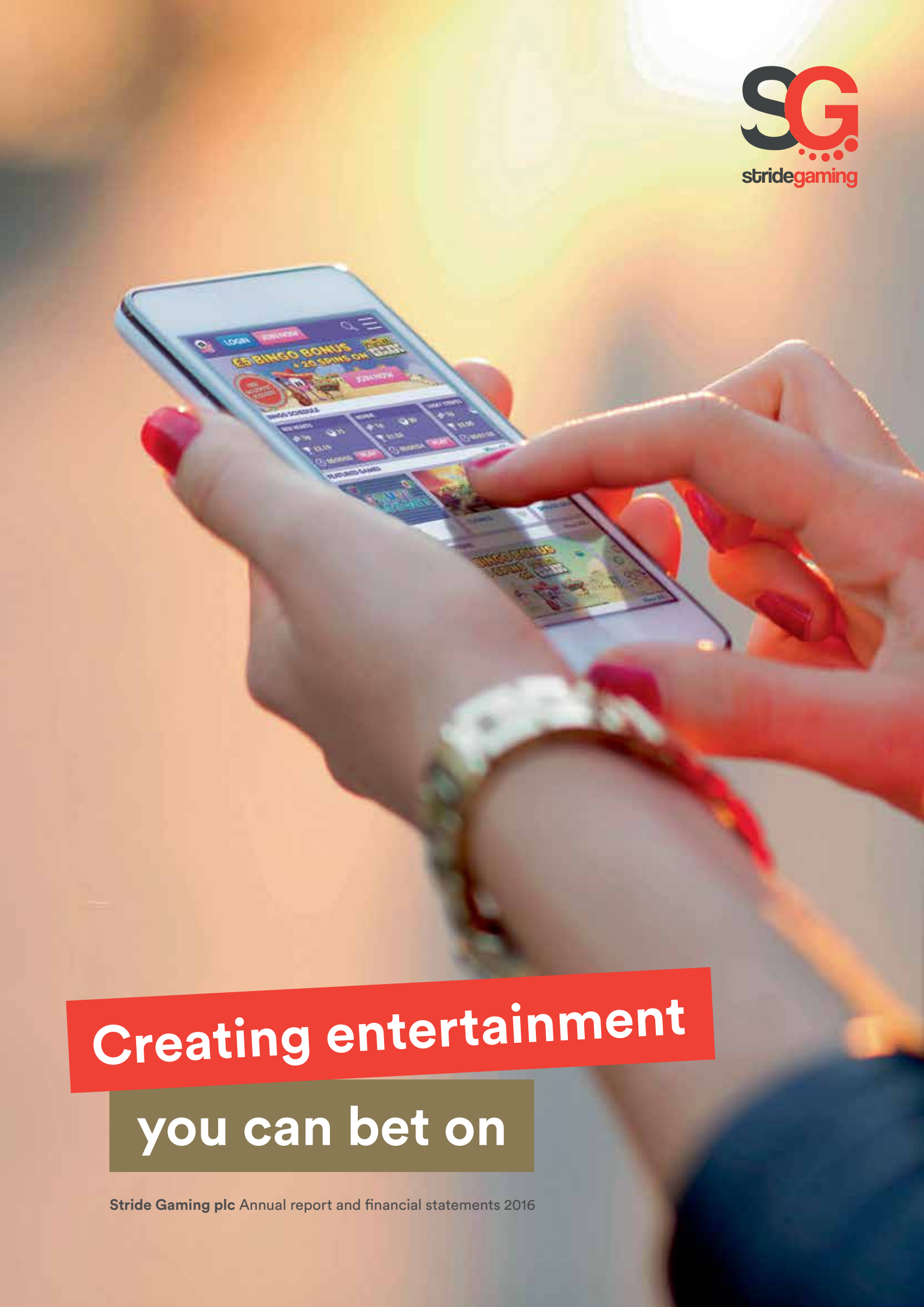



stridegaming

# Creating entertainment you can bet on

**Stride Gaming plc** Annual report and financial statements 2016


# One of the UK's leading soft gaming operators

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.

# Highlights

## Financial highlights

**Net gaming revenue ("NGR")** £m

£47.8m +22%


**Adjusted EBITDA*** £m

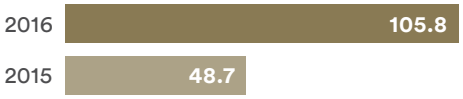
£12.3m +27%


**Adjusted earnings*** £m

£10.9m +27%


**Gross assets** £m

£105.8m +117%




- **Successful placing of 12 million shares raising £27 million (before expenses)**
- Refinancing of an existing £8 million shareholder loan facility with Barclays PLC post-year end
- Final dividend of 1.4p per share recommended by the Board, subject to shareholder approval at the AGM, taking the total dividend for the full year to 2.5p per share

## Operational highlights

**Funded players*****

71,220

+37%

**Yield per player**

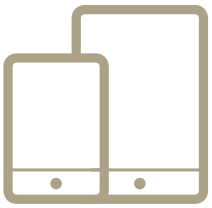
£120

+7%

**Mobile and touch devices**
% of the GGR******

51.8%

+28.2%



- **Transformational acquisitions of 8Ball Games, Netboost Media and the Tarco Assets completed for total consideration payable in shares and cash of up to £70.2 million**
- Successful integration of InfiApps, the mobile social gaming company acquired in July 2015
- Average deposit size from InfiApps increased to US$24.5 (2015: US$17.0) and the daily average revenue per paying user ("Daily ARPPU") increased to US$35.0 (2015: US$28.5)
- Introduction of the Table Top Entertainment ("TTE") brands and proprietary games onto mobile

* Adjusted EBITDA is operating profit but excluding income or expenses that relate to exceptional items such as listing and acquisition costs and contingent remuneration, as well as non-cash charges relating to share-based payments (including associated payroll taxes), depreciation and amortisation. Adjusted earnings is profit (or loss) after tax, but before amortisation (excluding amortisation of development costs), depreciation, listing and acquisition costs, contingent remuneration and share-based payments (including associated payroll taxes).

** In order to show the Group's results in the most meaningful way for all stakeholders, the financial information for the prior year comparative is shown on a pro-forma basis, which means they have been adjusted to show the results as if the acquisition of InfiApps, the mobile social gaming company acquired in July 2015, had in fact taken place at the start of the 12 month comparative year, and as if Point of Consumption Tax ("POCT") had been in effect for the full 12 months in both years, instead of just nine months in the comparative year as was actually the case.

*** Funded player means an active player who has made a deposit with his or her own funds within the last three months.

**** Gross Gaming Revenue ("GGR") means gross gaming revenue, being total bets placed by players less winnings paid to them.

# At a glance


# Focused on soft gaming

## Stride Gaming is a leading online gaming operator in the soft gaming verticals of online bingo and the global social gaming market.

In the real money UK bingo-led business, Stride Gaming operates a multi-branded strategy and uses its own proprietary and purchased software to provide online bingo and slot gaming for its players, and social gaming mobile applications. Following the acquisitions of 8Ball Games, Netboost Media and the Tarco Assets on 31 August 2016, Stride Gaming has a 10% market share of the UK bingo market and is the fourth largest online bingo operator in the UK. The Company now has 105 brands and its share of the UK online bingo market is 25% (as measured by number of bingo sites).

Stride Gaming is focused on the UK online bingo market, where it is licensed and only operates from the regulated jurisdictions of the UK and Alderney, and on the mobile social gaming market, where its players' reach is international with a focus on the North American market.

## Our products

- Online RMG bingo is a multiplayer pool-based game – risk-free model
- Operate multiple platforms including proprietary and licensed software
- Social casino is an app-based technology
- Operating two platforms with c.50% of the market being North America based


47% RMG –Proprietary

37% RMG – Licensed Platforms

16% SOG

# Our brands

The Company owns 105 brands including the online bingo brands Kitty Bingo, Lucky Pants Bingo, Bingo Extra, Jackpot Café and Jackpot Liner, King Jackpot, together with the online casino brands Spin and Win, Magical Vegas and Big Top.


## The business today

### 01 Focused soft gaming company

- Operating in the bingo-led and social gaming markets
- Proprietary platforms and multi-brand strategy – 105 brands to date
- Online bingo pioneers since 2013

### 02 Substantial growth

- Adjusted EBITDA for FY2016 of £12.3m
- High cash conversion
- Increase in funded players and mobile usage

### 03 Strong acquisition capability

- Successful acquisition and integration of:
  - Table Top Entertainment (2014)
  - InfiApps (2015)
  - 8Ball Games (2016)
  - Netboost Media (2016)
  - Tarco Assets (2016)

### 04 Fourth largest bingo operator in the UK

- Material scale with 10% share of the UK bingo market
- Number of brands increased by 95 to 105 post recent acquisitions
- 25% share of the UK online bingo market by number of sites

### 05 Management team with proven track record

- 2007: GlobalCom (Dragonfish) sold to 888.com for US$42 million
- 2009: Wink Bingo B2C sites sold to 888.com for £60 million

### 06 Significant market opportunity

- Regulation and taxation driving consolidation
- Tax, compliance and technology squeezing margins of smaller businesses

# The business today continued

## 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 a profitable, internationally focused mobile social gaming company in July 2015

**AUGUST 2016**
Acquisition of two online bingo businesses, 8Ball Games and Netboost Media, and the Tarco Assets and a £27 million placing

## Acquisitions

Stride Gaming listed on AIM on 19 May 2015 primarily to exploit the market opportunity that exists in the gambling sector as a result of increased taxes, particularly the POC tax, and regulation which is forcing the larger operators to consolidate in order to achieve scale and forcing many of the smaller operators to fold. An integral part of Stride Gaming's growth strategy is to increase its market share through acquisitions and through delivering robust organic growth. Stride Gaming has been highly acquisitive from the outset, prior to listing on AIM and post its admission. The Group has a strong track record in undertaking selective strategic and accretive acquisitions that deliver value for shareholders and provide the Company with material scale, strong operational leverage and significant market share.

## Social Gaming

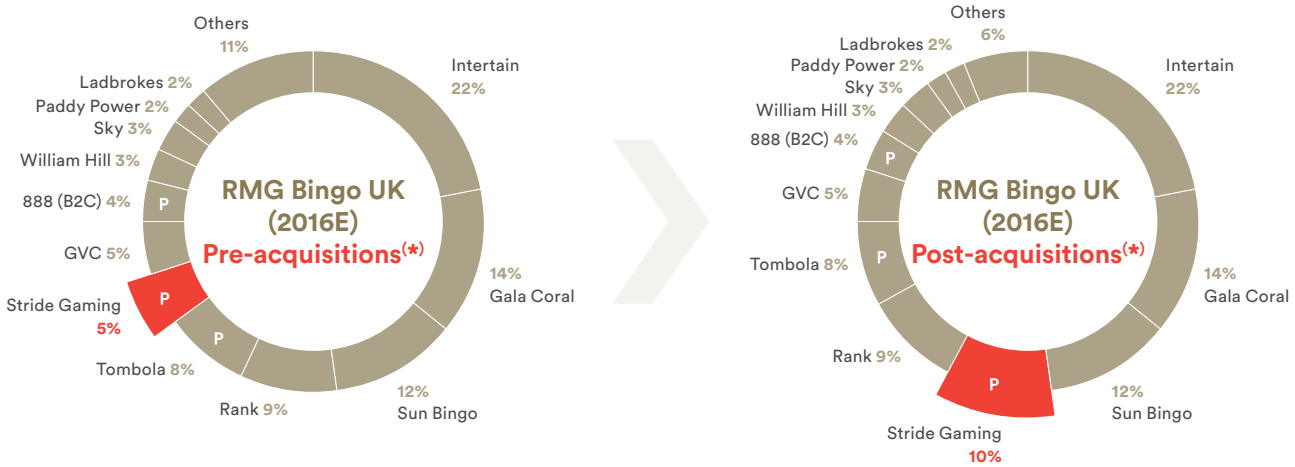
InfiApps, the mobile social gaming company acquired in July 2015, has now been fully integrated into the Group. In Slot Bonanza, our flagship social gaming brand, our focus during the year has been to increase the level of player engagement through the introduction of unique product features, business intelligence and new content, including real money gaming content, which enabled us to increase our monetisation capabilities. As a result, our adjusted EBITDA was up 17% to £4.1 million (2015: pro-forma £3.5 million), our average deposit size increased to US$24.5 (2015: US$17) and the daily average revenue per paying user ("Daily ARPPU") increased to US$35.0 (2015: US$28.5).

In addition, we developed our Panda Slots app, a multi-technology platform for the faster creation of new mobile social slot games customised on a player level. Using this platform, we can develop once and deploy on both iOS and android platforms, significantly reducing the time and cost to market.

InfiApps completed its first year of a two-year earn-out period on 31 August 2016. During the first year the Group focused on achieving high levels of player engagement and profitability. In the second and last year of the earn-out period we will focus on product development and on enhancing the player experience. Whilst we are pleased with the integration of InfiApps into the Group, balancing longer-term benefits against shorter-term performance targets needs to be managed carefully and presents certain challenges to maximise the performance of the business in the earn-out period.

# Market share

## Stride's UK online bingo market share has increased from 5% to 10% post-acquisitions.




P = Proprietary software

* Source: Gambling Compliance Report 2015.

**Stride Gaming market share**

### Acquisitions of 8Ball Games, Netboost Media and the Tarco Assets

On 31 August 2016, Stride Gaming completed the acquisitions of 8Ball, Netboost Media and the Tarco Assets for a total consideration of up to £70.2 million. These acquisitions have been transformational for the Company. They have increased Stride Gaming's market share of the UK bingo market from 5% to 10%, making Stride Gaming the fourth largest online bingo operator in the UK. They have expanded the Company's multi-branded offering by 95 brands to 105 brands, increasing Stride Gaming's share of the UK online bingo market from 2% to over 25% (by number of bingo sites). They also bring significant scale and a number of leading bingo brands to Stride Gaming's business, together with the opportunity for meaningful operational leverage.

The acquisitions already present attractive player fundamentals, including the opportunity for significant improvements through leveraging off Stride Gaming's leading software platform and marketing expertise, together with delivering synergies through cross-marketing, lowering of CPA, increasing customer LTV and reducing player churn. We expect the acquisitions to be accretive in the first full year of ownership (pre-synergies), deliver cost synergies (marketing, administration, distribution) of an estimated £2.5 million (post earn-out) and deliver revenue synergies (increase in LTV, yield and net cash hold) of an estimated £3 million (post earn-out).

These acquisitions were funded by a fully subscribed placing of 12 million ordinary shares at a price of 225p per share raising £27 million (pre-costs) and the issue of new ordinary shares to the vendors.

# Our differentiators and key strengths

# Our key strengths

## Proprietary platform

One of Stride Gaming's strategic competitive advantages is owning its own proprietary platform, which ensures that the Group can improve the gaming experience without needing to rely on third-party software providers and pay additional royalty and licensing costs as a result. Having control of the software underpinning the Group's operations will also enable easier entry into other regulated jurisdictions.

## Multi-branded offering

The Group operates a multi-branded strategy with a clear differentiation between each brand to target different categories of players. The Directors believe that a multi-brand strategy improves player retention and enables Stride Gaming to offer inactive players an alternative offering, as well as providing the Group with cross-marketing opportunities to improve the LTV of players.

## Mobile offering

The Company launched a responsive adaptive design platform, which enables Stride Gaming to maintain a consistent user experience across a multitude of devices including mobiles, tablets and desktop, as well as enabling the Group to increase its mobile-centric customer base.

## Intuitive marketing strategy

Based on sophisticated analytics provided by proprietary software, to maximise player LTV. The Directors believe that online bingo appeals to a predominantly female audience who are attracted by the social element which online bingo provides rather than other forms of gambling.

## Focusing on regulated markets

The Directors believe that focusing on these markets, where the barriers to entry are generally higher owing to the time and cost required to gain (and retain) the requisite licences to operate in such regulated markets, lends itself to attracting players who may not otherwise consider online bingo and associated gaming (or at least their reputation) to be socially acceptable, thereby increasing demand for its offering.

## Highly experienced management team and staff

Management team with strong gaming expertise and proven track record in the online gaming industry having been involved in the online bingo market since 2002, generating rapid growth in a short timeframe and successfully having sold two online bingo-led businesses for £60 million and US$42 million respectively. The Board of Directors includes the former CEO of Sportingbet Plc, the founder of the GlobalCom bingo network, one of the largest bingo networks worldwide, and the current General Counsel and Company Secretary at Selfridges Group.

## Social gaming expertise

InfiApps has now been fully integrated into the enlarged Stride Gaming Group following the acquisition of this international mobile social gaming company in July 2015. This acquisition was of strategic importance for the Company and has provided Stride Gaming with an opportunity to take its online bingo product into the social gaming segment of online gaming. This was the Group's first successful acquisition and has also provided the Company with significant operational leverage on an international scale as it combines Stride Gaming's existing bingo-led expertise with social gaming expertise, both of which are complementary offerings to each other.

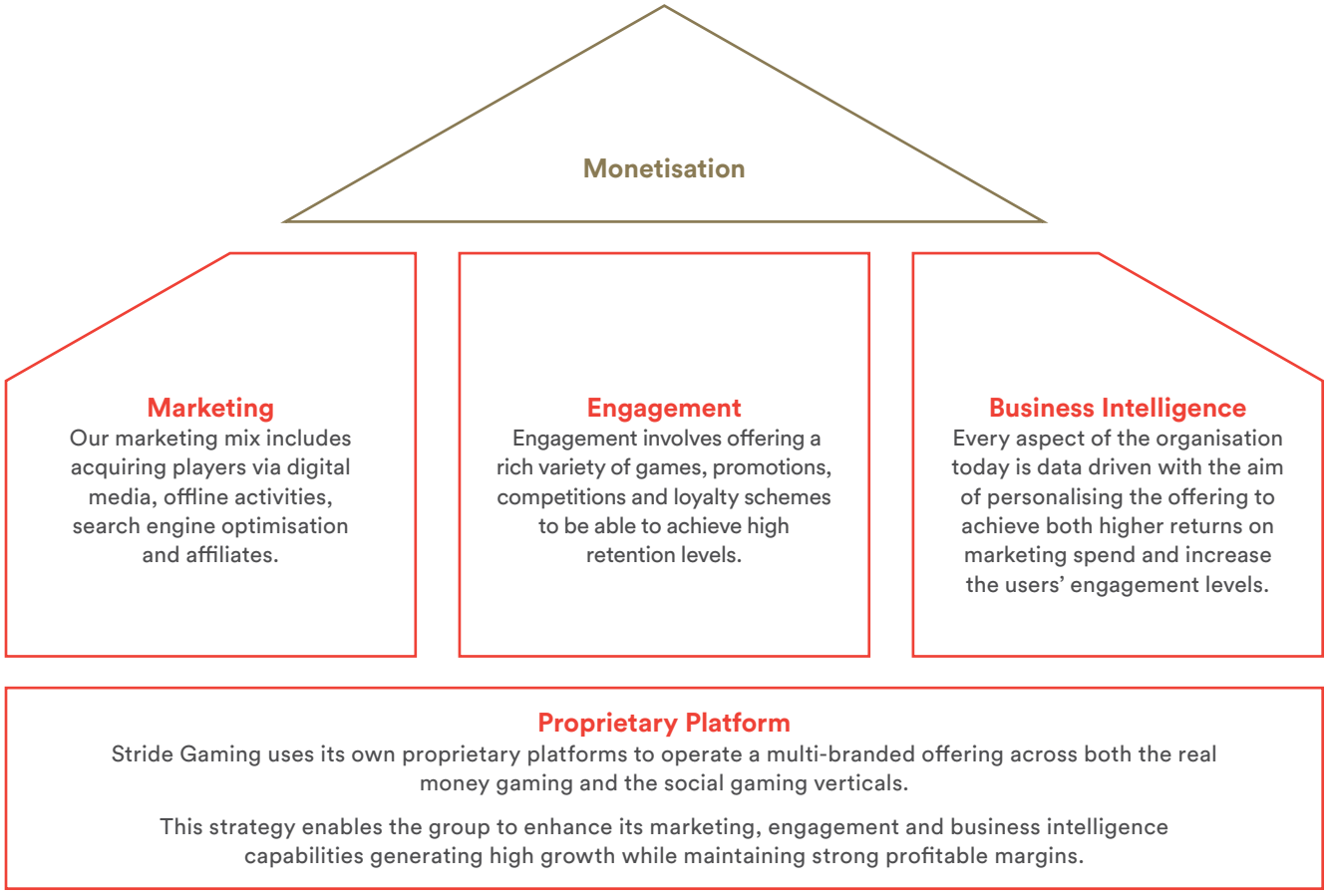
# Our business model

Stride Gaming aims to deliver growth organically as well as by being acquisitive in the soft gaming sector and by licensing its proprietary platforms.

The success of the company is dependent on three areas:

- Growth: predominantly by generating new customers at an optimum cost of acquiring them ("CPA");
- Engagement, our ability to retain our customers by keeping them engaged; and
- Monetisation, the life time value ("LTV") we are able to get from our customer base.

Our profitability is therefore defined by the level of LTV of our customer base versus the lower "CPA" rate in acquiring it.




## Our business model is supported by:

**Our Team**
Stride Gaming prides itself on delivering a unique experience to our customers by having a team that is highly skilled, passionate and innovative.

**Distribution**
Our brands are available across a multitude of platforms including the PC, big screen and small screen mobiles and via the different app stores.

**Regulation**
Operating only in regulated markets ensures the longevity of the operation and confidence customers have in our product offering.

## Chairman's statement

# A transformational year

- Three transformational acquisitions for total consideration of up to £70.2 million
- Group's share of UK bingo market has increased from 5% to 10%
- Over 100 bingo brands
- Interim dividend of 1.1p per share paid, with final recommended dividend of 1.4p per share subject to shareholder approval

I could not be more pleased with the performance of the business this year, a year in which Stride Gaming has demonstrated the power of its business model. The success of the business reflects our core strengths: owning our own proprietary software; operating it in a clear multi-branded strategy; and delivering strong organic growth and making targeted acquisitions, all of which have been delivered by our highly experienced and competent management team.

During the year, not only did the Company achieve very strong organic growth but it also concluded three transformational acquisitions for a total consideration of up to £70.2 million, propelling the business to become the fourth largest online bingo operator in the UK. In doing so, Stride Gaming's market share of the UK bingo market has increased from 5% to 10%, and from 2% to over 25% in the UK online bingo market (as measured by number of bingo sites). Stride Gaming now has over 100 different bingo brands and occupies a pre-eminent position within the soft gaming sector. Everyone at Stride Gaming is very excited by the opportunities that now present themselves across our materially enlarged Group.

The business has a proven track record of delivering value to shareholders from both organic growth and from successfully integrating acquisitions into the Group. The recent acquisitions of 8Ball, Netboost Media and the Tarco Assets are the largest set of acquisitions that the Company has undertaken to date, and the Board is confident of its ability to integrate them into the Group and deliver value to shareholders. To this end, the Board will focus heavily on the successful integration of these businesses during the early part of the new financial year to August 2017. The Board remains confident that the acquisitions will be accretive in the first full year of ownership (financial year to August 2017), as well as delivering significant cost synergies.

### Dividend

In line with the Company's stated objective of adopting a progressive dividend policy, the Board is pleased to recommend a final dividend of 1.4p per share, subject to the approval of shareholders at the Company's Annual General Meeting to be held in January 2017. This final dividend, together with the interim dividend of 1.1p per share, brings the total dividend for the year ending 31 August 2016 to 2.5p per share.

The final dividend will be paid on 1 February 2017 to those shareholders who are on the register of members on the record date of 6 January 2017. The ex-dividend date will be 5 January 2017.

The business has a proven track record of delivering value to shareholders from both organic growth and from successfully integrating acquisitions into the Group.

## Current trading and outlook

Following this transformational year for the business, Stride Gaming now has material scale, strong operational leverage and significant market share. We believe that we have never been better placed to exploit the opportunities that exist in our market to deliver value to shareholders and we look to the future with excitement and confidence. The integration of our recent acquisitions is progressing well and trading at the start of the new financial year is in line with the Board's expectations.

In addition to integrating the recent acquisitions and striving to deliver strong organic growth, we will in 2016/17 continue to examine entry into other soft gaming verticals. Our aim is to become the leading UK-based soft gaming company and to create significant value for shareholders.

Following the placing, we now have a strong and broad institutional following and I'd like to take this opportunity to welcome our new shareholders and thank our existing shareholders for their continued support. I'd also like to thank the rest of my Board and all the Group's employees for their passion and dedication in getting the Company to the position it is in today.

**Nigel Payne**
**Non-Executive Chairman**
28 November 2016

## 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

# Increasing market share

- Strong operational performance with an NGR growth from real money gaming of 31%
- Number of funded players reached 71,220 representing a 37% year-on-year increase
- 7% growth in yield per player reported at £120
- Adjusted EBITDA is up 27% on a pro-forma basis to £12.3 million
- Adjusted EBITDA on real money gaming is up 17% at £8.2 million

I am delighted to present these excellent results to shareholders. 2016 was an exciting year for the Company where we again delivered strong organic growth and undertook transformational acquisitions. During the year we continued to exploit the market opportunity that exists in the gaming sector and, in contrast to many operators that struggle in this tough regulatory and tax environment, Stride Gaming continued to build scale and increase its market share. The business has never been in such a strong position with material scale and 10% share of the UK bingo market. Stride Gaming is extremely well positioned to build on its excellent achievements of 2016 and to continue to grow organically, to look for further acquisition targets and to maximise value for shareholders.

## Operational progress

The Company delivered strong operational performance in the year with NGR growth from real money gaming increasing by 31%. Our organic growth has again exceeded expectations as a result of the Company's underlying strengths, which include having significant scale and owning our own proprietary software. This has also been achieved in an environment in which margins are being squeezed due to changes to tax, regulatory compliance and technology costs.

Our number of funded players has now reached 71,220, representing a 37% year-on-year increase, and with software enhancements and continuous improvements to the back end of our platform we have shown a 7% growth in yield per player at £120 (2015: £112).

Adjusted EBITDA for the Group was up 27% on a pro-forma basis to £12.3 million with adjusted EBITDA for real money gaming up 17% at £8.2 million, despite a full year of POCT. The results also include a full year contribution from the acquired InfiApps business generating £4.1 million of adjusted EBITDA.

## Acquisitions of 8Ball, Netboost Media and the Tarco Assets

On 31 August 2016, Stride Gaming completed the acquisitions of 8Ball, Netboost Media and the Tarco Assets for a total consideration of up to £70.2 million. These acquisitions have been transformational for the Company. They have increased Stride Gaming's market share of the UK bingo market from 5% to 10%, making Stride Gaming the fourth largest online bingo operator in the UK. They have expanded the Company's multi-branded offering by 95 brands to 105 brands, increasing Stride Gaming's share of the UK online bingo market from 2% to over 25% (by number of bingo sites). They also bring significant scale and a number of leading bingo brands to Stride Gaming's business, together with the opportunity for meaningful operational leverage.

Acquisitions have been an instrumental part of Stride Gaming's rapid growth and success to date and the Company will continue to search for acquisition opportunities that are accretive to earnings.

The acquisitions already present attractive player fundamentals, including the opportunity for significant improvements through leveraging off Stride Gaming's leading software platform and marketing expertise, together with delivering synergies through cross-marketing, lowering of CPA, increasing customer LTV and reducing player churn. We expect the acquisitions to be accretive in the first full year of ownership (pre-synergies), deliver cost synergies (marketing, administration, distribution) of an estimated £2.5 million (post earn-out) and deliver revenue synergies (increase in LTV, yield and net cash hold) of an estimated £3 million (post earn-out).

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## Social gaming

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InfiApps completed its first year of a two-year earn-out period on 31 August 2016. During the first year the Group focused on achieving high levels of player engagement and profitability. In the second and last year of the earn-out period we will focus on product development and on enhancing the player experience. Whilst we are pleased with the integration of InfiApps into the Group, balancing longer-term benefits against shorter-term performance targets needs to be managed carefully and presents certain challenges to maximise the performance of the business in the earn-out period.

## Mobile

The Group continues to focus on enhancing the gaming experience for its mobile-centric customer base. The Company's responsive adaptive design ("RAD") platform has been well received by our customers and, on a Group level, mobile and touch represents 51.8% of gross gaming revenue (2015: 40.4%).

## Our market

The global online gaming industry continues to grow rapidly and is driven by technological advancements, particularly greater connectivity and customers' increased access to smart devices, as well as government regulation. Mobile devices continue to shape the online gaming industry and operators constantly have to innovate to stay ahead of the curve. Increased regulation, tax and compliance costs will continue to squeeze margins on smaller businesses and present challenges for larger operators. However, it also presents significant opportunities for incumbent and established operators that have significant scale to exploit market opportunities.

The UK online gaming market is estimated to have totalled £2.46 billion in 2015. Gambling Compliance Research Services ("GCRS") estimates that UK online gaming NGR will total around £2.69 billion in 2016, and expects segment growth to remain in high single digits over the next few years. UK online gaming NGR is projected to grow 8.1% to £2.91 billion in 2017 before rising a further 8.9% to £3.16 billion in 2018.

The UK bingo-led gaming market in 2016 is estimated to reach £500 million. The global social casino market was valued at US$5.40 billion in 2012 and is expected to reach US$17.40 billion by 2019, growing at a robust CAGR of 16.1%.

There is uncertainty and volatility in the wider market as a result of Brexit. However, to date, there has been no visible impact on the business from the UK's decision to exit the EU and the Board believes Stride Gaming's scale gives it significant flexibility to face any challenges that may arise.

Recent discussions around the new proposed TV daytime advertising regulations for the bingo-led market are expected to have very little direct impact on the Group since the Group is focused more on digital media as a source of traffic.

# Chief Executive's report continued

## Growth strategy

Our aim is to be the leading UK-based soft gaming operator. Stride Gaming is focused on building scale and maximising shareholder value by achieving growth through organic and acquisitive means and by focusing on the Company's core strengths. The Company aims to deliver growth by enhancing its proprietary platforms, systems and knowledge, and strategic acquisitions that will allow the Company to enter new verticals and provide scale to existing verticals.

## Organic growth and focus on the core business

The Company aims to maintain its average monthly growth and to further increase its profitability and scale, taking advantage of the increased regulatory environment and, in particular, the POCT, which is driving unprecedented change across the industry. This increased regulatory environment is forcing many of the larger gambling operators to consolidate and merge in order to add scale to their operations and is forcing many of the smaller players out of the market entirely. Stride Gaming, in contrast, feels it only has to gain in this environment as it has scale and a number of key strengths, which include owning our own proprietary software, our multi-branded strategy and our highly experienced management team. The Company will look to build on its significant market share following recent acquisitions and take further market share from the larger multi-product operators which are prioritising their marketing spend on their core operations, and from the smaller operators which are being squeezed out of the market.

Stride Gaming aims to accelerate growth through improved levels of engagement, monetisation and marketing:

**Engagement** – the Company is focused on enhancing the user experience through providing rich and engaging content, loyalty and competitions, thereby creating a high level of stickiness.

**Marketing** – the Company's marketing strategy is focused on increasing the customer base through optimising conversion rates and CPA levels. Stride Gaming uses an effective marketing mix of online and offline channels including natural search (SEO), player management, email, SMS and direct mails.

Stride Gaming also uses TV and online buying as well as re-targeting campaigns utilising a multitude of online platforms.

The Company will continue to invest in product development and in enhancing its bingo IP, instant game IP and also mobile development. A core part of the growth strategy will be to pursue expansion in international regulated markets such as Italy, Spain and Denmark.

Many bingo-led operators rely on third-party software providers, which creates potential opportunities for Stride Gaming to license its platform to other operators on a B2B basis or otherwise offer white label solutions based on the Group's existing platforms.

## Acquisition opportunities

Acquisitions have been an instrumental part of Stride Gaming's rapid growth and success to date and the Company will continue to search for acquisition opportunities that are accretive to earnings. The Company will also look to enter into other soft gaming verticals that complement Stride Gaming's existing business.

The opportunities in these sectors are exciting and could significantly increase Stride Gaming's value for shareholders.

## Outlook

Stride Gaming has delivered another excellent year of progress with further transformational acquisitions under its belt and robust organic growth. With 105 brands and 10% of the UK bingo market, Stride Gaming occupies a pre-eminent position in the soft gaming market. Stride Gaming now has the scale and fire power to accelerate its organic growth and undertake further acquisitions. The Board believes the outlook for the Company is highly exciting.

**Stuart Eitan Boyd**
**Chief Executive Officer**
28 November 2016

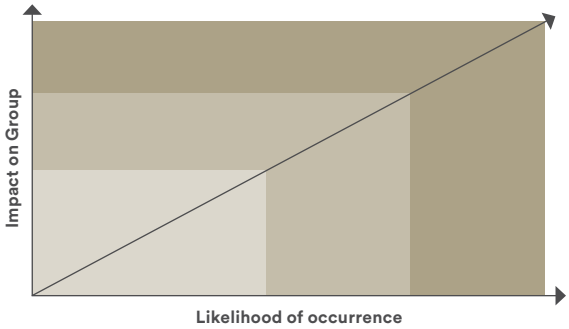
# Principal risks and uncertainties

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 assessment**




**Risk levels**

Low | Medium | High

| Risk | Likelihood | Issue | Impact | Mitigation |
|---|---|---|---|---|
| **Regulations** | | | | |
| **Gaming regulations** | Low | The Group operates within a highly regulated sector. Online gambling is prohibited or restricted in some countries and regulated in others.<br>The risk to the Group is that it inadvertently accepts players from markets where gambling is banned.<br>While the Group is currently licensed in the UK and Alderney, Baldo is licensed in Italy and QSB Gaming in Spain, other foreign governments and regulatory authorities are considering proposals that directly impact gambling and internet commerce. | High | The Group seeks legal advice in regard to its activities in its principal countries of operation and monitors updates in other jurisdictions where it may start accepting customers. Players from restricted jurisdictions are blocked using multiple technological methods.<br>The Group takes measures to ensure that it strictly adheres to legal and regulatory requirements in all its countries of operation. |
| **General taxation** | High | The Group operates in a constantly evolving tax landscape across multiple jurisdictions. It is important that the Group adapts to meet all changes affecting its tax position.<br>Adverse changes to tax laws may increase the Group's underlying effective tax rate and reduce profits. | Low | The Group closely monitors its tax position in each country of operation and is in constant communication with external tax advisors. Financial management ensures the Group remains up to date with any expected changes. |

# Principal risks and uncertainties continued

| Risk | Likelihood | Issue | Impact | Mitigation |
|---|---|---|---|---|
| **Regulations continued** | | | | |
| **Point of consumption ("POC") tax** | High | The Group currently holds licences with respect to its activities from the Alderney Gambling Control Commission and the UK Gambling Commission as a result of the Gambling (Licensing and Advertising) Act 2014.<br><br>As of 1 December 2014, the United Kingdom introduced changes to the basis on which remote gambling operators are taxed, moving from a point of supply to a point of consumption basis.<br><br>The UK Government is recommending further changes to the POC calculation with an effective start date of August 2017. Although currently in the consultation stage, legislative drafting has also taken place.<br><br>Should these changes take place next year the Group could be impacted with an increase in the cost of sales and thus a reduction in adjusted EBITDA. | Medium | The Group is closely monitoring the consultation process and has been an active respondent.<br><br>The expectation of the industry is that the changes will almost certainly take place at some point in 2017. It is therefore crucial for all operators to be prepared for the potential operational and financial impact.<br><br>The Group has an operating team tasked with updating all systems to take into account the changes coming into effect. Budgets have been updated to take into account any monetary impact on the Group's results. |
| **Fraud and audit** | | | | |
| **Money laundering and being associated with crime and disorder** | Medium | If the Group handles any proceeds of crime they will be committing money laundering offences under the Proceeds of Crime Act 2002.<br><br>This would have a lasting and damaging impact on the Group's reputation, which could adversely affect relationships with service providers, particularly payments processing providers.<br><br>Furthermore, this may also lead to sanctions from regulatory authorities which can impose heavy fines or worse, suspend the Group's regulatory license. In the latter case, the Group will cease to operate. | High | The Group's internal software is set-up with triggers which enable detection of customer transactions which seem suspect or fraudulent.<br><br>The system flags unusual transactions such as high value deposits; a large number of deposits in a day; deposits made in accounts which already have a significant balance; and methods used for withdrawals, particularly where these differ from the deposit method.<br><br>Any transactions picked up by the software will lead to due diligence or enhanced due diligence where customers are required to provide identity documents.<br><br>The Group has a dedicated fraud and compliance team which carries out all necessary checks for both new and existing players. |

| 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 which it depends on. 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.<br><br>Any substantial disruptions could impact the Group's ability to generate revenue and offer services to customers and in turn affect the Group's reputation, performance and financial position. | High | During the financial year ended 31 August 2016, the Group underwent a complete upgrade of its disaster recovery procedures, which will enable significantly quicker recovery should there be any disruptions.<br><br>The Group will maintain investment in its IT systems and technology to ensure that its network infrastructure continues to operate at the highest standard of performance and reliability. |
| **Distributed denial of service ("DDoS"), malicious viruses and other cyber-crime attacks** | Low | Cyber-attacks, hacking and general cyber-crime is becoming increasingly common. Hackers may gain access to sensitive information and a potential cyber-attack could render the Group's websites inoperative.<br><br>A potential cyber-attack could impact the Group's reputation and its ability to generate revenue as a breach would dissuade potential customers from using its brands due to its security measures being inadequate and this could adversely affect future profitability. | High | IT policies, particularly around security, are constantly reviewed to ensure they are current and effective.<br><br>Training is a significant part of the Group's framework. The Group ensures that all employees are aware of the risks of cyber-attacks and can spot red flags. The Group will maintain investment in its IT security systems to ensure they are robust in the face of external malicious attacks. |
| **Operational** | | | | |
| **Dependence on third-party service providers** | Low | The Group engages with a number of providers of non-proprietary third party games and payment processing services, as well as other important service providers.<br><br>In the event that there is any interruption to the products or services provided by third parties, problems in supplying the products, one or more ceased to be provided or are provided on onerous terms to the Group, this may have an adverse effect on the Group's business and performance. | High | The Group uses reliable industry suppliers and ensures that contractual agreements with key partners offer adequate protection. |
| **Brexit** | High | The impact of the 'Brexit' vote on the UK economy is, as yet, unclear and implementation could take some time. This is complicated by the details of how the UK intends to exit the EU being undecided. The uncertainty this brings is expected to weigh on the UK economy in the near term. | Low | There has been no visible impact on the business from the UK's decision to exit the EU. The Board believes Stride Gaming's scale gives it significant flexibility to face any macro-economic challenges that may arise. |

# Excellent financial performance

- Pro-forma NGR growth of 22% to £47.8 million (2015: pro-forma and reported of £39.2 million and £27.8 million respectively)
- Adjusted EBITDA increase on a pro-forma basis of 27% to £12.3 million (2015: pro-forma and reported of £9.7 million and £7.3 million respectively)
- Cash and cash equivalent of £21.1 million (2015: £7.4 million)
- Barclays Plc loan facility of £8 million signed post-year end

In order to show the Group's results in the most meaningful way for all stakeholders, the financial information displayed below for the prior year comparatives is shown on a pro-forma basis. The prior year comparatives have been adjusted to show the results as if the acquisition of InfiApps, the mobile social gaming company acquired in July 2015, had, in fact, taken place at the start of the comparative year, and as if point of consumption tax ("POCT") had been in effect for the full twelve months in both years, instead of just nine months in the comparative year as was actually the case. No adjustments were required for the acquisitions of 8Ball Games, Netboost Media and the Tarco Assets as they were acquired on 31 August 2016.

Stride Gaming's financial results for the year demonstrate continued strong organic revenue growth and adjusted EBITDA performance. The Group delivered pro-forma NGR growth of 22% to £47.8 million (2015: pro-forma £39.2 million and reported £27.8 million) for the year. This underlying strong organic revenue growth was driven by improvements in player engagement, monetisation and efficient marketing spend across all brands.

Adjusted EBITDA increased on a pro-forma basis by 27% to £12.3 million (2015: pro-forma £9.7 million and reported £7.3 million) with an increase in the adjusted EBITDA margin to 25.8% (2015: pro-forma 24.7%). This improvement was achieved by a more efficient and focused marketing spend combined with synergies in processing, royalties and administrative costs gained as a result of the Group's scale following the integration of the TTE sites acquired in September 2014.

Stride Gaming remains highly cash generative due to an excellent financial performance with net cash generated from operational activities at £13.7 million (2015: £4.5 million) and a high cash conversion from adjusted EBITDA. During the year the Group raised £27 million (pre-costs) through an equity placing to part-fund the acquisitions of 8Ball Games, Netboost Media and the Tarco Assets.

Stride Gaming has a strong balance sheet with cash and cash equivalents of £21.1 million (31 August 2015: £7.4 million) and customer liabilities of £1.8 million (31 August 2015: £1.4 million).

## Revenues

The excellent momentum across the Group since 2015 continued with another record performance for the year. NGR from real money gaming, the Group's largest vertical, was up 31% (2015: pro-forma 30%), totalling £35.0 million (2015: £26.7 million) in top line revenue. This strong operational momentum can be seen throughout all key performance indicators and reflects the strength of our proprietary software, along with the quality of our brands.

Real money gaming funded players were up 37% to 71,200 (2015: 52,000). Yield per player from real money gaming was up 7% to £120 (2015: £112) as a result of successful player engagement and monetisation. Mobile has been a key driver of growth and gross gaming revenue ("GGR") through mobile and touch devices was up by 28.4% and now represents 51.8% (2015: pro-forma 40.4%) of total Group GGR. The Group made continued developments in new content and business intelligence capabilities during the year, which supported our natural growth and has positioned us well for the forthcoming year.

Social gaming revenues from InfiApps remain solid and comprise 26.8% (pro-forma 32%) of Group revenue. Since the acquisition, the Group's focus has been to increase the level of player engagement through the introduction of unique product features, content and analytics, which has enabled us to increase our monetisation capabilities. Revenue was up 1.8% to £12.8 million (2015: pro-forma £12.5 million), but reduced on a constant currency basis by 6%.

## Expenditure

### Distribution costs

Distribution costs, which include licensing, processing, royalties, hosting (social gaming) and marketing, totalled £18.7 million (2015: pro-forma £16.4 million and reported £9.9 million) and have reduced to 39% (2015: pro-forma 42%) as a proportion of NGR. The improvement was achieved as a result of the Group's scale reducing game royalties and processing fees and the introduction of proprietary content. Furthermore, the Group successfully optimised the marketing spend of £10.9 million (2015: pro-forma £9.6 million), by increasing its customer base whilst reducing the marketing spend as a proportion of NGR, which is down to 23% (2015: pro-forma 25%).

### Cost of sales

Cost of sales, which totalled £5.4 million (2015: pro-forma £3.6 million and reported £2.8 million), represents POCT that came into effect in December 2014 and had a full year impact in the current financial year on the real money gaming vertical.

### Administration costs

Administration costs, which totalled £11.4 million (2015: pro-forma £9.5 million and reported £7.8 million), make up 23.9% (2015: pro-forma 24.3%) as a proportion of NGR. Costs remained well controlled, taking into account that the additional expenditure incurred as a result of the reorganisation of the Group pre-IPO has had a full twelve-month impact on the results of the current year, as opposed to only seven months in the prior year.

Capitalisation of proprietary software development costs totalled £1.0 million (2015: pro-forma £0.4 million and reported £0.2 million) and represents 2.1% of NGR (2015: pro-forma 1.1%). During the year the Group continued to invest in its proprietary software to support its mobile offering, rich content and regulatory requirements.

## Adjusted EBITDA and margins

Adjusted EBITDA on a pro-forma basis is up 27% to £12.3 million (2015: pro-forma £9.7 million and reported £7.3 million) reflecting an adjusted EBITDA margin of 25.8% (2015: pro-forma 24.7%). The results exclude the share-based payment charge including associated payroll taxes of £1.9 million (2015: £0.3 million), acquisition and listing costs of £1.1 million (2015: £1.9 million) and contingent remuneration relating to the acquisition of InfiApps of £4.0 million (2015: £0.2 million).

## Finance expenses

Finance expenses for the year totalling £0.7 million (2015: £0.8 million) are largely attributable to the £8 million facility provided by one of the Group's shareholders for the acquisition of InfiApps in July 2015. The loan is bearing an annual interest rate of 7.5%. The cost in the previous year relates to the unwinding of the discount on the Table Top Entertainment contingent consideration.

Stride Gaming's financial results for the year demonstrate continued strong organic revenue growth and adjusted EBITDA performance.

# Chief Financial Officer's review continued

## Share placing and acquisitions

On 31 August 2016, Stride Gaming completed the acquisition of the entire issued share capital of 8Ball Games Limited, the entire issued share capital of Netboost Media Limited (a marketing business which services the Tarco Assets) and certain assets of Tarco Limited. The acquisitions were achieved through a successful subscription and placing of 12,000,000 new ordinary shares in the Company at a placing price of 225p per share, raising gross proceeds of £27.0 million (£25.9 million net of share issue costs).

The acquisitions have increased Stride Gaming's market share of the UK bingo market from 5% to 10%, making Stride Gaming the fourth largest online bingo operator in the UK. It has also expanded the Company's multi-branded offering and brings significant scale and a number of leading bingo brands to Stride Gaming's business.

## Cash flow and balance sheet

Stride Gaming continues to be highly cash generative delivering another year of solid operating performance with cash flow from operating activities totalling £13.7 million (2015: £4.5 million). Cash outflow from investing activities totalled £24.0 million (2015: £18.9 million), mainly relating to the acquisitions. Cash flow from financing activities related to the issue of shares worth £25.9 million (net), payment of an interim dividend of £0.6 million (2015: £3.0 million) and repayment of the related party borrowings of £1.1 million (2015: £Nil), due to the previous owners of the InfiApps business and paid in accordance with the terms of the sale and purchase agreement in November 2015.

As at 31 August 2016, cash and cash equivalents amounted to £21.1 million (31 August 2015: £7.4 million) with customer liabilities of £1.8 million (31 August 2015: £1.4 million). Contingent remuneration liability (within current liabilities) was £3.8 million (2015: £0.2 million) and relates to the InfiApps acquisition. Contingent consideration of £5.6 million (2015: £Nil) in the non-current liabilities has been recognised as part of the fair value exercise following the acquisition of the Tarco Assets.

Available-for-sale investments held of £0.8 million (2015: £Nil) represent the fair value of the Group's equity share of 24.2% in QSB Gaming Limited, an operator of online casino and bingo gaming sites in the Spanish market.

Post-year end (November 2016), the Group entered into an £8.0 million loan facility with Barclays PLC. This committed facility, which refinanced the existing borrowings, matures four years from the date of the initial drawdown, and will incur a 3.6% plus LIBOR annual floating interest rate, payable quarterly, with the principal sum outstanding also paid on a quarterly basis over the term of the facility.

## Adjusted earnings, EPS and dividend

Basic loss per share was 0.8p (2015: earnings of 0.9p). Adjusted basic earnings per share was up 8% to 21.2p (2015: pro-forma 19.6p). The Board believes that adjusted basic earnings per share excluding exceptional items such as acquisition costs, contingent remuneration, listing costs, amortisation of intangible assets and share-based payments better assists an understanding of the underlying business performance.

| | **Audited year ended 31 Aug 16 £'000** | Unaudited pro-forma year ended 31 Aug 15 £'000 |
|---|---|---|
| (Loss)/profit after tax | **(386)** | 2,430 |
| Amortisation of intangible assets* | **4,166** | 2,472 |
| Depreciation | **137** | 79 |
| Acquisition and listing costs | **1,090** | 3,071 |
| Contingent remuneration | **3,987** | 217 |
| Share-based payments | **1,912** | 306 |
| Adjusted earnings | **10,906** | 8,575 |
| Adjusted earnings per share (p) | **21.2** | 19.6 |
| Adjusted diluted earnings per share** (p) | **20.3** | 19.2 |
| Basic earnings per share (p) | **(0.8)** | 5.6 |

* Excluding amortisation of internally generated development costs.

** Adjusted diluted earnings per share is calculated using the same weighted average number of shares used in the diluted EPS as per note 9 of the financial statements.

In line with the Group's stated objective of adopting a progressive dividend policy, in June 2016 the Group paid an interim dividend of 1.1p per share. Taking into account the Group's strong performance the Board has recommended a final dividend of 1.4p per share, subject to shareholder approval at the AGM in January 2017, which takes the total dividend for the full year to 2.5p per share.

The dividend timetable:

| | |
|---|---|
| Ex-dividend date | 5 January 2017 |
| Record date for dividend | 6 January 2017 |
| Payment date | 1 February 2017 |

**Ronen Kannor**
**Chief Financial Officer**
28 November 2016

# 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.

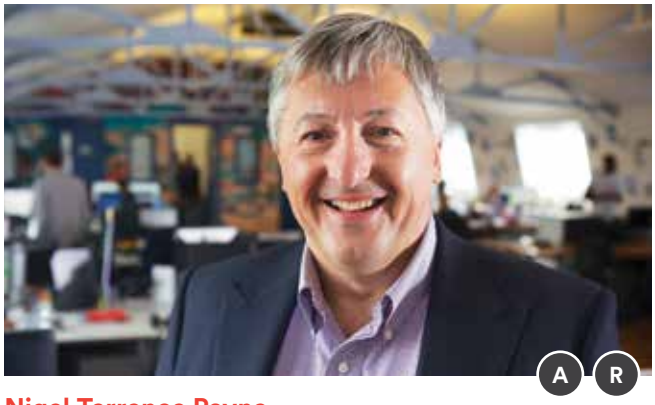
Furthermore, although companies traded on AIM are not required to provide corporate governance disclosure, or follow guidelines in the UK Corporate Governance Code (the "Code") issued by the Financial Reporting Council ("FRC"), the Directors recognise the value and importance of high standards of corporate 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 eg solutions plc and non-executive Chairman of ECSC 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 16 years of experience in the gambling 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. He is highly experienced in driving product design, marketing, processes and customer services thus ensuring high level of satisfaction from both clients and investors.

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.

# Board of Directors continued

## John Le Poidevin

**Non-Executive Director**
(Audit Committee Chairman and member of Remuneration Committee)

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**
(Remuneration Committee Chairman and member of Audit Committee)

Adam is currently general counsel and company secretary at Selfridges Group, where he is a member of the Selfridges Group executive team and a director of their main operating companies.

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.

## Ronen Kannor

**Chief Financial Officer**

Ronen joined Stride Gaming at the end of October 2014 and has over 13 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 2016

This is the second 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 2016 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 2017 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 the acquisition of the businesses that was completed at the year end.

## Introduction

All three Non-Executive Directors are members of the Audit Committee. The Committee met four times in the year ended 31 August 2016 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, 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 Kannor, 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 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.

# Statement from the Chair of the Audit Committee continued

For the year ended 31 August 2016

## Financial reporting and significant financial judgements continued

**Business combinations**

The Group has undertaken a number of acquisitions in the year to 31 August 2016, which gives rise to risk in terms of ensuring alignment with Group accounting policies and an assessment of the fair values of assets and liabilities and consideration at the time of acquisition and, subsequently, at the period end of the resultant goodwill and any impairment thereof.

The Committee discussed with management its approach to determining the fair value of the assets and liabilities of the various acquisitions in the year, including consideration of any external reports commissioned, any contingent consideration involved and the underlying assumptions adopted by management in assessing the carrying value of goodwill. 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.

**Capitalisation of software development costs**

The Group incurred external and internal software development costs during the period that it is required to capitalise if they meet the criteria of IAS 38 and which in turn gives rise to a risk that costs are not capitalised in line with these requirements.

The Committee reviewed the controls and processes in respect of the Group's review of costs capitalised as software development expenditure and management's judgements of how these costs met the criteria of IAS 38. The Committee also discussed with the external auditor the reasonableness of the amortisation period used for each project where costs have been capitalised and confirmed that they were appropriate and in line with industry standards.

**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 completeness of related party disclosures and the accounting treatments relating to the fair value of share options 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 acted as reporting accountant on the Company's AIM flotation in the prior year and has also provided due diligence and certain tax advisory services during the financial year. 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**
28 November 2016

# Statement from the Chair of the Remuneration Committee

For the year ended 31 August 2016

Below is set out the annual report of the Remuneration Committee (the "Committee"). The report comprises a description of how the Committee operates; a brief overview of the remuneration policy; and details of compensation paid to the Board of Directors within the financial year.

On admission to AIM in the prior year, the Committee provided share options to Executive Directors, aligning their interests with shareholders in terms of value creation in the crucial post-listing period, with a broader review of the remuneration policy taking place in August 2015. The review ensured the remuneration levels set were competitive, recognised the skills and experience of the Executive Directors and reflected the Company's 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 established a remuneration policy for the 2015/16 financial year and for the foreseeable future, which can be summarised as follows:

- base salaries in line with equivalent roles at companies of a similar size and complexity, recognising the capabilities and strong performance to date;
- an appropriate pension contribution;
- annual bonus maximum quantum set by reference to each individual's salary, with performance assessed against a combination of financial and non-financial measures linked to the Company's KPIs; and
- an annual award of performance shares subject to a combination of measures assessed over a three-year performance period.

The Committee remains satisfied that the remuneration policy adopted in the 2015/16 financial year operates in such a way as to incentivise Company growth and development, and reward for strong performance.

## 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 four 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 are 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, responsibility and experience. Using appropriate measures of 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. From 1 September 2016, Eitan Boyd and Darren Sims are entitled to a base salary of £255,000 following an increase of 2% over the previous financial year. Ronen Kannor is entitled to a base salary of £175,000, increased from £150,000 on the basis of his excellent performance during the year and to bring the salary closer to mid-market level for a finance director in a company of our size.

## 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.

# Statement from the Chair of the Remuneration Committee continued

Year ended 31 August 2016

## 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 value 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 are typically financial in nature (e.g. adjusted EBITDA), with a minority of the bonus payable for the achievement of qualitative strategic and personal performance targets. For financial targets a sliding scale target range will be used, with no bonus payable for this element unless a threshold level of performance is achieved.

The Committee retains the discretion to increase a bonus 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 2016, the Committee exercised its discretion to increase the annual bonus to 120% of salary in light of the exceptional performance by the Executive team in exceeding the financial targets whilst at the same time originating and completing two material transactions during the year.

## Long-term incentives

The Executives received an award of share options at IPO, which vest in equal tranches on the first, second and third anniversaries of listing. These awards were intended to reward Executives for successful completion of the IPO and to promote and incentivise future share price growth.

As announced in the Company's interim results, the Company had planned to make the first long-term incentive award under a new long-term incentive plan during the second half of the year. The awards are to be in the form of performance shares, with a three-year vesting period, subject to stretching performance conditions set at the time of grant, to 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.

Due to the transaction activity during the year it has not been possible to grant the planned awards to date.

It is intended that awards under the new long-term incentive plan will be made each year. Conditions for vesting will depend on the targets set at each award date and face value will always will be up to 100% of salary for the Executive Directors in respect of the relevant financial year, such limits to be adjusted to take account of any delayed grants as relevant. The Committee proposes to retain discretion to shorten normal vesting periods to take account of delayed award cycles on such basis as it considers appropriate.

## Non-Executive Director fees

Fees for Non-Executive Directors are set with reference to market data, time commitment and chairmanship of Board Committees.

There was no change to the annual fees payable in the prior year. From 1 September 2016, the Chairman of the Board, Nigel Payne, continues to receive a fee of £48,000 per annum. The two other Non-Executive Directors, Adam Batty and John Le Poidevin, continue to receive annual fees of £42,000. In respect of the acquisitions that took place during the year, Nigel Payne and John Le Poidevin provided additional advisory services to the Board for which they were paid £9,000 and £8,000 respectively. Other than their annual fee and extra advisory fee, as well appropriate travel expenses to and from Board meetings, no additional compensation is payable.

## Pay and conditions elsewhere in the Company

The Committee takes into account remuneration conditions within the Company as a whole when determining Executive pay levels. Other members of staff are eligible for annual bonuses based on business and personal performance.

## 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-Executives 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 2016:

| | Salary and fees £'000 | Benefits in kind[1] £'000 | Pension £'000 | Annual bonus[2] £'000 | Share-based payments[3] £'000 | **2016 total £'000** | 2015 total[4] £'000 |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| Stuart Eitan Boyd | 250 | 10 | 25 | 300 | 253 | **838** | 443 |
| Darren Brett Sims | 250 | 7 | 25 | 300 | 253 | **835** | 440 |
| Ronen Kannor | 150 | 5 | 15 | 180 | 165 | **515** | 274 |
| **Non-Executives Directors** | | | | | | | |
| Adam David Batty | 42 | — | — | — | — | **42** | 22 |
| Nigel Terrence Payne | 57[5] | — | — | — | — | **57** | 31 |
| John Le Poidevin | 50[5] | — | — | — | — | **50** | 28 |
| **Aggregate emoluments** | 799 | 22 | 65 | 780 | 671 | **2,337** | 1,238 |

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

2 Represents the annual bonus payable in December 2016 for performance up to the end of the 2015/16 financial year.

3 Represents the cost of awarding share options during the year.

4 The amounts in the comparatives cover the period from 1 February 2015 to 31 August 2015.

5 Extra fees in relation to assistance provided with the two acquisitions.

## Outstanding share-based awards

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

| | Award type | Date of grant | At admission | Granted in year | Lapsed in year | Vested in year | At year end | Market price at date of grant | Exercise price |
|---|---|---|---|---|---|---|---|---|---|
| Stuart Eitan Boyd | Share options | 18 May 2015 | 750,000 | — | — | 250,000 | 500,000 | £1.32 | £1.32 |
| Darren Brett Sims | Share options | 18 May 2015 | 750,000 | — | — | 250,000 | 500,000 | £1.32 | £1.32 |
| Ronen Kannor | Share options | 18 May 2015 | 500,000 | — | — | 166,666 | 333,334 | £1.32 | £1.32 |

In the prior year on the IPO date the Executive Directors received an award of share options, which vest in equal tranches on the first, second and third anniversaries of listing. 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 year it has not been possible to grant the planned awards to date, but this will happen as soon as dealing restrictions allow. It is anticipated that the awards will be in the form of performance shares, with a three-year vesting period subject to stretching performance conditions to be set at the time of grant and to 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 2016:

| | Ordinary shares | | Unexercised share options | | Total interests | |
|---|---|---|---|---|---|---|
| | **At 31 August 2016** | On admission and 31 August 2015 | **At 31 August 2016** | On admission and 31 August 2015 | **At 31 August 2016** | On admission and 31 August 2015 |
| Stuart Eitan Boyd | **2,425,213** | 2,249,999 | **250,000** | — | **2,675,213** | 2,249,999 |
| Darren Brett Sims | **1,083,510** | 937,498 | **250,000** | — | **1,335,510** | 937,498 |
| Ronen Kannor | **—** | — | **166,666** | — | **166,666** | — |
| Adam David Batty | **22,727** | 22,727 | **—** | — | **22,727** | 22,727 |
| Nigel Terrence Payne | **13,889** | — | **—** | — | **13,889** | — |
| John Le Poidevin | **44,546** | 37,879 | **—** | — | **44,543** | 37,879 |

**Adam David Batty**
**Chairman of the Remuneration Committee**
28 November 2016

# Directors' report

For the year ended 31 August 2016

The Directors present their report and consolidated financial statements for the year ended 31 August 2016.

## 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 following the acquisition of InfiApps Ltd in the prior year. The Group completed three further acquisitions on 31 August 2016 which will further enhance its real money offering going forward. 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 £386,000 (2015: profit of £415,000). An interim dividend of £564,000 (1.1p per share) was declared and paid in the year ended 31 August 2016 (2015: £7.5 million). The Board is recommending a final dividend of 1.4p per share subject to 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 £38,383 (2015: £17,786).

## 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 them 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 reports and the Group financial statements in accordance with applicable law and regulations. Jersey company law 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:

- present fairly 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**
28 November 2016

# Independent auditor's report

to the members of Stride Gaming Plc

We have audited the consolidated financial statements of Stride Gaming Plc for the year ended 31 August 2016 which comprise the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity 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.

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.

## Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

## Scope of the audit of the consolidated financial statements

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the consolidated financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited consolidated financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on consolidated financial statements

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 2016 and of its 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.

## 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.

**Kieran Storan (senior statutory auditor)**
**For and on behalf of BDO LLP, statutory auditor**
**Chartered Accountants**
**London**
**United Kingdom**
28 November 2016

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 2016

| | Note | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **Net gaming revenue** | 1 | **47,799** | 27,811 |
| Cost of sales | 1 | **(5,387)** | (2,753) |
| **Gross profit** | | **42,412** | 25,058 |
| Distribution costs | 3 | **(18,667)** | (9,896) |
| Administrative expenses | 3 | **(11,427)** | (7,847) |
| **Adjusted EBITDA** | | **12,318** | 7,315 |
| Share-based payments | 3 | **(1,912)** | (306) |
| Acquisition costs | 3 | **(1,090)** | (1,893) |
| Contingent remuneration | 3 | **(3,987)** | (217) |
| Listing costs | 3 | **—** | (1,179) |
| Amortisation of intangible assets | 3 | **(4,389)** | (2,520) |
| Depreciation | 3 | **(137)** | (47) |
| **Operating profit** | | **803** | 1,153 |
| Finance income | | **25** | — |
| Finance expense | 5 | **(697)** | (793) |
| **Profit before tax** | | **131** | 360 |
| Tax (expense)/credit | 8 | **(517)** | 55 |
| **(Loss)/profit after tax** | | **(386)** | 415 |
| **(Loss)/earnings per share (p)** | 9 | | |
| Basic | | **(0.750)** | 0.948 |
| Diluted | | **(0.750)** | 0.931 |

The notes on pages 33 to 59 form part of these financial statements.

# Consolidated statement of other comprehensive income

for the year ended 31 August 2016

| | Note | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **(Loss)/profit after tax** | | **(386)** | 415 |
| **Other comprehensive income:** | | | |
| Items that will or may be reclassified to profit or loss: | | | |
| Change in fair value of available-for-sale investment | 6 | **810** | — |
| Exchange gains arising on translation of foreign operations | | **2,565** | 7 |
| **Total comprehensive income for the period attributable to the equity holders of the parent entity** | | **2,989** | 422 |

The notes on pages 33 to 59 form part of these financial statements.

# Consolidated statement of financial position

at 31 August 2016

| | Note | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **662** | 234 |
| Intangible assets | 12 | **73,566** | 36,367 |
| Other receivables | 14 | **3,416** | 248 |
| Deferred tax asset | 18 | **217** | 231 |
| Available-for-sale investments | 6 | **810** | — |
| | | **78,671** | 37,080 |
| **Current assets** | | | |
| Trade and other receivables | 14 | **5,827** | 4,241 |
| Income tax receivable | | **168** | 28 |
| Cash and cash equivalents | 16 | **21,080** | 7,388 |
| | | **27,075** | 11,657 |
| **Total assets** | | **105,746** | 48,737 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Trade and other payables | 15 | **6,772** | 100 |
| Loans and borrowings | 17 | **—** | 8,000 |
| Deferred tax liability | 18 | **3,708** | 2,133 |
| | | **10,480** | 10,233 |
| **Current liabilities** | | | |
| Trade and other payables | 15 | **17,352** | 6,585 |
| Income tax payable | | **728** | 33 |
| Loans and borrowings | 17 | **8,000** | 1,083 |
| | | **26,080** | 7,701 |
| **Total liabilities** | | **36,560** | 17,934 |
| **Net assets** | | **69,186** | 30,803 |
| **Issued capital and reserves attributable to owners of the parent** | | | |
| Share capital | 19 | **666** | 502 |
| Share premium | | **38,975** | 10,608 |
| Merger reserve | | **11,253** | 3,013 |
| Shares to be issued | 25 | **1,674** | 4,132 |
| Available-for-sale reserve | 6 | **810** | — |
| Capital contribution | | **13,707** | 14,271 |
| Share option reserve | | **1,911** | 266 |
| Foreign currency translation reserve | | **2,572** | 7 |
| Retained earnings | | **(2,382)** | (1,996) |
| **Total equity** | | **69,186** | 30,803 |

The notes on pages 33 to 59 form part of these financial statements.

Approved by the Board on 28 November 2016 and signed on its behalf by:

**Ronen Kannor**
**Director**

**Stuart Eitan Boyd**
**Director**

Company Number: 117876

# Consolidated statement of cash flows

for the year ended 31 August 2016

| | Note | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit for the year | | **(386)** | 415 |
| **Adjustments for:** | | | |
| Depreciation of property, plant and equipment | 11 | **137** | 47 |
| Amortisation of intangible assets | 12 | **4,389** | 2,520 |
| Finance expense | 5 | **697** | 793 |
| Finance income | | **(25)** | — |
| Share-based payment expense | | **1,645** | 266 |
| Income tax expense/(credit) | 8 | **517** | (55) |
| | | **6,974** | 3,986 |
| Decrease/(increase) in trade and other receivables | | **655** | (2,450) |
| Decrease in trade and other payables | | **6,783** | 3,080 |
| **Cash generated from operations** | | **14,412** | 4,616 |
| Income taxes paid | | **(680)** | (68) |
| **Net cash flows from operating activities** | | **13,732** | 4,548 |
| **Investing activities** | | | |
| Acquisition of subsidiaries, net of cash acquired | 23 | **(19,186)** | (18,061) |
| Cash held in escrow | 14 | **(3,000)** | — |
| Finance income | | **25** | — |
| Purchases of property, plant and equipment | 11 | **(472)** | (83) |
| Purchase of intangibles | 12 | **(377)** | (467) |
| Capitalised development costs | 12 | **(1,028)** | (246) |
| **Net cash used in investing activities** | | **(24,038)** | (18,857) |
| **Financing activities** | | | |
| Issue of ordinary shares, net of issue costs | | **25,890** | 10,693 |
| Capital contribution from shareholder | | **—** | 6,000 |
| Interest paid | | **(580)** | — |
| Repayment of related party borrowings | | **(1,083)** | — |
| Proceeds from borrowings | | **—** | 8,000 |
| Dividends paid | 10 | **(564)** | (3,000) |
| **Net cash from financing activities** | | **23,663** | 21,693 |
| **Net increase in cash and cash equivalents** | | **13,357** | 7,384 |
| **Cash and cash equivalents at beginning of year** | | **7,388** | — |
| Exchange gains on cash and cash equivalents | | **335** | 4 |
| **Cash and cash equivalents at end of year** | 16 | **21,080** | 7,388 |

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

The notes on pages 33 to 59 form part of these financial statements.

# Consolidated statement of changes in equity

for the year ended 31 August 2016

| | 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 2014** | 312 | — | (312) | — | — | 6,999 | — | — | (2,411) | 4,588 |
| Profit for the year | — | — | — | — | — | — | — | — | 415 | 415 |
| Other comprehensive income | — | — | — | — | — | — | — | 7 | — | 7 |
| **Total comprehensive income for the year** | — | — | — | — | — | — | — | 7 | 415 | 422 |
| **Contributions by and distributions to owners** | | | | | | | | | | |
| Dividends | — | — | — | — | — | (7,500) | — | — | — | (7,500) |
| Acquisition of business through issue of shares | 105 | — | 3,325 | — | — | — | — | — | — | 3,430 |
| Acquisition of intangible assets for shares | — | — | — | 4,132 | — | — | — | — | — | 4,132 |
| Capital contribution | — | — | — | — | — | 14,772 | — | — | — | 14,772 |
| Share-based payment | — | — | — | — | — | — | 266 | — | — | 266 |
| Issue of shares, net of share issue costs | 85 | 10,608 | — | — | — | — | — | — | — | 10,693 |
| **At 31 August 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** |

The notes on pages 33 to 59 form part of these financial statements.

# Consolidated statement of changes in equity continued

for the year ended 31 August 2016

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 intangibles assets. |
| **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 (refer to note 23). |
| **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** | All other net gains and losses and transactions with owners not recognised anywhere else. |

# Notes forming part of the financial statements

for the year ended 31 August 2016

## 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 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**

Stride Gaming plc was incorporated on 25 February 2015 and subsequent to this on 19 May 2015 acquired, via a share-for-share exchange, the entire share capital of the Group headed by Daub Alderney Limited. Following this Group reorganisation, the financial statements for the period ended 31 August 2015 have been prepared on a merger accounting basis as though this Group structure had always been in place (see below for further details) and a full year of results is therefore presented for the comparatives.

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 (collectively "IFRSs") as adopted by the European Union, International Accounting Standards and Interpretations and in accordance with the requirements of the Companies (Jersey) Law 1991.

The preparation of financial statements in compliance with EU adopted IFRS 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 2015

Where relevant, new standards and amendments to existing IFRS standards that have been published and are mandatory for the first time for the financial year beginning 1 September 2015 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) including IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have not been early adopted and the Directors do not expect that the adoption of these standards will have a material impact on the financial statements of the Group in future periods.

**Basis of consolidation**

Prior year Group reorganisation

The consolidated financial statements for the comparative year show the combination of Stride Gaming plc and Daub Alderney Limited following the share-for-share exchange completed on 19 May 2015 which falls outside the scope of IFRS 3 *Business Combinations*. Accordingly, following the guidance regarding the selection of an appropriate accounting policy provided by IAS 8 *Accounting Policies*: *Changes in Accounting Estimates and Errors*, the consolidated financial statements have been prepared using the principles of merger accounting set out in FRS 102 Section 19 and UK Generally Accepted Accounting Practice ("UK GAAP").

When merger accounting is applied, the investment is recorded in the Company's balance sheet at the nominal value of shares issued together with the fair value of any consideration paid. In the consolidated financial statements, merged subsidiary undertakings are treated as if they had always been a member of the Group from the date common control was achieved. The corresponding figures for the previous period include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the Company as consideration as if they have always been in issue. Any differences between the nominal value of the shares acquired by the Company and the nominal value of shares issued by the Company to acquire them are taken to a separate merger reserve.

# Notes forming part of the financial statements continued

for the year ended 31 August 2016

## 1 Accounting policies continued

**Basis of consolidation** continued

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.

Common control transactions

Baldo Line SRL, a 100% owned subsidiary, was contributed to the Group in the prior year by the former controlling shareholder. As this is a common control transaction it is outside the scope of IFRS 3 *Business Combinations*. Accordingly, following the guidance regarding the selection of an appropriate accounting policy provided by IAS 8 *Accounting Policies: Changes in Accounting Estimates and Errors,* the consolidated financial statements have been prepared using the principles of merger accounting set out in FRS 102 Section 19 and UK GAAP. The Group has therefore recognised the book value of assets and liabilities with a corresponding capital contribution being recorded.

The 24.2% shareholding in QSB Gaming Limited was also contributed to the group in the prior year. The investment met the definition of an available-for-sale financial asset and was therefore recorded at fair value on initial recognition. The fair value is assessed at each reporting date by discounting expected cash flows using a rate based on the market interest rate and the risk premium specific to the investment.

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. 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.

## 1 Accounting policies continued

**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 requirements 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 or 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.

**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 relationship | 4–14 years | Discounted cash flows |
| Contractual relationship | 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.

# Notes forming part of the financial statements continued

for the year ended 31 August 2016

## 1 Accounting policies continued

**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. Other non-financial assets are subject to impairment tests 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.

**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 de-recognised 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 de-recognised 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.

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.

## 1 Accounting policies continued

**Financial instruments** continued

Financial assets continued

*Available for sale* continued

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.

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.

# Notes forming part of the financial statements continued

for the year ended 31 August 2016

## 1 Accounting policies continued

**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 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.

National Insurance is payable on gains made by 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.

**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.

**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 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.

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 give rise to 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.

## 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 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** |

| | Real money gaming 2015 £'000 | Social gaming 2015 £'000 | Total 2015 £'000 |
|---|---|---|---|
| Total revenue from external customers | 26,695 | 1,116 | 27,811 |
| Adjusted EBITDA | 7,044 | 271 | 7,315 |
| Depreciation | (44) | (3) | (47) |
| Amortisation | (2,336) | (184) | (2,520) |
| Acquisition costs | | | (1,893) |
| Listing costs | | | (1,179) |
| Share-based payments including National Insurance | | | (306) |
| Finance expense | | | (793) |
| Contingent remuneration | | | (217) |
| **Group profit before tax** | | | 360 |

| | External revenue by location of customers | | Non-current assets by location of assets | |
|---|---|---|---|---|
| | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 |
| United Kingdom | **34,493** | 26,188 | **19,290** | 6,000 |
| Alderney | **—** | — | **36,420** | 14,096 |
| Israel | **—** | — | **18,120** | 16,079 |
| USA | **8,298** | 722 | **—** | — |
| Other* | **5,008** | 901 | **398** | 426 |
| | **47,799** | 27,811 | **74,228** | 36,601 |

* Other revenue predominantly relates to the social gaming sector.

# Notes forming part of the financial statements continued

for the year ended 31 August 2016

## 3 Operating profit

All items presented below adjusted EBITDA and before operating profit in the consolidated statement of profit or loss are administrative expenses. Total administrative expenses for the year were £22,942,000 (2015: £14,009,000).

Operating profit is stated after charging the following:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Operating lease expenses | **378** | 127 |
| Employee benefit expenses (note 4) | **8,145** | 3,694 |
| Depreciation of property, plant and equipment | **137** | 47 |
| Amortisation of intangible assets | **4,389** | 2,520 |
| Auditor's remuneration – audit services | **118** | 66 |
| Auditor's remuneration – other assurance services | **42** | 8 |
| Auditor's remuneration – tax advisory services | **17** | 74 |
| Auditor's remuneration – corporate finance services | **135** | 191 |
| Listing costs[(a)] | **—** | 1,179 |
| Acquisition costs[(b)] | **1,090** | 1,893 |
| Share-based payments[(c)] | **1,912** | 306 |
| Contingent remuneration[(d)] | **3,987** | 217 |

(a) Listing costs relate to the Group's initial public offering and admission on AIM which completed on 19 May 2015. This excludes any costs associated with the issue of equity which has been allocated against share premium.

(b) Acquisition costs relate 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. Acquisition costs in the prior year related to the acquisition of the entire share capital of InfiApps Ltd. 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 acquisition the contingent remuneration payable is linked to future employment and therefore has been charged to the profit or loss account. Refer to note 23 for further details.

## 4 Employee benefit expenses

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Employee benefit expenses (excluding Directors and key management personnel)** | | |
| Wages and salaries | **4,839** | 2,014 |
| Pension costs | **175** | 12 |
| Share-based payment expense (note 22) | **563** | — |
| Social security contributions and similar taxes | **384** | 79 |
| | **5,961** | 2,105 |
| **Benefit expenses of Directors and key management personnel[(a)]** | | |
| Wages and salaries | **2,446** | 1,180 |
| Pension costs | **87** | 15 |
| Share-based payment expense (note 22) | **1,082** | 222 |
| Social security contributions and similar taxes | **481** | 172 |
| | **4,096** | 1,589 |
| **Total employee benefit expense including Directors and key management personnel** | **10,057** | 3,694 |

The total employment benefit expense excludes the amounts referred to as contingent remuneration in note 3.

(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.

## 5 Finance expense

**Recognised in consolidated statement of profit or loss**

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Loan interest (note 17) | **697** | 51 |
| Unwinding of discount on Table Top Entertainment Limited contingent consideration (note 23) | **—** | 742 |
| **Total finance expense** | **697** | 793 |

## 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 and Italian 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 2016 the fair value has been increased from £1 to £810,000. 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 35% based on the market interest rate and the risk premium specific to the investment.

## 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 2016** | | £0.01 ordinary shares at 31 August 2015 | |
|---|---|---|---|---|
| | **Number of shares** | **Percentage holding** | Number of shares | Percentage holding |
| Nigel Terrence Payne | **13,889** | **0.02%** | — | — |
| Stuart Eitan Boyd | **2,425,213*** | **3.65%** | 2,249,999* | 4.49% |
| Darren Brett Sims | **1,083,510** | **1.63%** | 937,498* | 1.87% |
| Ronen Kannor | **—** | **—** | — | — |
| John Le Poidevin | **44,546** | **0.07%** | 37,879 | 0.08% |
| Adam David Batty | **22,727** | **0.03%** | 22,727 | 0.05% |

* Shares held via trusts.

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 |

In the prior year on the IPO date the Executive Directors received an award of share options, which vest in equal tranches on the first, second and third anniversaries of listing. 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 year it has not been possible to grant the planned awards to date, but this will happen as soon as dealing restrictions allow. It is anticipated that the awards will be in the form of performance shares, with a three-year vesting period subject to stretching performance conditions to be set at the time of grant and to 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.

# Notes forming part of the financial statements continued

for the year ended 31 August 2016

## 7 Directors' interests and remuneration continued

The following Directors held share options as at 31 August 2015:

| | Number of options at 31 August 2015 | 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 | 18 May 2015 | 1.32 | 1–3 years |

The following table presents the Directors' remunerations of the Company for the year ended 31 August 2016:

| | Salaries and fees £'000 | Benefits £'000 | Bonus £'000 | Share options £'000 | **Total 2016 £'000** | Total 2015 £'000 |
|---|---|---|---|---|---|---|
| Nigel Terrence Payne | 57 | — | — | — | **57** | 31 |
| Stuart Eitan Boyd | 250 | 35 | 300 | 253 | **838** | 443 |
| Darren Brett Sims | 250 | 32 | 300 | 253 | **835** | 440 |
| Ronen Kannor | 150 | 20 | 180 | 165 | **515** | 274 |
| John Le Poidevin | 50 | — | — | — | **50** | 28 |
| Adam David Batty | 42 | — | — | — | **42** | 22 |
| **Total** | 799 | 87 | 780 | 671 | **2,337** | 1,238 |

## 8 Tax expense

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| **Current tax expense** | | |
| Current tax on profits for the year | **671** | 80 |
| **Total current tax** | **671** | 80 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences (note 18) | **(154)** | (135) |
| **Total deferred tax** | **(154)** | (135) |
| **Total tax expense/(credit)** | **517** | (55) |

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 profits for the year are as follows:

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Profit for the year | **131** | 360 |
| Tax using the Company's domestic tax rate of 20.0% (2015: 20.6%) | **26** | 74 |
| Expenses not deductible for tax purposes | **1,822** | 825 |
| Different tax rates applied in overseas jurisdictions | **(1,331)** | (954) |
| **Total tax credit** | **517** | (55) |

The Group has not recognised deferred tax assets of £401,000 (2015: £168,000) in respect of losses and share options amounting to £2,004,000 (2015: £840,000) that can be carried forward against future taxable income.

## 9 Earnings per share

| Numerator | 2016 £'000 | 2015 £'000 |
|---|---|---|
| (Loss)/earnings used in EPS and diluted EPS | **(386)** | 415 |
| **Denominator** | **'000** | '000 |
| Weighted average number of shares used in basic EPS | **51,457** | 43,770 |
| Basic (loss)/earnings per ordinary share (p) | **(0.750)** | 0.948 |
| Effects of: | | |
| Employee share options | **1,588** | 177 |
| Contingent share consideration on acquisition of intangible | **641** | 607 |
| Weighted average number of shares used in diluted EPS | **53,686** | 44,554 |
| Diluted (loss)/earnings per ordinary share (p) | **(0.750)** | 0.931 |

Where the result of the Group is a loss for the year there is no dilutive impact. At 31 August 2016 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 £564,000 (1.1p per share) was declared and paid in the year ended 31 August 2016 (2015: £7.5 million). The Board is recommending a final dividend of 1.4p per share subject to shareholder approval at the Annual General Meeting, which has not been accrued at 31 August 2016.

## 11 Property, plant and equipment

| | Fixtures, fittings and equipment £'000 | Computer equipment £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| **At 1 September 2014** | — | — | — | — |
| Acquired through business combination | 57 | 141 | — | 198 |
| Additions | 20 | 63 | — | 83 |
| **At 1 September 2015** | 77 | 204 | — | 281 |
| Acquired through business combinations | 40 | 30 | 18 | 88 |
| Additions | 209 | 263 | — | 472 |
| Foreign exchange movements | 5 | 7 | — | 12 |
| **At 31 August 2016** | **331** | **504** | **18** | **853** |
| **Accumulated depreciation** | | | | |
| **At 1 September 2014** | — | — | — | — |
| Charge for the year | 5 | 42 | — | 47 |
| **At 1 September 2015** | 5 | 42 | — | 47 |
| Charge for the year | 18 | 119 | — | 137 |
| Foreign exchange movements | 2 | 5 | — | 7 |
| **At 31 August 2016** | **25** | **166** | **—** | **191** |
| **Net book value** | | | | |
| At 31 August 2014 | — | — | — | — |
| At 31 August 2015 | 72 | 162 | — | 234 |
| **At 31 August 2016** | **306** | **338** | **18** | **662** |

# Notes forming part of the financial statements continued

for the year ended 31 August 2016

## 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 2014** | — | — | — | — | — | — |
| Acquired through business combinations | 8,109 | — | 2,265 | 14,866 | 7,925 | 33,165 |
| Additions | 5,476 | — | — | — | — | 5,476 |
| Internally generated development costs | — | 246 | — | — | — | 246 |
| **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 31 August 2016** | **15,708** | **1,274** | **8,326** | **36,238** | **19,107** | **80,653** |
| **Accumulated amortisation** | | | | | | |
| **At 1 September 2014** | — | — | — | — | — | — |
| Charge for the year | 1,051 | 18 | 317 | — | 1,134 | 2,520 |
| Foreign exchange rate movements | — | — | — | — | — | — |
| **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 31 August 2016** | **3,277** | **248** | **865** | **—** | **2,697** | **7,087** |
| **Net book value** | | | | | | |
| At 1 September 2014 | — | — | — | — | — | — |
| At 1 September 2015 | 12,534 | 228 | 1,948 | 14,866 | 6,791 | 36,367 |
| **At 31 August 2016** | **12,431** | **1,026** | **7,461** | **36,238** | **16,410** | **73,566** |

**Software and licences**

Included within software and licences additions in the prior year 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 1,149,071 shares were issued, and post-year end on 6 October 2016 a further 846,701 shares were issued. 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:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Spacebar Media | **5,936** | 5,936 |
| Table Top Entertainment | **4,008** | 4,008 |
| 8Ball Games | **6,473** | — |
| Tarco Assets | **13,973** | — |
| Social Gaming[(a)] | **5,848** | 4,922 |
| | **36,238** | 14,866 |

(a) Increase in goodwill year on year is due to movement in foreign exchange.

## 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 2016 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 the 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 2017 and 2018 are based on Board-approved budgets with a long-term growth rate of 2% (2015: 2%) and a discount rate of 13.9% (2015: 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**

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 of £15.3 million, which exceeds the total value of the CGU's assets by £4.0 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 specifics 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 | 17.10% | 20.94% | 2.00% |
| Change in assumptions required to equal carrying value | 23.27% | 16.38% | (11.59%) |
| Effect of 1% increase in assumption – £'000 | (859) | 1,237 | 602 |
| Effect of 1% decrease in assumption – £'000 | 980 | (653) | (527) |

**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 £25.6 million, which exceeds the total value of the CGU's assets by £1.6 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% | 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) |

# Notes forming part of the financial statements continued

for the year ended 31 August 2016

## 12 Intangible assets continued

**Social Gaming CGU**

The goodwill and related assets included within this CGU resulted from the acquisition of InfiApps Ltd (refer to note 23) which completed in the previous financial year. The recoverable amount of £19.9 million (2015: £21.6 million), which exceeds the total value of the CGU's assets by £0.7 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.

The cash flows for 2017 and 2018 are based on Board-approved budgets as well as on past experience of the acquired entity. 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 | 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) |

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 | 20.00% | 29.21% | 2.00% |
| Change in assumptions required to equal carrying value | 30.95% | 20.62% | (34.80%) |
| Effect of 1% increase in assumption – £'000 | (1,061) | 888 | 670 |
| Effect of 1% decrease in assumption – £'000 | 1,185 | (889) | (599) |

## 13 Subsidiaries

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

| | | Proportion of ownership interest at 31 August | |
|---|---|---|---|
| Name | Country of incorporation | **2016** | 2015 |
| 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%** | — |
| Netboost Media Limited* | Israel | **100%** | — |
| InfiApps Ltd* | Israel | **100%** | 100% |
| Madabout Media (2016) Limited* | United Kingdom | **100%** | — |
| Baldo Line* | Italy | **100%** | 100% |

* Investment held indirectly.

## 14 Trade and other receivables

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Current** | | |
| Trade receivables | **4,352** | 1,695 |
| Other receivables | **950** | 279 |
| Amounts due from related parties | **—** | 1,211 |
| Prepayments | **525** | 1,056 |
| | **5,827** | 4,241 |
| **Non-current** | | |
| Funds held in escrow | **3,000** | — |
| Other receivables | **416** | 248 |
| | **3,416** | 248 |

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.

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 2016.

As at 31 August 2016 there were no trade receivables (2015: £Nil) which were past due and fully impaired. There is currently no provision for impairment for any of the outstanding trade and other receivables (2015: £Nil) with no bad debt expense being recognised in the year (2015: £Nil).

## 15 Trade and other payables

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Current** | | |
| Trade payables | **2,857** | 1,688 |
| Other payables | **2,482** | 103 |
| Other taxation and social security | **1,941** | 981 |
| Client liabilities and progressive prize pools | **1,828** | 1,420 |
| Contingent remuneration | **3,805** | 172 |
| Amounts due to related parties | **783** | 232 |
| Accruals and deferred income | **3,656** | 1,989 |
| | **17,352** | 6,585 |
| **Non-current** | | |
| Contingent remuneration | **820** | 45 |
| Contingent consideration | **5,620** | — |
| Other payables | **332** | 55 |
| | **6,772** | 100 |

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value. The contingent remuneration has arisen as a result of the InfiApps acquisition in the prior year. The contingent consideration has arisen from the acquisition of certain trading assets of Tarco Limited on 31 August 2016 (refer to note 23).

# Notes forming part of the financial statements continued

for the year ended 31 August 2016

## 16 Cash and cash equivalent

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Cash at bank and in hand | **21,080** | 7,388 |

Cash held on behalf of players is held in a separate (unrestricted) bank account.

## 17 Loans and borrowings

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

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| **Unsecured borrowings** | | |
| Other current borrowings[(a)] | **—** | 1,083 |
| Current bank borrowings[(b)] | **8,000** | — |
| | **8,000** | 1,083 |
| **Unsecured borrowings** | | |
| Non-current bank borrowings[(b)] | **—** | 8,000 |

(a) The short-term interest-free borrowings at 31 August 2015 were due to the previous owners of the InfiApps Ltd business. These were paid in accordance with the terms of the sale and purchase agreement in November 2015.

(b) The full value of the borrowings as at 31 August 2016 is repayable in Sterling on 30 July 2017. The Group has the right to repay the whole or any part of the borrowings at any time before this date and consequently exercised this right post-year end following the refinancing agreed with Barclays (see note 25). The borrowings are incurring interest at 7.5% per annum, paid monthly in arrears.

## 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 2014** | — | — |
| Recognised in profit and loss | 110 | 25 |
| Arising on business combination | 121 | (2,158) |
| **At 31 August 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)** |

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.

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 |
|---|---|---|---|---|---|
| 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)** |

## 18 Deferred tax continued

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 |
|---|---|---|---|---|---|
| Share options | 110 | — | 110 | 110 | — |
| Other temporary and deductible differences | — | — | — | — | — |
| Business combinations | 121 | (2,133) | (2,012) | 25 | — |
| Net tax assets/(liabilities) | 231 | (2,133) | 1,902 | 135 | — |

## 19 Share capital

| | Authorised | | | |
|---|---|---|---|---|
| | **2016 Number** | **2016 £'000** | 2015 Number | 2015 £'000 |
| Total ordinary shares of 1p each | **250,000,000** | **2,500** | 250,000,000 | 2,500 |

| | Issued and fully paid | | | |
|---|---|---|---|---|
| | **2016 Number** | **2016 £'000** | 2015 Number | 2015 £'000 |
| **Ordinary shares of 1p each** | | | | |
| **At 1 September** | **50,151,315** | **502** | 31,201,955 | 312 |
| Issued on acquisition of business (note 23) | **3,219,499** | **33** | 10,464,512 | 105 |
| Issued on acquisition of intangible | **1,149,071** | **11** | — | — |
| Issued on capital raising | **12,000,000** | **120** | 8,484,848 | 85 |
| **At 31 August** | **66,519,885** | **666** | 50,151,315 | 502 |

During the year 12 million shares were issued on a capital raise with gross proceeds of £27.0 million. Additionally, 1,149,071 shares were issued relating to the acquisition of NextTec Software Inc, held as shares to be issued, for gross settlement of a liability of £2.5 million.

## 20 Leases

**Operating leases – lessee**

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

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Not later than one year | **624** | 227 |
| Later than one year and not later than five years | **1,371** | 309 |
| Later than five years | **10** | — |
| | **2,005** | 536 |

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

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Not later than one year | **77** | — |
| Later than one year and not later than five years | **52** | — |
| | **129** | — |

# Notes forming part of the financial statements continued

for the year ended 31 August 2016

## 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
- loans and borrowings.

Financial instruments by category

*Financial assets*

| | Available for sale | | Loans and receivables | |
|---|---|---|---|---|
| | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 |
| Available-for-sale investment | **810** | — | **—** | — |
| Cash and cash equivalent | **—** | — | **21,080** | 7,388 |
| Trade and other receivables | **—** | — | **8,718** | 3,433 |
| **At 31 August** | **810** | — | **29,798** | 10,821 |

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 2014 and 2015** | **—** |
| Gain in other comprehensive income | **810** |
| **At 31 August 2016** | **810** |

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 expected cash flows discounted using a rate of 35% based on the market interest rate and the risk premium specific to the investment.

*Financial liabilities*

| | Fair value through profit and loss | | Financial liabilities at amortised cost | |
|---|---|---|---|---|
| | **2016 £'000** | 2015 £'000 | **2016 £'000** | 2015 £'000 |
| Contingent remuneration | **—** | — | **4,625** | 217 |
| Contingent consideration | **5,620** | — | **—** | — |
| Trade and other payables | **—** | — | **11,938** | 5,487 |
| Loans and borrowings | **—** | — | **8,000** | 9,083 |
| **At 31 August** | **5,620** | — | **24,563** | 14,787 |

## 21 Financial instruments – risk management continued

**Principal financial instruments** continued

Financial instruments by category continued

*Financial liabilities* continued

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

| | Contingent consideration £'000 |
|---|---|
| **At 1 September 2014 and 2015** | — |
| New consideration arrangement – Tarco Assets (note 23) | **5,620** |
| **At 31 August 2016** | **5,620** |

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.

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 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)** |

| | At 31 August 2015 | | | | |
|---|---|---|---|---|---|
| | Sterling £'000 | US Dollar £'000 | Israeli Shekel £'000 | Other £'000 | Total £'000 |
| Financial assets | 8,594 | 581 | 1,337 | 309 | 10,821 |
| Financial liabilities | (12,369) | (828) | (1,259) | (331) | (14,787) |
| **Total net exposure** | (3,775) | (247) | 78 | (22) | (3,966) |

# Notes forming part of the financial statements continued

for the year ended 31 August 2016

## 21 Financial instruments – risk management continued

**General objectives, policies and processes** continued

Foreign exchange risk continued

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 a decrease in post-tax profit for the year and a decrease of net assets of £430,000. A 10% weakening in the exchange rate would, on the same basis, have increased post-tax profit and increased net assets by £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 £136,000. A 10% weakening in the exchange rate would, on the same basis, have increased post-tax profit and increased net assets by £111,000.

The foreign exchange exposure in the prior year was not material.

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 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) | — |

| | At 31 August 2015 | | | |
|---|---|---|---|---|
| | 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 | 3,982 | 1,450 | 172 | 100 |
| Loans and borrowings | 1,083 | — | 9,150 | — |
| **Total** | 5,065 | 1,450 | 9,322 | 100 |

## 22 Share-based payment

The Company established an equity-settled share option scheme in the year for 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.

## 22 Share-based payment continued

| | Weighted average exercise price (£) | Number '000 |
|---|---|---|
| Outstanding at 1 September 2014 | — | — |
| Granted during the year | 1.32 | 3,000 |
| Outstanding at 31 August 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** |

The weighted average exercise price of options outstanding at 31 August 2016 was £1.26 (2015: £1.32) and their weighted average contractual life was 3.14 years (2015: 3.00 years).

Of the total share options outstanding at 31 August 2016, 1,000,000 had vested (2015: Nil), 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 £1.85 (2015: £0.50).

Included in the outstanding number of options above are 1,601,000 (2015: 1,000,000) options issued to non-employees under the appropriate terms of the share option scheme.

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.

| | 2016 | 2015 |
|---|---|---|
| Option pricing model used | **Black-Scholes** | Black-Scholes |
| Weighted average share price at grant date (£) | **2.89** | 1.32 |
| Weighted average exercise price (£) | **1.18** | 1.32 |
| Weighted average contractual life (in years) | **3.34** | 3 |
| Weighted average expected volatility | **55.19%** | 55.77% |
| Expected dividend growth rate | **0.50%** | 0.50% |
| Weighted average risk-free interest rate | **0.81%** | 1.73% |

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.

The share-based remuneration expense comprises:

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Equity-settled schemes expense | **1,645** | 266 |
| National Insurance | **267** | 40 |
| Equity-settled schemes, including National Insurance | **1,912** | 306 |

## 23 Business combinations

**Current year acquisitions**

The current year acquisitions all completed on 31 August 2016. On completion the Group's market share and brand offering increased. These acquisitions have brought significant scale and a number of leading bingo brands to the Group's business, together with the 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.

# Notes forming part of the financial statements continued

for the year ended 31 August 2016

## 23 Business combinations continued

**Current year acquisitions** continued

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 provisional 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 | 1,800 |
| Trade and other payables | (1,878) |
| Brands | 2,702 |
| Developed software | 160 |
| Customer relationships | 3,865 |
| Deferred tax liability | (1,418) |
| **Total net assets** | 5,719 |
| **Fair value of consideration paid** | |
| Cash | 11,281 |
| Assumed debt | 1,220 |
| Working capital receivable in cash | (309) |
| **Total consideration** | 12,192 |
| **Goodwill (note 12)** | 6,473 |

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. Nothing has been recognised in the year as the acquisition completed on the last day of the financial year. The earn-out cannot exceed £18 million and is calculated as a multiple of adjusted EBITDA for the twelve-month period following completion, less the initial consideration. The first £3,000,000 will be payable by the issue and allotment of shares by reference to the placing price of £2.25 per share. Of the remaining balance, 40% will be payable in cash and 60% by the issue and allotment of further shares with the first £1,000,000 by reference to the placing price of £2.25 and the remainder based on the following pricing terms included within the share purchase agreement:

- average closing share price of the shares, in the 90-day period ending on the last day of the earn-out period ("Average Earn-out Share Price") save that the Average Earn-out Share Price shall not be higher than by 20% ("Upper Earn-out Limit") or lower than by 20% of the average closing price of the shares as derived in the 90-day period ending on 31 August 2016 ("Lower Earn-out Limit);
- where the Average Earn-out Share Price is higher than the Upper Earn-out Limit, the Upper Earn-out Limit shall be used to calculate the number of shares to be issued and allotted; and
- where the Average Earn-out Share Price is lower than the Lower Earn-out Limit, the Lower Earn-out Limit shall be used to calculate the number of shares to be issued and allotted.

Total acquisition costs amounted to £543,000 and these have been recognised in the profit or loss account. 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.

## 23 Business combinations continued

**Current year acquisitions** continued

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 provisional purchase price allocation has been completed on a combined basis. Both Tarco and Netboost Media constitute related parties due to their being common control.

Tarco is an online bingo operator with a 3% market share of the UK online bingo market and has over 63,000 active players. It has 22 B2C bingo brands and four B2B brands, including Moon Bingo and Robin Hood Bingo. The Tarco acquisition brings 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.

Details of the provisional 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 has been recorded as a liability at 31 August 2016 based on the fair value at acquisition date and will be unwound from this date until the consideration is paid. It was calculated based on the Group's expectation of what it will pay in accordance to the sale and purchase agreement. The earn-out targets are based on the EBITDA multiple of the annual results for the year ending 31 December 2017.

Total acquisition costs amounted to £302,000 and these have been recognised in the profit or loss account. 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.

# Notes forming part of the financial statements continued

for the year ended 31 August 2016

## 23 Business combinations continued

**Prior year acquisitions**

Acquisition of Table Top Entertainment ("TTE")

On 4 September 2014, Daub Alderney Limited acquired the trade and assets of TTE, a company incorporated in Alderney and whose principal activity is the operation of online casino and bingo gaming sites. The total consideration was £12,500,000, comprising £3,430,000 of initial consideration settled through the issue of 670,760 shares of £0.0001 each and further contingent consideration based on certain targets on first and second anniversary dates to a maximum of £9,070,000, also to be settled in shares.

The principal reason for this acquisition was to enhance the Group's brands and revenue volumes by acquiring established and leading brands with strong player bases. The Group also intends to use the expertise and the know-how acquired in the development of new product lines and operational efficiency. Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

| | Fair value £'000 |
|---|---|
| Client liabilities | (145) |
| Progressive prize pool | (784) |
| Other payables | (142) |
| Cash | 929 |
| Property, plant and equipment | 66 |
| Brands | 1,171 |
| Customer relationships | 5,521 |
| **Total net assets** | 6,616 |
| **Fair value of consideration paid** | |
| Initial consideration | 3,430 |
| Discount on initial consideration | (519) |
| Fair value of contingent consideration | 7,713 |
| **Total consideration** | 10,624 |
| **Goodwill (note 12)** | 4,008 |

The goodwill recognised on the acquisition of the business and assets of TTE, which is not deductible for tax purposes, relates to the presence of certain intangible assets, such as know-how and other operating synergies.

Discount on initial consideration – under the terms of the business purchase agreement, the Group is entitled to the net profits derived from the acquired business from 31 July 2014 until 4 September 2014 (legal completion date), which has been returned by way of cash proceeds. This amounted to £519,000 and has been deducted from the initial consideration. Acquisition-related costs have been borne by a related party and are immaterial.

The contingent consideration, which is to be settled in shares, was initially recorded as a liability based on the fair value at acquisition and was being unwound over the respective earn-out periods to the first and second anniversaries. However, on 18 May 2015 the terms of the existing earn-out were terminated and new arrangements were entered into such that, with effect from completion of the IPO, the earn-out, and hence liability, would be met by certain shareholders as opposed to shares being issued by the Company. The liability at the date of the variation, which included unwinding of the discount to the date of the variation of £742,000, totalled £8,455,000 and was transferred to a capital contribution reserve.

Acquisition of Spacebar Media Limited

On 1 February 2015, the Group acquired 100% of the voting equity instruments of Spacebar Media Limited ("Spacebar Media"). Spacebar Media is a UK company whose principal activities are the execution and management of marketing services together with development and maintenance of online gaming software.

The principal reason for this acquisition was to leverage the knowledge and experience of Spacebar Media, developed over a number of years in the software development arena and the marketing consultancy of online gaming brands, for the exclusive use of the Group.

## 23 Business combinations continued

**Prior year acquisitions** continued

Acquisition of InfiApps Ltd

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 | 65 |
| Trade and other receivables | 336 |
| Cash | 26 |
| Trade and other payables | (363) |
| **Total net liabilities** | 64 |
| Cash | 6,000 |
| **Goodwill (note 12)** | 5,936 |

The goodwill recognised in the acquisition of Spacebar Media, which is not deductible for tax purposes, includes certain intangible assets such as expertise and know-how, which do not qualify for separate recognition. Acquisition-related costs have been borne by a related party and are not material.

On 31 July 2015, the Group acquired 100% of the voting equity instruments of InfiApps Ltd ("InfiApps"), a company registered in Israel whose principal activity is the provision of internationally focused mobile social gaming services. The acquisition has provided the Group with an entry into the social gaming sector of online gaming, with users based internationally, in particular in the United States of America, Canada and Australia. By expanding into new verticals alongside the online bingo market the acquisition will combine the Group's bingo-led expertise with InfiApps' social gaming expertise, both of which are complementary offerings to each other, which provide potential for significant operational leverage on an international scale.

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 | 67 |
| Cash | 585 |
| Trade and other receivables | 1,105 |
| Deferred tax asset | 120 |
| Trade and other payables | (702) |
| Loans and borrowings | (848) |
| Brands | 1,094 |
| Developed software | 7,778 |
| Customer and contractual relationships | 2,404 |
| Deferred tax liability | (2,148) |
| **Total net assets** | 9,455 |
| **Fair value of consideration paid** | |
| Cash | 14,120 |
| Working capital payable in cash | 257 |
| **Total consideration** | 14,377 |
| **Goodwill (note 12)** | 4,922 |

# Notes forming part of the financial statements continued

for the year ended 31 August 2016

## 23 Business combinations continued

**Prior year acquisitions** continued

Acquisition of InfiApps Ltd continued

The purchase agreement also included a two-year earn-out payable to the sellers in two tranches as contingent consideration if they remain with the acquired company for a two-year period post-acquisition. This has been accounted for as remuneration rather than as part of the consideration paid to acquire InfiApps in accordance with international accounting standards. The Group has recognised £3,988,000 (2015: £217,000) in the profit or loss account. The first tranche of the earn-out consideration has been calculated based on InfiApps' performance in the financial year and in accordance with the terms and conditions of the purchase agreement. This was paid post-year end in November 2016. The second tranche of the earn-out, which is payable in November 2017, is calculated based on the Group's expectation of what it will pay in accordance with the earn-out agreement. The earn-out targets are based on the EBITDA multiple of the annual results of the acquired business. The fair value of the earn-out consideration is calculated by weighting the probability of achieving these targets and discounting to give an estimate of the final obligation. In accordance with the terms of the purchase agreement the total earn-out cannot exceed $18 million.

Total acquisition costs amounted to £1.89 million and these have been recognised in the profit or loss account.

The main factors leading to the recognition of goodwill which is not deductible for tax purposes was the presence of certain intangible assets, such as the assembled workforce of the acquired entity, as well as synergies gained, which do not qualify for separate recognition.

Acquisition of Baldo Line SRL

On 16 January 2015, the ultimate controlling party prior to the IPO contributed its 100% investment in the equity share capital of Baldo Line SRL ("Baldo") by way of a capital contribution to the Group. Baldo is a company incorporated under the laws of Italy and holds an online gambling licence from the Italian gambling commission. The contribution is outside of the scope of IFRS 3 *Business Combinations* on the basis that this is a common control transaction. The asset and liabilities have therefore been transferred at book value and capital contribution of £318,000 based on net asset value has been recorded:

| | Book value on date of capital contribution £'000 |
|---|---|
| Intangible assets | 331 |
| Other receivables | 165 |
| Trade and other payables | (178) |
| **Total net assets** | 318 |

## 24 Related party transactions

The Group received payment processing services from a company related by common significant shareholders. Fees charged during the year totalled £538,000 (2015: £662,000). The Group also incurred a fee of £300,000 following the termination of the business relationship between the parties on 1 May 2016. The amount due to the payment processing provider by the Group at 31 August 2016 is £228,000 (2015: receivable of £1,211,000). No impairment has been recognised in respect of this amount (2015: £Nil).

The following transactions were undertaken with the ultimate controlling party in the current and prior year:

- the acquisitions of the Tarco Assets and Netboost Media constituted a related party transaction due to the acquired businesses being under common control (see note 23);
- the ultimate controlling party prior to the IPO (IPO completed on 19 May 2015) held cash of £3,041,000 on behalf of the Group. No provision has been recognised in respect of this amount and no amounts were written off during the period. This balance was cleared by way of a dividend prior to the IPO;
- contribution of its 100% investment in the equity share capital of Baldo by way of a capital contribution to the Group in the prior year. The asset and liabilities have therefore been transferred at book value and a capital contribution of £318,000 based on net asset value has been recorded. A total of £170,000 was due to the ultimate controlling party at 31 August 2016 and 31 August 2015;
- acquisition of the IP rights of its designated software used in the business of Daub Alderney Limited for £875,000 in the prior year;
- contribution of an investment in the equity share capital of QSB Gaming Limited in the prior year. Finance income of £25,000 was received from QSB Gaming Limited in the year (2015: £Nil); and
- on 1 February 2015 the Group acquired 100% of the voting equity instruments of Spacebar Media (refer to note 23). The total consideration of £6,000,000 was contributed to the Group in cash by the ultimate controlling party by way of a capital contribution to enable the acquisition to be made.

The Group entered into related party transactions with certain other companies under control of shareholders for the provision of software platform, marketing and other back office services. The total purchases in the year ended 31 August 2016 were £3,572,000 (2015: £1,538,000). Total amounts due by the Group at 31 August 2016 were £383,000 (2015: £62,000).

## 24 Related party transactions continued

In the prior year the Group entered into the following transactions:

- received execution and management of marketing and software development services from Spacebar Media (which was subsequently acquired by the Group on 1 February 2015 for £6,000,000 – see note 23), a company related by common control. Purchases of services in the period prior to acquisition, from 1 September 2014 to 31 January 2015, were £1,000,000;
- on 1 February 2015 the Group acquired certain assets from a company related by common control for £46,000;
- on 30 July 2015 the Group entered into a loan agreement with a shareholder for a total amount of £8,000,000. The amount is due for full repayment in July 2017 and is incurring interest of 7.5% per annum paid monthly in arrears. The full amount of £8,000,000 plus one month of accrued interest at £51,000 was outstanding at 31 August 2016 and 31 August 2015. The Group has the right to repay the whole or any part of the borrowings at any time before this date and consequently exercised this right post-year end following the refinancing agreed with Barclays (see note 25); and
- as at 31 August 2015 a total of £1,083,000 of short-term interest-free borrowings were due to the previous owners of the InfiApps business. These borrowings, which were unsecured, were repaid in October 2015.

## 25 Events after the reporting date

Post-year end, on the second anniversary of the acquisition of software and related programs from NextTec Software Inc (refer to note 12), the second part of the contingent consideration was repaid by the issue of 846,701 shares represented by the shares to be issued reserve of £1.7 million. This represents the final payment as the maximum consideration has been reached.

In November 2016 the Group entered into an £8.0 million loan facility with Barclays PLC. This committed facility, which will refinance the existing borrowings, matures four years from the date of the initial drawdown and will incur a 3.6% plus LIBOR annual floating interest rate payable quarterly, with the principal sum outstanding also paid on a quarterly basis over the term of the facility.

In November 2016, the first year earn-out of $5.0 million was paid in cash to the previous owners of InfiApps (refer to note 23).

## 26 Non-cash movements in cash flow statement

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

- from the total consideration payable to acquire the Tarco Assets and the share capital of Netboost Media, £8,274,000 was in the form of issuing shares; and
- from the total initial consideration payable to acquire the entire share capital of 8Ball Games, £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**
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## Company number
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## Auditor
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## Financial advisor, nominated advisor and joint broker
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## Joint broker
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