

**Stride Gaming plc**  
**("Stride Gaming" or the "Company" or the "Group")**

**Audited Results for the year ended 31 August 2018**

**Continued revenue growth, in line with expectations**

Stride Gaming plc (AIM: STR), a leading online gaming operator, announces its audited results for the year ended 31 August 2018.

**Key Financials**

	<b>Audited Year Ended 31 Aug 18 £'000</b>	<b>Audited Year Ended 31 Aug 17 £'000</b>	<b>Change %</b>
<b>Net Gaming Revenue ^</b>	88,968	81,815	8.7%
<b>Adjusted EBITDA*</b>	16,097	19,670	(18.2%)
<b>Adjusted net earnings*</b>	14,684	18,268	(19.6%)
<b>Loss after tax and discontinued operations</b>	(5,027)	(25,623)	-
<b>Adjusted basic earnings per share (in pence) *</b>	20.0	27.1	(26.2%)
<b>Basic loss per share (in pence)</b>	(6.9)	(38.1)	-
<b>Proposed final dividend per share (in pence)</b>	1.7	1.5	13.3%

**Financial highlights:**

- Solid performance in Real Money Gaming, driving an 8.7% increase in Group NGR
- Like-for-like Adjusted EBITDA\*, normalising the impact of changes in the UK point of consumption tax ("POCT") introduced on free bets in August 2017, increased by 1.5%
- Strong balance sheet with net cash of £26.6 million (FY 2017: £23.7 million) and a high cash conversion
- A proposed final dividend of 1.7 pence per share, taking the total dividend for the full year to 3.0 pence per share (FY 2017: 2.7 pence per share), covered 6.5x by Adjusted net earnings
- The Board intends to return the anticipated £6m contingent consideration proceeds from the sale of QSB Gaming Limited ("QSB") by way of a special dividend of 8.0 pence per share in the spring or early summer of 2019
- In light of the Group's strong, cash generative nature, the Board intends to adopt a policy for the financial year ended 31 August 2019 and subsequent years of distributing at least 50% of Adjusted net earnings to shareholders by way of dividends. The total dividend for the year is expected to be paid in broadly equal proportions, with one half of the total dividend being paid as an interim dividend

**Operational highlights:**

- Strong performance of the Group's proprietary platform, resulting in an increase of 23.8% in Real Money Gaming NGR to £60.5 million (FY 2017: £48.9 million). This is in line with the Group's strategy to focus players onto the higher margin, in-house platform
- Solid organic growth in UK Real Money Gaming:
  - Deposits up 6.8% to £157 million (FY 2017: £147 million)
  - Yield per player\*\* down 2% to £144 (FY 2017: £147)
  - Funded players\*\*\* down 6.1% to 137,000 (FY 2017: 146,000) resulting from the Group's strategy to focus on the lifetime value of players and reduce the number of players associated with free bets
  - Group gross gaming revenue^^ ("GGR") through mobile and touch devices increased by 5% and now represents 69% (FY 2017 66%) of the total Real Money Gaming GGR
- Final conclusion of investigation by the UK Gambling Commission ("UKGC") resulting in a £7.1 million fine
- Stride Together, the Group's B2B offering, has seen significant traction during the year and is performing satisfactorily ahead of management's initial expectations
- Disposed of minority interest in Spanish operator QSB Gaming for initial cash consideration of £4.4 million (FY 2017: Nil) and expected additional £6.0 million as contingent consideration receivable

**Eitan Boyd, CEO of Stride Gaming, said:**

“Against a very challenging trading environment, we are pleased to report very satisfactory 8.7% growth in Net Gaming Revenues (“NGR”) and an Adjusted EBITDA of £16.1 million. This was achieved after absorbing £3.9m of additional fiscal and regulatory costs, and further demonstrates the strength of our experienced and dedicated team, scale, proprietary technology and unique in-house ecosystem.

“We have started the new financial year in a strong cash position with net cash of £26.6 million. We recently concluded lengthy discussions with the UKGC, not least so we can singularly concentrate on optimising the undoubted opportunities for us in the UK Market, a market which, while challenging, remains the largest single regulated gaming market in the world.

“Since the start of the current financial year, trading has been satisfactory and in line with our expectations after having absorbed further fiscal and regulatory costs to reflect the changed trading environment our industry is required to operate within. We have and will continue to adjust and right-size our cost base to mitigate these pressures.

“Looking further ahead, the Board is confident in the quality, flexibility, efficiency and robustness of the Group’s operating model and ability to continue to grow in both relative and absolute terms despite the trading environment. The Board believe the Group will continue to be highly cash generative and against that backdrop, have announced our intention is to propose a 8p special dividend in the Spring or early Summer 2019 to return to shareholders the expected proceeds of the QSB sale on top of a materially enhanced regular dividend policy for current and future financial years of paying out 50% of our adjusted net earnings.”

^ NGR includes the Group’s share in Asper’s revenue and was adjusted only to demonstrate the effect if it was consolidated on a 50% basis. This adjustment increased revenue by £3.5 million without an effect on the Adjusted EBITDA results.

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

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

\*\*\*Funded player means an active player who has made a deposit with their own funds within the last three months of the Period.

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

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#### **About Stride Gaming:**

Stride Gaming plc, listed on AIM, is a leading online gaming operator. The Company operates a multi-branded strategy, using a combination of its proprietary and licensed software to provide an online gaming offering.

Stride Gaming’s real money offering is presently focused on the UK market, where it is licensed and only operates from the regulated jurisdictions of the UK and Alderney. With a diverse portfolio of over 150 brands, Stride Gaming is the third largest online bingo operator in the UK and has over 25% share of the UK online bingo landscape.

Stride Gaming operates a partnership platform, Stride Together, through which the company licenses its proprietary platform to gaming operators, media partners and retailers in the UK and globally, enabling them to create an online presence for their customers and enabling Stride to penetrate new verticals both within UK markets and overseas territories.

Further information on the Group is available at: [www.stridegaming.com](http://www.stridegaming.com).

## CHAIRMAN'S STATEMENT

On behalf of the Board I am pleased to update our shareholders on a year which has seen the Group deliver further growth in Net Gaming Revenues ("NGR") and like-for-like an Adjusted EBITDA increase of 1.5% despite regulatory and fiscal-driven market disruption and consequential challenging trading conditions in the Group's core UK market. Against this backdrop, the Group's positive trading result is testament to the Group's scale, its strong proprietary technology, its in-house ecosystem and sophisticated business analytics capabilities, delivered by an experienced and dedicated management team.

### Results and performance

The Group has delivered a resilient set of financial results with NGR up 8.7% to £89.0 million (2017: £81.8 million) and has successfully managed and largely mitigated the increased tax burden from the implementation of the additional point of consumption tax ("POCT") introduced on 1 August 2017 as applied to free bets, which had a negative £3.9 million impact on EBITDA. The Group has also navigated through other external challenges during the year, such as the introduction of GDPR and tighter regulatory controls across the UK gambling industry. Adjusted EBITDA for the year was £16.1 million (2017: £19.7 million). After normalising the POCT impact, like-for-like adjusted EBITDA was marginally up on the previous year.

### Market overview: size, taxation and regulation

The global online gambling industry remains an attractive, dynamic and fast-growing industry and the UK is still the largest single gambling market globally. The UK, where Stride derives 96% of its annual revenues, was estimated to be worth €7.3 billion of gross win in 2018, with the bingo and casino sectors of the market estimated to be worth €3.7 billion (H2 Gambling Capital, August 2018).

In the four years since its Admission to AIM in 2015, Stride has performed well, increasing its Real Money Gaming funded players from 52,000 in 2015 to 137,000 in 2018 and increasing its Adjusted EBITDA pre POCT from £9.8m in 2015 to £32.1m in 2018.

Despite this growth, however, the fiscal environment in which UK-facing online gaming businesses operate has become increasingly expensive and this has had a significant effect on absolute profit and profit margin.

	2015	2016	2017	2018
<b>NGR</b>	26,695	34,974	81,815	85,484
<b>ADJUSTED EBITDA PRE POCT</b>	9,797	13,600	31,291	32,113
<b>ADJUSTED EBITDA PRE POCT AS A % OF NGR</b>	37%	39%	38%	38%
<b>ADJUSTED EBITDA POST POCT</b>	7,044	8,213	19,670	16,097
<b>ADJUSTED EBITDA POST POCT AS A % OF NGR</b>	26%	23%	24%	19%

The industry's fiscal burden is set to change further still from April 2019 with a further 40% increase in Remote Gaming Duty ("RGD") from 15% to 21% of NGR (plus the value of the first time use of free plays). This material change reduces the gross and therefore net profit derived from UK facing gambling operations by a further 6%.

In addition to the increased fiscal burden, operators today face far greater regulatory scrutiny in the UK gambling market than ever before with tighter regulatory controls being applied over areas such as frequency of play, customer and age verification, affordability and anti-money laundering. Whilst these tighter controls are welcomed by the Group, the Board recognises that their practical impact is to discourage some players from participating in gambling, as it becomes increasingly administratively cumbersome for them to do so. Responsible operators, such as Stride, are successfully adapting their social responsibility tools, processes and culture to comply with these tighter regulations and are consequently well placed to deliver long-term success in what is still a substantial and growing UK market. In the short-term however, the tighter controls will inevitably lead to a reduction in the number of active UK players for many operators.

The combined effect of higher taxes and tighter constraints on customer activity, together with the introduction of greatly enhanced data protection laws are having a disruptive effect on the UK gambling market which the Board believes will change the competitive dynamics of the UK-facing industry. The UK gambling market is a more difficult place in which to do business today than it was a few years ago and it is more difficult to generate increasing returns from. These changing times, however, are likely to create significant opportunities for "fit for purpose" operators like Stride to take advantage of.

The Board believes that the fiscal and regulatory burden (post the increase in POCT to 21%) is such that there will be increasing financial pressure on operators that lack scale (and thus cannot accommodate the increased financial

burden), as well as on those operators who have a high proportion of “VIP” customers (who are more likely to reduce activity following tighter regulatory controls) or are dependent on undifferentiated, third-party technology platforms (and are less agile). The Board believes that it is highly likely that consolidation and corporate activity will increase as a result.

As an established player of scale, with its own proprietary platform, its own in-house ecosystem, its low cost and efficient infrastructure and with multiple operational levers available to take advantage in this changing market and accelerate growth, the Board is confident that the Group is well positioned to capitalise on the above market disruption and take advantage of the opportunities that it will undoubtedly present.

It is for these very reasons that Stride, over the past two years, has and continues to make substantial investment in its proprietary software platform and development team to ensure that the Group is well positioned to take advantage of such opportunities and thrive in what is now a more complex and compliance orientated UK market. The Board is confident that this investment will help the Group to grow market share over the medium term and to mitigate the increased fiscal and regulatory burdens it now has.

### **Strategic progress**

The Group has a clear growth strategy that is primarily focused on profitably growing its core UK Real Money Gaming business by leveraging its high-margin proprietary platform and retaining a clear focus on mass market, recreational bingo and casino customers.

During the year, NGR from the Group’s proprietary Real Money Gaming business increased by 23.8% demonstrating the strength of the Group’s core platform as well as the performances of the successfully integrated 8ball and Tarco brands that were acquired during 2016. The Board will target investment and focus in its proprietary platform over the next few years.

In addition to growing the core UK business, the Group is continuing to explore opportunities to leverage its technology platform and industry expertise to achieve growth in related areas. One successful example of this is Stride Together, the Group’s B2B division, which performed well during the Period through its Aspers Casino partnership. This success underpins the Board’s confidence in the Group’s potential to add additional B2B partnerships across other jurisdictions.

### **Responsibility**

Stride takes its role as a responsible operator seriously and only operates in markets where it is legal to do so. The Group is committed to providing a safe, responsible and secure environment for its customers and has continued to invest in its responsible gaming processes.

On 13 November 2018, post the Period end, the Group announced that Daub Alderney Limited (“Daub”), a subsidiary of the Company, had been fined £7.1m by the Gambling Commission of Great Britain (“UKGC”) for failings in its anti-money laundering and social responsibility procedures. After careful consideration, the Group concluded that whilst it believes the UKGC fine to be excessive and disproportionate, it was not in the interests of the Group’s stakeholders to appeal the UKGC’s finding or penalty. We are of the view that both the industry and its regulator must be as one in its combined attempt to better regulate the industry and accordingly, we will be seeking to engage with the UKGC to improve the robustness of the process that we have recently been through.

The Board is fully committed to ensuring the robustness of relevant procedures in the Group’s licensed subsidiaries to ensure compliance with licensing obligations. The controls framework required to meet its licence conditions and codes of practice have been assessed by Daub and the Group to be effective, via a comprehensive evaluation of that framework, supported by an independent review carried out by Deloitte LLP. In order to provide further assurance of the robustness of Daub’s existing and ongoing controls and to ensure that Daub is protecting vulnerable players, Daub has commissioned Deloitte LLP to carry out biennial control audits in order to independently assess the operational effectiveness of those controls

### **Dividend and policy**

In line with the Group’s progressive dividend policy, the Board is pleased to recommend a final dividend of 1.7 pence per share (2017: 1.5p) for the financial year. This final dividend, together with the interim dividend of 1.3 pence per share, brings the total dividend for the year ended 31 August 2018 to 3.0 pence per share (2017: 2.7 pence).

In addition, the Board intends to distribute to shareholders by way of a special dividend, the earn-out received relating to the QSB Gaming transaction, which is expected to be in excess of £6.0m. This equates to approximately 8.0p per share and is expected to be paid in spring or early summer 2019.

Both are subject to the approval of shareholders at the Company’s Annual General Meeting to be held on 6 February 2019.

In light of the Group’s strong, cash generative nature the Board intends to adopt a policy for the financial year ended 31 August 2019 and subsequent years of distributing at least 50% of Adjusted net earnings in dividends. The total dividend for the year is expected to be paid in broadly equal proportions, with one half of the total dividend being paid as an interim dividend.

### **Current trading and outlook**

I am pleased that despite challenging fiscal and regulatory conditions we have been able to grow the Group's core proprietary platform business by 23.8% during the year. This success is testament to Stride's business model and proprietary technology which allows the Group to be nimble and react quickly to changing market conditions.

The new financial year has begun in line with expectations, and the Board is confident in Stride's ability to manage the ongoing market pressures and leverage its unique infrastructure to capitalise on the significant growth opportunities. As a result, the Board believes the Group will continue to be highly cash generative and consequently the dividend policy has been updated to ensure that surplus cash is returned to shareholders.

### **Team**

On behalf of the Board, I would like to take this opportunity to thank the entire Stride Gaming team for their hard work and commitment during a year in which the Group has made significant operational changes and progress. The Group's development and growth would not have been possible without the skill, talent and commitment of the people throughout the Company.

## CHIEF EXECUTIVE'S STATEMENT

Stride Gaming has continued to make progress against its growth strategy during the year in what has been a challenging market. The Group delivered good top line growth, investing in our product offering and further strengthening compliance. Underpinning the Group's progress are its core strengths including a scaled operation, first-class proprietary technology platform, in-house marketing and business intelligence expertise, and an experienced team. These attributes, combined with a resolute focus on operational efficiencies, have supported Stride Gaming's growth during the last financial year.

### **Long term growth strategy: Be a winner in a disruptive market**

The Group's strategy for long term growth is focused on delivering profitable growth in its core UK Real Money Gaming business, primarily aimed at the extensive recreational gaming market. As the market dynamics shift, leading other operators to move away from the UK, or ceasing to compete, we see increased opportunities for us to take market share. The second pillar of the Group's strategy is to identify new growth opportunities where we can leverage our technology platform and industry expertise to achieve growth in related areas of the online gaming market. Underpinning both strategic pillars is a commitment to continuing to invest in and develop our people, proprietary technology and robust standards of responsibility and compliance.

### **Focus on the core: UK Real Money Gaming**

The increased fiscal and compliance pressures on UK operators that are outlined in the Chairman's section of the Annual Report are shifting the dynamics of the industry. Notably, changes to bonus taxation means that operators must be smarter in their customer acquisition and retention strategies and stricter responsible gaming and source of funds requirements mean that higher value players are both scarcer and come with more inherent risk to operators. Against this backdrop, operators that are not agile and able to refine their approach to efficiently acquire customers, and who are not investing in providing a quality experience to keep those customers engaged, will face significant challenges.

In a year of major transition in the UK market, the benefits of owning and developing our own proprietary platform have never been stronger. We continue to improve our compliance and customer protection to adapt to the demands of the new market environment, adjust to new GDPR requirements, and successfully refine our market focus to reflect the new economic realities of the UK market. Despite these operational challenges, we have been able to drive robust growth in NGR of 8.7% which is again testament to the strength of our platform and team. In line with our strategic focus, this growth has been driven primarily by NGR generated on our higher margin proprietary platform, which was up by 23.8% to £60.5 million and accounted for 68.0% of Group NGR (2017: 59.7%).

### **Refining our focus on the mass-market**

During the year we have been successfully refining our customer acquisition focus towards more recreational, "mass market" players, thereby reducing exposure to "high-roller" customers, as well as unprofitable "bonus hunters". The Group's ability to effectively refine its customer strategy is supported by owning its own technology platform and in-house marketing capabilities. These attributes enable the Group to quickly develop its marketing strategies, test their effectiveness and refine investments accordingly to continually optimise the cost per acquisition of its customers. This transition resulted in the number of funded players decreasing by 6.1% from last year, but keeping yield per player consistent, reflecting the effectiveness of our marketing and customer acquisition strategy, as well as our CRM capabilities.

### **A more focused multi-brand model**

A key strength of the Stride Gaming business model is our multi-brand approach. This enables the Group to leverage its analytics-driven CRM capabilities and cross-sell customers between our brands to keep them engaged in the Stride Gaming "ecosystem" for longer.

Stride's brand portfolio at the year-end comprised over 150 websites, of which 14 were operating on the Group's proprietary platform. The Group operates a pyramid structure to its brands, with the top tier of 4 brands (all of which on the proprietary platform) representing 39% of Group Deposits. The majority of the Group's marketing, product development, business analytics and customer retention initiatives are focused on the top tier of brands.

To adapt to the above-mentioned market dynamics and reflect our focus on a more recreational customer base, we are refining our multi-brand approach to focus marketing investment on a smaller number of our most successful brands. We believe that the prime brands which already have strong customer appeal have significant further potential for Stride and we intend to focus our investment behind these brands in the year ahead, resulting in a more focused multi-brand approach and further optimising our marketing investment and cost base.

### **Product enhancement**

We are continually investing in and developing our products, functionalities and player experience to ensure that our sites offer a highly engaging experience for customers. This spans everything from developing new content, optimising players' journeys and introducing further tools to enhance engagement levels and using player behaviour analytics, together with product development to increase monetisation of our customer base.

Mobile and touch devices remain a key growth driver for the Group and Gross Gaming Revenue (“GGR”) from those devices increased by 5% during Period, to represent 69% of total Real Money Gaming GGR (2017: 66%)

### **Synergies and efficiencies**

The Group has a resolute focus on driving efficiencies across all areas of its business.

We continue to drive synergies from the 8Ball and Tarco assets acquired in August 2016. At the time of the acquisitions, the Group stated that it planned to deliver £2.5 million of cost synergies once the earn-out period of the acquired businesses was complete. To help deliver the planned cost benefits, post period end the Group began the process to close 8Ball’s Manchester operations. I would like to take this opportunity to thank our team in Manchester for all their hard work and contribution to the success of the company and their full commitment through this process. The Group will focus on delivering continued efficiencies and further operational synergies, leveraging our strong back-office team in Mauritius, going forward.

### **New areas for growth**

The second pillar of Stride’s growth strategy is to leverage our platform, people and expertise to deliver growth opportunities in related areas of the online gaming industry.

Stride’s B2B partnership division, Stride Together, continued to perform well through its first partnership with Aspers Casino, which went live during the year. The site has performed ahead of management’s initial expectations during the Period and is already one of our leading brands by NGR operated by Stride. This gives the Board considerable confidence in the potential for Stride Together and we are appraising and pursuing other partnership opportunities in the UK and internationally.

The Group believes there are significant growth opportunities to be explored in new markets over the medium to long-term and is currently in the process of applying for licences in markets where we see the most significant potential. Following the changes imposed on advertising in the Italian market, the Group made a strategic decision not to enter this market in 2018 and to prioritise investment in the core UK market. Stride is currently actively engaged in acquiring operating licences in three European countries (Spain, Denmark and Sweden) to provide the option of launching either B2C or B2B products in the future.

In December 2017, the Group invested in acquiring a 51% strategic controlling investment in Passion Gaming, a rummy-focused online gaming company operating across India, for £2.48 million. This business continues to perform in line with the Board’s expectations, including the transition of software ownership, investment in the team and optimisation of marketing channels.

As highlighted at the Half-Year Results, the Board took the decision to commence the sale of the Social Gaming business, Infiapps, as a result of the shifting trends in the social gaming market.

### **Investment in technology and first-class team**

Our performance and growth strategy are underpinned by the strength of our technology and highly skilled team. During the year, we invested in our platform and in the development of our team, with an increased focus on our compliance resources. I would like to take this opportunity to thank all our team for their continual hard work and dedication through this year of change, and I firmly believe we are in a stronger position today to leverage our core strengths and grow further.

## CHIEF FINANCIAL OFFICER'S REVIEW

Stride Gaming delivered solid organic growth during FY 2018. The Group delivered encouraging NGR growth of 8.7% to £89.0 million<sup>^</sup> (FY 2017: £81.8 million) against an evolving and challenging UK market. This growth rate was achieved as a result of the strength of our in-house proprietary platform together with the integration of 8Ball, Netboost Media and Tarco into the Group post the completion of the acquisition earn-out periods.

Adjusted EBITDA decreased by 18.2% to £16.1 million (FY 2017: £19.7 million) and adjusted EBITDA margins declined by 5% to 19% (FY 2017: 24%) primarily as a result of the new gaming duty on free bets ("POCT") introduced in August 2017. On a like for like basis adjusting for the effect of POCT, underlying adjusted EBITDA increased by 1.5% and margins were unchanged from the previous year.

### Revenue

Net Gaming Revenue was up 8.7% to £89.0 million<sup>^</sup> with revenue generated on the in-house proprietary platform up 23.8% to £60.5 million<sup>^</sup> (FY 2017: £48.9 million). Revenue from third-party non-proprietary platforms was down 13.5% to £28.5 million (FY 2017: £33.0 million) which is in line with the Group's strategy of prioritising investment into the proprietary platform.

Total deposits in the Real Money Gaming vertical were up 6.8% to £157 million (FY 2017: £147 million), demonstrating the Group's strong appeal in the bingo and casino markets, driven by Stride's multi-brand customer acquisition strategy.

Funded players reduced by 6.1% to 137,000 (FY 2017: 146,000) however yield per player remained consistent at £144 (FY 2017: £147) as the Group increased its focus on the lifetime value of players and moved away from those players associated with free betting activity.

Mobile and touch devices revenue increased by 5% compared to the prior year and accounted for 69% (FY 2017: 66%) of total Group Real Money Gaming GGR.

In December 2017 the Group acquired a 51% controlling stake in Passion Gaming, an Indian rummy focused online gaming business. Passion Gaming is performing in line with the Group's expectations and we are encouraged by the potential opportunities in the Indian market. The revenue contribution from this business so far is immaterial and has not been presented separately in the results.

### Cost of sales

Cost of sales totalled £16.0 million (FY 2017: £11.6 million) with the year on year increase resulting from the new POCT rules which became effective for reporting periods commencing on, or after 1 August 2017. The changes introduced mean that UK licence holders also pay tax on the value of all first-time free plays. This increase impacted eleven months of the current reporting period by £3.8 million. If the new tax was applied to the prior Period's results, cost of sales would have increased by £3.7 million.

### Distribution costs

Distribution costs of £35.8 million (FY 2017: £34.2 million) which include licencing, processing, royalties (third-party games and platforms) and acquisition and retention marketing, remained unchanged at 41.9% (FY 2017: 41.9%) as a proportion of Group NGR.

The Group's primary focus is to drive revenue from its proprietary platform as the sites hosted on Stride's platform pay lower software and gaming royalties because there is a higher percentage of in-house developed games and lower associated costs. Meaningful cost savings are achieved when a customer migrates from a third-party site onto Stride's proprietary platform, principally due to the strength of the Group's marketing, CRM and analytical capabilities.

During the Period, the Group invested in acquisition and retention marketing to support the proprietary brands. Total marketing expenses reached £22.3 million (FY 2017: £20.7 million), which represents 26% of NGR (FY 2017: 25%), an increase of 8%, to support the growth of our higher-margin, proprietary brands.

### Administration costs

Administration costs totalling £18.0 million (FY 2017: £16.2) represented 21% of NGR (FY 2017: 20%). This slight increase comes as the Group continued to invest in its people, software development, business intelligence, compliance and products to position the Group for future growth in the challenging UK market.

Capitalised development costs totalled £1.4 million (FY 2017: £0.8 million) over the Period and amortisation of capitalised development costs was £1.0 million (FY 2017: £0.3 million).

### Amortisation of Intangible assets

During the period the useful economic lives of certain intangibles were re-assessed by considering the future expected performance of these assets and subsequently adjusted from a total of 5 - 10 years down to a total of 3 - 4 years. This created an accelerated amortisation charge of £3.7 million in the period, of which £2.9 million related to the software transferred to assets held for sale.

### Exceptional items



In August 2018, a subsidiary of the Company (the "Licensee") received notice from the Gambling Commission of Great Britain (the "UKGC") of its intention to require the Licensee to pay a financial penalty following a review of the manner in which the Licensee has historically carried on its licensed activities. On 13 November 2018, the UKGC regulatory panel concluded to impose a fine of £7.1 million for procedural failings. After careful consideration, the Board has concluded that it is not in the best interests of the Group's stakeholders to appeal the UKGC's finding or penalty. The Group has made a full provision for the penalty charge.

### **Profit on disposal of QSB investment**

The Group held a 24.2% investment in QSB Gaming Limited ("QSB"), an operator of online casino and bingo gaming sites in the Spanish market. The Group recorded its asset as an available-for-sale investment in the books as there was no representation on the board and a lack of significant influence over the investee. In May 2018 QSB was sold to the Rank Group. The terms of the sale agreement include an initial consideration of €21 million and a contingent consideration based on a multiple of EBITDA for the year ending 31 December 2018 up to €52 million, for which the Group is entitled to its share of £24.2%. In May 2018 the Group received £4.4m in respect of the initial payment and expects to receive an additional £6.0 million in respect of the contingent consideration which reflects the best estimate of the fair value. As a result, a profit on disposal was recognised in the consolidated statement of profit or loss in the value of £10.4 million (FY 2017: Nil). The group expects to receive the remaining proceeds by June 2019.

### **Impairment of intangible assets**

An impairment review was undertaken in respect of the non-proprietary cash generating unit ("CGU") to determine if the carrying value of assets was supported by the net present value of future cash flows expected to be derived from those assets. As a result of the review and due to the significant changes to remote gaming duties, effective from April 2019, the Board approved an impairment of £9.8 million (FY 2017: £Nil) charged against the goodwill and acquired intangibles reflecting the more challenging tax environment for the gambling industry in the UK.

### **Assets held for sale and discontinued operations**

On 28 February 2018, the Board decided to reclassify InfiApps, the Group's Social Gaming vertical, as an asset held for sale in light of the changing trends and dynamics in the social gaming market. The assets and liabilities relating to this vertical have been presented separately in the consolidated statement of financial position and are presented as discontinued operations in the Group's consolidated statement of comprehensive income. The comparatives in the latter statement have also been restated to show the discontinued operations separately from the continuing operations.

The loss after tax from the discontinued operations for the period was £4.4 million (FY 2017: loss of £10.3 million) in which £2.8 million (FY 2017: £10.0 million) related to an impairment of the value of the intangible assets in order to reflect its recoverable amount through a sale less selling costs. Management is committed to selling the social gaming operation and believe its current value represents a fair market value.

### **Earnout settlements**

During the period the 8Ball earnout consideration of £13,092,000 was settled, with £9,055,200 satisfied by the issue of 4,117,482 new ordinary shares of 0.01p each and the remainder of £4,036,800 paid in cash. The second of a two-part annual earn-out payable to the sellers of InfiApps Limited of £932,000 was also settled.

In addition, in April 2018 the final earn-out consideration of £17,352,217 for Tarco was settled comprising the issue of 3,168,076 new ordinary shares to satisfy £7,753,238, and £9,598,979 paid in cash. As a result of the difference between the share price of the day of issuance of the share and the value at which the shares were issued in accordance with the agreement, the group recognised a gain of £0.8 million. The performance of the 8ball and Tarco businesses to date demonstrates the Group's ability to acquire and integrate quality businesses that complement or enhance our existing offering, in line with our growth strategy.

### **Finance expenses and Tax**

Finance expenses for the Period totalled £0.6 million (FY 2017: £1.5 million) and principally relates to the unwinding of the discount on the contingent consideration that arose on the Tarco acquisition of £0.3 million (FY 2017: £1.0 million). The tax expense in the Period was £0.5 million (FY 2017: credit of £0.2 million).

### **Cash flow and Balance Sheet**

Stride Gaming continues to be highly cash generative, with a high cash conversion from Adjusted EBITDA. The Group has delivered another year of solid operating performance with net cash flow from operating activities (after adjusting for the cash element of the earnouts in both financial years which are currently included in the movement of trade and other payables) of £14.5 million (FY 2017: £16.8 million). Significant cash outflows related to the 8ball and Tarco earn-out payments of £9.2 million (FY 2017: Nil), payment of dividends of £2 million for the 2017 financial year (FY 2017: £1.7 million) and a bank capital loan repayment of £2 million (FY 2017: £1.5 million). In addition, the Group received £4.4 million (FY 2017: Nil) as initial payment for the sale of its available for sale investment.

Stride Gaming has a solid balance sheet with cash and cash equivalents of £29.2 million (31 August 2017: £26.2 million), which includes customer liabilities of £2.7 million (31 August 2017: £2.5 million).

As at 31 August 2018, the outstanding bank borrowings of £4.4 million (2017: £6.4 million) were presented in short-term liabilities due to the Group's breach of its banking facility condition as a result of the UKGC fine. Post year end and after discussions with the bank representatives, a waiver of breaching the facility conditions has been received.

### Adjusted net earnings, EPS and future performance measure

Basic loss per share was (6.9) pence (FY 2017: basic loss per share of 38.1 pence). Adjusted basic earnings per share was down 26% to 20.0 pence (FY 2017: 27.1 pence) primarily as a result of the decline in Adjusted net earnings together with an increase of 5.9 million shares in the weighted average number of shares at each reporting Period, following the settlement of the Tarco and 8ball contingent earnouts partly through the issue of shares.

The Board believes that adjusted basic earnings per share (excluding exceptional items such as impairment, contingent remuneration and consideration, acquisition costs, impairments, provision for regulatory matters, amortisation of intangible assets excluding those arising from internal development, share based payments and associated taxes) enables a better understanding of the underlying business performance.

	Audited FY 2018 £'000	Audited FY 2017 £'000
Loss after tax	(5,027)	(25,623)
Amortisation of intangible assets <sup>1</sup>	7,276	6,371
Depreciation	306	229
Acquisition and Listing costs	364	-
Contingent remuneration	-	14,295
Contingent consideration	(1,213)	10,697
Loss from discontinued operations	4,408	10,281
Share-based payments (including taxes)	929	1,758
Profit on disposal of Available for Sale assets	(10,431)	-
Share of profits of equity accounted joint ventures	(104)	-
Movement in deferred taxes	257	(739)
Net interest	333	999
Exceptional gambling commission fine, including related legal and other costs	7,786	-
Impairment	9,800	-
<b>Adjusted net earnings</b>	<b>14,684</b>	<b>18,268</b>
Adjusted net earnings per share	20.0	27.1
Adjusted diluted earnings per share	19.4	25.9
Basic loss per share	(6.9)	(38.1)

<sup>1</sup> Excluding amortisation of internally generated development costs.

<sup>2</sup> Adjusted diluted earnings per share is calculated using the effect of share options and contingent share consideration on business combination and acquisition of intangible assets.

### Future performance measure

The Group historically defined Adjusted EBITDA as a key measure in its income statement and reported its forecasts for the current year in EBITDA terms. In line with evolving best practice for the improvement in transparency of disclosures in the financial statements, the Group has decided to adopt "Adjusted profit" \* as a new key income statement measure in the new financial year.

As a result of substantial adjustments and exceptional items in the current financial statements, together with several prior market publications on the Group forecast trading results that referred to EBITDA, the Group decided to maintain Adjusted EBITDA in this report for the benefit of shareholders and investor understanding.

The table below demonstrates the bridge between the current and new position of the key performance indicator if it was adopted in the year ended 31 August 2018:

	Audited FY 2018 £'000	Audited FY 2017 £'000	Change %
Adjusted EBITDA	16,097	19,670	(18.2%)
Adj EBITDA margin	18.8%	24.0%	

Share-based payments	(929)	(1,758)	
Amortisation of development costs	(966)	(333)	
Depreciation	(306)	(229)	
Share of profits of equity accounted joint ventures	104	-	
Net finance costs	(161)	(526)	
<b>Adjusted Profit</b>	<b>13,839</b>	<b>16,824</b>	<b>(17.7%)</b>
Adj Profit margin	16.2%	20.6%	

## Dividend

In line with the Group's stated objective of adopting a progressive dividend policy, in August 2018 the Group paid an interim dividend of 1.3p per share. Considering the Group's solid performance, the Board has recommended a final dividend of 1.7p per share, which takes the total dividend for the full Year to 3.0 p per share, an increase of 11% over the prior period. (FY 2017: 2.7p per share).

In addition, the Board intends to distribute to shareholders by way of a special dividend, the earn-out received relating to the QSB Gaming transaction, which is expected to be in excess of £6.0m. This equates to approximately 8.0p per share and is expected to be paid in spring or early summer 2019.

Both dividends remain subject to the approval of shareholders at the Company's Annual General Meeting to be held on 6 February 2019.

The Board's strategy is to maintain a balance between sustainable and attractive shareholder returns, investment in growth opportunities and balance sheet strength.

For the year ending 31 August 2019, and thereafter, the Group, subject to having available cash, will be materially increasing its dividend policy and will henceforth declare a minimum dividend of 50% of its Adjusted net earnings for the year. The total dividend for the year is expected to be paid in broadly equal proportions, with one half of the total dividend being paid as an interim dividend.

The dividend timetable:

Ex-dividend date	10 January 2019
Record Date for dividend	11 January 2019
Payment Date	6 February 2019

**Ronen Kannor**

**Chief Financial Officer**

**21 November 2018**

# Consolidated statement of profit or loss

for the year ended 31 August 2018

	Note	2018 £'000	2017 £'000
<b>Net gaming revenue including 50% joint venture</b>		<b>88,968</b>	81,815
Less joint venture revenue (net of platform fee income)	27	(3,484)	—
Revenue	1	85,484	81,815
Cost of sales	1	(16,016)	(11,621)
<b>Gross profit</b>		<b>69,468</b>	70,194
Distribution costs	3	(35,835)	(34,261)
Administrative expenses	3	(17,990)	(16,263)
Other Income		454	—
<b>Adjusted EBITDA</b>		<b>16,097</b>	19,670
Share-based payments	3/22	(929)	(1,758)
Acquisition costs	3	(364)	—
Contingent remuneration	3	—	(14,295)
Contingent consideration adjustment	3	1,213	(10,697)
Amortisation of intangible assets	3	(8,241)	(6,704)
Impairment of intangible assets	11	(9,800)	—
Depreciation	3	(306)	(229)
Exceptional gambling commission fine, including related legal and other costs	15	(7,786)	—
<b>Operating (loss)</b>		<b>(10,116)</b>	(14,013)
Profit on disposal of available-for-sale investment	28	10,431	—
Share of profits of equity accounted joint ventures	27	104	—
Finance income		116	25
Finance expense	5	(611)	(1,550)
<b>(Loss) before tax</b>		<b>(76)</b>	(15,538)
Tax (expense)/credit	7	(543)	196
<b>Loss after tax from continuing operations</b>		<b>(619)</b>	(15,342)
Loss from discontinued operations	26	(4,408)	(10,281)
<b>Loss after tax</b>		<b>(5,027)</b>	(25,623)
<b>Loss for the year attributable to</b>			
Owners of the parent		(4,706)	(25,623)
Non-controlling interest		(321)	—
		<b>(5,027)</b>	<b>(25,623)</b>
<b>Other comprehensive income:</b>			
Items that will or may be reclassified to profit or loss			
Exchange Gains arising on translation of foreign operations		(385)	480
Realised fair value movements on available-for-sale investments reclassified to profit or loss / Change in fair value of available-for-sale investment	28	(1,595)	785
<b>Total comprehensive income</b>		<b>(7,007)</b>	<b>(24,358)</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		(6,607)	(24,358)
Non-controlling interest		(400)	—
		<b>(7,007)</b>	<b>(24,358)</b>
<b>Loss per share (p)</b>	8		
<b>Basic</b>		<b>(6.86)</b>	(38.08)
<b>Diluted</b>		<b>(6.86)</b>	(38.08)
<b>Loss per share (p) from continuing operations (p)</b>			
<b>Basic</b>		<b>(0.84)</b>	(22.80)
<b>Diluted</b>		<b>(0.82)</b>	(22.80)

The notes on the following pages form part of these financial statements.

## Consolidated statement of financial position

at 31 August 2018

	Note	2018 £'000	2017 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	780	661
Intangible assets	11	36,021	57,756
Other receivables	13	253	353
Deferred tax asset	18	138	745
Investment in equity accounted joint venture	27	104	—
Available-for-sale investments	28	—	1,595
		<b>37,296</b>	<b>61,110</b>
<b>Current assets</b>			
Trade and other receivables	13	10,293	9,891
Income tax receivable		545	453
Cash and cash equivalents	16	28,706	26,175
		<b>39,544</b>	<b>36,519</b>
Assets in disposal groups classified as held for sale	26	3,127	—
<b>Total assets</b>		<b>79,967</b>	<b>97,629</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Trade and other payables	14	25	80
Loans and borrowings	17	—	4,443
Deferred tax liability	18	900	2,539
		<b>925</b>	<b>7,062</b>
<b>Current liabilities</b>			
Trade and other payables	14	10,870	33,377
Income tax payable		—	300
Provisions	15	7,100	—
Loans and borrowings	17	4,443	1,975
		<b>22,413</b>	<b>35,652</b>
Liabilities in disposal groups classified as held for sale	26	829	—
<b>Total liabilities</b>		<b>24,167</b>	<b>42,714</b>
<b>Net assets</b>		<b>55,800</b>	<b>54,915</b>
<b>Issued capital and reserves attributable to owners of the parent</b>			
Share capital	19	758	680
Share premium		57,839	40,641
Available-for-sale reserve	28	—	1,595
Foreign currency translation reserve		2,746	3,052
Retained earnings		(6,236)	8,947
<b>Total equity before non-controlling interest</b>		<b>55,107</b>	<b>54,915</b>
Non-controlling interest		693	—
<b>Total Equity</b>		<b>55,800</b>	<b>54,915</b>

The notes on the following pages form part of these financial statements.

Approved by the Board on 21 November 2018 and signed on its behalf by:

**Ronen Kanner**  
*Director*

**Stuart Eitan Boyd**  
*Director*

Company Number: 117876

# Consolidated statement of cash flows

for the year ended 31 August 2018

	Note	2018 £'000	2017 £'000
<b>Cash flows from operating activities</b>			
Loss for the year		(5,027)	(25,623)
<b>Adjustments for:</b>			
Depreciation of property, plant and equipment	10	334	261
Amortisation of intangible assets	11	11,353	8,375
Impairment	11	12,614	9,987
Finance expense	5	611	1,550
Finance income		(116)	(25)
Exceptional gambling commission fine, including related legal and other costs		7,786	—
Share-based payment expense		929	1,758
Share-based payment expense on contingent remuneration		—	10,088
Contingent consideration adjustment		(1,213)	10,797
Income tax credit	7	(354)	(1,126)
Share of profit from JV		(104)	—
Gain on disposal of asset held for sale		(10,431)	—
		<b>16,382</b>	<b>16,042</b>
Decrease in trade and other receivables		443	627
(Decrease) in trade and other payables		(18,186)	(2,414)
Increase in provisions		7,100	—
<b>Cash generated from operations</b>		<b>5,739</b>	<b>14,255</b>
Income taxes paid		(1,689)	(1,404)
Income taxes paid covered by warranties (Note 7)		1,210	—
<b>Net cash flows from operating activities</b>		<b>5,260</b>	<b>12,851</b>
<b>Investing activities</b>			
Investment in Passion Gaming, net of cash acquired	23	(40)	—
Cash held in escrow		—	(1,929)
Finance income		116	25
Purchases of property, plant and equipment	10	(489)	(190)
Purchase of intangibles	11	(871)	(489)
Capitalised development costs	11	(1,765)	(1,355)
Disposal of investment classified as Available for Sale		4,405	—
<b>Net cash generated from/(used in) investing activities</b>		<b>1,356</b>	<b>(3,938)</b>
<b>Financing activities</b>			
Exercise of share options		739	—
Interest paid		(237)	(590)
Repayment of related party borrowings		—	(8,000)
Proceeds from bank borrowings, net of bank fees		—	7,905
Repayment of bank borrowings		(2,000)	(1,500)
Dividends paid	9	(2,054)	(1,752)
<b>Net cash outflow from financing activities</b>		<b>(3,552)</b>	<b>(3,937)</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,064</b>	<b>4,976</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>26,175</b>	<b>21,080</b>
Exchange gains on cash and cash equivalents		7	119
Cash within assets held for sale	26	(540)	—
<b>Cash and cash equivalents at end of year</b>	<b>16</b>	<b>28,706</b>	<b>26,175</b>

A description of the significant non-cash movements is given in note 25.

The notes on the following pages form part of these financial statements.

# Consolidated statement of changes in equity

for the year ended 31 August 2018

	Share capital £'000	Share premium £'000	Other reserves £'000	Available-for-sale reserve £'000	Foreign currency translation reserve £'000	Retained earnings £'000	Total equity before Non- controlling interest £'000	Non- controlling interest £'000	Total equity £'000
<b>At 1 September 2016</b>	666	38,975	28,545	810	2,572	(2,382)	<b>69,186</b>	—	<b>69,186</b>
Loss for the year	—	—	—	—	—	(25,623)	<b>(25,623)</b>	—	<b>(25,623)</b>
Other comprehensive income	—	—	—	785	480	—	<b>1,265</b>	—	<b>1,265</b>
<b>Total comprehensive income for the year</b>	—	—	—	785	480	(25,623)	<b>(24,358)</b>	—	<b>(24,358)</b>
<b>Contributions by and distributions to owners</b>									
Dividends	—	—	—	—	—	(1,752)	<b>(1,752)</b>	—	<b>(1,752)</b>
Acquisition of intangible assets for shares	8	1,666	(1,674)	—	—	—	—	—	—
Share-based payment	—	—	1,751	—	—	—	<b>1,751</b>	—	<b>1,751</b>
Share-based payment on contingent remuneration	—	—	10,088	—	—	—	<b>10,088</b>	—	<b>10,088</b>
Issue of shares placed in trust (note 22)	6	—	—	—	—	(6)	—	—	—
Reserves transfer	—	—	(38,710)	—	—	38,710	—	—	—
<b>At 31 August 2017</b>	680	40,641	—	1,595	3,052	8,947	<b>54,915</b>	—	<b>54,915</b>
Loss for the year	—	—	—	—	—	(4,706)	<b>(4,706)</b>	(321)	<b>(5,027)</b>
Other comprehensive income	—	—	—	(1,595)	(306)	—	<b>(1,901)</b>	(79)	<b>(1,980)</b>
<b>Total comprehensive income for the year</b>	—	—	—	(1,595)	(306)	(4,706)	<b>(6,607)</b>	(400)	<b>(7,007)</b>
<b>Contributions by and distributions to owners</b>									
Dividends	—	—	—	—	—	(2,054)	<b>(2,054)</b>	—	<b>(2,054)</b>
Issue of shares on exercise of share-based payments	5	1,278	—	—	—	(545)	<b>738</b>	—	<b>738</b>
Issue of shares to settle contingent remuneration	41	9,014	—	—	—	(9,055)	—	—	—
Issue of shares to settle contingent consideration	32	6,906	—	—	—	—	<b>6,938</b>	—	<b>6,938</b>
Share based payment	—	—	—	—	—	1,177	<b>1,177</b>	—	<b>1,177</b>
Non-controlling interest acquired on business combination	—	—	—	—	—	—	—	1,093	<b>1,093</b>
<b>At 31 August 2018</b>	<b>758</b>	<b>57,839</b>	—	—	<b>2,746</b>	<b>(6,236)</b>	<b>55,107</b>	<b>693</b>	<b>55,800</b>

The notes on the following pages form part of these financial statements.

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

<b>Share premium</b>	Amount subscribed for share capital in excess of nominal value.
<b>Shares to be issued</b>	Represents the shares to be issued in respect of the acquisition of certain intangible assets. The shares have now been issued in full. Refer to note 12.
<b>Available-for-sale reserve</b>	Gains/losses arising on fair value movement of financial assets classified as available for sale.
<b>Share options</b>	Represents the fair value of awards made under the Group's share option schemes (refer to note 22). This reserve group has now been transferred to retained earnings.
<b>Foreign currency translation reserve</b>	Gains/losses arising on retranslating the net assets of overseas operations into Sterling
<b>Retained earnings</b>	The account includes cumulative profits and losses less any distributions made to shareholders and the nominal value of shares gifted to the employee benefit trust. In addition, during the year ended 31 August 2017 the total balances in the other reserves which related to the merger, share option and capital contribution reserves were transferred to this account and are available for distribution under the Companies (Jersey) Law 1991, subject to meeting other Companies Act requirements.



# Notes forming part of the financial statements

for the year ended 31 August 2018

## 1 Accounting policies

### **Legal status**

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

### **Basis of preparation**

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

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

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

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

### **Changes in accounting policies**

#### *a) New standards, interpretations and amendments effective from 1 September 2017*

Where relevant, new standards and amendments to existing IFRSs that have been published and are mandatory for the first time for the financial year beginning 1 September 2017 have been adopted but had no significant impact to the Group accounts.

#### *b) New standards, interpretations and amendments not yet effective*

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

#### *IFRS 9 Financial Instruments*

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

#### **Classification and measurement of financial assets**

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

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

#### **Classification and measurement of financial liabilities**

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

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

#### **Impairment**

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

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

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

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

#### **IFRS 15 Revenue from Contracts with Customers**

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

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

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

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

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

#### **IFRS 16 Leases**

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

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

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

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

IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations. The amendments are not yet endorsed for use in the EU. The Directors are currently assessing the impact of this standard when it is adopted for the first time. When implemented the assets associated with the operating leases will be accounted for on the balance sheet with a corresponding lease liability.

#### ***Basis of consolidation***

##### ***Acquisition of subsidiaries***

A subsidiary is an entity controlled directly or indirectly by the Group. 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.

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

##### ***Foreign currencies***

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

On consolidation, the results of foreign operations are translated into Sterling at rates ruling when the transaction took place. All assets and liabilities of foreign operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating inter-group loans considered to be investment in

subsidiaries that the Directors do not expect to be repaid for the foreseeable future as well as the opening net assets at the opening rate and the results of foreign operations at the actual rate are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign currency translation reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of profit or loss and included in the computation of the profit or loss on disposal.

### **Revenue recognition**

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

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

Passion Gaming generates revenue through its rummy-focussed online gaming platform. Revenue from operating online skill games are recognised on the completion of each game or tournament. A service charge is levied on each game referred to as a 'Rake'. The Rake is a percentage levied on the total money staked in a game.

### **Other Income**

Other income relates to the Research and Development ("R and D") tax claims the Group made in relation to financial years ended 31 August 2016 and 2017, and the R and D provision for the year ended 31 August 2018, which has all been recognised in the current financial year.

### **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, royalties payable to third-party platform suppliers, together with gaming and other regulatory costs, all of which are recognised on an accruals basis. The distribution costs also include royalties payable to third-party platform suppliers, following the acquisition of 8Ball Games Limited and the Tarco Assets.

### **Administrative expenses**

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

### **Goodwill**

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

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

### **Contingent consideration**

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

Contingent consideration is reviewed at the end of each accounting period as the consideration payable, revalued to fair value through the 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 arise from other contractual or legal rights. The amounts ascribed to such intangibles are arrived at using appropriate valuation techniques (see section related to critical estimates and judgements below).

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

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

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 generate revenue;
- 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.

Maintenance costs in respect of internally generated assets are expensed within the profit or loss account.

***Property, plant and equipment***

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

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

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

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

***Impairment of property, plant and equipment and internally generated assets***

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

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

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

***Financial instruments***

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

***Financial assets***

***Trade receivables***

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

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

***Cash and cash equivalents***

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

#### **Available for sale**

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

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.

#### **Contingent consideration receivable**

Contingent consideration receivables are classified as financial assets at fair value through profit or loss. The Group determines the classification of its financial liabilities at initial recognition. The measurement of contingent consideration receivables at fair value through profit or loss are carried on the balance sheet at fair value with gains or losses recognised in the income statement.

#### **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.

#### **Share capital**

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

#### **Share-based payments**

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

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

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

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

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

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

### **Dividends**

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

### **Adjusted EBITDA**

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

### **Investment in equity accounted joint ventures**

Joint ventures are those entities over whose relevant activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. Joint ventures are accounted for using the equity method and are recognised initially at cost. The Group's share of post-acquisition profits and losses is recognised in the consolidated income statement, except that losses in excess of the Group's investment in the joint ventures are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its joint ventures are recognised only to the extent of unrelated investors' interests in the joint ventures. The investor's share in the profits and losses of the investment resulting from these transactions is eliminated against the carrying value of the investment. Any premium paid above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment. Where there is objective evidence that the investment has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets, and any charge or reversal of previous impairments is taken to the consolidated income statement. Where amounts paid for an investment in a joint venture are in excess of the Group's share of the fair value of net assets acquired, the excess is recognised as negative goodwill and released to the consolidated income statement immediately. The Group's share of additional equity contributions from other joint venture partners is taken to the consolidated statement of comprehensive income.

### **Non-current assets held for sale and disposal groups**

Non-current assets and disposal groups are classified as held for sale when:

- They are available for immediate sale
- Management is committed to a plan to sell
- It is unlikely that significant changes to the plan will be made or that the plan will be withdrawn
- An active programme to locate a buyer has been initiated
- The asset or disposal group is being marketed at a reasonable price in relation to its fair value, and
- A sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- Their carrying amount immediately prior to being classified as held for sale in accordance with the group's accounting policies; and
- Fair value less costs of disposal.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated or amortised. The results of operations disposed during the year are included in the consolidated statement of comprehensive income up to the date of disposal. A discontinued operation is a component of the Group's business that represents a separate major line

of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in the consolidated statement of comprehensive income as a single line which comprises the post-tax profit or loss of the discontinued operation along with the post-tax gain or loss recognised on the re-measurement to fair value less costs to sell or on disposal of the assets or disposal groups constituting discontinued operations.

#### **Accounting for subsidiaries: Non-controlling interest**

A subsidiary is an entity controlled directly or indirectly by the Group. The Group controls an investee 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.

On the date of acquisition the assets and liabilities of the relevant subsidiaries are measured at their fair values. The non-controlling interest is stated at the non-controlling interest's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, 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.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

#### **Critical accounting estimates**

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

#### **Impairment**

In accordance with IAS 36 Impairment of Assets, the Group regularly monitors the carrying value of its intangible assets. A detailed review was undertaken at 31 August 2018 to assess whether the carrying value of assets was supported by the net present value of future cash flows derived from those assets. The recoverable amounts of the Group's CGUs have been determined from value in use calculations based on cash flow projections from formally approved budgets and long-term forecasts. These budgets and forecasts assume the underlying business models will continue to operate on a comparable basis under the current regulatory and taxation regimes, adjusted for any known changes.

At 31 August 2018, a detailed impairment review was undertaken for the non-proprietary unit. Following the initial announcement in May 2018 that the point of consumption tax rate would increase, and subsequently being a confirmation that this would take place from 1 April 2019, the Group determined that this had an adverse effect on the projected value in use and consequently the intangible assets have been written down to their value in use. An impairment of £9,800,000 has been charged against goodwill. Refer to Note 11 for further details.

A detailed impairment review was also completed for the Social Gaming cash generating unit which was transferred to a disposal group classified as held for sale. An impairment of £2,814,000 has been charged against acquired intangibles and internally generated assets. Refer to Note 26 for further details.

#### **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.

#### **Contingent consideration receivable**

The contingent consideration relates to the disposal of QSB Gaming Limited ("QSB"). As part of this disposal, Stride received its 24.2% share of the initial consideration of €21 million and is also due a deferred consideration, plus a contingent consideration based on a multiple of EBITDA for the year ending 31 December 2018. Total consideration cannot exceed €52 million. The Group has recognised a total profit on disposal of £10,431,000, with a receivable from the buyer of £6.03 million. This reflects the information the buyer has released to the market and it's the best estimate of the contingent consideration's fair value having regard to the present value of the future expected cash flows using a risk adjusted probability assessment of the various scenarios affecting the deferred and contingent consideration.

## **2 Segment information**

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

- Proprietary, which is its leading online operation, using its in house developed and purchased software to provide online bingo, casino and related gaming activities to players. This segment only operates in regulated markets, principally the UK; and
- Non-proprietary operations using third party software to provide related activities to players.

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. The key measure of profit for Management in Stride is Adjusted EBITDA. The operating segmental analysis has changed from the prior year due to internal restructuring in the business and so as to be in line with how the Group report on their performance.

	Proprietary 2018 £'000	Non-Proprietary 2018 £'000	Total 2018 £'000
Total revenue from external customers	56,993	28,491	85,484
Other Income	454	—	454
Adjusted EBITDA	11,971	4,125	16,097
Depreciation	(266)	(40)	(306)
Amortisation	(6,652)	(1,589)	(8,241)
Contingent consideration adjustment	—	1,213	1,213
Impairment of intangible assets	—	(9,800)	(9,800)
Gambling commission fine	(7,786)	—	(7,786)
Share of profit from Joint Venture			104
Finance income			116
Share-based payments including National Insurance			(929)
Finance expense			(611)
Acquisition costs			(364)
Profit on disposal of available-for-sale investment			10,431
<b>Group loss before tax</b>			<b>(76)</b>

The prior year reported segments were as follows:

- Real Money Gaming, which is its UK-focused online operations, using its proprietary and non-proprietary software; and
- Social Gaming, which internationally provides players with entertaining applications and games.

Following the decision to dispose of the social gaming segment during the current year, and the considerations made above, the prior year comparatives have been restated to show the current year reportable segments.

	Proprietary 2017 £'000	Non-Proprietary 2017 £'000	Total 2017 £'000
Total revenue from external customers	48,862	32,953	81,815
Adjusted EBITDA	12,663	7,006	19,669
Depreciation	(182)	(47)	(229)
Amortisation	(5,164)	(1,540)	(6,704)
Contingent consideration adjustment	—	(10,797)	(10,797)
Contingent remuneration	—	(14,194)	(14,194)
Finance income			25
Share-based payments including National Insurance			(1,758)
Finance expense			(1,550)
<b>Group loss before tax</b>			<b>(15,538)</b>

	External revenue by location of customers		Non-current assets by location of assets	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
United Kingdom	82,044	80,080	15,341	18,046
Alderney	—	—	19,530	32,554
Israel	—	—	23	7,464
Other	3,440	1,735	1,907	354
	85,484	81,815	36,801	58,418



### 3 Operating profit/(loss)

All items presented below Adjusted EBITDA and before operating profit/(loss) in the consolidated statement of profit or loss are administrative expenses. Total administrative expenses including those presented below Adjusted EBITDA for the year were £44,203,000 (2017: £49,946,000). Adjusted EBITDA is an Alternative Profit Measure used by Management to assess the performance of the Group as it closely represents the underlying trading performance of the business. Adjusted EBITDA as a metric is used internally to assess performance and may differ from other profit measures used by similar businesses.

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

	2018 £'000	2017 £'000
Operating lease expenses	741	728
Employee benefit expenses, excluding share-based payments (note 4)	13,355	13,725
Depreciation of property, plant and equipment	306	261
Amortisation of intangible assets	8,241	8,375
Auditor's remuneration – audit services	180	169
Auditor's remuneration – other assurance services	6	38
Auditor's remuneration – IT services	55	—
Contingent consideration adjustment <sup>(a)</sup>	(1,213)	10,697
Acquisition costs <sup>(b)</sup>	364	—
Share-based payments <sup>(c)</sup>	929	1,758
Contingent remuneration <sup>(d)</sup>	—	14,295
Share of profit from joint venture <sup>(f)</sup>	(104)	—
Profit on disposal of available-for-sale investment <sup>(g)</sup>	28	(10,431)
Gambling commission fine <sup>(h)</sup>	15	7,786
Impairment of intangible assets <sup>(e)</sup>	9,800	—

(a) Contingent consideration adjustment relates to the increase in the earn-out payable for the acquisition of the Tarco Assets which is presented below Adjusted EBITDA as it is a non-operational element of a previous acquisition completed in the year ended 31 August 2016. Refer to note 24 for further details.

(b) The current year costs relate to the acquisition of Passion Gaming Limited, which are outside the normal course of business and therefore have been added back to Adjusted EBITDA. Refer to note 23 for further information. The remainder of the cost relates to other aborted acquisition costs.

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

(d) Under the terms of the InfiApps Ltd and 8Ball Games Limited acquisitions in the years ended 31 August 2015 and 31 August 2016 respectively, the contingent remuneration payable was linked to future employment and therefore has been charged to the profit or loss account. The total remuneration payable for the 8Ball Games acquisition was £4,036,000 in cash and £10,088,000 in share-based payments (refer to note 24), with the remainder relating to the InfiApps year two earn-out. Both were settled in the year.

(e) During the year the value of the non-proprietary cash generating unit was assessed and subsequently impaired. Considering this expense is outside of the Group's normal operations it has been presented below Adjusted EBITDA. Refer to note 11 for further details.

(f) The share of the profit from the joint venture is the element of profit achieved from the platform services provided to Aspers Online Limited. There is only one such revenue stream in the Group and therefore has been added back.

(g) The profit on disposal relates to the disposal of the available-for-sale QSB Gaming Limited investment during the year. This is the first of such profits achieved by Stride Gaming and therefore has been presented below Adjusted EBITDA.

(h) The Gambling commission fine relates to a penalty from the UK Gambling Commission and legal expenses incurred as a result of this. Such fines are not customary to Stride's standard operations and therefore is presented below the alternative profit measure.

### 4 Employee benefit expenses

	2018 £'000	2017 £'000
<b>Employee benefit expenses (excluding Directors and key management personnel)</b>		
Wages and salaries	10,177	9,471
Pension costs	113	362
Share-based payment expense (note 22)	175	696
Social security contributions and similar taxes	994	714
	<b>11,459</b>	<b>11,243</b>
<b>Benefit expenses of Directors and key management personnel<sup>(a)</sup></b>		
Wages and salaries	1,814	2,778
Pension costs	107	143

Share-based payment expense (note 22)	751	1,055
Social security contributions and similar taxes	153	264
	<b>2,825</b>	4,240
<b>Total employee benefit expense including Directors and key management personnel</b>	<b>14,284</b>	15,483

(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 Group (listed in note 6) as well as certain directors of subsidiary companies.

The total employment benefit expense in the prior year excludes the amounts referred to as contingent remuneration in note 3. From the total of £14,295,000, £14,124,000 was payable to key management personnel of the Group. This is split between £4,036,000 cash remuneration and £10,088,000 payable in shares. This amount was £Nil in the current year as it settled during the period. Refer to note 24 for further details.

## 5 Finance expense

### Recognised in consolidated statement of profit or loss

	2018 £'000	2017 £'000
Loan interest (note 17)	262	551
Unwinding of discount on contingent consideration	333	999
Other	16	—
<b>Total finance expense</b>	<b>611</b>	1,550

## 6 Directors' interests and remuneration

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

	£0.01 ordinary shares at 31 August 2018		£0.01 ordinary shares at 31 August 2017	
	Number of shares	Percentage holding	Number of shares	Percentage holding
Nigel Terrence Payne	13,889	0.02%	13,889	0.02%
Stuart Eitan Boyd	2,611,151*	3.44%	2,425,213*	3.57%
Darren Brett Sims	1,160,984*	1.53%	1,083,510*	1.59%
Ronen Kannor	39,273	0.05%	—	—
John Le Poidevin	44,456	0.06%	44,546	0.07%
Adam David Batty	22,727	0.03%	22,727	0.03%

\* Shares held via trusts.

The following Directors held share options as at 31 August 2018 and 2017:

	Award type	Number of options at		Date of grant	Exercise price in £	Vesting period of options
		31 August 2018				
Stuart Eitan Boyd	Share options	750,000	18 May 2015	1.32	1–3 years	
	LTIP	111,111	1 Sep 2015	0.00	3 years	
	LTIP	113,333	1 Sep 2016	0.00	3 years	
Darren Brett Sims	Share options	750,000	18 May 2015	1.32	1–3 years	
	LTIP	111,111	1 Sep 2015	0.00	3 years	
	LTIP	113,333	1 Sep 2016	0.00	3 years	
Ronen Kannor	Share options	500,000	18 May 2015	1.32	1–3 years	
	LTIP	66,667	1 Sep 2015	0.00	3 years	
	LTIP	77,778	1 Sep 2016	0.00	3 years	

The following table presents the Directors' remuneration from the Group for the year ended 31 August 2018:

	Salaries and fees £'000	Benefits £'000	Pension £'000	Bonus £'000	Share options £'000	Total 2018 £'000	Total 2017 £'000
Nigel Terrence Payne	60	—	—	—	—	60	48
Stuart Eitan Boyd	290	17	29	—	171	507	838
Darren Brett Sims	290	7	29	—	171	497	829
Ronen Kannor	185	6	19	—	110	320	559
John Le Poidevin	47	—	—	—	—	47	42
Adam David Batty	47	—	—	—	—	47	42
<b>Total</b>	919	30	77	—	452	1,478	2,358

## 7 Taxation

	2018 £'000	2017 £'000
<b>Current tax expense</b>		
Current tax on profits for the year	275	726
Adjustment in respect of prior periods	48	(97)
<b>Total current tax</b>	<b>323</b>	<b>629</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences (note 18)	(692)	(1,756)
Effect of increased tax rate on opening balance	13	2
<b>Total deferred tax</b>	<b>(677)</b>	<b>(1,754)</b>
<b>Total tax (credit)</b>	<b>(354)</b>	<b>(1,125)</b>
<b>Continuing and discontinued operations:</b>		
Income tax expense/(credit) from continuing operations	543	(196)
Income tax (credit) from discontinued operations (note 26)	(897)	(929)
<b>Total tax (credit)</b>	<b>(354)</b>	<b>(1,125)</b>

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

	2018 £'000	2017 £'000
Loss for the year	(5,027)	(25,623)
Income tax (credit) (including discontinued operations)	(354)	(1,125)
Loss before income tax	(5,381)	(26,748)
Tax using the Group's domestic tax rate of 19% (2017: 19.58%)	(1,022)	(5,237)
Expenses not deductible for tax purposes	2,523	5,638
Adjustments in respect of prior periods	48	(97)
Other temporary differences	13	(42)
Different tax rates applied in overseas jurisdictions	(1,916)	(1,387)
<b>Total tax expense/(credit)</b>	<b>(354)</b>	<b>(1,125)</b>

The Group has not recognised deferred tax assets of £344,000 (2017: £355,000) in respect of losses amounting to £2,026,000 (2017: £2,110,000) that can be carried forward against future taxable income.

In the year ended 31 August 2018 the Israeli Tax Authorities completed a review on the tax liabilities of Netboost Media Limited for the years ended 31 December 2012–2015. The company is registered in Israel and was acquired as part of the Tarco Assets and Netboost Media acquisition in 31 August 2016. A tax liability of £1.06 million arose after the completion of this review, which in accordance with the sale purchase agreement where the sellers have provided tax guaranties to cover certain tax liabilities, were covered by the sellers of Netboost Media Limited in full. As such there is no effect to the Group tax position as a result of this review. In exactly the same scenario but for the years ending 31 August 2013–2015, the tax expense of £0.24 million was paid by InfiApps Limited of which £0.15 million was recovered from the previous owners.

## 8 Earnings per share

Numerator	2018 £'000	2017 £'000
Loss used in EPS and diluted EPS	(5,027)	(25,623)
Loss from continuing operations	(619)	(15,342)
Loss from discontinued operations	(4,408)	(10,281)
Denominator	'000	'000
Weighted average number of shares used in basic EPS	73,256	67,286
Basic loss per ordinary share (p)	(6.86)	(38.08)
Effects of:		
Employee share options	2,287	2,297
Contingent share consideration on business combinations	—	1,045
Weighted average number of shares used in diluted EPS	75,543	70,628
Diluted loss per ordinary share (p)	(6.86)	(38.08)

Where the result of the Group is a loss for the year there is no dilutive impact. At 31 August 2018, there are a number of shares that are contingently issued which will have a further dilutive effect (refer to note 22).

## 9 Dividends

An interim dividend of £2,054,000 (1.3p per share) was declared and paid in the year ended 31 August 2018 (2017: £808,000). The Board is recommending a final dividend of 1.7p per share subject to shareholder approval at the Annual General Meeting, which has not been accrued at 31 August 2018 (2017: final dividend of 1.5p per share approved and paid representing a total of £1,078,000).

## 10 Property, plant and equipment

	Fixtures, fittings and equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost or valuation</b>				
<b>At 1 September 2016</b>	331	504	18	853
Additions	99	157	—	256
Disposals	—	(17)	—	(17)
Foreign exchange movements	1	4	—	5
<b>At 1 September 2017</b>	431	648	18	1,097
Additions	261	228	—	489
Acquired through business combination	17	9	—	26
Foreign exchange movements	(3)	(6)	—	(9)
Transfer to disposal group (Note 26)	(40)	(136)	—	(176)
<b>At 31 August 2018</b>	<b>666</b>	<b>743</b>	<b>18</b>	<b>1,427</b>
<b>Accumulated depreciation</b>				
<b>At 1 September 2016</b>	25	166	—	191
Charge for the year	71	180	10	261
Disposals	—	(17)	—	(17)
Foreign exchange movements	—	1	—	1
<b>At 1 September 2017</b>	96	330	10	436
Charge for the year	134	193	7	334
Foreign exchange movements	(1)	(2)	—	(3)
Transfer to disposal group (Note 26)	(10)	(110)	—	(120)
<b>At 31 August 2018</b>	<b>219</b>	<b>411</b>	<b>17</b>	<b>647</b>
<b>Net book value</b>				
At 31 August 2016	306	338	18	662
At 31 August 2017	335	318	8	661
<b>At 31 August 2018</b>	<b>447</b>	<b>332</b>	<b>1</b>	<b>780</b>

## 11 Intangible assets

	Software and licences £'000	Development costs £'000	Brand names £'000	Goodwill £'000	Customer and contractual relationships £'000	Total £'000
<b>Cost</b>						
<b>At 1 September 2016</b>	15,708	1,274	8,326	36,238	19,107	80,653
Acquired through business combinations	—	—	—	180	—	180
Additions	489	—	—	—	—	489
Internally generated development costs	—	1,355	—	—	—	1,355
Foreign exchange rate movements	171	9	23	103	50	356
<b>At 1 September 2017</b>	16,368	2,638	8,349	36,521	19,157	83,033
Acquired through business combinations	31	—	—	1,341	—	1,372
Additions	871	—	—	—	—	871
Internally generated development costs	—	1,765	—	—	—	1,765
Foreign exchange rate movements	(85)	(8)	(11)	—	(25)	(129)
Transfer to disposal group (Note 26)	(9,324)	(1,462)	(1,312)	(5,950)	(2,881)	(20,929)
<b>At 31 August 2018</b>	<b>7,861</b>	<b>2,933</b>	<b>7,026</b>	<b>31,912</b>	<b>16,251</b>	<b>65,983</b>
<b>Accumulated amortisation</b>						
<b>At 1 September 2016</b>	3,277	248	865	—	2,697	7,087
Charge for the year	2,226	588	1,744	—	3,817	8,375
Impairment	2,332	—	266	6,056	1,333	9,987
Foreign exchange rate movements	(38)	(3)	(4)	(106)	(21)	(172)
<b>At 1 September 2017</b>	7,797	833	2,871	5,950	7,826	25,277
Charge for the year	5,081	1,362	1,484	—	3,426	11,353
Impairment	1,481	319	434	9,800	580	12,614
Foreign exchange rate movements	112	12	14	—	7	145
Transfer to disposal group (Note 26)	(8,237)	(1,047)	(1,312)	(5,950)	(2,881)	(19,427)
<b>At 31 August 2018</b>	<b>6,234</b>	<b>1,479</b>	<b>3,491</b>	<b>9,800</b>	<b>8,958</b>	<b>29,962</b>
<b>Net book value</b>						
At 1 September 2016	12,431	1,026	7,461	36,238	16,410	73,566
At 1 September 2017	8,571	1,805	5,478	30,571	11,331	57,756
<b>At 31 August 2018</b>	<b>1,627</b>	<b>1,454</b>	<b>3,535</b>	<b>22,112</b>	<b>7,293</b>	<b>36,021</b>

### Amortisation rates

During the period the useful economic lives of certain software were re-assessed and adjusted from a total of 5 - 10 years down to a total of 3 - 4 years. This created an accelerated amortisation charge of £3.7 million in the period, of which £2.9 million related to the software transferred to assets held for sale.

### Goodwill

In previous reporting periods the goodwill was allocated to a number of cash generating units based on different acquisitions made by the Group. However, they have now been placed into 3 cash generating units, being proprietary, non-proprietary and Passion Gaming. The proprietary CGU includes cashflows which cannot be separately reported, and the value of this CGU is assessed on a combined basis (previously the Spacebar Media and Table Top Entertainment CGUs). The non-proprietary segment (previously 8Ball Games and Tarco Assets CGUs) includes the combined cashflows, which following internal restructuring and further synergies gained post acquisition through the centralisation of several departments, are now being reported as one CGU.

Goodwill is therefore allocated to the following cash generating units:

	2018 £'000	2017 £'000
Proprietary	9,944	9,944
Non-proprietary	10,827	20,627
Passion Gaming	1,341	—
	<b>22,112</b>	<b>30,571</b>

### 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 2018 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. The impairment charge in the period relates to the impairment of goodwill and intangible assets of the Non-proprietary (£9.8 million) unit and InfiApps (£2.8 million) which is included in discontinued activities.

#### **Proprietary CGU**

The recoverable amounts of the proprietary CGU 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 2019 and 2020 are based on Board-approved budgets with a long-term growth rate of 2% (2017: 2%) and a discount rate of 13.9% (2017: 13.9%). These assumptions were based upon management's experience, past performance and drawing on industry data where relevant. The recoverable amount of £70.5 million, exceeded the total value of the CGU by £38.2 million.

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.

#### **Non-proprietary CGU**

A detailed impairment review was completed in respect of the non-proprietary cash generating unit to determine if the carrying value of assets was supported by the net present value of future cash flows derived from those assets. The recoverable amount has been determined from value in use calculations based on cash flow projections from formally approved budgets and long-term forecasts. These budgets and forecasts assume the underlying business model will continue to operate on a comparable basis under the current regulatory and taxation regimes, adjusted for any known changes. As a result of this review and following the initial announcement in May 2018 that the point of consumption tax rate would increase, and subsequently being a confirmation that this would take place from 1 April 2019, the Group determined that this had an adverse effect on the projected value in use and consequently the intangible assets have been impaired by £9,800,000.

The cash flows for 2019 and 2020 are based on Board-approved budgets with a long-term inflationary growth rate of 0.5% (2017: 2%) and a discount rate of 14.2% (2017: 17.2%). These assumptions were based upon management's experience, past performance and drawing on industry data where relevant.

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

	Key assumptions used in projections		
	Discount rate	Operating margin	Terminal growth rate
Key assumptions used in the projections (equal to the carrying value)	14.18%	13.47%	0.50%
Effect of 1% increase in assumption – £'000	(1,659)	2,052	1,227
Effect of 1% decrease in assumption – £'000	1,920	(2,035)	(1,060)

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

	Key assumptions used in projections		
	Discount rate	Operating margin	Terminal growth rate
Key assumptions used in the projections	17.20%	21.32%	2.00%
Change in assumptions required to equal carrying value	23.05%	15.88%	(10.80%)
Effect of 1% increase in assumption – £'000	(2,662)	4,460	2,786
Effect of 1% decrease in assumption – £'000	3,029	(622)	(813)

#### **Passion Gaming**

The goodwill and related assets included within this CGU resulted from the acquisition of Passion Gaming in the year, a Rummy-focussed online gaming business operating throughout India for £2.48 million. The recoverable amount of £1.6 million not including cash, has been determined from value in use calculations based on cash flow projections covering a five-year period and a calculation into perpetuity, is equal to the carrying value of the CGU.

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 been on the recoverable amount:

	Key assumptions used in projections		
	Discount rate	Operating margin	Terminal growth rate
Key assumptions used in the projections (equal to the carrying value)	20.61%	6.86%	2.00%
Effect of 1% increase in assumption – £'000	(219)	127	162
Effect of 1% decrease in assumption – £'000	248	(127)	(145)

## 12 Subsidiaries

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

Name	Country of incorporation	Proportion of ownership interest at 31 August	
		2018	2017
Spacebar Media Limited	United Kingdom	100%	100%
SRG Services Limited*	Mauritius	100%	100%
Shiftech (Pty) Limited*	South Africa	100%	100%
Daub Alderney Limited	Alderney	100%	100%
S.T.R. Financials Ltd	Israel	100%	100%
8Ball Games Limited	United Kingdom	100%	100%
Netboost Media Limited*	Israel	100%	100%
InfiApps Ltd*	Israel	100%	100%
Madabout Media (2016) Limited**	United Kingdom	100%	100%
Think Beyond Media Ltd	United Kingdom	100%	100%
Stride Together Ltd	United Kingdom	100%	100%
Baldo Line SRL*	Italy	100%	100%
Stride Investment Limited	Mauritius	100%	—
Passion Gaming Private Limited*	India	51%	—
Stride Gaming Sweden AB	Sweden	100%	—

\* Investment held indirectly.

\*\* Investment held indirectly and struck off the register post year end.

## 13 Trade and other receivables

	2018 £'000	2017 £'000
<b>Current</b>		
Trade receivables	2,168	3,782
Other receivables	6,351	524
Funds held in escrow	—	4,929
Amounts due from related parties	60	2
Prepayments	1,714	654
	<b>10,293</b>	<b>9,891</b>
<b>Non-current</b>		
Other receivables	253	353
	<b>253</b>	<b>353</b>

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 2018.

As at 31 August 2018 there were no trade receivables (2017: £Nil) which were past due and fully impaired. There is currently no provision for impairment for any of the outstanding trade and other receivables (2017: £Nil) with no bad debt expense being recognised in the year (2017: £Nil).

### Funds held in escrow

During the year ended 31 August 2017 and 2016, as part of the acquisition of the Tarco Assets, which completed on 31 August 2016, a total amount of £4,000,000 was transferred by the Group to an escrow account, with an intention to cover part of the earn-out payment which was made to the sellers within three months of 31 December 2017, following the end of the earn-out period. Furthermore, in the year ended 31 August 2017 £929,000 was transferred to an escrow account which related to the second year earn-out of the InfiApps acquisition. Both of these earnouts were settled in the year ended 31 August 2018.

### Other receivables

Included in other receivables at 31 August 2018 is the receivable from Rank Plc in relation to the disposal of the available for sale investment during the year. Refer to Note 28 for further details.

## 14 Trade and other payables

	2018 £'000	2017 £'000
<b>Current</b>		
Trade payables	3,614	2,927
Other payables	605	321
Other taxation and social security	1,562	1,456

Client liabilities and progressive prize pools	2,682	2,489
Contingent remuneration	—	4,968
Contingent consideration	—	17,417
Amounts due to related parties	248	442
Accruals and deferred income	2,159	3,357
	<b>10,870</b>	<b>33,377</b>
<b>Non-current</b>		
Other payables	25	80
	<b>25</b>	<b>80</b>

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value. The contingent remuneration arose because of the 8Ball Games Limited acquisition in the prior year and the InfiApps acquisition in the year ended 31 August 2015, of £4,036,000 and £932,000 respectively. Both amounts were determined at 31 August 2017 and settled in the current year. The contingent consideration has arisen from the acquisition of certain trading assets of Tarco Limited on 31 August 2016 and as reassessed at 31 August 2017. This amount was settled in the current year. Refer to Note 24 for further details of the 8ball Games Limited and Tarco Limited settlements.

## 15 Provision

	2018 £'000	2017 £'000
Provision	<b>7,100</b>	—

During the year and as announced in August 2018, the UK Gambling Commission ("UKGC") conducted a review of the manner in which Daub Alderney Limited, a subsidiary of the Group, had carried out some of its historical licensed activities in the United Kingdom. The Group worked cooperatively with the UKGC throughout its review and has taken actions to address the concerns raised therein. Following the completion of the review, the Group has recorded a liability of £7,100,000 for the penalty imposed on review, which we expect to be settled post year end. Also included in the year ended 31 August 2018 were £686,000 of legal and other expenses related to the review. These were recognised in the consolidated statement of profit or loss.

## 16 Cash and cash equivalents

	2018 £'000	2017 £'000
Cash at bank and in hand	<b>28,706</b>	26,175

Cash held on behalf of players and progressive jackpots of £2.7 million (2017: £2.5 million) are held in separate (unrestricted) bank accounts.

## 17 Loans and borrowings

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

	2018 £'000	2017 £'000
<b>Unsecured borrowings</b>		
Current bank borrowings	<b>4,443</b>	1,975
	<b>4,443</b>	1,975
<b>Unsecured borrowings</b>		
Non-current bank borrowings	—	4,443

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

During the year the Group breached two of their Financial Covenants. A formal notice was provided post year end from Barclays PLC informing Stride Gaming Plc that they would waive any rights available to the bank as a result of these breaches for the year ending 31 August 2018. As a result of this the borrowings have moved all into current liabilities as they are deemed to be recallable from Barclays on demand, however the above waiver provides assurance that provider will not action this.



## 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
<b>At 1 September 2016</b>	217	(3,708)
Recognised in profit and loss	524	1,231
Foreign exchange movements	4	(62)
<b>At 31 August 2017</b>	745	(2,539)
Recognised in profit and loss	(592)	1,268
Foreign exchange movements	(1)	49
<b>At 31 August 2018</b>	<b>152</b>	<b>(1,222)</b>

### Continued and discontinued operations split

Deferred tax in continuing operations	138	(900)
Deferred tax in discontinued operations	14	(322)
<b>At 31 August 2018</b>	<b>152</b>	<b>(1,222)</b>

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
31 August 2018					
Share options	73	—	73	(541)	—
Other temporary and deductible differences	79	(49)	30	(73)	(1)
Business combinations	—	(1,173)	(1,173)	1,291	49
Net tax assets/(liabilities)	<b>152</b>	<b>(1,222)</b>	<b>(1,070)</b>	<b>677</b>	<b>48</b>

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

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

## 19 Share capital

	Authorised			
	2018 Number	2018 £'000	2017 Number	2017 £'000
Total ordinary shares of 1p each	<b>250,000,000</b>	<b>2,500</b>	250,000,000	2,500

	Issued and fully paid			
	2018 Number	2018 £'000	2017 Number	2017 £'000
<b>Ordinary shares of 1p each</b>				
<b>At 1 September</b>	<b>67,959,919</b>	<b>680</b>	66,519,885	666
Issued on settlement of contingent earnout (Note 24)	<b>3,168,076</b>	<b>32</b>	—	—
Issued on settlement of contingent remuneration (Note 24)	<b>4,117,483</b>	<b>41</b>	846,701	8
Exercise of share options (Note 22)	<b>559,860</b>	<b>5</b>	—	—
Long-term incentive plans (Note 7)	—	—	593,333	6
<b>At 31 August</b>	<b>75,805,338</b>	<b>758</b>	67,959,919	680

During the year ended 31 August 2018 the following transactions took place:

- Settlement of the Tarco contingent earnout through the issue of 3,168,076 as further explained in Note 24;
- Settlement of the 8ball contingent remuneration through the issue of 4,117,483 shares as further explained in Note 24; and
- Exercise of 559,860 share options. Refer to note 22 for further details.

During the prior year the following transactions took place:

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

## 20 Leases

### Operating leases – lessee

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

	2018 £'000	2017 £'000
Not later than one year	638	652
Later than one year and not later than five years	758	1,180
	<b>1,396</b>	<b>1,832</b>

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

	2018 £'000	2017 £'000
Not later than one year	45	48
Later than one year and not later than five years	68	15
	<b>113</b>	<b>63</b>

## 21 Financial instruments – risk management

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

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

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

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

### Principal financial instruments

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

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

### Financial instruments by category

#### Financial assets

	Fair value through profit and loss		Available for sale		Loans and receivables	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Available-for-sale investment	—	—	—	1,595	—	—

Cash and cash equivalents	—	—	—	—	<b>28,706</b>	26,175
Trade and other receivables	<b>6,030</b>	—	—	—	<b>2,802</b>	9,589
<b>At 31 August</b>	<b>6,030</b>	—	—	1,595	<b>31,508</b>	35,764

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

	Fair value through profit and loss £'000	Available-for-sale investment £'000
<b>At 1 September 2016</b>	—	<b>810</b>
Gain in other comprehensive income	—	<b>785</b>
<b>At 1 September 2017</b>	—	<b>1,595</b>
Recognition of contingent consideration upon disposal( Note 28)	<b>6,030</b>	—
Disposal of available-for-sale investment	—	<b>(1,595)</b>
<b>At 31 August 2018</b>	<b>6,030</b>	—

The investment, which is within level 3 of the financial reporting hierarchy, represents a 24.2% holding in QSB Gaming Limited which was disposed of during the year. The asset held at fair-value through the profit and loss account, relates to the contingent earnout receivable following this disposal. Refer to note 28.

#### Financial liabilities

	Fair value through profit and loss		Financial liabilities at amortised cost	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Contingent remuneration	—	—	—	4,969
Contingent consideration	—	17,417	—	—
Trade and other payables	—	—	<b>9,308</b>	9,535
Loans and borrowings	—	—	<b>4,443</b>	6,418
<b>At 31 August</b>	—	17,417	<b>13,751</b>	20,922

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

	Contingent consideration £'000
<b>At 1 September 2017</b>	<b>5,620</b>
Tarco unwinding of discount of contingent consideration (note 24)	<b>1,000</b>
Increase in Tarco contingent consideration	<b>10,797</b>
<b>At 1 September 2018</b>	<b>17,417</b>
Tarco unwinding of discount of contingent consideration (note 24)	<b>333</b>
Decrease in Tarco contingent consideration (note 24)	<b>(398)</b>
Gain on fair value on settlement of liability through the issue of shares (note 24)	<b>(815)</b>
Settlement of Tarco contingent consideration (note 24)	<b>(16,537)</b>
<b>At 31 August 2018</b>	—

#### 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.

Within trade and other receivables there is an amount owed by Rank Group Plc to Stride Gaming (£5,560,000). The amount held on the balance sheet is the value of the total amount, minus that already received (£4,400,000 including selling fees), is the total earn-out from the acquisition. This is based on the information Rank provided to the market, which is that they expect to pay the total earn-out.

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 13.

#### 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 2018				
	Sterling £'000	US Dollar £'000	Israeli Shekel £'000	Other £'000	Total £'000
Financial assets	8,672	5	10	145	8,832
Financial liabilities	(13,012)	(7)	(375)	(357)	(13,751)
<b>Total net exposure</b>	<b>(4,340)</b>	<b>(2)</b>	<b>(365)</b>	<b>(212)</b>	<b>(4,919)</b>

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

#### 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 2018			
	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	(8,262)	(762)	—	(284)
Loans and borrowings	(494)	(1,481)	(1,975)	(493)
<b>Total</b>	<b>(8,756)</b>	<b>(2,243)</b>	<b>(1,975)</b>	<b>(777)</b>

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

## 22 Share-based payments

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

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

	Weighted average exercise price (£)	Number '000
Outstanding at 1 September 2016		5,087
Granted during the year	0.54	539
Forfeited during the year	1.32	(116)
Outstanding at 31 August 2017		5,510
Exercised during the year	1.32	(560)
Granted during the year	2.11	849
Forfeited during the year	1.32	(54)
<b>Outstanding at 31 August 2018</b>		<b>5,745</b>

The weighted average exercise price of options outstanding at 31 August 2018 was £1.31 (2017: £1.19) and their weighted average contractual life was 3.06 years (2017: 3.13 years).

Of the total share options outstanding at 31 August 2018, 3,041,496 had vested (2017: 2,000,000), although not exercised. All other outstanding shares at year end are therefore not exercisable. The weighted average value exercise price of the vested options is £1.32 (2017: £1.32)

The weighted average fair value of each option granted during the period was £0.89 (2017: £2.15).

Included in the outstanding number of options above are 221,667 (2017: 1,055,000) options issued to non-employees under the appropriate terms of the share option scheme. Also included in the outstanding number of options above are 593,333 options issued under the LTIP.

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

	2018	2017
Option pricing model used	<b>Black-Scholes</b>	Black-Scholes
Weighted average share price at grant date (£)	<b>2.10</b>	2.47
Weighted average exercise price (£)	<b>2.11</b>	0.54
Weighted average contractual life (in years)	<b>3.00</b>	3.00
Weighted average expected volatility	<b>72.18%</b>	58.22%
Expected dividend growth rate	<b>0.50%</b>	0.50%
Weighted average risk-free interest rate	<b>0.73%</b>	0.39%

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:

	2018 £'000	2017 £'000
Equity-settled schemes expense	<b>1,177</b>	1,751
National Insurance <sup>(a)</sup>	<b>(248)</b>	7
Equity-settled schemes, including National Insurance	<b>929</b>	1,758

(a) As the share price at 31 August 2018 was out of the money for all of the share options, except LTIPs, there was an overall credit to reduce the National Insurance provision to nil.

During the year the Group also settled the acquisition of 8Ball Games Ltd through the issue of shares and as this was linked to remuneration it constituted a share-based payment under IFRS 2. The total expense in the prior year was £10,088,000 and this was included in the contingent remuneration in the profit or loss account (refer to note 24 for further details and number of shares issued). The fair value of the shares was calculated on the date of the acquisition as £2.45 which was based on the share price at that date of £2.45 and an exercise price of £Nil.

### 23 Business combinations

#### *Acquisition of Passion Gaming Private Ltd*

In December 2017, the group completed its acquisition of 51% of the voting equity instruments of Passion Gaming Private Ltd ("Passion Gaming"), a rummy-focused online gaming company registered and operating across India. The acquisition has allowed the Group to enter new growth markets and has provided an attractive, related online gaming product. 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, which do not qualify for separate recognition. It is for this reason that the cash consideration of £2.48 million was invested in the company's working capital to accelerate growth, instead of going directly to the sellers, and this is included within the cash on acquisition in the table below.

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

	<b>Book and fair value</b>
	<b>£'000</b>
Property, plant and equipment	26
Intangibles	31
Cash	2,437
Trade and other receivables	5
Trade and other payables	(270)
Minority interest	(1,093)
	<hr/>
<b>Total net assets</b>	<b>1,136</b>
Fair value of cash consideration paid	2,477
	<hr/>
Goodwill (note 11)	<u><b>1,341</b></u>

As part of the acquisition the Group has the right, through call options (nil value), to acquire at its sole discretion the remaining 49% of Passion Gaming from the existing shareholders over a three to five-year period as follows:

- 24% on the third anniversary following the completion date of the acquisition; and
- The remaining 25% on the fifth anniversary following the completion date of the acquisition.

Should the options be exercised they will be settled using a combination of cash and shares based on the future financial performance of Passion Gaming. The fair value of the call options are not material and therefore have not been recognised.

Passion Gaming's contribution to the Group's revenue and profit from the start of the financial year should the acquisition have taken place then, until 31 August 2018 is not significant therefore has not been separately disclosed.

Total acquisition costs amounted to £98,000 and these have been recognised in the profit or loss account.

Further to the above acquisition, the Group has a commitment to acquire a copy of the software which Passion Gaming is currently utilising for a royalty fee, from an unrelated third party, for a total consideration of just under £400,000. The acquisition will complete post year end, once all the software and related intellectual property is delivered to the Group, and from that date, the cash invested in Passion Gaming, will be used to further develop and enhance it. A 50% cash deposit was made in the year ended 31 August 2018, which means the financial commitment is just under £200,000.

### 24 Related party transactions

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

The acquisitions of the Tarco Assets and Netboost Media on 31 August 2016 constituted a related party transaction due to the acquired businesses being under common control of significant shareholders, as well as certain shareholders being key management personnel of the Group. As at 31 August 2018 the total contingent consideration liability was nil (31 August 2017: £17,417,000). The total liability of £17,352,217 was settled in April 2018 with £7,753,238 satisfied by the issue of 3,168,076 new ordinary shares of 0.01p each at 244.73p, being the average closing price of the ordinary shares for the 90 day period ending on 31 December 2017, and the remainder of £9,598,979 paid in cash. The movement in the contingent consideration liability from 31 August 2017 is the unwinding of the discount on the consideration of £333,000 (2017: £1,000,000) included in finance expense, as

well as a final assessment of the amount payable following the end of the earnout period at 31 December 2017 resulting in a credit of £398,000. A further gain was recognised in the consolidated statement of profit or loss of £815,000, being the difference between the share price of 219.00p on the date of issue of the shares (24 April 2018) and the value at which the shares were issued of 244.73p in accordance with the purchase agreement.

A total of £170,000 was due to a company under control of common significant shareholders at 31 August 2018 and 31 August 2017. The amount due is interest free and there were no transactions with this related party in the current or prior year.

The Group entered into related party transactions with certain other companies under control of significant shareholders or Key Management Personnel (KMP) for the provision of software platform, marketing, office rental and other back office services. The total purchases in the year ended 31 August 2018 were £2,297,000 (2017: £5,285,000). From this total £993,000 (2017: £4,132,000) related to direct marketing costs placed by the related party, as well as a marketing fee for providing this service. Total amounts due by the Group at 31 August 2018 were £70,000 (2017: £272,000) and the total amounts receivable by the Group at 31 August 2018 were £7,000 (2017: £2,000).

On 30 July 2015, the Group entered into a loan agreement with a shareholder for a total amount of £8,000,000. The amount, which was due for full repayment in July 2017, was incurring interest of 7.5% per annum paid monthly in arrears. On 9 December 2016 the loan was repaid in full following the refinancing agreed with Barclays in November 2016. Total interest expense in the period ended 31 August 2018 was £Nil (2017: £158,000 plus an early termination fee of £100,000). There was no balance due at 31 August 2018.

During the prior year a total expense of £14,124,000 was recognised in the profit or loss account in relation to the contingent remuneration following the acquisition of 8Ball Games Ltd. This was split between a cash payable amount of £4,036,000 and a fixed share-based payment expense of £10,088,000 which was due to the previous owners of the 8Ball Games Ltd who are considered KMP. The agreed final earnout consideration is £13,092,000 was settled, with £9,055,200 satisfied by the issue of 4,117,482 new ordinary shares of 0.01p each and £4,036,800 payable in cash.

Following the establishment of its first business to business joint venture, Aspers Online Limited, in May 2017 with a leading gaming operator in the UK, the online business officially launched in October 2017. In the year ended 31 August 2018 the Group recognised £1,493,000 of platform income (2017: £Nil) and a share of profit from the joint venture of £106,000 (2017: £Nil), both in the consolidated statement of comprehensive income. As at 31 August 2018, Aspers Online Limited owed the Group £53,000 (31 August 2017: £Nil).

## 25 Non-cash movements in cash flow statement

The InfiApps final contingent remuneration in relation to the second year earnout of \$1.2 million, which was settled in the current period was paid by releasing the funds held in escrow at 31 August 2017.

The Tarco cash contingent consideration settled, as per note 24 in the current period, partly through releasing the £4 million held in escrow at 31 August 2017.

## 26 Assets held for sale and discontinued operations

On 28 February 2018 the Board decided to classify the trade and assets of InfiApps Limited, as held for sale. The results of these operations are presented as discontinued operations in the Group's Income Statement. The comparatives have been restated to show the discontinued operation separately from the continuing operations. Management committed to a plan to discontinue the social gaming CGU and therefore all assets and liabilities relating to it have been presented separately in the consolidated statement of financial position. Results of the discontinued operations for the periods presented are as follows:

	2018 £'000	2017 £'000
<b>Revenue</b>	<b>4,548</b>	8,107
Distribution costs	<b>(1,886)</b>	(4,346)
Administrative expenses	<b>(1,983)</b>	(3,183)
<b>Adjusted EBITDA</b>	<b>679</b>	578
Contingent remuneration	-	(101)
Impairment	<b>(2,814)</b>	(9,987)
Amortisation of intangible assets	<b>(3,136)</b>	(1,669)
Depreciation	<b>(34)</b>	(31)
<b>Operating loss before tax</b>	<b>(5,305)</b>	(11,210)
Tax credit	<b>897</b>	929
<b>Loss after tax and other comprehensive income</b>	<b>(4,408)</b>	(10,281)
Loss per share from discontinued operations (p)		
Basic	(6.02)	(15.28)
Diluted	(6.02)	(15.28)

The carrying value of the disposal group classified as held for sale at 28 February 2018 was £4.3m. At 31 August 2018 this was compared to its recoverable amount through a sale, less costs to sell. As a result of this, an impairment was recognised of £2,814,000 against the remaining intangibles of Infiapps.

#### Cash flows from discontinued operations:

	2018 £'000	2017 £'000
Net cash generated from operating activities	329	1,361
Net cash used in investing activities	(116)	(4,605)
<b>Net cash generated from discontinued operations</b>	<b>213</b>	<b>(3,244)</b>

#### Details of net assets and liabilities held for sale:

	<b>Assets</b> 2018 £'000
Trade and other receivables	1,014
Deferred tax asset	14
Intangibles	1,503
Property, plant and equipment	56
Cash and cash equivalents	540
	<b>3,127</b>
	<b>Liabilities</b> 2018 £'000
Trade and other payables	507
Deferred tax liability	322
	<b>829</b>

#### 27 Investment in joint venture

In May 2017 the Group set up its first joint venture, Aspers Online Limited, where it holds a 50% stake. The joint venture officially launched operations in October 2017, and the share of profit from the joint venture for the year ended 31 August 2018 was £104,000. Refer to note 24 for further details.

#### 28 Disposal of available-for-sale investment

During the year, the Group disposed of its 24.2% investment in QSB Gaming Limited ("QSB"), an operator of online casino and bingo gaming sites in the Spanish market and registered in Alderney. Despite holding greater than 20% of the voting equity instruments in QSB, the Directors did not believe that they exercised significant influence over the investee. This is on the basis that the Group had no representation on the board and no participation in decisions over operating and financial policies. The Group therefore recorded the asset as an available-for-sale investment.

In May 2018 through agreement of all shareholders, QSB was sold to a third party. Based on the terms of the sale agreement, which includes:

- An initial consideration of €21 million; and
- A contingent consideration based on a multiple of EBITDA for the year ending 31 December 2018;

together not to exceed €52 million, the Group has recognised a total profit on disposal of £10,431,000, with a receivable from the buyer of £6.03 million. This reflects the information the buyer has released to the market and is the best estimate of the contingent consideration's fair value having regard to the present value of the future expected cash flows using a risk adjusted probability assessment of the various scenarios affecting the deferred and contingent consideration.

#### 29 Notes supporting statement of cash flows



The cash movements within Financing activities of the cash flow statement relating to liabilities and assets have been presented below. Non-cash transactions from financing activities have also been shown in the reconciliation.

	Loans and borrowings £'000	Total £'000
<b>At 1 September 2017</b>	6,418	6,418
Loan repayment	(2,000)	(2,000)
Interest paid	(237)	(237)
<b>Total</b>	4,181	4,181
<b>Non-cash flows</b>		
Interest accumulated	262	262
<b>At 31 August 2018</b>	4,443	4,443

# 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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JE2 3RT

## **Company number**

117876

## **Auditor**

***BDO LLP***

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## **Legal advisors**

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## **Financial advisor, nominated advisor and joint broker**

***Investec Bank Plc***

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