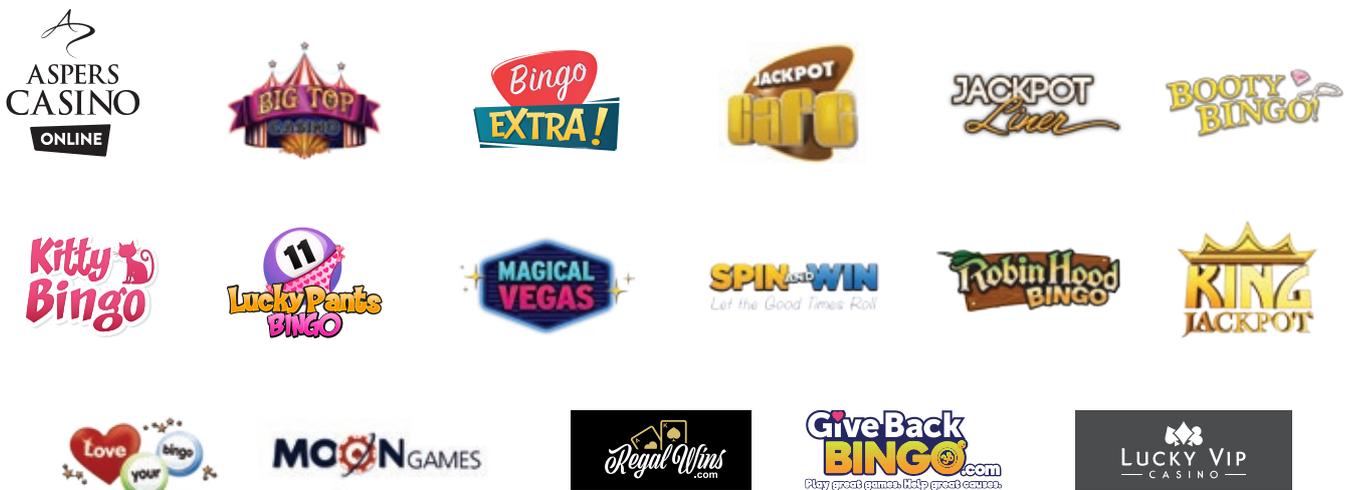


History

- **FEBRUARY 2012**
Stride Gaming began operating; launch of Spin and Win, its first website using its proprietary software
- **SEPTEMBER 2012**
Launched online bingo brand Kitty Bingo
- **JANUARY 2013**
Launched Lucky Pants Bingo
- **SEPTEMBER 2014**
The Company acquired the business and assets associated with the Jackpot Liner, Jackpot Café and King Jackpot brands from Table Top Entertainment
- **MAY 2015**
The Company listed on AIM
- **JULY 2015**
Acquired InfiApps, an internationally focused mobile social gaming company
- **AUGUST 2016**
Acquisition of two online bingo businesses, 8Ball Games and Netboost Media, and the Tarco Assets
- **MAY 2017**
Entered the B2B vertical with the launch of Stride Together
- **OCTOBER 2017**
Launched Aspers Casino Online through our B2B vertical, our first Stride Together Joint Venture
- **NOVEMBER 2017**
Strategic controlling investment in Passion Gaming, a Rummy-focused online gaming business operating across India

Multi-brand

The Company owns 143 brands including the online bingo brands Kitty Bingo, Lucky Pants Bingo, Bingo Extra, Jackpot Café, Jackpot Liner and King Jackpot, together with the online casino brands Spin and Win, Magical Vegas and Big Top.



A snapshot of the business today

- 30% year-on-year RMG growth
- Third largest online UK bingo operator with 143 brands
- Realising synergies following acquisitions by increasing revenue, reducing distribution costs and efficient marketing spend
- Expanding into B2B by launching Stride Together, through which the Company can license its proprietary platform to gaming operators, media partners and retailers in the UK and globally

 <p>Rapidly growing online gaming operator</p>	 <p>Operate only in regulated and/or legalised markets</p>
 <p>Proprietary gaming platform</p>	 <p>Clear growth strategy and proven model</p>
 <p>Investment in talent</p>	 <p>Profitable, highly cash generative, dividend paying</p>

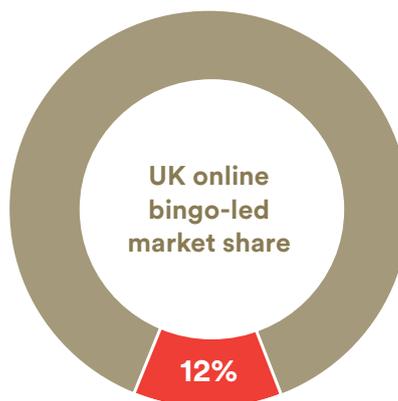
Increased market share

Stride Gaming has continued to grow its market share in its core UK bingo-led online gaming market. The Group is currently the third largest online bingo operator in the UK with a 12% market share.

Stride Gaming continues to expand its multi-brand strategy and today operates over 140 sites, equating to approximately one in four online bingo brands in the UK. The Group's scale, technological edge and multi-brand strategy mean that it is very well positioned to continue to grow and take market share despite external industry pressures.

Online gaming market overview

- UK remains the world's largest real money bingo market, with mobile continuing to drive growth
- Stride operates over 140 sites, which is approximately one in four brands in the UK
- UK online casino market is three times larger than online bingo¹
- Multi-brand strategy provides differentiated offering in slots segment both in B2C and B2B
- UK is a highly regulated market
- Increased regulation presents opportunities given Stride's scale and proprietary technology advantage



Stride is now the third largest online operator with a 12% share². The estimated market size is £600 million.

¹ September 2016 UKGC report shows casino market worth £2.4 billion in GGR.

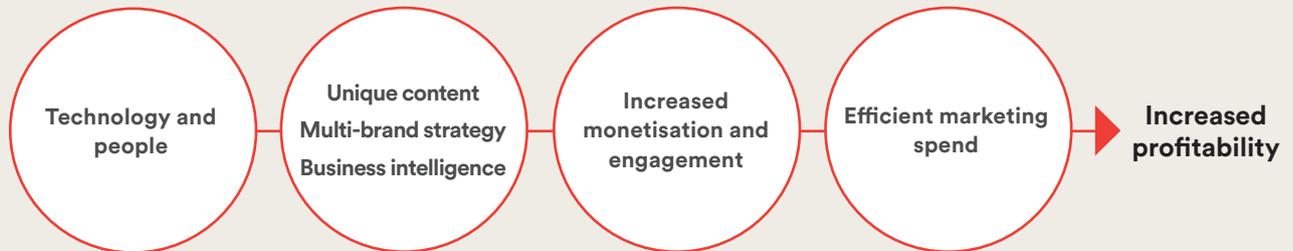
² Stride Group management estimates.

Vision and strategy

Our vision is to be a leading international online gaming company



1 Focus on our core



2 Diversify product offering



Launched 29 new bingo and casino sites



Developed and launched 17 new proprietary slots and instant win games

Stride
TOGETHER

Entered B2B vertical via Stride Together

Signed JV with Aspers Group

Passion Gaming

Entry into Rummy market through strategic investment in Passion Gaming (post period end)

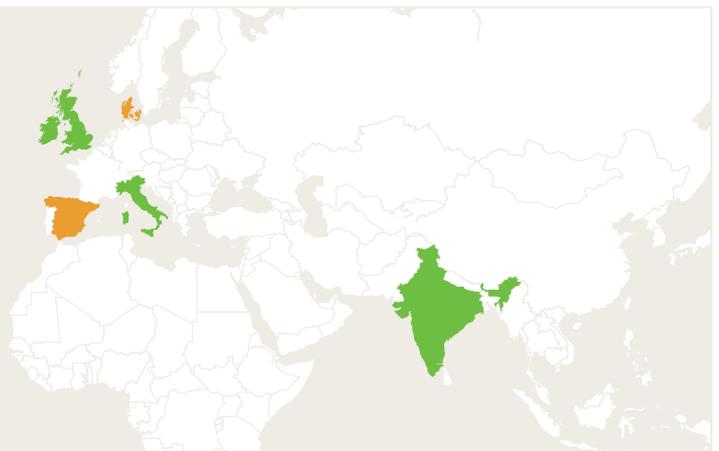
3 New markets

Diversification opportunities supported by scale, infrastructure and platform

Appraise growing regulated markets

Pan-European focus with global opportunities

■ Current markets
 ■ In process



Continuing to build momentum



- Strong financial results underpinned by further progress against strategic objectives
- Adjusted EBITDA up 24% to £20.2million
- Launched B2B platform, Stride Together, and signed first joint venture partner, Aspers Casino, launching Aspers Casino Online in October
- Post period end strategic investment in Passion Gaming, a Rummy-focused online operator in India
- Interim dividend of 1.2p per share, with final dividend of 1.5p per share, subject to shareholder approval

On behalf of the Board, I am pleased to update our stakeholders on what has been a successful year for Stride Gaming. The Group's strong financial results for the year ended 31 August 2017 have been underpinned by further progress against our strategic objectives. Stride Gaming has grown its market share in its core UK bingo-led online gaming market, continued to develop new growth opportunities through product innovation, enhanced its proprietary technology platform and appraised attractive new markets for future expansion opportunities.

Results and dividend

The Group delivered a strong set of financial results in the year with net gaming revenue ("NGR") up 18% on a pro-forma basis to £89.9 million (2016: pro-forma £76.4 million and reported £47.8 million). Like-for-like Adjusted EBITDA increased by 24% to £20.2 million (2016: pro-forma £16.3 million and reported £12.3 million) and like-for-like Adjusted earnings rose by 29% to £18.5 million (2016: pro-forma £14.3 million).

In line with our progressive dividend policy, the Board is pleased to recommend a final dividend of 1.5p per share, subject to the approval of shareholders at the Company's Annual General Meeting to be held on 1 February 2018. This final dividend, together with the interim dividend of 1.2p per share, brings the total dividend for the year ended 31 August 2017 to 2.7p per share.

Strategic progress

Stride's progress during the year has continued to be underpinned by the Group's first-class proprietary technology, leading business intelligence capabilities and clear focus on operating in markets where it is legal to do so. In the fast-growing and dynamic online gaming industry, the Board believes that these are key differentiators for the Group and, together, they underpin the Group's strategy to develop as a leading online gaming operator.

Revenue from the Group's proprietary Real Money Gaming business increased by 39% during the year (2016: reported 31%) demonstrating the success of our multi-brand strategy as well as the integration of the transformational acquisitions of the 8Ball and Tarco brands, which are already delivering earnings-enhancing synergies.

Stride Gaming continues to innovate and appraise new products and markets where we see opportunities to leverage our expertise for further growth. During the year, we launched our B2B platform, Stride Together, which licences our proprietary platform to other operators, thereby enabling the Group to explore new growth opportunities both in the UK and globally.



Stride Gaming's scale, technological edge and multi-brand strategy means that we are very well positioned to continue to grow and take market share.

Stride Together also signed its first joint venture partner, Aspers Casino to launch Aspers Casino Online, giving the established casino brand an online presence for the first time. Early indications from this new venture are encouraging.

The Group is also pleased to announce that, post the period end, it has made a strategic investment in Passion Gaming, a Rummy-focused online operator based in India. This investment gives the Group an entry into a rapidly growing market with enormous potential for profitable growth.

Team

On behalf of the Board, I would like to take this opportunity to thank each of my colleagues for their hard work during the year. This has been a very busy year for the Group as we have integrated acquisitions, launched new products and adapted to regulatory changes whilst still delivering strong organic growth. These achievements speak volumes for the skill, talent and dedication of the people throughout the Company.

Regulation and responsibility

The online gaming market is fast growing and dynamic and the Group's firm focus remains on operating only in product verticals and markets where it is legal to do so.

The Board is resolutely committed to best practice in responsible gaming and providing customers with the securest and most enjoyable entertainment possible across Stride Gaming's brands. We believe that owning and developing our own proprietary technology is a key competitive advantage in such a dynamic market, enabling the Group to be agile, respond to market and regulatory changes effectively and successfully capture any growth opportunities that are presented.

Current trading and outlook

Building on the momentum of 2017, the Group will continue to invest in its proprietary technology and people to support Stride Gaming's further growth. We remain focused on driving organic growth in our core UK real money gaming market whilst continuing to appraise acquisition opportunities and developing new products and markets.

Regulation continues to play a key role in shaping the online gaming industry, particularly in the UK. Whilst the Group is facing external industry pressures such as the second Point of Consumption tax applied to free bets, the introduction of GDPR legislation and potential changes to advertising regulations for gambling brands, the Board is very confident that Stride Gaming's scale, technological edge and multi-brand strategy mean that we are very well positioned to continue to grow and take market share despite these pressures.

Trading in the new financial year has started very well and the Board looks to the future with a high degree of confidence and enthusiasm. As a fast-growing and agile operator with leading technology and a focus on only regulated and legal markets, the Board believes that the Group remains very well positioned for further progress and continued growth.

Nigel Payne
Chairman
21 November 2017

Our values

Passionate

Passionate by being fierce and excited about what we deliver

Creative

Creative by being pioneers and always leading the way in our industry

Respectful

Respectful by being thoughtful to those we work with and appropriate in our communications

Accountable

Accountable by being responsible and having ownership for the work we do

Collaborative

Collaborative by being dedicated to succeed as a team

Innovative

Innovative by being original in everything we do

Clear growth strategy



- Continued strong organic growth
- Excellent performance with NGR from Real Money Gaming increasing by 39%
- Significant progress made with the integrations of 8Ball, Netboost and Tarco
- 29% growth in yield per player reported at £147
- Enter 2018 in a strengthened position to continue upward trajectory

I am delighted to report that during 2017 Stride Gaming continued to make excellent progress against its growth strategy. The Group has continued to drive strong organic growth and to scale the business through the successful integration of the transformational acquisitions that were made at the end of our previous financial year. Stride Gaming is now the third largest operator in the UK online bingo-led market* and we remain confident that this scale, supported by our proprietary technology and back office expertise, positions the business well to take advantage of further growth opportunities.

Clear growth strategy

Stride Gaming has a clear growth strategy to develop as a leading online gaming operator, thereby creating value for shareholders. We aim to achieve this based on three primary pillars of growth:

1. Focus on the core by continuing to grow market share in both the UK bingo and casino markets.
2. Diversify the product offering by innovating the product and entering new online gaming verticals.
3. Appraise and enter attractive new markets outside of the UK.

We plan to execute this growth strategy by continuing to develop our proprietary gaming platform, investing in our skilled and dynamic team and focusing on operating only in regulated or legal markets.

Stride's technology edge

Stride Gaming's proprietary online gaming technology underpins the Group's clear growth strategy across products and markets.

During the year, we have continued to invest in and develop our technology edge by creating more innovative and engaging gaming content, including on mobile; further integrating and enhancing our business intelligence capabilities; ensuring full compliance with regulatory developments; and increasing the platform's robustness through improved cyber security and disaster recovery solutions.

1. Focus on the core

The key driver of the Group's success in 2017 has been the excellent performance in the core Real Money Gaming vertical, which accounted for 91% of Group revenue. In line with the Group's strategic focus, Real Money Gaming NGR generated from Stride's proprietary platform increased by 39% to £48.6 million, accounting for 54% of Group revenue (2016: pro-forma of 31% to £34.9 million accounting for 45% and reported: 73%). Real Money Gaming NGR from third-party non-proprietary platforms also increased by 16% to £33.1 million, accounting for 36% of Group revenue (2016: pro-forma £28.6 million, accounting for 37%).

* Based on H2 Gaming Commission research report showing market size of £600 million based on net gaming revenue.



We are confident of delivering further success in the year ahead and continued progress against our growth strategy.

The Group made significant progress in the integration of 8Ball Games Limited (“8Ball”), Netboost Media (“Netboost”) and the Tarco Assets (“Tarco”), which were acquired on 31 August 2016 for a total consideration of up to £70.2 million. By applying the Group’s core capabilities, and as a result of the Group’s increased scale, we have already been able to grow revenues, strengthen gross profit margins and significantly increase Adjusted EBITDA of the acquired businesses. The Tarco Assets and Netboost Media current year Adjusted EBITDA is up 62% from the prior year unaudited pro-forma Adjusted EBITDA, whereas 8Ball’s current year Adjusted EBITDA has increased by 101%. The Group will continue to appraise acquisition opportunities in the fragmented UK bingo-led market to supplement and support our organic growth.

Yield per player, one of the Group’s KPIs, increased 29% to £147 (2016: pro-forma £114). This strong growth has been driven by the Group’s sophisticated business intelligence capabilities and analytics know-how which underpin our customer relationship management, cross-sell and marketing initiatives. Even though Real Money Gaming funded players were down 10% to 146,000 (2016: pro-forma 162,000), this was as a result of our strategy to focus on lifetime value of players over volume of players, and the reduction of free bonuses across the Group. Together these support the Group’s objectives of acquiring customers effectively and increasing their lifetime value through higher engagement and monetisation.

Targeted and returns driven marketing strategies are of utmost importance to us and we continually look at innovative ways to engage both new and existing customers. We look to optimise our marketing spend across a number of online and offline channels including natural search (SEO), digital and social media, affiliate marketing, email, SMS direct mails and cross-sell within our portfolio.

Continuously enhancing our mobile offering is key to providing our customer base with the most convenient, easy and accessible online gaming experience. Mobile and touch revenue, another KPI of the Group, increased to represent 66% of gross Real Money Gaming revenue (2016: pro-forma 56%).

Regulation, responsibility and compliance remain a major focus in the Group’s core UK market. As a result of our agility and technology, we are confident that Stride is in a robust position and see a number of pending and potential changes to regulation as an opportunity to further increase market share.

2. Diversify the product offering

The second key pillar of the Group’s strategy is to grow the business by developing and diversifying Stride Gaming’s product offering into new, related product verticals, such as lottery-style games, Rummy and scratch cards. During the year we have developed and launched 17 new proprietary slots and instant win games; launched 29 new bingo and casino sites – with a focus on slot games – to capture the growth opportunities available in that fast-growing market; and entered the B2B vertical with the launch of Stride Together.

Through Stride Together the Group intends to license its proprietary platform to gaming operators, media partners and retailers both in the UK and globally. This will enable partners to create an online presence for their customers and to enter the omnichannel gaming space, whilst offering Stride opportunities to penetrate new product verticals and geographic markets.

We were very happy to coincide the launch of this B2B division with the announcement of our first Stride Together joint venture alongside a leading gaming operator in the UK, Aspers Group Limited (“Aspers”). Aspers Casino Online launched in October this year, which successfully provides a seamless integration between the online and offline gaming experience. We are delighted with the launch of our new B2B vertical and are now working hard to secure further partnerships with gaming operators, media partners and retailers in the UK and globally.

The Group has continued to work hard on improving the performance in Social Gaming, which accounts for 9% of total Group revenues, where NGR for the year was down 37% to £8.1 million, in light of the changing trends and dynamics in social gaming markets. The two principal markets in which we operate, Australia and North America, are reaching maturity, resulting in higher acquisition costs and lower lifetime values of players (“LTV”). Given the changing market dynamics, the Company made the decision to reduce marketing spend in this vertical and to implement significant changes in order to mitigate the expected reduction in revenues. Throughout the year we implemented a number of changes to the pricing models and added further personalisation to our content. At year end, we are encouraged by the results of the improvement plan so far and the Board will continue to closely monitor developments in this sector of the business.

Chief Executive's report continued

Stride's technology edge continued

3. Enter attractive new markets

The third key pillar of the Group's growth strategy is to expand into attractive new markets outside of the UK, leveraging the strength of our proprietary platform and back office expertise.

The Group owns an Italian remote gaming licence and is in the process of obtaining Spanish and Danish gaming licences.

In line with our strategy, we are also delighted to announce today that we have made a strategic controlling investment of \$3.75 million in Passion Gaming, a Rummy-focused online skill gaming company based in India, which gives us entry into the country's rapidly growing skills gaming market. Our investment will be used to fund working capital, with the Group also sharing its marketing expertise and technological know-how to accelerate growth.

Investment in our first-class team

The Group's progress during the year would not have been possible without the commitment of our skilled and dynamic team. I would like to thank each and every one of my colleagues for their hard work during the year.

We continue to invest in our team and working environment to ensure that we remain a highly attractive place for industry-leading talent. We have invested in internal and external training, competitive employee benefits and new ways to communicate internally and increase efficiencies. To support Stride's long-term growth plans, the Group's headcount increased by 16% to 370 during the period.

Outlook

We are very pleased with the performance of the Group in 2017, having demonstrated key progress and development across our strategic pillars. Once again, we have demonstrated our ability to grow both organically and through acquisitions.

Real Money Gaming revenue is currently showing double-digit year-on-year growth in the first two months of the current financial year, in line with market expectations. This is being driven by strong deposit growth, with a stable yield per player. We enter 2018 in a strengthened position to continue on our upward trajectory.

Eitan Boyd

Chief Executive Officer

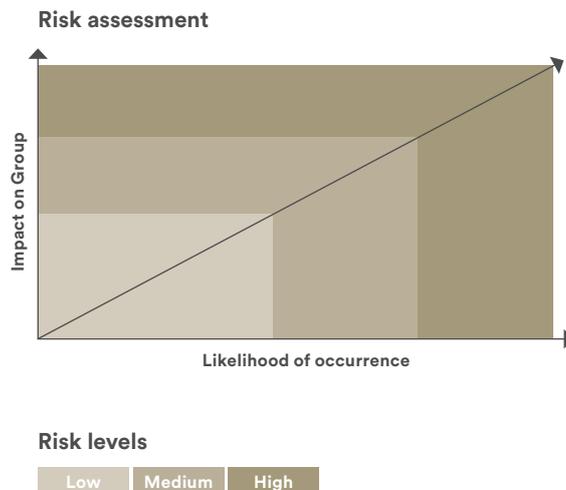
21 November 2017

Principal risks and uncertainties

Our Group is exposed to a number of risks that can have a financial, operational and reputational impact. A proactive approach to the management of risk is therefore critical to the Group's success.

The principal risks within our business model reflect the Group's view that risks, by their very nature, also bring the potential for reward. Our risk management process involves a two-step approach – firstly to assess the likelihood of the risk occurring and then the impact it will have on the Group. This assessment enables the Group to then put the most appropriate measures in place to either avoid the risk altogether or mitigate the risk to an acceptable level.

The risks outlined below are those principal risks and uncertainties that are material to the Group. They do not include all the risks associated with Group activities and are not set out in any order of priority.



Risk	Likelihood	Issue	Impact	Mitigation
Regulations				
Gaming regulations	Low	The Group operates in legalised markets. Online gambling is prohibited or restricted in some countries and legalised in others. The Group is currently licensed in the UK and Alderney, Baldo is licensed in Italy and QSB Gaming in Spain. As a Group we should only be accepting players from regulated and legalised markets, and this is one of our main principles. If we accept players from non-regulated jurisdictions, we run a risk of breaching legislation in that particular market.	High	The Group procures legal and professional advice with regard to its activities in its principal countries of operation including any changes in legislation, and monitors updates on any potential future jurisdiction where it may start accepting customers. The latter is important as the Group's growth rate, strategy and future revenue streams are, to a certain extent, affected by the regulation of new markets and the subsequent growth of end user interest and acceptance in such newly regulated markets.

Principal risks and uncertainties continued

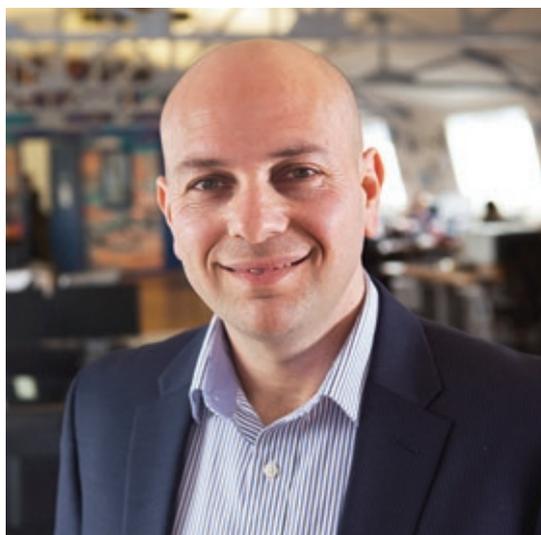
Risk	Likelihood	Issue	Impact	Mitigation
Regulations continued				
General taxation	Medium	<p>The Group currently operates across different jurisdictions in a tax environment which is constantly evolving. It is therefore important that the Group remains up to date with all changes affecting its tax position.</p> <p>Adverse changes to tax rules may increase the Group's underlying effective tax rate and reduce profits available for distribution.</p> <p>Specifically, the UK government has enforced further changes on the calculation of Point of Consumption Tax ("POC"), with an effective date of 1 August 2017. Some uncertainty remains regarding how these calculation changes will be implemented in practice by the industry, but they will increase the cost of sales in the Group's new financial year, which in turn will reduce Adjusted EBITDA.</p>	Low	<p>The Group is constantly monitoring its tax position in each country it is a tax resident in. More importantly, we are in constant communication with external tax advisors and financial management ensures they remain up to date with any expected changes. In general, changes in tax rules and practices are carefully considered in advance of being passed as law, to assess their financial implications and ensure that changes are made to the Group's operations in time for the change.</p> <p>On POC, the Group has engaged the services of tax advisors to better understand the general expectation of the industry.</p> <p>The Group has a strong operating team which is working to update all systems including its reporting tools to comply with the new POC tax regulation and Group budgets have been updated to include the anticipated monetary impact on the Group's results. The Group has also reviewed its bonus system to mitigate the impact of the inclusion of bonus funds in the calculation of POC tax without disrupting customer experience.</p>
Customer Data protection	Medium	<p>The Group as part of its business processes deals with a large quantity of personal customer data including sensitive data such as name, address, customer age, bank details and gaming betting history. The Group must ensure that its data handling policies are in line with the data protection regulations in the countries in which it operates, to prevent any breaches from happening since this may result in substantial fines which will have a negative commercial and reputational impact.</p>	High	<p>The Group has a number of robust control processes in place to ensure the security of customer data and engages external consultants to test and verify these processes. In respect of the forthcoming EU General Data Protection Regulation ("GDPR"), the Group has engaged the services of a consultancy firm to provide professional advice and guidance on GDPR in order to fully assess the implications for the Group.</p>

Risk	Likelihood	Issue	Impact	Mitigation
Fraud and audit				
Money laundering and being associated with crime and disorder	Medium	The Group handles a high volume of online transactions from multiple consumers and through a number of payment service providers. If the Group inadvertently handles any proceeds of crime, it may be committing money laundering offences under the UK Proceeds of Crime Act 2002 and similar legislation in other jurisdictions in which the group operates. This would have a lasting and damaging effect on the Group's reputation, which can subsequently affect relationships with service providers, in particular the payment processing providers which could refuse our business going forward. Furthermore, a weak anti-money laundering framework may also lead to sanctions from regulatory authorities, which could impose substantial fines or suspend our regulatory licence. In the latter case, the Group might be unable to operate in certain jurisdictions.	High	<p>Our internal software is set-up with various triggers to be able to detect customer transactions that may be considered to carry higher risk. For example, the system is designed to flag up immediately any unusual transactions such as high value and number of deposits in a day, deposits made in accounts which already have a significant balance and types of methods used for withdrawals especially where these differ from the deposit method. Any transactions picked up by the software will lead to due diligence or enhanced due diligence where customers have to provide identity documents. As a Group we have a dedicated fraud and compliance team which carries out all necessary checks for new players as well as unusual transactions with existing players.</p> <p>Furthermore, our payment service providers are regulated by the Financial Conduct Authority. All business partners, which primarily comprises suppliers and employees, are subject to strict background and documentation checks.</p> <p>As part of our ongoing commitment to keep crime out of the business, the Group has engaged the services of a consulting firm to conduct an independent assessment of its anti-money laundering policies.</p>

Principal risks and uncertainties continued

Risk	Likelihood	Issue	Impact	Mitigation
Information technology				
Disruption of business continuity	Low	The Group's business is at risk from disruption of key systems and assets on which it depends. The functioning of the IT systems within the Group's businesses or those of third parties on which it relies could be disrupted for reasons either within or beyond their control, including but not limited to accidental damage, disruption to the supply of utilities or services, including the internet infrastructure, security breaches and general systems failure. Any substantial disruptions could impact the Group's ability to generate revenue and offer services to customers, which in turn could affect the Group's reputation, performance and financial position.	High	As part of its periodic review of key business controls, the Group carried out a system-wide upgrade of its disaster recovery system during the year. The new disaster recovery system can now enable a much faster recovery should there be disruptions in the business. The Group will continue to invest in its IT systems and technology to ensure that the network infrastructure meets and continues to enhance the performance and reliability criteria of the Group.
Distributed denial of service ("DDoS"), malicious viruses and other cybercrime attacks	Low	IT systems may be impacted by unauthorised access, cyber-attacks, DDoS (Distributed Denial of Service) attacks, malicious viruses, theft or misuse of data by internal or external parties. Cyber-attacks, hacking and in general cybercrime is becoming increasingly common and may expose the Group to blackmail demands and the need to devote additional resources in recovering any physical or reputational damage that may result from an attack. In addition, substantial fines are being considered for breaches of the new data protection laws, such as the proposed fines of up to £17 million, or 4% of global turnover.	High	IT policies, especially around security, are constantly monitored and reviewed to ensure compliance. Training is a significant part of our framework and we ensure that all employees are aware of the risks of cyber-attacks and can spot the signs. To ensure that the Group is compliant with the industry guidelines and EU legislation, it has engaged the services of a consulting firm to conduct a cyber security review and any recommendations will be taken under advisement.
Operational				
Dependence on third-party service providers	Low	The Group engages with many providers of non-proprietary third-party games and payment processing services, as well as other important service providers. If there is any interruption to the products or services provided by third parties, or if there are problems in supplying the products or if one or more ceased to be provided or was provided on onerous terms to the Group, this could have an adverse effect on the Group's business and performance.	High	To mitigate this risk the Group uses reliable industry suppliers and ensures that contractual agreements with key partners are adequate to offer protection to the Group. The Group now contracts with two card payment service providers to mitigate any risk associated with relying on one card payment service provider and to avoid bad user experience.

Strong organic growth



- Pro-forma NGR growth of 18% to £89.9million (2016: pro-forma £76.4 million and reported £47.8 million)
- Adjusted EBITDA increased 24% to £20.2 million on a pro-forma basis (2016: pro-forma £16.4 million and reported £12.3 million)
- Strong balance sheet with cash and cash equivalents of £26.2 million (2016: £21.1 million)

The financial information shown for the prior year is on a pro-forma basis so as to show both periods on a like-for-like basis, that is, as if the acquisitions of 8Ball, Netboost Media and Tarco Assets on 31 August 2016 had taken place at the start of the twelve-month comparative period.

Stride Gaming continued to deliver strong organic growth for the year driven by its Real Money Gaming vertical with Group pro-forma NGR growth of 18% to £89.9 million (2016: pro-forma £76.4 million and reported £47.8 million). Organic growth, driven by successful execution of the Group's multi-brand strategy, was enhanced by the acquisitions of 8Ball, Netboost Media and the Tarco Assets in August 2016. Significant improvements in player engagement and monetisation across the Group's brands helped deliver a strong overall performance.

Adjusted EBITDA increased on a pro-forma basis by 24% to £20.2 million (2016: pro-forma £16.4 million and reported £12.3 million) whilst the Adjusted EBITDA margin expanded by 2% to 23% (2016: pro-forma 21%). We anticipate some further margin improvement once acquisition earn-out periods conclude in the new financial year.

Stride Gaming remains highly cash generative, with net cash generated from operational activities at £12.9 million (2016: reported £13.7 million), which includes the year one InfiApps earn-out payment of £3.9 million, and a high cash conversion from Adjusted EBITDA. During the year the Group completed the refinancing of an existing £8.0 million shareholder loan facility with Barclays PLC without any impact to our cash position.

Stride Gaming has a strong balance sheet with cash and cash equivalents of £26.2 million (31 August 2016: £21.1 million), which includes customer liabilities of £2.5 million (31 August 2016: £1.8 million).

Chief Financial Officer's review continued

Revenue

NGR from Real Money Gaming, which represents 91% of Group NGR (2016: pro-forma 83%), was up 29% to £81.8 million (2016: pro-forma £63.6 million and reported £34.9 million). This strong growth and operational momentum was reflected across all key performance indicators and demonstrates the benefits of our proprietary platform along with the quality of our diversified brands, business intelligence expertise and customer engagement.

Total deposits in the real money vertical were up 25.6% to £147 million (2016: pro-forma £117 million), demonstrating the Group's strength in the bingo-led market, driven by our multi-brand strategy. Yield per player from Real Money Gaming was up 29% to £147 (2016: pro-forma £114), a result of successful player engagement and improvement in monetisation. Real Money Gaming funded players were down 10% to 146,000 (2016: pro-forma 162,000) as a result of our strategy to focus on lifetime value players over volume of players, and the reduction of free bonuses across the Group. The increased use of mobile and touch devices by our players across the brands also contributed to our growth with GGR up by 17.9% and now represents 66% (2016: pro-forma 56%) of the total Group Real Money Gaming GGR. The Group continued to invest in and develop our new content and business intelligence capabilities during the period, which supported our organic growth and places us in a strong position for the next financial year.

Revenues from the Social Gaming vertical, which represent 9% of Group NGR (2016: pro-forma 17% and reported 27%), were down 37% (on a constant currency basis down 44%) to £8.1 million (2016: reported £12.8 million). The Group continued to invest in product development and enhancing the player experience to mitigate the challenges in player acquisition in the social gaming market. As a result of the market decline, we are reviewing our Social Gaming strategy and have reallocated some marketing resources to our RMG vertical.

Cost of sales

Cost of sales totalled £11.6 million (2016: pro-forma £9.0 million and reported £5.3 million) and represent solely the UK Point of Consumption ("POC") Tax on the Real Money Gaming vertical. In August 2017, the new POC tax on free bets was introduced but there was no material impact on the cost of sale in the year.

Distribution costs

Distribution costs of £38.6 million (2016: pro-forma £34.3 million and reported £18.7 million), which include licensing, processing, royalties (third-party games and platforms), hosting (social gaming) and marketing, reduced to 43% (2016: pro-forma 45%) as a proportion of Group NGR. This significant reduction reflects the benefits of scale on processing costs, as we leverage our proprietary software and content across our brands, thereby reducing third-party royalty payments. We have also continued to invest in marketing to support our online brands in the Real Money Gaming vertical. Total marketing expenses across both verticals increased by 29% to £22.6 million (2016: pro-forma £17.6 million), which represented 25% of NGR (2016: pro-forma 23%).

Administration costs

The Group maintained a tight control on administration costs, which totalled £19.4 million (2016: pro-forma £16.7 million and reported £11.4 million). This was stable year on year at 22% of NGR (2016: pro-forma 22%) despite the Group's continued investment in talent, software development, business intelligence and products in line with our vision to build a leading online gaming business.

Proprietary software development

Capitalised costs totalled £1.3 million (2016: reported £1.0 million) across the Real Money Gaming and Social Gaming verticals. During the period, the Group continued to invest in its proprietary software to support its mobile offering, unique content and compliance in line with regulatory requirements. Amortisation of capitalised development costs during the year was £0.6 million (2016: reported £0.2 million).

Adjusted EBITDA and margin

Adjusted EBITDA on a pro-forma basis is up 24% to £20.2 million (2016: pro-forma £16.4 million and reported £12.3 million) reflecting the strength of the RMG vertical and control over costs, with an improved Adjusted EBITDA margin of 23% (2016: pro-forma 21%). The Adjusted EBITDA for the Real Money Gaming vertical in the period increased by 60% along with an increase in EBITDA margins to 24.1% (2016: pro-forma 19.3%). As we conclude the earn-out period for the acquisitions of Netboost Media and Tarco Assets (both December 2017), together with the 8Ball acquisition that concluded in August 2017, we expect further margin improvement to come from synergies and cost savings.

The Adjusted EBITDA for the Social Gaming vertical decreased by 85% to £0.6 million (2016: reported £4.1 million) as a direct result of the decline in revenue arising from a reduced marketing spend together with the increase in our product development and administration costs in this vertical.



Significant improvements in player engagement and monetisation across the Group's brands helped deliver a strong overall performance.

Exceptional costs

Impairment of intangible: On 28 February 2017, an impairment review was undertaken in respect of the Social Gaming cash generating unit (“CGU”) to determine if the carrying value of assets was supported by the net present value of future cash flows expected to be derived from those assets. As a result of the review, the Board approved an impairment of £9.9 million (2016: reported £Nil) charged against the goodwill and acquired intangibles reflecting the more challenging and competitive social gaming market. As of 31 August 2017 the Board undertook an additional review on this CGU’s business models and financial projections and concluded that no further impairment was required.

Contingent remuneration: The contingent remuneration charge for the period relates to the earn-out payments for the acquisitions of 8Ball and InfiApps linked to the employment of the sellers within the Group and therefore has been charged to the profit or loss account in accordance with International Financial Reporting Standards (“IFRSs”). The total remuneration payable for the 8Ball acquisition was £4.0 million in cash and £10.1 million in share-based payments with the remainder of £0.9 million relating to the InfiApps second year earn-out payment. Both earn-outs were settled post year end in September 2017.

Contingent consideration: The contingent consideration charge for the period relates to the liability for the Tarco earn-out liability. The liability increased during the period as a result of better than expected adjusted EBITDA performance to date and management expectations for the remaining earn-out period to 31 December 2017. During the year the Group successfully increased net gaming revenue by applying better operational know-how and realising cost synergies with the wider Group resources resulting in lower distribution and administration costs. The fair value of the contingent consideration liability at the year end is £17.4 million (2016: £5.6 million) with the increase of £10.8 million and unwinding of interest of £1.0 million being recognised in the profit or loss account. The contingent liability will be payable in a mix of cash and shares (51.44% and 48.56% respectively). At the time of acquisition, an amount of £3.0 million was placed in an escrow account, with a further £1.0 million during the current year, with the intention to cover part of the earn-out payment within three months from the end of the earn-out period.

Finance expenses and tax

Finance expenses for the period totalled £1.5 million (2016: reported £0.7 million) and principally relate to the unwinding of the discounted contingent consideration that arose on the Tarco Asset acquisition of £1.0 million (2016: reported £Nil). Also included is the finance cost of the £8.0 million facility provided by Barclays PLC during the period at an annual rate of 3.6% plus LIBOR annual floating rate basis.

The credit to taxation in the period was £1.1 million (2016: reported expense of £0.5 million). An adjustment was made for the deferred tax credits relating to the impairment of the social gaming CGU and acquired intangibles. The underlying current taxation charge in the period is £0.6 million (2016: expense of £1.1 million).

Cash flow and balance sheet

Stride Gaming continues to be highly cash generative, delivering another period of strong operating performance with net cash flow from operating activities totalling £12.9 million (2016: £13.7 million). Cash outflow mainly related to the InfiApps first year earn-out payment of £3.9 million (2016: £Nil) as well as the payment of an interim dividend of £0.8 million (2016: £0.5 million) and a final dividend for the prior year of £0.9 million (2016: £Nil).

As at 31 August 2017 the Group has a strong balance sheet with cash and cash equivalents amounting to £26.2 million (31 August 2016: £21.1 million), which includes ring-fenced customer liability balances of £2.5 million (31 August 2016: £1.8 million).

Contingent remuneration included within current liabilities of £5.0 million (31 August 2016: £4.6 million) primarily relates to the 8Ball and InfiApps earn-out payment of £4.0 million (2016: £Nil) and £0.9 million (2016: £3.8 million) respectively. Both of these amounts were settled post year end and therefore represent agreed balances. The contingent consideration liability of £17.4 million (31 August 2016: £5.6 million) included in current liabilities relates to the acquisition of the Tarco Assets.

As at 31 August 2017, the fair value of the Group’s 24.2% available-for-sale investment in QSB Gaming Limited, an operator of online casino and bingo gaming sites in the Spanish market, has been increased from £810,000 to £1,595,000. As the security held is unquoted, the fair value has been assessed in the current year based on expected cash flows discounted using a rate of 50% (2016: 35%) based on the market interest rate and the risk premium specific to the investment.

Chief Financial Officer's review continued

Adjusted earnings, EPS and dividend

Basic loss per share was 38.1p (2016: pro-forma loss per share of 0.8p and reported loss per share of 0.75p). Adjusted basic earnings per share was up 29% to 27.5p (2016: pro-forma 21.3p). The Board believes that Adjusted basic earnings per share (excluding exceptional items such as impairment, contingent remuneration and consideration, acquisition costs, amortisation of intangible assets excluding those arising from internal development, share-based payments and associated taxes) enables a better understanding of the underlying business performance.

	Audited year ended 31 August 2017 £'000	Unaudited pro-forma year ended 31 August 2016 £'000
Loss after tax	(25,623)	(538)
Amortisation of intangible assets*	7,788	8,124
Depreciation	261	137
Acquisition and listing costs	—	1,090
Contingent remuneration	14,295	3,987
Contingent consideration	10,797	—
Share-based payments (including associated taxes)	1,758	1,912
Unwinding of Tarco contingent consideration discount	1,000	—
Impairment, net of movement in deferred taxation	9,987	—
Movement in deferred taxes related to acquisitions	(1,755)	(380)
Adjusted earnings	18,508	14,332
Adjusted earnings per share	27.5	21.3
Adjusted diluted earnings per share**	26.2	20.3
Basic loss per share	(38.1)	(0.8)

* Excluding amortisation of internally generated development costs.

** Adjusted diluted earnings per share is calculated using the effect of share options and contingent share consideration on business combination and acquisition of intangible assets.

Below is the reconciliation from the reported 2016 financial statements to the pro-forma information included in this report, that is, what the results would have been in the year ended 31 August 2016 if the acquisitions of 8Ball Games Limited, Netboost Media Limited and the Tarco Assets were made at the start of the comparative period.

	Reported results 31 August 2016 £'000	Adjustment £'000	Pro-forma results 31 August 2016 £'000
Net gaming revenue – Social Gaming	12,825	—	12,825
Net gaming revenue – Real Money Gaming	34,974	28,631	63,605
Cost of sales	(5,387)	(3,667)	(9,054)
Gross profit	42,412	24,964	67,376
Distribution costs	(18,667)	(15,651)	(34,318)
Administrative expenses	(11,427)	(5,265)	(16,692)
Adjusted EBITDA	12,318	4,048	16,366
Share-based payments	(1,912)	—	(1,912)
Acquisition costs	(1,090)	—	(1,090)
Contingent remuneration	(3,987)	—	(3,987)
Amortisation of intangible assets	(4,389)	(3,985)	(8,374)
Depreciation	(137)	—	(137)
Operating profit	803	63	866
Finance income	25	—	25
Finance expense	(697)	—	(697)
Profit before tax	131	63	194
Tax expense	(517)	(215)	(732)
Loss after tax	(386)	(152)	(538)

In line with the Group's stated objective of adopting a progressive dividend policy, in August 2017 the Group paid an interim dividend of 1.2p per share. Considering the Group's strong performance, the Board has recommended a final dividend of 1.5p per share, subject to shareholder approval at the AGM in February 2018, which takes the total dividend for the full year to 2.7p per share.

The dividend timetable:

Ex-dividend date	4 January 2018
Record date for dividend	5 January 2018
Payment date	1 February 2018

Ronen Kannor
Chief Financial Officer
21 November 2017

Board of Directors

Chairman's introduction to corporate governance

There are no specific corporate governance guidelines which apply generally to companies incorporated in Jersey. However, the Directors are subject to various general fiduciary duties and duties of skill and diligence under Jersey company laws and statute.

Furthermore, although companies traded on AIM are not required to provide corporate governance disclosure, or follow guidelines in the UK Corporate Governance Code (the "Code") issued by the Financial Reporting Council ("FRC"), the Directors recognise the value and importance of high standards of corporate governance.

The Directors support high standards of corporate governance and confirm that they comply with the recommendations on corporate governance made by the Quoted Companies Alliance as far as is practicable, taking into account the Company's size and stage of development. The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and corporate actions. To this end, the Board holds regular Board meetings and has established Remuneration and Audit Committees. Details on the composition of the Board and reports from the Chairs of the Remuneration and Audit Committees follow this Corporate Governance Statement.

Nigel Payne
Non-Executive Chairman

Key to Committees

- A** Audit Committee Chairman
- A** Audit Committee
- R** Remuneration Committee Chairman
- R** Remuneration Committee



Nigel Terrence Payne

Non-Executive Chairman
(Member of Audit and Remuneration Committees)

Nigel has over 25 years of experience as a director of both publicly listed and private companies. He has extensive experience of listing companies and fundraising, notably in his current role as non-executive chairman of Gateley plc, non-executive chairman of ECSC plc, non-executive director of Getbusy plc and until recently non-executive chairman of EG solutions plc. Nigel is also the former CEO of Sportingbet Plc.

Sportingbet was one of the world's largest internet gambling companies and made a number of acquisitions whilst listed on the London Stock Exchange (both FTSE listed and AIM quoted).

Nigel holds an Executive MBA from the IMD Business School (Lausanne, Switzerland) and a degree in economics and accounting from the University of Bristol.



Stuart Eitan Boyd

Chief Executive Officer

Eitan has over 17 years of experience in the online gaming sector. He was a founder of the GlobalCom bingo network (now the Dragonfish platform), one of the largest bingo networks worldwide, which was sold to 888 Holdings plc for \$42 million in 2007. He was responsible for building the Wink Bingo network until it was sold to 888 Holdings plc for £60 million in 2010. Eitan is a highly experienced gaming operator with a proven record in creating value for shareholders.

Eitan is a graduate of the Accelerated Development Program at Chicago Booth Business School (London, England) and holds a BA Honours degree in economics from Tel Aviv University. He has been awarded the Small Business Person of the Week by The Independent in 2015 and participates in the LSE ELITE programme.



John Le Poidevin

Non-Executive Director

John is a Fellow of the Institute of Chartered Accountants in England and Wales and a former audit partner in a major accounting firm where, as head of consumer markets, he developed an extensive breadth of experience and knowledge across the online gaming, leisure and retail sectors in the UK and overseas.

John is now a non-executive on a number of listed company boards, primarily of consumer, real estate or online technology-related businesses and he therefore brings a wealth of relevant experience both to the sector in which the Group operates and in terms of corporate governance, audit, risk and financial reporting.



Adam David Batty

Non-Executive Director

Adam is the founder and chief executive of a new, fast casual, premium chicken concept that is being rolled out in major cities across the UK.

A corporate lawyer by training, Adam worked in private practice at Norton Rose Fulbright and in an investment bank before joining Mitchells & Butlers PLC in 2002 where he spent five years as legal director (and, latterly, risk and compliance director), before joining Domino's Pizza Group plc in 2007 where he spent five years as general counsel and company secretary, which involved being a member of its operating boards in the UK, Germany and Switzerland. From early 2013 until autumn 2017, Adam was the general counsel and company secretary at Selfridges Group, where he had a very broad legal, governance and commercial role.



Ronen Kannor

Chief Financial Officer

Ronen joined Stride Gaming at the end of October 2014 and has over 14 years' experience in financial management roles within the real estate and business intelligence sectors.

He has wide-ranging CFO experience in all aspects of financial and operational management in a number of companies, including KC Development Inc, Publicis Group and Ernst & Young (Israel branch).

Ronen holds an MBA in accounting and finance from the Tel Aviv College of Management, is a Certified Public Accountant (The Institute of Certified Public Accountants, Israel) and holds a BBA in accounting and finance from the Tel Aviv College of Management.



Darren Brett Sims

Chief Operating Officer

Darren has over eleven years' experience in the gambling sector. He was instrumental in the sale of GlobalCom Limited to 888 Holdings Plc.

As vice president of bingo within 888, he was responsible for the integration of the GlobalCom Limited business and the launch of the 888.com bingo vertical and was part of the team that established the Dragonfish Technology – the B2B arm of 888 Holdings Plc.

Upon completion of his contract with 888 Holdings Plc, he returned to Spacebar Media, where he rejoined Eitan Boyd just prior to the sale of Wink Bingo to 888 Holdings Plc. He holds a Bachelor of Commerce (Honours) degree from the University of Witwatersrand, South Africa.

Statement from the Chair of the Audit Committee

for the year ended 31 August 2017

This is the third report of the Audit Committee following the Company's flotation on AIM in May 2015.

The Committee has responsibility for, amongst other things, the planning of, reviewing and reporting to the Board on financial reporting, internal financial control and risk management, and the involvement of the Company's auditor in that process. The Committee focuses in particular on compliance with corporate governance, accounting standards and legal requirements, together with maintaining an effective system of internal financial control.

The Committee advises the Board on the statement by the Directors that the annual report, when read as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. The ultimate responsibility for reviewing and approving the annual report and the half-yearly report remains with the Board as a whole.

The Committee also has responsibility for the consideration of the requirement for, and scope of, internal audit and for reviewing the performance, independence and effectiveness of the external auditor.

Our focus in the current year has been to work closely with management and the external auditor to plan for and monitor the integrity of the annual report and financial statements for the year ended 31 August 2017 and the audit thereof. We also carried out a review of the financial risks and subsequently the internal control framework to manage these risks. Although we did not consider that there was a need for the provision of an internal audit function in the current year, we will continue to assess this going forward.

Our programme for the 2018 financial year will include a continued focus on the integrity of the annual report and financial statements and ensuring that the Company's internal controls continue to evolve to cover any changes in the financial risks of the Company following the growth of the Company's activities, including any changes arising from the integration of the businesses that were acquired at the end of the prior financial year.

Introduction

All three Non-Executive Directors are members of the Audit Committee. The Committee met three times in the year ended 31 August 2017 with all Committee members attending every meeting. The Committee's terms of reference are available for public inspection on the Company's website at www.stridegaming.com.

John Le Poidevin, as a Fellow of the Institute of Chartered Accountants in England and Wales and former audit partner and chair of other public company audit committees, is considered to have recent and relevant financial experience. Both Nigel Payne and Adam Batty have many years of relevant financial and audit committee experience and Nigel is also a Chartered Accountant.

By invitation of the Audit Committee Chair, Ronen Kanner, the Chief Financial Officer, has attended all Committee meetings held to date, as did representatives of BDO LLP, the external auditor. Other Executive Directors have been invited to attend Committee meetings where relevant for them to do so. The Audit Committee also meets with the external auditor without any Executive Directors present and the Audit Committee Chair met with BDO LLP separately on several occasions to discuss matters, including the audit process.

Key activities during the period

The focus of the Audit Committee's activities during the year has been centred around the effective planning, implementation and review of our financial reporting processes.

During the period we have:

- reviewed and monitored the integrity of the published financial information, including the half-yearly report, the preliminary announcement and the annual report and financial statements;
- considered the independence and objectivity of the external auditor;
- planned for the Company's year end and reviewed the audit plan;
- assessed the key risks which could have a material impact on the financial statements; and
- reviewed significant issues and areas of judgement applied in the preparation of the financial statements.

Financial reporting and significant financial judgements

Set out below are the significant issues considered by the Audit Committee and discussed with the external auditor in relation to the financial statements and how these were then subsequently addressed.

Revenue recognition

Revenue recognition gives rise to a risk over completeness, existence, accuracy and presentation in the statement of comprehensive income of net gaming revenue and also involves judgements as to estimates and treatment of certain customer bonuses and the liability required in respect of progressive jackpots. Furthermore, net gaming revenue generated from Real Money Gaming is reliant on complex IT systems and has therefore been considered as a specific risk.

The Committee reviewed the internal control procedures in respect of revenue recognition and discussed with management and the external auditor the accounting policies adopted and judgements made in respect of revenue recognition for both the Real Money and Social Gaming revenue streams and confirmed that they are appropriate and in line with relevant accounting standards and industry practice.

Financial reporting and significant financial judgements continued

Goodwill and other intangibles

The Group undertook a number of acquisitions in the prior year, which gave rise to goodwill and other intangibles within the Group financial statements and the requirement to carry out impairment reviews for each subsequent reporting period.

The Committee discussed with management the discounted cash flow models and assumptions, estimates and judgements made for each separately identifiable cash generating unit in order to consider the carrying value of goodwill and other intangibles. Key assumptions reviewed included discount rates, perpetuity rates, operating margins and growth rates as well as the periods covered by the projections and the sensitivity analysis applied.

The Committee discussed these with the auditor and confirmed how these assumptions compared with industry standards and were supported by historical trends within the businesses acquired.

Other issues

In addition to the above items, other areas considered by the Committee in relation to the financial statements included the adequacy of tax provisions and disclosures, the capitalisation of software development costs, the completeness of related party disclosures, the carrying value of the Group's available-for-sale investments, the fair value of contingent consideration and the accounting treatments relating to the fair value of share options and LTIP awards granted in the period.

Internal control and risk review process

Whilst the Committee is responsible for reviewing the financial risks and internal controls to mitigate these, the Board as a whole is responsible for reviewing the overall business risks and risk management procedures. The Group's principal risks and uncertainties, together with mitigating actions and the internal controls and risk management procedures, are set out in the Principal Risks and Uncertainties section of the annual report.

External auditor and independence

During the year, the Committee conducted its annual review of the effectiveness of the auditor and satisfied itself that the auditor is delivering the necessary level of service, scrupulousness and robust challenge in its work, together with a formal assessment of the external auditor's independence.

The external auditor carried out other services during the year amounting to fees of £33,800, including reviews of the interim financial statements and other accounting information, together with a transfer pricing review carried out by a BDO overseas office. The analysis of audit, audit-related and non-audit fees is provided in note 3 to the financial statements. The Group has engaged a number of other accounting firms to carry out such work during the financial year, including Grant Thornton UK LLP, which is engaged as the Company's principal tax advisor, and the Committee satisfied itself that where the external auditor carried out non-audit work, it undertook its standard independence procedures in relation to those engagements and that they were selected by the Company on the basis of specific expertise or familiarity with the areas under review. The Committee required the external auditor to confirm in writing that it remained independent in its scrutiny of the financial statements and had sufficient policies and procedures in place, including the use of separate teams and different engagement partners for any non-audit work. The Committee was satisfied that the external auditor's independence and objectivity were not compromised by the non-audit work undertaken in the financial period.

John Le Poidevin

Chairman of the Audit Committee

21 November 2017

Statement from the Chair of the Remuneration Committee

for the year ended 31 August 2017

Below is set out the annual report of the Remuneration Committee (the “Committee”). The report comprises a description of how the Committee operates; and a brief overview of the remuneration policy and how we intend to implement it in 2017/18; together with details of compensation paid to the Board of Directors within the financial year.

The previous review of the remuneration policy took place in August 2015. The Committee therefore undertook a further review of Executive remuneration during the year under review in order to establish whether the remuneration levels set were competitive, sufficiently recognised the skills and experience of the Executive Directors and reflected the Company’s size and status on AIM. The Committee further reviewed the operation of variable incentive plans to ensure they have the correct link between performance and reward.

As a result of this review, the Committee decided that its previous policy was still, in the main, appropriate for the 2017/18 financial year and for the foreseeable future. This policy can be summarised as follows:

- base salaries in line with equivalent roles at companies with similar characteristics and sector comparators, recognising the capabilities and strong performance to date and reflecting responsibility levels and complexity of the roles;
- an appropriate pension contribution to provide market competitive, yet cost effective retirement benefits;
- annual bonus maximum quantum set by reference to each individual’s salary, with performance assessed against a combination of financial and operational goals linked to the Company’s strategy; and
- an annual award of performance shares subject to a combination of performance conditions measured over a three-year performance period, aligned to the main strategic objectives of delivering sustained profitable growth and increasing the Company’s share price over the medium term.

Against the backdrop of another successful year for the Company, the Committee is satisfied that the remuneration policy adopted for the 2017/18 financial year operates in such a way as to incentivise Company growth and development, and reward for strong performance, offering an appropriate balance between fixed and performance-related, immediate and deferred remuneration, but without overpaying or creating the risk of rewards for failure.

Remuneration Committee report

The Committee is appointed by the Board, and is formed of Non-Executive Directors. In the year the Committee was chaired by Adam Batty; the other members of the Committee were Nigel Payne and John Le Poidevin.

The Committee met three times during the year and all Committee members attended every meeting. The Committee’s terms of reference are available for public inspection on the Company’s website at www.stridegaming.com.

Other members of the Board of Directors are invited to attend meetings when appropriate, but no Director is present when his remuneration is discussed. New Bridge Street (“NBS”), a part of Aon Hewitt Limited, provided advice to the Committee during the current and prior years. NBS is a signatory to the Remuneration Consultants Group code of conduct and has no other connection with the Company other than in the provision of advice on remuneration from time to time.

The Committee’s principal duties remain as follows:

- to review and make recommendations in relation to the Company’s Senior Executive remuneration policy;
- to apply these recommendations when setting the specific remuneration packages for each Executive Director, the Company Chairman and other selected members of senior management and to include annual bonuses, the eligibility requirements for long-term incentive schemes, pension rights, contracts of employment and any compensation payments;
- to ensure that the remuneration policy is aligned with the short and long-term strategy of the Company;
- to manage performance measurements and make awards under the Company’s annual bonus and long-term incentive plans;
- to consult with key shareholders with regards to remuneration where appropriate and take their views into account; and
- to manage reporting and disclosure requirements relating to Executive remuneration.

Pay policy

The remuneration policy is designed to provide an appropriate level of compensation to senior management such that they are sufficiently incentivised and rewarded for their strong performance, their levels of responsibility and complexity of their role and to reflect their skills and experience over time. Using appropriate measures of financial and personal performance, as well as equity-based rewards, helps to align the interests of the Directors with those of the Company’s shareholders.

The Committee has taken into account market data when setting remuneration levels, positioning Executives’ pay at a broadly mid-market level relative to similarly sized AIM-listed companies, as well as those from the gaming sector. This provides a package which is both fair and competitive within the market.

Base salary

Base salaries are reviewed on an annual basis, and any increases become effective from the start of the financial year. As a result of the salary benchmarking exercise undertaken in the 2016/17 financial year and reflecting the strong performance of the Company and Directors during the year, with effect from 1 September 2017, Eitan Boyd and Darren Sims are entitled to a base salary of £290,000 following an increase of 14% over the previous financial year. Ronen Kannor is entitled to a base salary of £185,000, following an increase of 13% over the previous financial year.

Pension and benefits

The Executive Directors are entitled to a pension contribution of up to 10% of salary in the form of a defined contribution to a pension plan and/or as a cash supplement. Additionally, the Executive Directors are entitled to benefits in kind, including the provision of life assurance, group income protection and private medical and dental insurance.

Annual bonus

The remuneration policy allows the Committee, at its discretion, to make annual cash bonus awards to the Executive Directors, which will normally be limited to a bonus opportunity of 100% of salary per annum.

Stretching performance targets are determined by the Committee at the start of the financial year, which are fully aligned with the Company's strategy and objectives. These targets (a majority of the bonus) are financial in nature (e.g. Adjusted EBITDA), with a minority of the bonus payable for the achievement of qualitative strategic and personal performance targets set by the Chief Executive Officer and agreed by the Chairman. For the financial targets, a sliding scale target range is used, with no bonus payable for this element unless a threshold level of performance is achieved. Clawback provisions do apply.

The Committee retains the discretion to increase the annual bonus opportunity to 125% of salary in exceptional circumstances where actual performance significantly exceeds targets set at the start of the financial year. It is intended that this flexibility will only be used in limited scenarios, reflecting the dynamic nature of the market. For the financial year ended 31 August 2017, in light of the exceptional performance by the Executive team in exceeding the financial targets set for the year, the Committee exercised its discretion to increase the annual bonus opportunity to 115% of salary.

Long-term incentives

During the financial year under review, the Company made its first annual long-term incentive ("LTIP") award, as announced on 6 June 2017. The awards will be satisfied in the form of ordinary shares, with a face value of up to 100% of each Executive Director's salary for the relevant financial year, on a three-year vesting period. As disclosed in the Remuneration Report in respect of the financial year ending 31 August 2016, due to transaction activity during the previous financial year and then close periods, it was not possible to grant the planned awards; therefore, the award made in the year comprised both the 2016/17 award and the award carried over from 2015/16. As highlighted in last year's Remuneration Report, the Committee has retained a discretion to shorten the standard vesting periods to take account of the delayed award cycles.

The awards are subject to challenging performance conditions set at the time of grant, which includes metrics based on the Company's financial performance which is in line with the Company's stated growth strategy. The vested LTIP awards will be exercisable until the tenth anniversary of the grant date, subject to the individual's ongoing employment. The awards are structured as forfeitable share awards whereby the beneficial interest in the ordinary shares will be transferred to the participants if the conditions set out in the Company's LTIP have been met and after consulting with the Remuneration Committee. Dividends which accrue may be paid on vested shares. Clawback provisions apply.

The combined award is summarised below:

	Number of ordinary shares which LTIP awards were granted for 2015/16	Number of ordinary shares which LTIP awards were granted for 2016/17
Executive Directors		
Stuart Eitan Boyd	111,111	113,333
Darren Brett Sims	111,111	113,333
Ronen Kannor	66,667	77,778
Total	288,889	304,444
Date of vesting	31/08/2018	31/08/2019

Statement from the Chair of the Remuneration Committee continued

for the year ended 31 August 2017

Non-Executive Director fees

Fees for Non-Executive Directors are set with reference to market data, time commitment, responsibilities and chairmanship of Board Committees. Fees are normally reviewed biennially. During the year as part of the wider review of remuneration policy, the fees payable to the Non-Executive Directors were reviewed (in the case of the Chairman of the Board by the Committee and in the case of the Non-Executive Directors by the Board) and, as a result, from 1 September 2017, the Chairman, Nigel Payne, will receive a fee of £60,000 per annum, an increase of 25% from the previous year. The two other Non-Executive Directors, Adam Batty and John Le Poidevin, will receive annual fees of £47,000, representing a 12% increase from the prior year. Other than their annual fee, as well as appropriate travel expenses to and from Board meetings, no additional compensation is payable.

Pay and conditions elsewhere in the Company

The remuneration policy described above provides an overview of the structure that operates for the most Senior Executives in the Company, with a significant element of remuneration dependent on Company and individual performances. A lower aggregate level of incentive payment applies below Executive Director level. The vast majority of the Company's employees participate in an annual bonus plan with the limits and performance conditions varying according to job grade. The Committee believes in broad-based employee share ownership being a key element in retention and motivation in the wider workforce, so many employees are provided with longer-term incentives through discretionary share schemes. The Committee takes into account remuneration packages within the Company as a whole when determining Executive pay levels.

Service agreements

The Executive Directors' service agreements provide that their employment with the Company is on a rolling basis, subject to written notice being served by either party of not less than six months.

The current service contracts and letters of appointment include the following terms:

		Date of contract	Notice period
Executive Directors	Stuart Eitan Boyd	11 May 2015	Six months
	Darren Brett Sims	11 May 2015	Six months
	Ronen Kannor	11 May 2015	Six months
Non-Executive Directors	Adam David Batty	19 May 2015	Three months
	Nigel Terrence Payne	8 May 2015	Three months
	John Le Poidevin	19 May 2015	Three months

Under these service contracts, the Company may terminate an Executive Director's employment immediately by making a payment in lieu of base salary, benefits and statutory entitlements, and any bonus or commission payments pro-rated for the duration of the notice period. No bonus would be payable in the event of an Executive Director's resignation.

Directors' Remuneration Report

The Directors received the following remuneration for the financial year ended 31 August 2017:

	Salary and fees £'000	Benefits in kind ¹ £'000	Pension £'000	Annual bonus ² £'000	Share-based payments ³ £'000	2017 total £'000	2016 total £'000
Executive Directors							
Stuart Eitan Boyd	255	16	26	293	248	838	838
Darren Brett Sims	255	7	26	293	248	829	835
Ronen Kannor	175	6	17	201	160	559	515
Non-Executive Directors							
Adam David Batty	42	—	—	—	—	42	42
Nigel Terrence Payne	48	—	—	—	—	48	57 ⁴
John Le Poidevin	42	—	—	—	—	42	50 ⁴
Aggregate emoluments	817	29	69	787	656	2,358	2,337

1 Including the provision of life assurance, group income protection, and private medical and dental insurance.

2 Represents the annual bonus payable in December 2017 for performance up to the end of the 2016/17 financial year.

3 Including the cost of awarded LTIPs during the year.

4 Extra fees in relation to assistance provided with the two acquisitions in the prior year.

Outstanding share-based awards

The following share-based payment awards were outstanding during the year:

	Award type	Effective date of grant	Total outstanding	Granted in year	Lapsed in year	Vested in year	Not vested at year end	Market price at date of grant	Exercise price
Stuart Eitan Boyd	Share options	18 May 2015	750,000	—	—	500,000	250,000	£1.32	£1.32
	LTIP	1 Sep 2015	111,111	—	—	—	111,111	£3.02	£0.00
	LTIP	1 Sep 2016	113,333	113,333	—	—	113,333	£2.45	£0.00
Darren Brett Sims	Share options	18 May 2015	750,000	—	—	500,000	250,000	£1.32	£1.32
	LTIP	1 Sep 2015	111,111	—	—	—	111,111	£3.02	£0.00
	LTIP	1 Sep 2016	113,333	113,333	—	—	113,333	£2.45	£0.00
Ronen Kannor	Share options	18 May 2015	500,000	—	—	333,334	166,666	£1.32	£1.32
	LTIP	1 Sep 2015	66,667	—	—	—	66,667	£3.02	£0.00
	LTIP	1 Sep 2016	77,778	77,778	—	—	77,778	£2.45	£0.00

On the IPO date in May 2015 the Executive Directors received an award of share options, which vest in equal tranches on the first, second and third anniversaries of listing. As detailed above, the Company made the first and second long-term incentive awards under a new long-term incentive plan. The awards are in the form of performance shares, with a three-year vesting period subject to stretching performance conditions set at the time of grant and which include metrics based on financial performance in line with our key objectives of delivering returns to our shareholders through achievement of our growth strategy and continued service.

Statement of Directors' interests

The table below sets out the beneficial interests in shares and the fully vested share options of all Directors holding office as at 31 August 2017:

	Ordinary shares		Unexercised share options		Total interests	
	At 31 August 2017	At 31 August 2016	At 31 August 2017	At 31 August 2016	At 31 August 2017	At 31 August 2016
Stuart Eitan Boyd	2,425,213	2,425,213	474,444	250,000	2,899,657	2,675,213
Darren Brett Sims	1,083,510	1,083,510	474,444	250,000	1,557,954	1,335,510
Ronen Kannor	—	—	311,111	166,666	311,111	166,666
Adam David Batty	22,727	22,727	—	—	22,727	22,727
Nigel Terrence Payne	13,889	13,889	—	—	13,889	13,889
John Le Poidevin	44,546	44,546	—	—	44,546	44,546

Adam David Batty

Chairman of the Remuneration Committee

21 November 2017

Directors' report

for the year ended 31 August 2017

The Directors present their report and consolidated financial statements for the year ended 31 August 2017.

Principal activities and review of the business

The Group's principal activities during the year continued to be that of an online, real money, bingo-led operator, as well as social gaming. The Group completed three further acquisitions on 31 August 2016 which further enhanced its real money offering during the year. A review of the business and a description of the principal risks and uncertainties are set out in the Chairman's Statement and the Chief Executive's Statement.

Results and dividends

The loss for the year, after taxation and exceptional items, amounted to £25,623,000 (2016: loss of £386,000). An interim dividend of £808,000 (1.2p per share) was declared and paid in the year ended 31 August 2017 (2016: interim dividend of £564,000). The Board is recommending a final dividend of 1.5p per share subject to shareholder approval at the Annual General Meeting (2016: final dividend of 1.4p per share paid following shareholder approval at the Annual General Meeting). Further details of the results for the year are included in the Chairman's, Chief Executive's and Chief Financial Officer's Statements.

Future developments

Future developments are discussed in the Chairman's Statement and Chief Executive's Statement.

Directors' interests and remuneration

Details of the Directors' interests and remuneration are included in the Statement from the Chair of the Remuneration Committee.

Political and charitable donations

During the year, the Group made charitable contributions totalling £39,336 (2016: £38,383).

Disclosures to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken steps that ought to have been taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

BDO LLP has expressed its willingness to continue in office and a resolution to reappoint it will be proposed for the Annual General Meeting.

Financial instruments

Details of the Group's financial risk management objectives and policies are included in note 21 to the financial statements.

Events after reporting date

For significant events after the reporting period please refer to note 25 of the financial statements.

Going concern

The Board is satisfied that the Group has adequate financial resources to continue to operate for the foreseeable future and is financially sound. For this reason, the going concern basis is considered appropriate for the preparation of financial statements.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable law and regulations. Companies (Jersey) Law 1991 requires the Directors to prepare accounts for each financial period. Under that law, and as required by the AIM Rules for Companies, the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). In preparing these financial statements, the Directors are required to:

- retain accounting records that are sufficient to show, at any time, the financial position of the Group;
- give a true and fair view of the Group financial position, financial performance and cash flows;
- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs, as adopted by the EU, is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state whether the Group financial statements have been prepared in accordance with IFRSs, as adopted by the EU, subject to any material departures disclosed and explained in the financial statements.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Ronen Kannor
Chief Financial Officer
 21 November 2017

Independent auditor's report

to the members of Stride Gaming plc

Opinion on consolidated financial statements

We have audited the consolidated financial statements of Stride Gaming plc for the year ended 31 August 2017 which comprise the consolidated statement of profit or loss, consolidated statement of other comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity and the consolidated statement of cash flows and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 August 2017 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Matter	How we addressed the matter in our audit
<p>Revenue recognition</p> <p>Refer to note 1 to the financial statements for the accounting policy for revenue recognition.</p> <p>The Group has a number of revenue streams across its online games. Revenue is predominantly derived from gambling operations arising from high volume, typically low value transactions and is dependent on the overall volume and quantum of amounts wagered.</p> <p>The accuracy and completeness of revenue recognised, and the related player liabilities, is dependent on the effectiveness of the systematic and manual financial controls in relation to player liabilities, calculation of bonuses, jackpots and prizes granted to players, cash and bank reconciliations.</p> <p>Due to the complexity of the processes, there is a risk that revenue or player liability errors could go undetected or are not detected on a timely basis.</p>	<p>We evaluated and tested relevant IT general controls over the key revenue and financial information systems. We involved IT specialists for this purpose.</p> <p>The key automated and manual general application controls over the completeness and accuracy of the Group's main gaming systems have been documented and tested including conducting test bets.</p> <p>We have completed a full extraction of all gaming data from the two proprietary platforms and reconciled the opening to closing client liability balances and the resulting gaming revenue for the year taking into account bonuses, jackpots and prizes granted to players during the year.</p> <p>We have tested a sample of social gaming revenues and revenue generated from third party platforms to invoice and subsequent bank receipt.</p> <p>We noted no deficiencies in the operating effectiveness of the controls and no material errors in the substantive procedures performed in our audit of revenue in the financial statements for the year ended 31 August 2017.</p>

Independent auditor's report continued

to the members of Stride Gaming Plc

Key audit matters continued

Matter	How we addressed the matter in our audit
<p>Impairment of goodwill and other intangible assets At 31 August 2017 goodwill and other intangible assets amounted to £57.7 million.</p> <p>During the year ended 31 August 2017 the Group performed an impairment assessment for all cash generating units as identified by management.</p> <p>As a result of this review management determined that the weaker than expected social gaming market had an adverse effect on the projected value in use of that social gaming cash generating unit and consequently these intangible assets have been written down to their assessed value in use.</p> <p>As disclosed in note 12 this resulted in an impairment of £6.1 million charged against goodwill and £3.9 million against acquired intangibles.</p>	<p>We agreed the forecasts used in the impairment calculations to the latest Board approved plans.</p> <p>We evaluated the assumptions in these forecasts and plans and considered the evidence in support of them, principally in relation to historical trends and actual performance in 2017.</p> <p>We reviewed the net present values calculated by management against the overall net assets of the cash generating units.</p> <p>We reviewed the basis and reasonableness of the discount rate used.</p> <p>We performed a sensitivity analysis in respect of the key assumptions used in the impairment calculations.</p> <p>We have utilised a valuations specialist to review the models and certain assumptions used by management including the discount rate applied.</p> <p>Based on the substantive procedures performed the impairment assessment and impairment charge appears reasonable.</p>

Our application of materiality

We determined materiality for the financial statements as a whole to be £907k (2016: £615k) which represents approximately 4.5% of adjusted EBITDA. We agreed with the audit committee that we would report to them misstatements identified during our audit above £18k (2016: £12k).

We used adjusted EBITDA as a benchmark given the importance of EBITDA as a measure for shareholders in assessing the underlying performance of the Group.

Individual component audits were carried out using component materialities of between 60–75% of overall financial statement materiality.

An overview of the scope of our audit

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole taking into account the geographical structure of the Group, the accounting processes and controls and the industry in which the Group operates.

All work was undertaken by the Group engagement team with the exception of components in Israel and Mauritius where we engaged with component auditors. Where work was performed by component auditors we determined the level of involvement we needed at those reporting units to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. We discussed the planned procedures ahead of the audit with the component auditors and also discussed the results of their procedures during the completion of the audit procedures.

Other information

The other information comprises the information included in the annual report, other than the consolidated financial statements and our Auditor's Report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the consolidated financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Kieran Storan (senior statutory auditor)

**For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
21 November 2017**

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of profit or loss

for the year ended 31 August 2017

	Note	2017 £'000	2016 £'000
Net gaming revenue	1	89,923	47,799
Cost of sales	1	(11,621)	(5,387)
Gross profit		78,302	42,412
Distribution costs	3	(38,607)	(18,667)
Administrative expenses	3	(19,446)	(11,427)
Adjusted EBITDA		20,249	12,318
Share-based payments	3	(1,758)	(1,912)
Acquisition costs	3	—	(1,090)
Contingent remuneration	3	(14,295)	(3,987)
Contingent consideration adjustment	3	(10,797)	—
Impairment	3	(9,987)	—
Amortisation of intangible assets	3	(8,375)	(4,389)
Depreciation	3	(261)	(137)
Operating (loss)/profit		(25,224)	803
Finance income		25	25
Finance expense	5	(1,550)	(697)
(Loss)/profit before tax		(26,749)	131
Tax credit/(expense)	8	1,126	(517)
Loss after tax		(25,623)	(386)
Loss per share (p)	9		
Basic		(38.08)	(0.750)
Diluted		(38.08)	(0.750)

The notes on pages 39 to 65 form part of these financial statements.

Consolidated statement of other comprehensive income

for the year ended 31 August 2017

	Note	2017 £'000	2016 £'000
Loss after tax		(25,623)	(386)
Other comprehensive income:			
Items that will or may be reclassified to profit or loss:			
Change in fair value of available-for-sale investment	6	785	810
Exchange gains arising on translation of foreign operations		480	2,565
Total comprehensive (expense)/income for the period attributable to the equity holders of the parent entity		(24,358)	2,989

The notes on pages 39 to 65 form part of these financial statements.

Consolidated statement of financial position

at 31 August 2017

	Note	2017 £'000	2016 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	661	662
Intangible assets	12	57,756	73,566
Other receivables	14	353	3,416
Deferred tax asset	18	745	217
Available-for-sale investments	6	1,595	810
		61,110	78,671
Current assets			
Trade and other receivables	14	9,891	5,827
Income tax receivable		453	168
Cash and cash equivalents	16	26,175	21,080
		36,519	27,075
Total assets		97,629	105,746
LIABILITIES			
Non-current liabilities			
Trade and other payables	15	80	6,772
Loans and borrowings	17	4,443	—
Deferred tax liability	18	2,539	3,708
		7,062	10,480
Current liabilities			
Trade and other payables	15	33,377	17,352
Income tax payable		300	728
Loans and borrowings	17	1,975	8,000
		35,652	26,080
Total liabilities		42,714	36,560
Net assets		54,915	69,186
Issued capital and reserves attributable to owners of the parent			
Share capital	19	680	666
Share premium		40,641	38,975
Merger reserve		—	11,253
Shares to be issued	25	—	1,674
Available-for-sale reserve	6	1,595	810
Capital contribution		—	13,707
Share option reserve		—	1,911
Foreign currency translation reserve		3,052	2,572
Retained earnings		8,947	(2,382)
Total equity		54,915	69,186

The notes on pages 39 to 65 form part of these financial statements.

Approved by the Board on 21 November 2017 and signed on its behalf by:

Ronen Kanner **Stuart Eitan Boyd**
Director Director

Company Number: 117876

Consolidated statement of cash flows

for the year ended 31 August 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Loss for the year		(25,623)	(386)
Adjustments for:			
Depreciation of property, plant and equipment	11	261	137
Amortisation of intangible assets	12	8,375	4,389
Impairment	12	9,987	—
Finance expense	5	1,550	697
Finance income		(25)	(25)
Share-based payment expense		1,758	1,645
Share-based payment expense on contingent remuneration	23	10,088	—
Contingent consideration adjustment		10,797	—
Income tax (credit)/expense	8	(1,126)	517
		16,042	6,974
Decrease in trade and other receivables		627	655
(Decrease)/Increase in trade and other payables		(2,414)	6,783
Cash generated from operations		14,255	14,412
Income taxes paid		(1,404)	(680)
Net cash flows from operating activities		12,851	13,732
Investing activities			
Acquisition of subsidiaries, net of cash acquired	23	—	(19,186)
Cash held in escrow	14	(1,929)	(3,000)
Finance income		25	25
Purchases of property, plant and equipment	11	(190)	(472)
Purchase of intangibles	12	(489)	(377)
Capitalised development costs	12	(1,355)	(1,028)
Net cash used in investing activities		(3,938)	(24,038)
Financing activities			
Issue of ordinary shares, net of issue costs		—	25,890
Interest paid		(590)	(580)
Repayment of related party borrowings	17	(8,000)	(1,083)
Proceeds from bank borrowings, net of bank fees		7,905	—
Repayment of bank borrowings		(1,500)	—
Dividends paid	10	(1,752)	(564)
Net cash (outflow)/inflow from financing activities		(3,937)	23,663
Net increase in cash and cash equivalents		4,976	13,357
Cash and cash equivalents at beginning of year		21,080	7,388
Exchange gains on cash and cash equivalents		119	335
Cash and cash equivalents at end of year	16	26,175	21,080

A description of the significant non-cash movements is given in note 26.

The notes on pages 39 to 65 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 August 2017

	Share capital £'000	Share premium £'000	Merger reserve £'000	Shares to be issued reserve £'000	Available-for-sale reserve £'000	Capital contribution reserve £'000	Share option reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 September 2015	502	10,608	3,013	4,132	—	14,271	266	7	(1,996)	30,803
Loss for the year	—	—	—	—	—	—	—	—	(386)	(386)
Other comprehensive income	—	—	—	—	810	—	—	2,565	—	3,375
Total comprehensive income for the year	—	—	—	—	810	—	—	2,565	(386)	2,989
Contributions by and distributions to owners										
Dividends	—	—	—	—	—	(564)	—	—	—	(564)
Acquisition of business through issue of shares	33	—	8,240	—	—	—	—	—	—	8,273
Acquisition of intangible assets for shares	11	2,447	—	(2,458)	—	—	—	—	—	—
Capital contribution	—	—	—	—	—	—	—	—	—	—
Share-based payment	—	—	—	—	—	—	1,645	—	—	1,645
Issue of shares, net of share issue costs	120	25,920	—	—	—	—	—	—	—	26,040
At 31 August 2016	666	38,975	11,253	1,674	810	13,707	1,911	2,572	(2,382)	69,186
Loss for the year	—	—	—	—	—	—	—	—	(25,623)	(25,623)
Other comprehensive income	—	—	—	—	785	—	—	480	—	1,265
Total comprehensive income for the year	—	—	—	—	785	—	—	480	(25,623)	(24,358)
Contributions by and distributions to owners										
Dividends	—	—	—	—	—	—	—	—	(1,752)	(1,752)
Acquisition of intangible assets for shares	8	1,666	—	(1,674)	—	—	—	—	—	—
Share-based payment	—	—	—	—	—	—	1,751	—	—	1,751
Share-based payment on contingent remuneration	—	—	—	—	—	—	10,088	—	—	10,088
Issue of shares placed in trust (note 22)	6	—	—	—	—	—	—	—	(6)	—
Reserves transfer	—	—	(11,253)	—	—	(13,707)	(13,750)	—	38,710	—
At 31 August 2017	680	40,641	—	—	1,595	—	—	3,052	8,497	54,915

The notes on pages 39 to 65 form part of these financial statements.

Consolidated statement of changes in equity continued

for the year ended 31 August 2017

The following describes the nature and purpose of each reserve within equity:

Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Represents the difference between the nominal value of shares acquired by the Company in the share-for-share exchange with Daub Alderney Limited and the nominal value of shares issued to acquire them as well as the satisfaction of the initial consideration in respect of the acquisition of the trade and assets of Table Top Entertainment Limited and Tarco Limited.
Shares to be issued	Represents the shares to be issued in respect of the acquisition of certain intangible assets. The shares have now been issued in full. Refer to note 12.
Available-for-sale reserve	Gains/losses arising on fair value movement of financial assets classified as available for sale.
Capital contribution	Represents the release of the Group's obligation to repay borrowings of £6,999,000, the contribution by a shareholder of the entire share capital of Baldo Line SRL, the cash contribution by a shareholder to acquire Spacebar Media Limited and the £8,454,786 payment made in the form of shares by the shareholders to settle obligations following the acquisition of Table Top Entertainment Limited in September 2014.
Share options	Represents the fair value of awards made under the Group's share option schemes (refer to note 22).
Foreign currency translation reserve	Gains/losses arising on retranslating the net assets of overseas operations into Sterling as well as inter-company loan balances treated as investment in subsidiaries that the Directors believe will not be repaid for the foreseeable future.
Retained earnings	The account includes cumulative profits and losses less any distributions made to shareholders and the nominal value of shares gifted to the employee benefit trust. In addition, during the year ended 31 August 2017 the total balances in the merger, share option and capital contribution reserves were transferred to this account and are available for distribution under the Companies (Jersey) Law 1991, subject to meeting other Companies Act requirements.

Notes forming part of the financial statements

for the year ended 31 August 2017

1 Accounting policies

Legal status

Stride Gaming plc, which includes its subsidiaries and together forms the “Group”, is a public limited company incorporated in Jersey. Stride Gaming plc was incorporated under the Companies (Jersey) Law 1991 on 25 February 2015. The address of its registered office is 12 Castle Street, St Helier, Jersey JE2 3RT. Stride Gaming plc shares are listed on the Alternative Investment Market (“AIM”) of the London Stock Exchange. The Company is not required to present parent company information.

Basis of preparation

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below and have been prepared on a historical cost basis. The policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements are presented in Sterling, which is also the parent’s functional currency and amounts are rounded to the nearest thousand, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively “IFRSs”) as adopted by the European Union and the requirements of the Companies (Jersey) Law 1991.

The preparation of financial statements in compliance with EU adopted IFRSs requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group’s accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements are disclosed below.

Changes in accounting policies

a) New standards, interpretations and amendments effective from 1 September 2016

Where relevant, new standards and amendments to existing IFRSs that have been published and are mandatory for the first time for the financial year beginning 1 September 2016 have been adopted, but had no significant impact to the Group accounts.

b) New standards, interpretations and amendments not yet effective

New standards, amendments to standards and interpretations that have been issued but are not yet effective (and in some cases have not yet been adopted by the EU) have not been early adopted. This includes the following:

IFRS 9 Financial Instruments

This standard becomes effective for the first time for accounting periods beginning on or after 1 January 2018. It contains new requirements which cover classification and measurement, impairment and hedge accounting. The recognition and derecognition requirements for financial assets and financial liabilities are unchanged from IAS 39 Financial Instruments: Recognition and Measurement, which is the standard it is replacing. Main changes are:

Classification and measurement of financial assets

IFRS 9 replaces the rules-based model in IAS 39 with an approach which bases classification and measurement on the business model of an entity and on the cash flows associated with each financial asset (the solely payments of principal and interest (“SPPI”) test). This has resulted in a revision of the boundary between fair value and amortised cost. Some key changes include:

- elimination of the “held to maturity” and “available for sale” categories;
- elimination of the requirement to separately account for (i.e. bifurcate) embedded derivatives in financial assets; and
- elimination of the limited exemption to measure unquoted equity investments at cost rather than at fair value.

Classification and measurement of financial liabilities

The requirements for the classification and measurement of financial liabilities are largely unchanged from IAS 39. However, for financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that changes in the fair value which relate to changes in own credit risk should generally be recognised directly in other comprehensive income.

Unlike financial assets, the concept of embedded derivatives has been retained for financial liabilities.

Impairment

IFRS 9 sets out a new forward-looking “expected credit loss (“ECL”)” model which replaces the incurred loss model in IAS 39 and applies to:

- financial assets measured at amortised cost;
- debt investments measured at fair value through other comprehensive income;
- trade receivables, contract assets and lease receivables; and
- certain loan commitments and financial guaranteed contracts.

The new requirements will lead to the earlier recognition of larger credit losses. Unlike IAS 39, entities will be required to consider forward-looking information when measuring ECL. Therefore, a credit event (or impairment “trigger”) no longer has to occur before credit losses are recognised. An entity will now always recognise (at a minimum) twelve-month ECL. Lifetime ECL will be recognised on assets for which there has been a significant increase in credit risk since initial recognition. While most trade receivables will be subject to a simplified approach to ECL, entities will still need to consider forward-looking information.

Notes forming part of the financial statements continued

for the year ended 31 August 2017

1 Accounting policies continued

Changes in accounting policies continued

b) New standards, interpretations and amendments not yet effective continued

IFRS 9 Financial Instruments continued

The Directors do not expect that the adoption of this standard will have a material impact on the financial statements of the Group in future periods.

IFRS 15 Revenue from Contracts with Customers

This standard becomes effective for the first time for accounting periods beginning on or after 1 January 2018. It is intended to clarify the principles of revenue recognition and establish a single framework for revenue recognition. IFRS 15 supersedes the following:

- IAS 11 Construction Contracts;
- IAS 18 Revenue;
- IFRIC 13 Customer Loyalty Programmes;
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 18 Transfers of Assets from Customers; and
- SIC-31 Revenue – Barter Transactions Involving Advertising Services.

The core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The core principle of IFRS 15 is applied through a five-step approach:

- I. Identify the contract(s) with the customer.
- II. Identify the performance obligations in the contract.
- III. Determine the transaction price.
- IV. Allocate the transaction price.
- V. Recognise revenue when a performance obligation is satisfied.

Additionally, the new requirements add specific guidance for multiple-element arrangements, contract costs and disclosures. The Directors do not expect that the adoption of this standard will have a material impact on the financial statements of the Group in future periods.

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (“lessee”) and the supplier (“lessor”). All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

- a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 is effective from 1 January 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers.

IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations. The amendments are not yet endorsed for use in the EU. The Directors are currently assessing the impact of this standard when it is adopted for the first time.

Basis of consolidation

Acquisition of subsidiaries

A subsidiary is an entity controlled directly or indirectly by the Company. Control is achieved if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred. The acquiree’s identifiable assets and liabilities are recognised at their fair values at the acquisition date.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss from the date that control was obtained to the date that control was lost, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

1 Accounting policies continued

Basis of consolidation continued

Acquisition of subsidiaries continued

Uniform accounting policies have been adopted across the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the financial reporting date. Non-monetary assets and liabilities are translated using exchange rates prevailing at the date of the transactions. Foreign exchange differences arising on translation are recognised in the profit or loss account.

On consolidation, the results of foreign operations are translated into Sterling at rates ruling when the transaction took place. All assets and liabilities of foreign operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating inter-group loans considered to be investment in subsidiaries that the Directors do not expect to be repaid for the foreseeable future as well as the opening net assets at the opening rate and the results of foreign operations at the actual rate are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign currency translation reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of profit or loss and included in the computation of the profit or loss on disposal.

Revenue recognition

Net gaming revenue (“NGR”) is derived from online gambling operations and is defined as the difference between the amounts of bets placed by the players less the amount won by players. It is stated after deduction of certain bonuses, jackpots and prizes granted to players. Revenue is recognised in the accounting periods in which the transactions occur.

Social Gaming revenue is derived from the purchase of credits and awards on the social gaming sites, as well as “in-app” advertising revenue. Social Gaming revenue is recognised to the extent that it is probable economic benefits will flow to the Group and the revenue can be reliably measured and where there are no further obligations. Revenue is recognised in the accounting periods in which the transactions occur.

Cost of sales

Cost of sales consists primarily of gaming duties.

Distribution costs

Distribution costs represent the costs of delivering the service to the customer and primarily consist of processing and royalty fees, promotional and advertising costs together with gaming and other regulatory costs, all of which are recognised on an accruals basis. For the first time in the current financial year, distribution costs also include royalties payable to third-party platform suppliers, following the acquisition of 8Ball Games Limited and the Tarco Assets.

Administrative expenses

Administrative expenses consist primarily of staff costs and corporate and professional expenses, all of which are recognised on an accruals basis.

Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus the amount attributable of any non-controlling interests in the acquisition and dependent on the terms of the sale and purchase agreement, deferred and contingent consideration.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the profit or loss account. Costs incurred in respect of the acquisition are expensed in full in the period of acquisition.

Contingent consideration

When contingent consideration arising on a business combination requires no ongoing employment from the former owners in order to receive payment, the fair value of contingent consideration is included within cost at acquisition date.

Contingent consideration is reviewed at the end of each accounting period as the consideration payable and any subsequent adjustments are recognised in profit or loss account.

When the former owners of an acquired subsidiary are required to remain in employment at each of the deferred or contingent consideration payment dates, the fair value of contingent consideration is built up over the period of service to the date of payment with a corresponding charge to the profit or loss account. When future service is required, this is described in the financial statements as contingent remuneration.

Notes forming part of the financial statements continued

for the year ended 31 August 2017

1 Accounting policies continued

Externally acquired intangible assets

Externally acquired intangible assets including intellectual property rights, developed software applications and licences are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives which is typically over a period of 3–5 years or over the length of the licence.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual or legal rights. The amounts ascribed to such intangibles are arrived at using appropriate valuation techniques (see section related to critical estimates and judgements below).

The significant intangibles recognised by the Group, their useful economic lives and methods used to determine the cost (at initial recognition) of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Brands	4–10 years	Discounted cash flows
Developed software	3–10 years	Relief from royalty
Customer relationships	4–14 years	Discounted cash flows
Contractual relationships	3–10 years	Discounted cash flows

Amortisation is charged to the profit or loss during the financial period to which it relates.

Internally generated intangible assets (development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from the assets generated, being three years.

Development expenditure not satisfying the above criteria is recognised in the consolidated statement of profit or loss as incurred.

Property, plant and equipment

All property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are:

Fixtures, fittings and equipment	– 10–33% straight line
Computer equipment	– 33–66% straight line
Motor vehicles	– 25% straight line

Subsequent expenditures are included in the carrying amount of an asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the profit or loss.

Impairment of property, plant and equipment and internally generated assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end or whenever events or changes in circumstances indicate that their carrying amount may be impaired and hence not recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down to its recoverable amount.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows: its cash generating unit (“CGU”). Goodwill is allocated on initial recognition to each of the Group’s CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the profit or loss account; an impairment loss recognised for goodwill is not reversed.

1 Accounting policies continued

Financial instruments

Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired. Financial assets are either categorised as loans or receivables or available for sale. There are no assets classified as held to maturity or fair value through profit or loss. All financial liabilities are classified as amortised cost with the exception of contingent consideration which is at fair value through profit or loss.

Financial assets

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. Appropriate provisions for estimated irrecoverable amounts are recognised in the profit or loss account when there is objective evidence that the assets are impaired. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Cash and cash equivalents

Cash and cash equivalents comprise cash held at bank, demand deposits and other short-term highly liquid investments that have maturities of three months or less from inception, are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Available for sale

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value, other than those arising due to exchange rate fluctuations and interest calculated using the effective interest rate, recognised in other comprehensive income and accumulated in the available-for-sale reserve. Exchange differences on investments denominated in a foreign currency and interest calculated using the effective interest rate method are recognised in the profit or loss statement.

Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognised in other comprehensive income, is recognised in profit or loss.

On sale, the cumulative gain or loss recognised in other comprehensive income is reclassified from the available-for-sale reserve to profit or loss.

Financial liabilities

Trade and other payables

Trade payables are initially measured at their fair value and are subsequently measured at amortised cost using the effective interest rate method; this method allocates interest expense over the relevant period by applying the "effective interest rate" to the carrying amount of the liability. Player liabilities are the amounts that customers place in their accounts along with any bonuses and progressive jackpots. These liabilities are recognised initially at fair value and subsequently at amortised cost.

Loans and borrowings

Loans and borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position.

Current and deferred tax

Taxation represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Notes forming part of the financial statements continued

for the year ended 31 August 2017

1 Accounting policies continued

Current and deferred tax continued

Deferred tax

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity through other comprehensive income.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each consolidated statement of profit or loss date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured using tax rates that have been enacted or substantively enacted by the consolidated statement of financial position date and are expected to apply when the related deferred tax asset or liability is realised or settled.

Operating leases

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group, these are classified as operating leases. The total rentals payable under the lease are charged to profit or loss on a straight-line basis over the lease term.

Pension costs

The Group operates a defined contribution scheme. The amount charged to the profit or loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either other liabilities or prepayments in the consolidated statement of financial position.

Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

Share-based payments

Where equity-settled share options (including under the long-term incentive plan – “LTIP”) are awarded to employees (refer to note 22), the fair value of the options at the date of grant is charged to the profit or loss account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where equity instruments are granted to persons other than employees, the profit or loss account is charged with the fair value of goods and services received or, in the case of an asset, recorded within the appropriate classification.

UK National Insurance is payable on gains made by some employees on exercise of share options granted to them. The eventual liability to National Insurance is dependent on:

- the market price of the Company’s shares at the date of exercise;
- the number of options that will be exercised; and
- the prevailing rate of National Insurance at the date of exercise.

At each period end the potential liability is recorded as an expense within the profit or loss account and a corresponding provision recorded.

In relation to the LTIPs, the maximum number of shares expected to vest on the date of the award are gifted to an employee benefit trust. The Group has the power to instruct the trust on when to release the shares to the individuals in the LTIP, subject to certain performance conditions being met and the options having vested and being capable of exercise. The cost of gifting these shares to the trust has been included in retained earnings. These shares are excluded from the calculation of the weighted average number of shares used in the basic earnings per share.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends, this is when paid and in the case of final dividends, this is when approved by the shareholders at the AGM.

1 Accounting policies continued

Adjusted EBITDA

The Group defines Adjusted EBITDA as the operating result before depreciation, amortisation, finance costs, and income or expenses that relate to exceptional items such as contingent consideration, contingent remuneration and acquisition costs as well as non-cash charges relating to share-based payments (including employer's National Insurance). The Directors believe that Adjusted EBITDA represents more closely the underlying trading performance of the business.

Critical accounting estimates

The preparation of the consolidated financial statements under IFRS requires the Group to make estimates and judgements that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Reference is made in this note to accounting policies which cover areas that the Directors consider require estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Impairment

In accordance with IAS 36 Impairment of Assets, the Group regularly monitors the carrying value of its intangible assets. A detailed review was undertaken at 31 August 2017 to assess whether the carrying value of assets was supported by the net present value of future cash flows derived from those assets. The recoverable amounts of the Group's CGUs have been determined from value in use calculations based on cash flow projections from formally approved budgets and long-term forecasts. These budgets and forecasts assume the underlying business models will continue to operate on a comparable basis under the current regulatory and taxation regimes, adjusted for any known changes.

Specifically, this review was undertaken for the Social Gaming CGU at 28 February 2017 to assess whether any potential indicators were apparent and following this review a detailed impairment review was then completed. As a result the Group determined that the weaker than expected social gaming market had an adverse effect on the projected value in use and consequently the intangible assets have been written down to their value in use. An impairment of £6,056,000 has been charged against goodwill and £3,931,000 against acquired intangibles (refer to note 12). As of 31 August 2017 the Group undertook an additional review on this CGU's business models and financial projections and concluded that no further impairment was required.

Available-for-sale investment

The Group holds 24.25% (2016: 24.25%) in the equity share capital of QSB Gaming Limited, a company incorporated in Alderney and an operator of online casino and bingo gaming sites in the Spanish market. Despite holding greater than 20% of the voting equity instruments in QSB Gaming Limited, the Directors do not believe that they exercise significant influence over the investee. This is on the basis that the Group has no representation on the board and no participation in decisions over operating and financial policies. The Group has therefore recorded the asset as an available-for-sale investment at fair value of £1,595,000 (2016: £810,000). As the security held is unquoted, the fair value has been assessed in the current year based on the Group share of expected cash flows discounted using a risk-adjusted interest rate specific to the investment of 50%.

Acquisition accounting and fair value of acquired assets and liabilities including contingent consideration

Identifiable assets, liabilities and contingent liabilities, including earn-outs that meet the conditions for recognition under IFRS 3, are recognised at their fair value at the acquisition date. The identified intangibles are capitalised if they are separable from the acquired entity or arise from other contractual or legal rights. The amounts ascribed to these assets are arrived at by using appropriate valuation techniques to determine the fair value. Capitalised intangible assets are amortised over the useful economic life of the assets. This has ranged between three to five years for acquisitions to date. The fair value of contingent consideration, including earn-outs, is based on the probability of expected cash flow outcomes and the assessment of present values using appropriate discount rates. Further details in relation to key estimates and judgements are set out in note 23.

Capitalisation and amortisation of development costs

The identification of development costs that meet the criteria for capitalisation is dependent on management's judgement and knowledge of the work done. Development costs of gaming software platforms are separately identified. Judgements are based on the information available at each period end. Economic success of any development is assessed on a reasonable basis but remains uncertain at the time of recognition. Capitalised development costs are subject to amortisation over its useful life and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group amortises the assets over the life of the product. The estimated useful life of these assets at period end is three years.

Notes forming part of the financial statements continued

for the year ended 31 August 2017

2 Segment information

For management purposes and for transacting with customers, the Group's operations can be segmented into the following reporting segments:

- Real Money Gaming, which is its UK-focused, bingo-led online operation, using its proprietary and purchased software to provide online bingo and related gaming activities to players. This segment only operates in regulated markets, principally the UK; and
- Social Gaming, which internationally provides players with entertaining applications and games.

Each of these operating segments generates independent revenues, and the risks and rewards associated with generating these revenues are considered to be different to each other.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the management team including the Chief Executive Officer, the Chief Operating Officer and the Chief Financial Officer.

	Real Money Gaming 2017 £'000	Social Gaming 2017 £'000	Total 2017 £'000
Total revenue from external customers	81,815	8,108	89,923
Adjusted EBITDA	19,670	579	20,249
Depreciation	(229)	(32)	(261)
Impairment	—	(9,987)	(9,987)
Amortisation	(6,704)	(1,671)	(8,375)
Contingent consideration adjustment	(10,797)	—	(10,797)
Contingent remuneration	(14,124)	(171)	(14,295)
Finance income			25
Share-based payments including National Insurance			(1,758)
Finance expense			(1,550)
Group loss before tax			(26,749)

	Real Money Gaming 2016 £'000	Social Gaming 2016 £'000	Total 2016 £'000
Total revenue from external customers	34,974	12,825	47,799
Adjusted EBITDA	8,213	4,105	12,318
Depreciation	(92)	(45)	(137)
Amortisation	(2,902)	(1,487)	(4,389)
Acquisition costs			(1,090)
Finance income			25
Share-based payments including National Insurance			(1,912)
Finance expense			(697)
Contingent remuneration			(3,987)
Group profit before tax			131

	External revenue by location of customers		Non-current assets by location of assets	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
United Kingdom	80,140	34,493	18,046	19,290
Alderney	—	—	32,554	36,420
Israel	—	—	7,464	18,120
USA	5,183	8,298	—	—
Other*	4,600	5,008	354	398
	89,923	47,799	58,418	74,228

* Other revenue predominantly relates to the social gaming sector.

3 Operating (loss)/profit

All items presented below Adjusted EBITDA and before operating (loss)/profit in the consolidated statement of profit or loss are administrative expenses. Total administrative expenses including those presented below Adjusted EBITDA for the year were £62,919,000 (2016: £22,942,000).

Operating (loss)/profit is stated after charging the following:

	2017 £'000	2016 £'000
Operating lease expenses	728	378
Employee benefit expenses (note 4)	13,725	8,145
Depreciation of property, plant and equipment	261	137
Amortisation of intangible assets	8,375	4,389
Auditor's remuneration – audit services	169	118
Auditor's remuneration – other assurance services	38	42
Auditor's remuneration – tax advisory services	—	17
Auditor's remuneration – corporate finance services	—	135
Contingent consideration adjustment ^(a)	10,797	—
Acquisition costs ^(b)	—	1,090
Share-based payments ^(c)	1,758	1,912
Contingent remuneration ^(d)	14,295	3,987
Impairment ^(e)	9,987	—

(a) Contingent consideration adjustment relates to the increase in the earn-out payable for the acquisition of the Tarco Assets completed in the year ended 31 August 2016. Refer to note 23 for further details.

(b) In the prior year costs related to the acquisition of the entire share capital of 8Ball Games Limited, Netboost Media Limited and assets of Tarco Limited as well as other aborted acquisition costs. Refer to note 23 for further information.

(c) During the year the Company issued further share options to certain employees and consultants of the Group. The charge for the year includes National Insurance. Refer to note 22 for further information.

(d) Under the terms of the InfiApps Ltd and 8Ball Games Limited acquisitions in the years ended 31 August 2015 and 31 August 2016 respectively, the contingent remuneration payable was linked to future employment and therefore has been charged to the profit or loss account. The total remuneration payable for the 8Ball Games acquisition was £4,036,000 in cash and £10,088,000 in share-based payments (refer to note 23), with the remainder relating to the InfiApps year two earn-out. Both were settled post year end.

(e) During the year the value of the InfiApps cash generating unit was assessed and subsequently impaired. Refer to note 12 for further details.

4 Employee benefit expenses

	2017 £'000	2016 £'000
Employee benefit expenses (excluding Directors and key management personnel)		
Wages and salaries	9,471	4,839
Pension costs	362	175
Share-based payment expense (note 22)	696	563
Social security contributions and similar taxes	714	384
	11,243	5,961
Benefit expenses of Directors and key management personnel^(a)		
Wages and salaries	2,778	2,446
Pension costs	143	87
Share-based payment expense (note 22)	1,055	1,082
Social security contributions and similar taxes	264	481
	4,240	4,096
Total employee benefit expense including Directors and key management personnel	15,483	10,057

(a) Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the Directors of the Company (listed in note 7) as well as certain directors of subsidiary companies.

The total employment benefit expense excludes the amounts referred to as contingent remuneration in note 3. From the total of £14,295,000, £14,124,000 is payable to key management personnel of the Group. This is split between £4,036,000 cash remuneration and £10,088,000 payable in shares.

Notes forming part of the financial statements continued

for the year ended 31 August 2017

5 Finance expense

Recognised in consolidated statement of profit or loss

	2017 £'000	2016 £'000
Loan interest (note 17)	551	697
Unwinding of discount on Table Top Entertainment Limited contingent consideration (note 23)	999	—
Total finance expense	1,550	697

6 Available-for-sale investment

The Group holds a 24.2% investment in QSB Gaming Limited, an operator of online casino and bingo gaming sites in the Spanish market and registered in Alderney. Despite holding greater than 20% of the voting equity instruments in QSB Gaming Limited, the Directors do not believe that they exercise significant influence over the investee. This is on the basis that the Group has no representation on the board and no participation in decisions over operating and financial policies. The Group has therefore recorded the asset as an available-for-sale investment. At 31 August 2017, the fair value has been increased from £810,000 to £1,595,000. As the security held is unquoted, the fair value has been assessed in the current year based on the Group's share of expected cash flows discounted using a risk-adjusted interest rate specific to the investment of 50%. A reduction in interest rate of 10% would increase the fair value of the available-for-sale investment by approximately £460,000.

7 Directors' interests and remuneration

The Directors who served during the year, and their interests in the share capital of the Company, were as follows:

	£0.01 ordinary shares at 31 August 2017		£0.01 ordinary shares at 31 August 2016	
	Number of shares	Percentage holding	Number of shares	Percentage holding
Nigel Terrence Payne	13,889	0.02%	13,889	0.02%
Stuart Eitan Boyd	2,425,213*	3.57%	2,425,213*	3.65%
Darren Brett Sims	1,083,510*	1.59%	1,083,510*	1.63%
Ronen Kannor	—	—	—	—
John Le Poidevin	44,546	0.07%	44,546	0.07%
Adam David Batty	22,727	0.02%	22,727	0.03%

* Shares held via trusts.

The following Directors held share options as at 31 August 2017:

	Award type	Number of options at 31 August 2017	Date of grant	Exercise price in £	Vesting period of options
Stuart Eitan Boyd	Share options	750,000	18 May 2015	1.32	1–3 years
	LTIP	111,111	1 Sep 2015	0.00	3 years
	LTIP	113,333	1 Sep 2016	0.00	3 years
Darren Brett Sims	Share options	750,000	18 May 2015	1.32	1–3 years
	LTIP	111,111	1 Sep 2015	0.00	3 years
	LTIP	113,333	1 Sep 2016	0.00	3 years
Ronen Kannor	Share options	500,000	18 May 2015	1.32	1–3 years
	LTIP	66,667	1 Sep 2015	0.00	3 years
	LTIP	77,778	1 Sep 2016	0.00	3 years

The following Directors held share options as at 31 August 2016:

	Number of options at 31 August 2016	Date of grant	Exercise price in £	Vesting period of options
Stuart Eitan Boyd	750,000	18 May 2015	1.32	1–3 years
Darren Brett Sims	750,000	18 May 2015	1.32	1–3 years
Ronen Kannor	500,000	1 May 2015	1.32	1–3 years

7 Directors' interests and remuneration continued

As announced in the 2015 annual report, the Company committed to make the first long-term incentive award under a new long-term incentive plan in the 2015/16 financial year. However, due to the transaction activity during the prior year it was not possible to grant the planned awards during 2015/16. The awards for 2015/16 were therefore made in the current year with an effective date of 1 September 2015.

The following table presents the Directors' remuneration of the Company for the year ended 31 August 2017:

	Salaries and fees £'000	Benefits £'000	Pension £'000	Bonus £'000	Share options £'000	Total 2017 £'000	Total 2016 £'000
Nigel Terrence Payne	48	—	—	—	—	48	57
Stuart Eitan Boyd	255	16	26	293	248	838	838
Darren Brett Sims	255	7	26	293	248	829	835
Ronen Kannor	175	6	17	201	160	559	515
John Le Poidevin	42	—	—	—	—	42	50
Adam David Batty	42	—	—	—	—	42	42
Total	817	29	69	787	656	2,358	2,337

8 Taxation

	2017 £'000	2016 £'000
Current tax expense		
Current tax on profits for the year	725	671
Adjustment in respect of prior periods	(97)	—
Total current tax	628	671
Deferred tax expense		
Origination and reversal of temporary differences (note 18)	(1,756)	(154)
Effect of increased tax rate on opening balance	2	—
Total deferred tax	(1,754)	(154)
Total tax (credit)/expense	(1,126)	517

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to the (loss)/profit for the year are as follows:

	2017 £'000	2016 £'000
(Loss)/profit for the year	(26,749)	131
Tax using the Company's domestic tax rate of 19.58% (2016: 20.0%)	(5,238)	26
Expenses not deductible for tax purposes	5,638	1,640
Adjustments in respect of prior periods	(97)	—
Other temporary differences	(42)	182
Different tax rates applied in overseas jurisdictions	(1,387)	(1,331)
Total tax (credit)/expense	(1,126)	517

The Group has not recognised deferred tax assets of £355,000 (2016: £401,000) in respect of losses amounting to £2,110,000 (2016: £2,004,000) that can be carried forward against future taxable income.

As of 31 August 2017 the Israeli Tax Authorities initiated a review on the tax liabilities of Netboost Media Limited for the years ended 31 December 2012–2015. The company is registered in Israel and was acquired as part of the Tarco Assets and Netboost Media acquisition in 31 August 2016 (refer to note 23). As of the date of this report the review is still ongoing and there is no indication of the financial effects that may result from this review. As part of the sale purchase agreement the sellers have provided tax guaranties to cover certain tax liabilities. As there is currently no indication of any liability arising, no liability or corresponding asset for the indemnity has been recorded.

Notes forming part of the financial statements continued

for the year ended 31 August 2017

9 Earnings per share

Numerator	2017 £'000	2016 £'000
Loss used in EPS and diluted EPS	(25,623)	(386)
Denominator	'000	'000
Weighted average number of shares used in basic EPS*	67,286	51,457
Basic loss per ordinary share (p)	(38.08)	(0.750)
Effects of:		
Employee share options	2,297	1,588
Contingent share consideration on business combinations	1,045	—
Contingent share consideration on acquisition of intangible	—	641
Weighted average number of shares used in diluted EPS	70,628	53,686
Diluted loss per ordinary share (p)	(38.08)	(0.750)

* The weighted average number of shares used in the calculation of the basic EPS does not include the weighted average of the shares placed in trust as part of the LTIPs. Refer to note 19.

Where the result of the Group is a loss for the year there is no dilutive impact. At 31 August 2017, there are a number of shares that are contingently issued which will have a further dilutive effect (refer to note 23).

10 Dividends

An interim dividend of £808,000 (1.2p per share) was declared and paid in the year ended 31 August 2017 (2016: £564,000). The Board is recommending a final dividend of 1.5p per share subject to shareholder approval at the Annual General Meeting, which has not been accrued at 31 August 2017 (2016: final dividend of 1.4p per share approved and paid representing a total of £943,000).

11 Property, plant and equipment

	Fixtures, fittings and equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation				
At 1 September 2015	77	204	—	281
Acquired through business combination	40	30	18	88
Additions	209	263	—	472
Foreign exchange movements	5	7	—	12
At 1 September 2016	331	504	18	853
Additions	99	157	—	256
Disposals	—	(17)	—	(17)
Foreign exchange movements	1	4	—	5
At 31 August 2017	431	648	18	1,097
Accumulated depreciation				
At 1 September 2015	5	42	—	47
Charge for the year	18	119	—	137
Foreign exchange movements	2	5	—	7
At 1 September 2016	25	166	—	191
Charge for the year	71	180	10	261
Disposals	—	(17)	—	(17)
Foreign exchange movements	—	1	—	1
At 31 August 2017	96	330	10	436
Net book value				
At 31 August 2015	72	162	—	234
At 31 August 2016	306	338	18	662
At 31 August 2017	335	318	8	661

12 Intangible assets

	Software and licences £'000	Development costs £'000	Brand names £'000	Goodwill £'000	Customer and contractual relationships £'000	Total £'000
Cost						
At 1 September 2015	13,585	246	2,265	14,866	7,925	38,887
Acquired through business combinations	282	—	5,855	20,446	10,730	37,313
Additions	377	—	—	—	—	377
Internally generated development costs	—	1,028	—	—	—	1,028
Foreign exchange rate movements	1,464	—	206	926	452	3,048
At 1 September 2016	15,708	1,274	8,326	36,238	19,107	80,653
Acquired through business combinations	—	—	—	180*	—	180
Additions	489	—	—	—	—	489
Internally generated development costs	—	1,355	—	—	—	1,355
Foreign exchange rate movements	171	9	23	103	50	356
At 31 August 2017	16,368	2,638	8,349	36,521	19,157	83,033
Accumulated amortisation						
At 1 September 2015	1,051	18	317	—	1,134	2,520
Charge for the year	2,129	224	521	—	1,515	4,389
Foreign exchange rate movements	97	6	27	—	48	178
At 1 September 2016	3,277	248	865	—	2,697	7,087
Charge for the year	2,226	588	1,744	—	3,817	8,375
Impairment	2,332	—	266	6,056	1,333	9,987
Foreign exchange rate movements	(38)	(3)	(4)	(106)	(21)	(172)
At 31 August 2017	7,797	833	2,871	5,950	7,826	25,277
Net book value						
At 1 September 2015	12,534	228	1,948	14,866	6,791	36,367
At 1 September 2016	12,431	1,026	7,461	36,238	16,410	73,566
At 31 August 2017	8,571	1,805	5,478	30,571	11,331	57,756

* The £180,000 represents an increase in the value of the 8Ball Games goodwill, following the finalisation of the acquisition accounting, and in particular the change in the working capital adjustment from the provision made at 31 August 2016.

Software and licences

Included within costs of software and licences is the acquired software and related programs from NextTec Software Inc, fair valued at £4,132,000, in respect of the underlying gaming platform and software used by Table Top Entertainment. Based on the agreement, the contingent consideration payable (on the first, second and third anniversaries) is based on a percentage of net gaming revenue generated from the use of the software up to a maximum of £5,325,000. On 30 September 2015 and 6 October 2016, 1,149,071 and 846,701 shares were issued respectively. The maximum earn-out was reached by the second anniversary and therefore the full earn-out has now all been settled in shares.

Goodwill

Goodwill is allocated to the following cash generating units:

	2017 £'000	2016 £'000
Spacebar Media	5,936	5,936
Table Top Entertainment	4,008	4,008
8Ball Games	6,653	6,473
Tarco Assets	13,973	13,973
Social Gaming	—	5,848
	30,570	36,238

Notes forming part of the financial statements continued

for the year ended 31 August 2017

12 Intangible assets continued

Impairment review

In accordance with IAS 36 Impairment of Assets, the Group regularly monitors the carrying value of its intangible assets. A detailed review was undertaken at 31 August 2017 to assess whether the carrying value of assets was supported by the net present value of future cash flows derived from those assets. The recoverable amounts of all the above CGUs have been determined from value in use calculations based on cash flow projections from formally approved budgets and long-term forecasts. These budgets and forecasts assume the underlying business models will continue to operate on a comparable basis under the current regulatory and taxation regimes, adjusted for any known changes.

Table Top Entertainment and Spacebar Media CGUs

The recoverable amounts of Table Top Entertainment and Spacebar Media have been determined from value in use calculations based on cash flow projections covering the following five-year period and a calculation into perpetuity which exceeds the total values of each CGU's assets.

The cash flows for 2018 and 2019 are based on Board-approved budgets with a long-term growth rate of 2% (2016: 2%) and a discount rate of 13.9% (2016: 13.9%). These assumptions were based upon management's experience, past performance and drawing on industry data where relevant.

The Directors have concluded that there are no reasonably possible changes in the key assumptions which would cause the carrying value of goodwill and other intangibles to exceed their value in use.

8Ball Games CGU

The goodwill and related assets included within this CGU resulted from the acquisition of the entire share capital of 8Ball Games which completed on 31 August 2016 (refer to note 23). The recoverable amount has been determined from value in use calculations based on cash flow projections covering the following five-year period and a calculation into perpetuity.

The cash flows for 2018 and 2019 are based on Board-approved budgets with a long-term growth rate of 2% (2016: 2%) and a discount rate of 17.1% (2016: 17.1%). These assumptions were based upon management's experience, past performance and drawing on industry data where relevant.

The Directors have concluded that there are no reasonably possible changes in the key assumptions which would cause the carrying value of goodwill and other intangibles to exceed their value in use.

Tarco CGU

The goodwill and related assets included within this CGU resulted from the acquisition of certain trading assets of Tarco and the entire share capital of Netboost Media Limited, which completed on 31 August 2016 (refer to note 23). The recoverable amount of £27.6 million, which exceeds the total value of the CGU's assets by £2.9 million, has been determined from value in use calculations based on cash flow projections covering the following five-year period and a calculation into perpetuity.

Operating margins have been based on past experience of the acquired entity and future expectations in light of anticipated economic and market conditions. Discount rates are based on the Group's weighted average cost of capital, adjusted to reflect the specific risks of the CGU.

The table below shows what the effect of changes in the key assumptions would have on the recoverable amount:

	Key assumptions used in projections		
	Discount rate	Operating margin	Terminal growth rate
Key assumptions used in the projections	17.30%	19.75%	2.00%
Change in assumptions required to equal carrying value	19.33%	19.70%	(1.75%)
Effect of 1% increase in assumption – £'000	(1,481)	1,516	101
Effect of 1% decrease in assumption – £'000	1,685	(1,516)	(887)

The table below shows what the effect of changes in the key assumptions would have on the recoverable amount in the prior year:

	Key assumptions used in projections		
	Discount rate	Operating margin	Terminal growth rate
Key assumptions used in the projections	17.30%	18.88%	2.00%
Change in assumptions required to equal carrying value	18.38%	18.15%	0.16%
Effect of 1% increase in assumption – £'000	(1,512)	705	1,064
Effect of 1% decrease in assumption – £'000	1,733	(1,988)	(934)

12 Intangible assets continued

Social Gaming CGU

The goodwill and related assets included within this CGU resulted from the acquisition of InfiApps Ltd, which completed in the year ended 31 August 2015.

A review for indicators of impairment was undertaken as part of the half-year results at 28 February 2017 to assess whether any potential indicators were apparent and following this review a detailed impairment review was completed in respect of the Social Gaming cash generating unit to determine if the carrying value of assets was supported by the net present value of future cash flows derived from those assets. The recoverable amount has been determined from value in use calculations based on cash flow projections from formally approved budgets and long-term forecasts. These budgets and forecasts assume the underlying business models will continue to operate on a comparable basis under the current regulatory and taxation regimes, adjusted for any known changes. As a result of this review the Group determined that the weaker than expected social gaming market had an adverse effect on the projected value in use and consequently the intangible assets have been written down to their value in use. An impairment of £6,056,000 has been charged against goodwill and £3,931,000 against acquired intangibles.

A further impairment review was carried out at 31 August 2017 and identified no further impairment. This has been determined from value in use calculations based on cash flow projections covering the following five-year period and a calculation into perpetuity.

The cash flows for 2018 and 2019 are based on Board-approved budgets as well as on past experience of the acquired entity. The key assumption in reaching the conclusion that no further impairment is required is a 34% increase in revenue forecast for the year ending 31 August 2019. Discount rates are based on the Group's weighted average cost of capital, adjusted to reflect the specific risks of the CGU.

The table below shows what the effect of changes in the key assumptions would have on the recoverable amount as at 31 August 2017:

	Key assumptions used in projections		
	Discount rate	Operating margin	Terminal growth rate
Key assumptions used in the projections	18.00%	18.24%	2.00%
Change in assumptions required to equal carrying value	20.09%	17.90%	(1.75%)
Effect of 1% increase in assumption – £'000	(426)	658	293
Effect of 1% decrease in assumption – £'000	483	(658)	(258)

The table below shows what the effect of changes in the key assumptions would have on the recoverable amount in the prior year:

	Key assumptions used in projections		
	Discount rate	Operating margin	Terminal growth rate
Key assumptions used in the projections	18.00%	26.53%	2.00%
Change in assumptions required to equal carrying value	18.71%	26.25%	0.78%
Effect of 1% increase in assumption – £'000	(973)	163	661
Effect of 1% decrease in assumption – £'000	1,103	(350)	(584)

Notes forming part of the financial statements continued

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13 Subsidiaries

The subsidiaries of Stride Gaming plc, all of which have been included in these consolidated financial statements, are as follows:

Name	Country of incorporation	Proportion of ownership interest at 31 August	
		2017	2016
Spacebar Media Limited	United Kingdom	100%	100%
SRG Services Limited*	Mauritius	100%	100%
Shifttech (Pty) Limited*	South Africa	100%	100%
Daub Alderney Limited	Alderney	100%	100%
S.T.R. Financials Ltd	Israel	100%	100%
8Ball Games Limited	United Kingdom	100%	100%
Netboost Media Limited*	Israel	100%	100%
InfiApps Ltd*	Israel	100%	100%
Madabout Media (2016) Limited*	United Kingdom	100%	100%
Think Beyond Media Ltd*	United Kingdom	100%	—
Stride Together Ltd*	United Kingdom	100%	—
Baldo Line SRL*	Italy	100%	100%

* Investment held indirectly.

14 Trade and other receivables

	2017 £'000	2016 £'000
Current		
Trade receivables	3,782	4,352
Other receivables	524	950
Funds held in escrow	4,929	—
Amounts due from related parties	2	—
Prepayments	654	525
	9,891	5,827
Non-current		
Funds held in escrow	—	3,000
Other receivables	353	416
	353	3,416

In the prior year, as part of the acquisition of the Tarco Assets, which completed on 31 August 2016 (refer to note 23), an amount of £3,000,000 was transferred by the Group to an escrow account, with an intention to cover part of the earn-out payment which will be made to the sellers within three months of 31 December 2017, following the end of the earn-out period. A further £1,000,000 was also transferred to the same escrow account in the current year, in accordance with the terms of the purchase agreement. Furthermore, in June 2017 £929,000 was transferred to an escrow account which related to the second year earn-out of the InfiApps acquisition. This was settled post year end.

The carrying value of trade and other receivables classified as loans and receivables approximates fair value. All amounts shown in short-term trade and other receivables fall due for payment within one year. All non-current receivables are due within three years of 31 August 2017.

As at 31 August 2017 there were no trade receivables (2016: £Nil) which were past due and fully impaired. There is currently no provision for impairment for any of the outstanding trade and other receivables (2016: £Nil) with no bad debt expense being recognised in the year (2016: £Nil).

15 Trade and other payables

	2017 £'000	2016 £'000
Current		
Trade payables	2,927	2,857
Other payables	321	2,482
Other taxation and social security	1,456	1,941
Client liabilities and progressive prize pools	2,489	1,828
Contingent remuneration	4,968	3,805
Contingent consideration	17,417	—
Amounts due to related parties	442	783
Accruals and deferred income	3,357	3,656
	33,377	17,352
Non-current		
Contingent remuneration	—	820
Contingent consideration	—	5,620
Other payables	80	332
	80	6,772

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value. The contingent remuneration arose as a result of the 8Ball Games Limited acquisition in the prior year and the InfiApps acquisition in the year ended 31 August 2015, of £4,036,000 and £932,000 respectively. Both of these amounts were determined at 31 August 2017 and settled post year end. The contingent consideration has arisen from the acquisition of certain trading assets of Tarco Limited on 31 August 2016 and as reassessed at 31 August 2017 (refer to note 23).

16 Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank and in hand	26,175	21,080

Cash held on behalf of players and progressive jackpots are held in separate (unrestricted) bank accounts.

17 Loans and borrowings

The book value and fair value of loans and borrowings are as follows:

	2017 £'000	2016 £'000
Unsecured borrowings		
Related party borrowings	—	8,000
Current bank borrowings	1,975	—
	1,975	8,000
Unsecured borrowings		
Non-current bank borrowings	4,443	—

During the year ended 31 August 2017, £8.0 million of related party borrowings were repaid (note 24). In November 2016, the Group entered into a loan facility with Barclays PLC for £8.0 million. This facility matures four years from the date of the initial drawdown on a 3.6% plus LIBOR annual floating rate basis payable quarterly, with the principal sum outstanding amortising on a quarterly basis over the term of the facility. Daub Alderney Limited, Spacebar Media Limited, S.T.R. Financials Ltd and InfiApps Ltd (all 100% subsidiaries of the Group) have provided unlimited guarantee on the borrowings. The effective interest rate of the bank borrowings is 5.74% and the book value of the bank borrowings is not materially different to its fair value.

Notes forming part of the financial statements continued

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18 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate based on the different jurisdictions it arises.

The movement on the deferred tax accounts is as shown below:

	Deferred tax asset £'000	Deferred tax liability £'000
At 1 September 2015	231	(2,133)
Recognised in profit and loss	(67)	221
Foreign exchange movements	11	(378)
Arising on business combination	42	(1,418)
At 31 August 2016	217	(3,708)
Recognised in profit and loss	524	1,231
Foreign exchange movements	4	(62)
At 31 August 2017	745	(2,539)

Deferred tax assets have been recognised in respect of other temporary differences where the Directors believe it is probable that these assets will be recovered. Included in the above movement in deferred tax liability is a release of £749,000 of the deferred tax liability arising on the acquisition of InfiApps as a result of the impairment of certain intangible assets in the year. Refer to note 12.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below:

	Asset £'000	Liability £'000	Net £'000	(Charged)/ credited to profit or loss £'000	(Charged)/ credited to equity £'000
31 August 2017					
Share options	614	—	614	455	—
Other temporary and deductible differences	131	(26)	105	53	4
Business combinations	—	(2,513)	(2,513)	1,247	(62)
Net tax assets/(liabilities)	745	(2,539)	(1,794)	1,755	(58)

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) in the prior year are shown below.

	Asset £'000	Liability £'000	Net £'000	(Charged)/ credited to profit or loss £'000	(Charged)/ credited to equity £'000
31 August 2016					
Share options	159	—	159	55	—
Other temporary and deductible differences	17	(11)	6	(182)	5
Business combinations	41	(3,697)	(3,656)	281	(372)
Net tax assets/(liabilities)	217	(3,708)	(3,491)	154	(367)

19 Share capital

	Authorised			
	2017 Number	2017 £'000	2016 Number	2016 £'000
Total ordinary shares of 1p each	250,000,000	2,500	250,000,000	2,500
	Issued and fully paid			
	2017 Number	2017 £'000	2016 Number	2016 £'000
Ordinary shares of 1p each				
At 1 September	66,519,885	666	50,151,315	502
Issued on acquisition of business (note 23)	—	—	3,219,499	33
Issued on acquisition of intangible	846,701	8	1,149,071	11
Issued on capital raising	—	—	12,000,000	120
Long-term incentive plans (note 7)	593,333	6	—	—
At 31 August	67,959,919	680	66,519,885	666

During the year 846,701 shares were issued relating to the acquisition of NextTec Software Inc, held as shares to be issued. Furthermore, 593,333 ordinary shares were issued to a trust controlled by the Company, which relate to the long-term incentive plan awards that were granted for 2015/16 and 2016/17. The effect of the issue of shares to the trust was to increase the issued share capital of the Group with a corresponding entry in retained earnings. As and when LTIP conditions are met, the Company will instruct the trust to release shares to each of the Directors involved in the LTIP. Refer to note 7 for further details.

20 Leases

Operating leases – lessee

The total future value of minimum lease payments in respect of leased properties is as follows:

	2017 £'000	2016 £'000
Not later than one year	652	624
Later than one year and not later than five years	1,180	1,371
Later than five years	—	10
	1,832	2,005

The total future value of minimum lease payments in respect of leased motor vehicles is as follows:

	2017 £'000	2016 £'000
Not later than one year	48	77
Later than one year and not later than five years	15	52
	63	129

Notes forming part of the financial statements continued

for the year ended 31 August 2017

21 Financial instruments – risk management

The Group is exposed through its operations to the following financial risks:

- market risk;
- credit risk;
- liquidity risk; and
- foreign exchange risk.

The Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented below.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade and other receivables;
- investment in available-for-sale financial instruments;
- cash and cash equivalents;
- trade and other payables;
- contingent consideration and remuneration; and
- loans and borrowings.

Financial instruments by category

Financial assets

	Available for sale		Loans and receivables	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Available-for-sale investment	1,595	810	—	—
Cash and cash equivalents	—	—	26,175	21,080
Trade and other receivables	—	—	9,589	8,718
At 31 August	1,595	810	35,764	29,798

The reconciliation of the opening and closing fair value balance of level 3 financial assets is as follows:

	Available- for-sale investment £'000
At 1 September 2015	—
Gain in other comprehensive income	810
At 1 September 2016	810
Gain in other comprehensive income	785
At 31 August 2017	1,595

The investment, which is within level 3 of the financial reporting hierarchy, represents a 24.2% holding in QSB Gaming Limited (refer to note 6). As the security held is unquoted, the fair value has been assessed in the current year based on the Group's share of expected cash flows discounted using a risk-adjusted interest rate specific to the investment of 50%.

21 Financial instruments – risk management continued

Principal financial instruments continued
Financial instruments by category continued
Financial liabilities

	Fair value through profit and loss		Financial liabilities at amortised cost	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Contingent remuneration	—	—	4,969	4,625
Contingent consideration	17,417	5,620	—	—
Trade and other payables	—	—	9,535	11,938
Loans and borrowings	—	—	6,418	8,000
At 31 August	17,417	5,620	20,922	24,563

The reconciliation of the opening and closing fair value balance of level 3 financial liabilities is as follows:

	Contingent consideration £'000
At 1 September 2015	—
New consideration arrangement – Tarco Assets (note 23)	5,620
At 1 September 2016	5,620
Tarco unwinding of discount of contingent consideration (note 23)	1,000
Increase in Tarco contingent consideration	10,797
At 31 August 2017	17,417

For details of the valuation techniques and significant unobservable inputs related to determining the fair value of the contingent consideration, which is classified in level 3 of the fair value hierarchy, refer to note 23.

Financial instruments not measured at fair value

The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables and loans and borrowings approximates their fair value.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's operational credit risk is primarily attributable to receivables from payment service providers ("PSPs"), from customers who dispute their deposits made after playing on the Group's websites and from B2B platform providers following the acquisitions of 8Ball and Tarco Assets (see note 23) and also stemming from social gaming. Senior management monitors PSP balances on a weekly basis, including aged debtor analysis, and promptly takes corrective action if pre-agreed limits are exceeded. Similarly, they monitor the B2B platform providers for any potential issues and take prompt action if pre-agreed limits are exceeded.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with high ratings are accepted.

Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in note 14.

Notes forming part of the financial statements continued

for the year ended 31 August 2017

21 Financial instruments – risk management continued

General objectives, policies and processes continued

Foreign exchange risk

The Group is exposed to translation and transaction foreign exchange risk. The Group's policy in this case is to allow the subsidiary to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. The majority of the remainder of the Group's transactions are denominated in Sterling; therefore, the Directors deem the Group's exposure to all other exchange rate fluctuations to be minimal.

Foreign currency-denominated financial assets and liabilities, translated into Sterling at the closing rate, are as follows:

	At 31 August 2017				
	Sterling £'000	US Dollar £'000	Israeli Shekel £'000	Other £'000	Total £'000
Financial assets	7,588	1,196	760	45	9,589
Financial liabilities	(35,930)	(1,092)	(1,026)	(291)	(38,339)
Total net exposure	(28,342)	104	(266)	(246)	(28,750)

	At 31 August 2016				
	Sterling £'000	US Dollar £'000	Israeli Shekel £'000	Other £'000	Total £'000
Financial assets	6,689	1,338	359	332	8,718
Financial liabilities	(22,978)	(5,204)	(1,584)	(417)	(30,183)
Total net exposure	(16,289)	(3,866)	(1,225)	(85)	(21,465)

The effect of a 10% strengthening of the US Dollar against Sterling at the reporting date on the US Dollar-denominated financial instruments carried at that date would, all other variables held constant, have resulted in an increase in post-tax profit for the year and an increase in net assets of £12,000 (2016: decrease of £430,000). A 10% weakening in the exchange rate would, on the same basis, have decreased post-tax profit and decreased net assets by £9,000 (2016: increase of £351,000).

The effect of a 10% strengthening of the Israeli Shekel against Sterling at the reporting date on the Israeli Shekel-denominated financial instruments carried at that date would, all other variables held constant, have resulted in a decrease in post-tax profit for the year and decrease of net assets of £30,000 (2016: decrease of £136,000). A 10% weakening in the exchange rate would, on the same basis, have increased post-tax profit and increased net assets by £24,000 (2016: increase of £111,000).

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its short-term borrowings. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due and, as at the end of the financial year, projections indicate that the Group expects to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

	At 31 August 2017			
	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Trade and other payables	(12,585)	(17,260)	(13)	(62)
Loans and borrowings	(559)	(1,642)	(2,121)	(2,541)
Total	(13,144)	(18,902)	(2,134)	(2,603)

	At 31 August 2016			
	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000
Trade and other payables	(13,255)	(1,934)	(6,989)	—
Loans and borrowings	(150)	(8,400)	—	—
Total	(13,405)	(10,334)	(6,989)	—

22 Share-based payment

The Company has an equity-settled share option scheme for its employees and non-employees, which includes the following:

- (i) Enterprise Management Incentive share options (“EMI Options”) which qualify for favourable tax treatment under the provisions of Schedule 5 to ITEPA. Holders of EMI options have up to ten years from the date of grant to exercise these options. The number of options and vesting dates are in accordance with each individual agreement.
- (ii) Non-qualifying options made available to employees and Executive Directors of the Group also have up to ten years from the date of grant to exercise the options. The exact numbers and vesting dates will depend on each contract agreement, but all options will vest and will therefore be exercisable in no more than three years from the date of grant.
- (iii) Non-employee options are available to Non-Executives and individuals providing services to the Company who are non-employees. The vesting and exercise conditions are the same as non-qualifying options.
- (iv) Long-term incentive plans (“LTIPs”) are available to the three Executive Directors of the Group. Every year, a certain number of shares (depending on gross salaries and share price on the date of the award) will be placed in a trust. The vesting date of each share award will be three years from the date of the award, and the number of shares to vest will depend on specific earnings per share targets. The exercise price is £Nil. The LTIPs are discussed further in the Directors’ Remuneration Report.

	Weighted average exercise price (£)	Number '000
Outstanding at 1 September 2015	1.32	3,000
Granted during the year	1.18	2,150
Forfeited during the year	1.32	(63)
Outstanding at 31 August 2016		5,087
Granted during the year	0.54	539
Forfeited during the year	1.32	(116)
Outstanding at 31 August 2017		5,510

The weighted average exercise price of options outstanding at 31 August 2017 was £1.19 (2016: £1.26) and their weighted average contractual life was 3.13 years (2016: 3.14 years).

Of the total share options outstanding at 31 August 2017, 2,000,000 had vested (2016: 1,000,000), although not exercised. All other outstanding shares at year end are therefore not exercisable.

The weighted average fair value of each option granted during the period was £2.15 (2016: £1.85).

Included in the outstanding number of options above are 1,055,000 (2016: 1,601,000) options issued to non-employees under the appropriate terms of the share option scheme. Also included in the outstanding number of options above are 593,333 options issued under the LTIP.

The following information is relevant in the determination of the fair value of options granted during the period under the equity-settled share-based remuneration schemes operated by the Group.

	2017	2016
Option pricing model used	Black-Scholes	Black-Scholes
Weighted average share price at grant date (£)	2.47	2.89
Weighted average exercise price (£)	0.54	1.18
Weighted average contractual life (in years)	3.00	3.34
Weighted average expected volatility	58.22%	55.19%
Expected dividend growth rate	0.50%	0.50%
Weighted average risk-free interest rate	0.39%	0.81%

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices of comparable companies over the last three years.

Notes forming part of the financial statements continued

for the year ended 31 August 2017

22 Share-based payment continued

The share-based remuneration expense comprises:

	2017 £'000	2016 £'000
Equity-settled schemes expense	1,751	1,645
National Insurance	7	267
Equity-settled schemes, including National Insurance	1,758	1,912

The Company also settled the acquisition of 8Ball Games Ltd through the issue of shares and as this was linked to remuneration it constitutes a share-based payment under IFRS 2. The total expense in the year ended 31 August 2017 was £10,088,000 (2016: £Nil) and is included in the contingent remuneration in the profit or loss account (refer to note 23 for further details and number of shares issued). The fair value of the shares was calculated on the date of the acquisition as £2.45 which was based on the share price at that date of £2.45 and an exercise price of £Nil.

23 Business combinations

Prior year acquisitions

The acquisition of Tarco Limited assets, as well as the acquisition of the entire share capital of Netboost Media Limited and 8Ball Games Limited all completed on 31 August 2016. On completion, the Group's market share and brand offering increased. These acquisitions continue to bring significant scale to the Group's business, together with the continuous opportunity for meaningful operational leverage. For both acquisitions, the main factors leading to the recognition of goodwill which is not deductible for tax purposes are the opportunities we now have for significant further improvement through leveraging off the Group's leading software and marketing expertise, together with delivering synergies through cross-marketing, lowering of cost per acquisition, increasing customer value and reducing player churn. These factors do not qualify for separate recognition. Each acquisition is detailed below.

Acquisition of 8Ball Games Limited

On 31 August 2016, the Group acquired 100% of the voting equity instruments of 8Ball Games Limited ("8Ball"), a company registered in the UK. The company is an online bingo operator with a 2% market share of the UK online bingo market. It has over 60,000 active players and 74 sites, including Booty Bingo and WeWantBingo. The 8Ball acquisition brings scale and an efficient cross-marketing business intelligence platform utilised to reduce churn and increase lifetime value.

The initial consideration was £11.3 million in cash which was paid on completion of the transaction as well as £1.2 million of assumed debt.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Fair value £'000
Property, plant and equipment	49
Cash	439
Trade and other receivables	1,798
Trade and other payables	(1,826)
Brands	2,702
Developed software	160
Customer relationships	3,865
Deferred tax liability	(1,418)
Total net assets	5,769
Fair value of consideration paid	
Cash	11,281
Assumed debt	1,220
Working capital receivable in cash	(79)
Total consideration	12,422
Goodwill (note 12)	6,653

23 Business combinations continued

Prior year acquisitions continued

Acquisition of 8Ball Games Limited continued

The purchase agreement also included a one-year earn-out payable to the sellers as contingent consideration if they remain with the acquired company for twelve months post-acquisition. This element of the consideration is accounted for as remuneration rather than part of the consideration paid to acquire 8Ball in accordance with International Accounting Standards. The earn-out could not exceed £18 million and is calculated as a six times multiple of Adjusted EBITDA for the twelve-month period following completion, less the initial consideration. The total consideration was finalised as at 31 August 2017 and consisted of £4,036,000 payable in cash and a share-based payment expense of £10,088,000. The overall earn-out liability including the share element was settled in September 2017 as follows:

- The first £3,000,000 was satisfied by the issue of 1,333,333 earn-out shares calculated by reference to the August 2016 placing price of 225p.
- The remaining consideration was split 40% in cash and 60% in shares. This represented 2,784,149 earn-out shares calculated as the first £1,000,000 to be satisfied at 225p, being the placing price of the August 2016 placing, and the remainder by reference to the average closing price of the ordinary shares for the 90-day period ending on 31 August 2017 of 216p.
- The cash value, which was paid on 29 September 2017, was £4,036,800.

Total acquisition costs amounted to £543,000 and these have been recognised in the profit or loss account in the year ended 31 August 2016. In the prior year, had the acquisition been made on 1 September 2015, Group revenue would have been £10.8 million higher with an increase in profit after tax of £1.0 million.

Acquisition of Tarco Limited assets and Netboost Media Limited

On 31 August 2016 the Group acquired certain assets (the "Tarco Assets") of Tarco Limited ("Tarco"), a company registered in Belize, and the entire issued share capital of Netboost Media Limited ("Netboost Media"), a company registered in Israel; a marketing business which provides execution marketing services to Tarco Assets. On this basis the purchase price allocation has been completed on a combined basis.

At the time of the acquisition, Tarco was an online bingo operator with a 3% market share of the UK online bingo market and had over 63,000 active players. It had 22 B2C bingo brands and four B2B brands, including Moon Bingo and Robin Hood Bingo. The Tarco acquisition brought scale and a number of leading bingo brands to Stride Gaming.

The total consideration which cannot exceed £40.2 million for the Tarco Assets and Netboost Media was made up as follows:

Tarco Assets

- Initial consideration of £16.2 million (on a debt-free, cash-free basis) paid on completion, of which £7.9 million was paid in cash (before any working capital adjustments) and the balance of £8.3 million satisfied by the issue of 3,219,500 new ordinary shares and reflected in the merger reserve.
- Contingent consideration of up to £22.0 million, equal to a multiple of Adjusted EBITDA for the twelve-month period ending 31 December 2017, less the initial consideration, which will be payable in a mix of cash and shares as follows:
 - (i) 51.44% in cash; and
 - (ii) 48.56% by the issue and allotment of further shares based on the Average Earn-out Share Price. The Average Earn-out Share Price is the average closing share price of the shares of Stride, in the 90-day period ending on the last day of the earn-out period, provided that the Average Earn-out Share Price shall not be higher than by 20% ("Upper Earn-out Limit") or lower than by 20% ("Lower Earn-out Limit") of the initial share price of £2.57. In the event that the Average Earn-out Share Price is higher than the Upper Earn-out Limit, the Upper Earn-out Limit shall be used. In the event that the Average Earn-out Share Price is lower than the Lower Earn-out Limit, the Lower Earn-out Limit shall be used.

Netboost Media

- Total consideration of £2.2 million (before any working capital adjustments), which was paid in cash on the date of completion.

Notes forming part of the financial statements continued

for the year ended 31 August 2017

23 Business combinations continued

Prior year acquisitions continued

Acquisition of Tarco Limited assets and Netboost Media Limited continued

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Fair value £'000
Property, plant and equipment	38
Cash	1,764
Non-current receivables	82
Trade and other receivables	1,414
Deferred tax asset	41
Trade and other payables	(3,430)
Brands	3,153
Developed software	122
Customer and contractual relationships	6,865
Total net assets	10,049
Fair value of consideration paid	
Cash consideration	10,108
Share consideration	8,273
Current contingent consideration net of discounting finance cost	5,620
Working capital payable in cash	21
Total consideration	24,022
Goodwill (note 12)	13,973

The contingent consideration was recorded as a liability at 31 August 2016 based on the estimated fair value at acquisition date and discounted from this date until the consideration is paid. It was calculated based on the Group's expectation of what it will pay in accordance with the sale and purchase agreement at the time. The earn-out targets are based on a multiple of Adjusted EBITDA for the year ending 31 December 2017. On 31 August 2017, the expected Adjusted EBITDA of the earn-out period was reassessed at approximately £4.5 million, which led to an increase in the fair value of the contingent earn-out of £10,797,197 which has been recognised in the profit or loss account and will be payable in cash and shares as noted above. During the period the Group successfully managed to increase net gaming revenue by applying better operational know-how and cost synergies utilising the wider Group resources which resulted in lower distribution and administration costs. A change in the actual Adjusted EBITDA achieved in the year ending 31 December 2017 of £100,000 would increase/decrease the fair value of contingent consideration by £750,000.

Total acquisition costs amounted to £302,000 and these have been recognised in the profit or loss account in the year ended 31 August 2016. In the prior year, had the acquisition been made on 1 September 2015, Group revenue would have been £17.5 million higher with an increase in profit after tax of £1.7 million.

24 Related party transactions

Significant shareholders identified below are shareholders with more than 10% of shareholding, either individually or as part of the concert party they belong to. There are no individuals or concert party shareholders who have control over the Group. The transactions with significant shareholders have been disclosed below as per prior periods.

24 Related party transactions continued

In the prior year the Group received payment processing services from a company related by common significant shareholders. Fees charged during the year ended 31 August 2016 totalled £538,000. Also in the prior year the Group incurred a fee of £300,000 following the termination of the business relationship between the parties on 1 May 2016. The amount that was due from the payment processing provider to the Group at 31 August 2016 was £228,000. This was fully repaid in the year ended 31 August 2017 with no impairment being recognised in respect of this amount. There were no further transactions with this related party since the agreement was terminated in the prior year.

The acquisitions of the Tarco assets and Netboost Media on 31 August 2016 constituted a related party transaction due to the acquired businesses being under common control of significant shareholders (see note 23), as well as certain shareholders being key management personnel of the Group. As at 31 August 2017 the total contingent consideration liability was £17,417,000 (2016: £5,620,000). A total of £10,797,000 was expensed in the profit or loss account during the year (2016: £Nil) with the remainder of the movement in liability being the unwinding of the discount on the consideration of £1,000,000 (2016: £Nil) included in finance expense.

A total of £170,000 was due to a company under control of common significant shareholders at 31 August 2017 and 31 August 2016. The amount due is interest free and there were no transactions with this related party in the current or prior year.

The Group entered into related party transactions with certain other companies under control of significant shareholders or KMP for the provision of software platform, marketing, office rental and other back office services. The total purchases in the year ended 31 August 2017 were £5,285,000 (2016: £3,572,000). From this total £4,132,000 (2016: £2,890,000) related to direct marketing costs placed by the related party, as well as a marketing fee for providing this service. Total amounts due by the Group at 31 August 2017 were £272,000 (2016: £383,000) and the total amounts receivable by the Group at 31 August 2017 were £2,000 (2016: £Nil).

On 30 July 2015, the Group entered into a loan agreement with a significant shareholder for a total amount of £8,000,000. The amount, which was due for full repayment in July 2017, was incurring interest of 7.5% per annum paid monthly in arrears. The full amount of £8,000,000 plus one month of accrued interest of £51,000 was outstanding as at 31 August 2016. On 9 December 2016, the loan was repaid in full following the refinancing agreed with Barclays in November 2016. Total interest expense in the year ended 31 August 2017 was £158,000 (2016: £602,000) plus an early termination fee of £100,000 in line with the original agreement.

During the year a total expense of £14,124,000 was recognised in the profit or loss account (2016: £Nil) in relation to the contingent remuneration following the acquisition of 8Ball Games Ltd. This was split between a cash payable amount of £4,036,000 and a share-based payment expense of £10,088,000 which was due to the previous owners of 8Ball Games Ltd, who are considered KMP. The liability was settled post year end through the payment of cash and the issue of shares. Refer to notes 23 and 25 for further information.

25 Events after the reporting date

In September 2017, the 8Ball contingent remuneration was settled in full (refer to note 23). Also settled post year end was the second and final InfiApps contingent remuneration for a total of £929,000.

Following the establishment of its first business to business joint venture in May 2017 with a leading gaming operator in the UK, Aspers Group Limited, the online business officially launched in October 2017.

Post year end the Group made a strategic investment of up to £3 million for the controlling rights in Passion Gaming, a Rummy-focused online gaming business operating throughout India. Due to the recent acquisition of this business, the acquisition accounting is currently incomplete.

26 Non-cash movements in cash flow statement

The following transactions were significant non-cash movements in the prior year:

- From the total initial consideration payable to acquire the Tarco Assets and the share capital of Netboost Media, £8,274,000 was in the form of issuing shares.
- From the total initial consideration payable to acquire the entire share capital of 8Ball £1,220,000 was in the form of assumed debt.

Corporate information

Country of incorporation of parent company

Stride Gaming plc

12 Castle Street
St Helier
Jersey
JE2 3RT

Legal form

Public limited company

Directors

Nigel Terrence Payne (Non-Executive Chairman)
Stuart Eitan Boyd
Darren Brett Sims
Ronen Kannor
John Le Poidevin (Non-Executive)
Adam David Batty (Non-Executive)

Secretary and registered office

Ronen Kannor

12 Castle Street
St Helier
Jersey
JE2 3RT

Company number

117876

Auditor

BDO LLP

55 Baker Street
London
W1U 7EU

Legal advisors

Berwin Leighton Paisner LLP

Adelaide House
London Bridge
London
EC4R 9HA

Financial advisor, nominated advisor and joint broker

Shore Capital Stockbrokers Limited

Bond Street House
14 Clifford Street
London
W1S 4JU

Joint broker

Canaccord Genuity Limited

88 Wood Street
London
EC2V 7QR

Produced by

designportfolio



Stride Gaming plc
12 Castle Street
St. Helier
Jersey
JE2 3RT