

Webis Holdings plc
(“Webis” or “the Group”)

Annual Report and Financial Statements for the year ended 31 May 2019

Notice of Annual General Meeting

Webis Holdings plc, the global gaming group, today announces its audited results and the publication of its 2019 Report and Accounts (“Accounts”) for the year ended 31 May 2019, extracts from which are set out below.

The Accounts are being posted to shareholders today together with the Notice of Annual General Meeting, and will be available on the Group’s website www.webisholdingsplc.com and at the Group’s Registered Office: Viking House, Nelson Street, Douglas, Isle of Man IM1 2AH.

The AGM will be held at The Claremont Hotel, 18/19 Loch Promenade, Douglas, Isle of Man, at 11.00 a.m. on 23 December 2019.

Chairman’s Statement

Introduction

It has been a mixed year for our core USA based business, WatchandWager.com LLC (“WatchandWager”) over the financial year reported, with a reduction in amounts wagered, and an overall loss returned, but against that a significant strengthening of our licensed USA position in the increasingly expanded world of USA regulated gaming.

Despite the loss reported, the Board is overall satisfied with the performance over the year reported for our three core business units, namely “Business-to-Consumer”, “Business-to-Business” and our racetrack operation at “Cal Expo” in Sacramento, California, and these three sectors are commented upon in more detail below.

Equally importantly, and as shareholders are aware, the company, as an Isle of Man owned operation, still occupies a unique advantage in the USA, with our array of USA licenses, banking, settlement and general business operational skills. We also consider our license and lease at the Cal Expo racetrack in Sacramento, California, to be a significant asset in regulated gaming globally, but of course mainly in the USA and California. The Company still stands well positioned in particular in California, and also other States that it is licensed and operates in.

Year End Results Review

The Group amounts wagered for the year ended 31 May 2019 was US\$136.4 million (2018: US\$461.2 million) – a significant decline due to the loss of a large wagering syndicate as previously reported to shareholders on 19 October 2018 and commented on below. Gross Profit reported was US\$4.5 million (2018: US\$5.6 million). This led to an overall loss on the year.

Operating costs were US\$5.3 million: down 5% on 2019 (2018: US\$5.6 million), as we continue to manage costs over the entire operation. We expect these costs to reduce in the current financial year. As a result, our loss from operations was US\$930,000.

Shareholder equity stands at US\$1.2 million (2018: US\$2.0 million). Total cash stands at US\$2.6 million (2018: US\$13.4 million), which includes ring-fenced funds held as protection against our player liability as required under USA and Isle of Man gambling legislation. An amount of US\$875,000 was held during the year as bonds and deposits with regulatory authorities.

Approach to Risk and Corporate Governance

As part of the adoption of the Quoted Companies Alliance Corporate Governance code, the Board completed an assessment of the risks inherent in the business and defined and adopted a statement of risk appetite, being the amount and type of risk, it is prepared to seek, accept or tolerate in pursuit of value. This being: -

“The Group’s general risk appetite is a moderate, balanced one that allows it to maintain appropriate growth, profitability and scalability, whilst ensuring full regulatory compliance.”

The Group’s primary risk drivers include: -

- Strategic
- Reputational
- Credit
- Operational
- Market
- Liquidity, Capital and Funding

Regulatory and Compliance Conduct

Our risk appetite has been classified under an “impact” matrix defined as Zero, Low, Medium and High. Appropriate steps are underway to ensure the prudential control monitoring of risks to the Group and the Audit, Risk and Compliance Committee will oversee this essential requirement. Further details of the Corporate Governance Statement will be found in the Annual Report.

The Board refined the Group’s business plan which incorporated the risk and compliance framework.

Performance by Sector

WatchandWager

Business-to-Consumer

www.watchandwager.com/mobile

During the year, we reviewed this sector and whilst our platform is important to the operation, we have refined our marketing investment to more accurately target our core audience, mainly horse players and potential sports players. Whilst the website and mobile product continue to perform well, quite simply the marketing investment required to compete with the large brands in the USA is not commercially feasible. As a result, we have adjusted our strategy in this area, with a reduced marketing spend, and some reductions in data feeds and other products, that after researching our key clients do not rely upon. This streamlining of our costs has actually worked well, and player numbers during the period were up by 16%, whilst costs have reduced. This is commented upon more in post year developments.

That said, we continue to provide the best possible service to our clients in this area. We offer some unique opportunities for clients to bet especially in the very large amount of international content that we are licensed to provide, and also our competitive rewards program that we offer. We also have an excellent array of licenses in USA states we can take bets from, and we consider this critical to our future. We are confident that this service will continue to increase our client base and overall turnover, but under a reduced operational cost. We also know that our database has a value in the expanding world of USA regulated sports betting.

Business-to-Business

This sector is the provision of pari-mutuel (pool) wagering to high-roller clients, many of whom specialise in algorithmic or computer assisted trading on a wide range of global racetracks.

The amounts wagered for the full year were significantly reduced by the previously reported cessation of wagering from a large syndicate group/agent for almost the entire year reported. Subsequent to that all contractual relations with this group have been terminated by WatchandWager. This impacted turnover into primarily the Hong Kong Jockey Club and the French PMU. This had the anticipated impact previously reported of around US\$800,000 in reduced gross margin during the period, which is the principal reason for the losses reported.

However, this does mean that the risk factor of a reliance on one particular group/agent is no longer. In addition, the reduction in business has in no manner impacted our world-wide licenses and content that we have worked hard upon and continue to be in good standing with. In fact, the opposite is the case with many regulators and content providers continuing to be in favour of us possessing a broader range of clients.

Our network of other players continued to grow both in terms of turnover and player sign-ups. By not paying third-party fees, we benefit from a much better margin than those through agents, and we are able to work proactively and directly with them.

That said and as previously notified, the entire sector remains volatile, being subject to changes in player or aggregator activities, as well as changes in the policies of key content providers and regulators. To that end whilst we will continue to service this sector, it is not our principal focus at this time.

Cal Expo

Cal Expo had a good racing season during the period, running 47 race meets between November 2018 and May 2019. Most importantly, our excellent health and safety record remains and, unlike other Californian tracks, with no equine fatalities relating to racing activities incurred during the meeting. Equine safety, and the safety of all our participants and customers remains of the upmost priority. These were tested during the severe wildfires experienced in Northern California during the period, and as a result we cancelled racing on two occasions to ensure the safety of all participants.

Given these circumstances, it was very encouraging that both horse numbers, and all sources handle, were up on the previous 2017/18 meeting, and this shows an encouraging trend for the new season. We were also assisted by the new International Racing Bill approved in California, which Management heavily lobbied for in Sacramento, and commenced in January 2019. As predicted, this added circa US\$100,000 of extra revenue to our operations, and we expect this to continue to improve.

The Board considers our licensed operations at Cal Expo to be one of the key assets of the Group and central to our growth in the USA.

Licenses

The management team have been busy during the period reported and subsequently, renewing our key strategic licenses and we can confirm the recent renewal of our core multi-jurisdictional license for wagering with the North Dakota Racing Commission for 2020. In addition, as previously announced, we have renewed our strategically important license in California for a period of two more years (to be reheard in 2021). At the same time, we have renewed or are in the process of renewing other key licenses in New York, Kentucky, Washington, Colorado and Minnesota. We are very confident all of these licenses will be in place in advance of the start of 2020, as we are in good status with the relevant State regulators. The Board considers these licences and future applications, alongside our physical presence at Cal Expo, to be the principal assets of the Group, and this is commented more in subsequent events below.

Subsequent Events (post period reported)

Trading

Trading has been much improved in the new financial year from June 1st, 2019 to time of writing. We have seen growth in all three divisions we operate, and our strategy of controlling costs, particularly in the areas of data provision, marketing and some staff costs has been and will continue to be effective. As a result, we are much closer to a breakeven situation at EBITDA level which is our initial task, with the ultimate need to return to profitability. A further update will be delivered to shareholders at our 2019/20 Interim announcement which will be delivered in February 2020.

Cal Expo

As previously reported, the Board is currently working with the Board of the state-run Cal Expo Exposition of Fairs on a license renewal up to 2025, with the possibility of extending even further beyond that. This is a very significant move forward as we believe the racetrack can operate in an increasing profitable manner, but even more importantly will continue to give the Group an important licensed presence in what will become by far the largest State for sports betting and other forms of gaming in the USA.

Welfare issues

On a less positive note, many shareholders will be aware of the larger number of equine fatalities at a track in Santa Anita, California. Whilst our operations are not impacted in any way, the Board are very aware of the effect this has and can continue to have on public opinion, particularly through organizations such as PETA (Protection of Ethical Treatment for Animals). That said, we are very pleased with the swift remedial action approved by the California Horseracing Board in particular. As stated above Cal Expo maintains an excellent welfare record, and the protection of our horses and participants is our utmost priority.

USA regulated sports betting and other gaming

It is now only eighteen months since the Supreme Court's positive judgement on USA Sports betting in May 2018, and the Board is very encouraged by the significant progress that has been made in many first starter States, especially New Jersey, which is now creating significant revenues, and most importantly meaningful duties and tax back to the State. Also, encouragingly, the two best performing properties in New Jersey are both racetracks – namely Meadowlands and Monmouth Park, confirming our opinion that horseracing players will also bet on sports at far higher levels than casino or slot machine players. When sports betting is legalised in California, we plan to adopt a very similar model to that enjoyed at Meadowlands.

Developments by State

Clearly progress has been fastest on the East Coast, although we do feel we were best to stay out of these markets, where we have few licenses and less traction. That said it has been interesting to note the progress in the currently legalised states, and also the huge interest from the large USA gaming and media companies in the sector, not to mention the European operators, and software companies. This is further commented upon under strategic opportunities.

California

Our physical presence in California and accompanying licenses remains our biggest asset and opportunity, but the situation is complicated given the diverse interests in the State. We are very encouraged by progress in the State Capitol in Sacramento, located less than five miles from Cal Expo racetrack, and where the ultimate decisions will be made. We welcome the draft Dodd/Gray AB10 Bill and are actively participating in efforts to move this forward in the Capitol. Most significant is the current language that will only allow active land-based participants in California to apply for licences, namely Racetracks, Native American Casinos, and possibly Card Clubs. This effectively means the large USA and international gaming operations and software suppliers outside California will literally need to buy themselves into the State at large premiums. Whilst almost impossible to predict the progress of State legislature particularly in California, at present, we reasonably expect Sports betting to be legalized for those with a physical presence in the State by 2021, with a possible go-live date in 2022. We will update shareholders as and when more progress is made.

Other State opportunities

With California being a long-term goal, we are also focusing on other States, and additional opportunities to operate other forms of gaming, both land-based and on-line, with a view to generate short term profitability. At present, opportunities exist in North Dakota, Arizona and a few other key States, plus some international opportunities. We will update shareholders in due course.

Corporate Governance

One of the Group Board's primary responsibilities is to ensure the provision of effective corporate governance. To this end, the Board undertook a full review of every aspect of governance in light of the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies (2018) and I am pleased to report that the Group is fully compliant in all aspects.

Strategic opportunities and Outlook

USA regulated gaming is seen as the hottest subject at present in global gaming, and something of a gold rush both in the USA and, indeed, internationally. Non-USA and certain European companies are experiencing severe regulatory issues, as well as margin problems, and appear almost desperate to be a part of the developments in the USA. As a result, it should come as no surprise that WatchandWager continues to be courted by large corporations, and indeed smaller operations with a view to software deals, strategic alliances, mergers or even outright acquisition opportunities. Principally led by our Managing Director, the Board assesses each opportunity on a case-by-case basis. It should be noted in the majority of instances, the Board takes the view that "they need us more than we need them" and we continue to protect our USA licensed presence as a core asset.

We are very aware of the increased consolidation in the industry and the economies of scale of strategic partnerships and will keep shareholders aware of any meaningful strategic developments with the Group, most likely in the USA, but possibly with international partnerships.

I also believe it is important to re-confirm the support of our principal shareholder for our USA operations, strategy and expansion plans. As a Board, we also believe we have the ability to raise further capital to support our operations both short term and indeed for future funding of our USA strategy.

Finally, I would like to thank all our shareholders, customers for their continued loyalty, and our staff for their continued hard work.

Denham Eke

Non-executive Chairman

For further information:

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Roland Cornish/James Biddle

Consolidated Statement of Comprehensive Income

For the year ended 31 May 2019

	Note	2019 US\$000	2018 US\$000
Amounts wagered		136,353	461,154
Turnover	2	47,259	54,466
Cost of sales		(42,625)	(48,027)
Betting duty paid		(146)	(884)
Gross profit		4,488	5,555
Operating costs		(5,277)	(5,562)
Impairment loss on trade receivables	20	(67)	—
Re-organisational and other costs		(54)	(86)

	Note	2019 US\$000	2018 US\$000
Other (losses)/gains		(166)	132
Other income		187	104
Operating (loss)/profit	3	(889)	143
Finance costs	4	(41)	(40)
(Loss)/profit before income tax		(930)	103
Income tax expense	6	—	—
(Loss)/profit for the year		(930)	103
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences on disposal of foreign subsidiaries		—	—
Other comprehensive income for the year		—	—
Total comprehensive income for the year		(930)	103
Basic earnings per share for (loss)/profit attributable to the equity holders of the Company during the year (cents)	7	(0.24)	0.03
Diluted earnings per share for (loss)/profit attributable to the equity holders of the Company during the year (cents)	7	(0.23)	0.03

Statements of Financial Position

As at 31 May 2019

	Note	31.05.19 Group US\$000	31.05.19 Company US\$000	31.05.18 Group US\$000	31.05.18 Company US\$000
Non-current assets					
Intangible assets	8	104	7	166	13
Property, equipment and motor vehicles	9	26	10	60	19
Investments	10	—	3	—	8
Bonds and deposits	11	101	—	101	—
Total non-current assets		231	20	327	40
Current assets					
Bonds and deposits	11	882	—	2,846	—
Trade and other receivables	13	1,191	427	2,300	57
Cash and cash equivalents	12	2,594	1,416	13,392	2,961
Total current assets		4,667	1,843	18,538	3,018
Total assets		4,898	1,863	18,865	3,058
Equity					
Called up share capital	16	6,334	6,334	6,334	6,334

	Note	31.05.19 Group US\$000	31.05.19 Company US\$000	31.05.18 Group US\$000	31.05.18 Company US\$000
Share option reserve	16	42	42	4	4
Retained losses		(5,224)	(5,412)	(4,294)	(5,282)
Total equity		1,152	964	2,044	1,056
Current liabilities					
Trade and other payables	14	2,896	49	16,321	1,502
Total current liabilities		2,896	49	16,321	1,502
Non-current liabilities					
Loans	15	850	850	500	500
Total non-current liabilities		850	850	500	500
Total liabilities		3,746	899	16,821	2,002
Total equity and liabilities		4,898	1,863	18,865	3,058

Statements of Changes in Equity

For the year ended 31 May 2019

Group	Called up share capital US\$000	Share option reserve US\$000	Retained earnings US\$000	Total equity US\$000
Balance as at 31 May 2017	6,334	2	(4,397)	1,939
Total comprehensive income for the year:				
Profit for the year	—	—	103	103
Transactions with owners:				
Share-based payment expense	—	2	—	2
Balance as at 31 May 2018	6,334	4	(4,294)	2,044
Total comprehensive income for the year:				
Loss for the year	—	—	(930)	(930)
Transactions with owners:				
Share-based payment expense (note 16)	—	38	—	38
Balance as at 31 May 2019	6,334	42	(5,224)	1,152

Company	Called up share capital US\$000	Share option reserve US\$000	Retained earnings US\$000	Total equity US\$000
Balance as at 31 May 2017	6,334	2	(5,374)	962
Total comprehensive income for the year:				
Profit for the year	—	—	92	92
Transactions with owners:				
Share-based payment expense	—	2	—	2
Balance as at 31 May 2018	6,334	4	(5,282)	1,056

Group	Called up share capital US\$000	Share option reserve US\$000	Retained earnings US\$000	Total equity US\$000
Total comprehensive income for the year:				
Loss for the year	—	—	(130)	(130)
Transactions with owners:				
Share-based payment expense (note 16)	—	38	—	38
Balance as at 31 May 2019	6,334	42	(5,412)	964

Consolidated Statement of Cash Flows

For the year ended 31 May 2019

	Note	2019 US\$000	2018 US\$000
Cash flows from operating activities			
(Loss) / profit before income tax		(930)	103
Adjustments for:			
- Depreciation of property, equipment and motor vehicles	9	34	74
- Amortisation of intangible assets	8	80	70
- Finance costs	4	41	40
- Share based payment expense	16	38	2
- Other foreign exchange movements		363	(691)
Changes in working capital:			
- Decrease in receivables		1,109	771
- Decrease in payables		(13,425)	(2,563)
Cash flows from operations		(12,690)	(2,194)
Bonds and deposits placed in the course of operations	11	1,964	19
Net cash used in operating activities		(10,726)	(2,175)
Cash flows from investing activities			
Purchase of intangible assets	8	(18)	(130)
Purchase of property, equipment and motor vehicles	9	—	(24)
Net cash used in investing activities		(18)	(154)
Cash flows from financing activities			
Interest paid	4	(41)	(40)
Loans received	15	350	—
Net cash generated from / (used in) financing activities		309	(40)
Net decrease in cash and cash equivalents		(10,435)	(2,369)
Cash and cash equivalents at beginning of year		13,392	15,072
Exchange (losses) / gains on cash and cash equivalents		(363)	689
Cash and cash equivalents at end of year		2,594	13,392

Notes to the Financial Statements

For the year ended 31 May 2019

1 Reporting entity (the “Company”)

Webis Holdings plc is a company domiciled in the Isle of Man. The address of the Company’s registered office is Viking House, Nelson Street, Douglas, Isle of Man, IM1 2AH. The Webis Holdings plc consolidated financial statements as at and for the year ended 31 May 2019 consolidate those of the Company and its subsidiaries (together referred to as the “Group”).

1.1 Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations as adopted by the European Union.

There has been no material impact on the Group financial statements of new standards/interpretations that have come into effect during the current reporting period.

Functional and presentational currency

These financial statements are presented in US Dollars which is the Group’s primary functional currency and its presentational currency. Financial information presented in US Dollars has been rounded to the nearest thousand. All continued operations of the Group have US Dollars as their functional currency.

(b) Basis of measurement

The Group consolidated financial statements are prepared under the historical cost convention except where assets and liabilities are required to be stated at their fair value.

(c) Use of estimates and judgement

The preparation of the Group financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management’s best knowledge and experience of current events and expected economic conditions, actual results may differ from these estimates.

The Directors consider the only critical judgement area to be the valuation of share options. The Directors believe the models and assumptions used to calculate the fair value of the share-based payments, outlined in note 16, are the most appropriate for the Group.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Going concern

The Group and Parent Company financial statements have been prepared on a going concern basis.

The Group incurred a net loss of US\$930,000 for the year (2018: profit of US\$103,000) and as at 31 May 2019. Based on forecasts prepared by the Directors, the Group will sustain losses to November 2020 and is dependent on continued financial support from Galloway Limited in order to continue its operations and implement the strategies outlined below. The reported turnover declined by US\$7,207,000 during the year following a decrease in wagering activities and the cessation of wagering services to a large syndicate, with an anticipated annual impact of approximately US\$800,000 in reduced gross margin. The Directors recognise that there is a risk involved in the sustainability of the business operations and have identified that these circumstances in combination represent a material uncertainty that casts significant doubt upon the Group’s ability to continue as a going concern, without shareholder support.

The Directors are pursuing strategies that include:

- broadening the Group’s client base and expanding its business to customer base
- continuing to renew and acquire further US state regulated gaming licenses and continuing to develop and expand the Cal Expo racetrack operation including the extension of the lease to a longer lease term
- taking advantage of the anticipated regulatory change in the State of California’s adoption of sports betting legislation which will further open up opportunities for the Group
- reducing operational costs as a key priority for the Group in achieving its goal of profitability and maintaining adequate liquidity in order to continue its operations.

The Directors continue to assess all strategic options in this regard, albeit that the ultimate success of strategies adopted is difficult to predict as they require additional cash, including bonds to be placed with the relevant authorities. The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Group is projected to have sufficient funds through funding from its related entity, to meet its liabilities as they fall due for that period.

Those forecasts are also dependent on Galloway Limited not seeking repayment of the amounts currently due by the Group, which at 31 May 2019 amounted to US\$850,000, and providing additional financial support if required in order to ensure the continuation of the Group’s existing operations. Galloway Limited has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet

date, for the period covered by the forecasts. As with any company placing reliance on other parties for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The willingness of Galloway Limited to continue to provide this support is reliant on the strategies highlighted above which are subject to uncertainty.

Based on these indications, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

1.2 Changes in significant accounting policies

During the current year the Group adopted all the new and revised IFRSs that are relevant to its operation and are effective for accounting periods beginning on 1 June 2019. This adoption did not have a material effect on the accounting policies of the Group. The changes to the significant accounting policies are described below:

IFRS 9 Transition

Classification and measurement on adoption

The Group adopted *IFRS 9 Financial Instruments* for the first time on 1 June 2018. For the Group, there is no financial impact on adopting IFRS 9 for changes in the measurement basis for financial assets and liabilities and consequently no adjustment to opening retained earnings at 1 June 2018. There has however been a change to classification terminology, outlined below for the company's main financial instruments:

Financial instrument	New Classification under IFRS 9	Original Classification under IAS 39	Measurement model
Cash and cash equivalents	Amortised cost	Loans and receivables	Amortised cost
Trade receivables	Amortised cost	Loans and receivables	Amortised cost
Loans and advances	Amortised cost	Loans and receivables	Amortised cost
Bonds and Deposits	Amortised cost	Loans and receivables/ Loans and receivables	Amortised cost
Equity instruments	FV on day 1, no remeasurements	FV on day 1, no remeasurements	FVTPL

Impairment on adoption

The Group has determined that the impact of adopting IFRS 9's ECL model is an immaterial transitional impact on the Group's opening retained earnings at 1 June 2018. The accounting policies set out above have been applied consistently to all periods presented in these financial statements in accordance with IFRS.

Impairment of financial assets

IFRS 9 introduces an expected loss accounting model for credit losses that differs significantly from the incurred loss model under IAS 39 and results in earlier recognition of credit losses. The new impairment model applies to financial assets measured at amortised cost and contract assets. Financial assets at amortised cost include trade receivables, cash and cash equivalents, bonds and deposits.

Performing financial assets

Stage 1

From initial recognition of a financial asset to the date on which an asset has experienced a significant increase in credit risk relative to its initial recognition, a stage 1 loss allowance is recognised equal to the credit losses expected to result from its default occurring over the earlier of the next 12 months or its maturity date ('12-month ECL').

Stage 2

Following a significant increase in credit risk relative to the initial recognition of the financial asset, a stage 2 loss allowance is recognised equal to the credit losses expected from all possible default events over the remaining lifetime of the asset ('Lifetime ECL'). The assessment of whether there has been a significant increase in credit risk requires considerable judgment, based on the lifetime probability of default ('PD'). Stage 1 and 2 allowances are held against performing loans; the main difference between stage 1 and stage 2 allowances is the time horizon. Stage 1 allowances are estimated using the PD with a maximum period of 12 months, while stage 2 allowances are estimated using the PD over the remaining lifetime of the asset.

Impaired financial assets

Stage 3

When a financial asset is considered to be credit-impaired, the allowance for credit losses ('ACL') continues to represent lifetime expected credit losses, however, interest income is calculated based on the amortised cost of the asset, net of the loss allowance, rather than its gross carrying amount.

Application of the new impairment model

The Group applies IFRS 9's new ECL model to two main types of financial assets that are measured at amortised cost:

Trade receivables, to which the simplified approach (provision matrix) prescribed by IFRS 9 is applied. This approach requires the recognition of a Lifetime ECL allowance on day one.

Other financial assets at amortised cost, to which the general three stage model (described above) is applied, whereby a 12-month ECL is recognised initially and the balance is monitored for significant increases in credit risk which triggers the recognition of a Lifetime ECL allowance.

CLs are a probability-weighted estimate of credit losses. ECLs for financial assets that are not credit-impaired at the reporting date are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due in accordance with the contract and the cash flows that the company expects to receive). ECLs for financial assets that are credit-impaired at the reporting date are measured as the difference between the gross carrying amount and the present value of estimated future cash flows. ECLs are discounted at the effective interest rate of the financial asset which is 0% for all financial assets at amortised cost. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk. The measurement of ECLs considers information about past events and current conditions, as well as supportable information about future events and economic conditions. The Group has revised its impairment methodology for estimating the ECLs, taking into account forward-looking information in determining the appropriate level of allowance. In addition, it has identified indicators and set up procedures for monitoring for significant increases in credit risk.

As a result of the adoption of IFRS 9, the Group has adopted the consequential amendments to IAS 1 Presentation of Financial Statements, which requires impairment of financial assets to be presented in a separate line item in the Statement of Comprehensive Income. Previously, the Group's approach was to include impairment of trade receivables in operating costs. There were no impairment losses recorded that required reclassification in the Statement of Comprehensive Income for the year ended 31 May 2018.

IFRS 15 Transition – Revenue from contracts with customers

The Group generates revenue primarily from the provision of wagering services and the hosting of races on which guests are entitled to participate in the related wagering services. Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it discharges services to a customer. Revenue has been disaggregated by geographical locations which are consistent with the operating segments (note 2).

Hosting fees are recognised when the customers participate in the Group's pari-mutuel pools and the race audio visual signals are transmitted.

Wagering revenue from the Group's activities as the race host is recognised when a race on which wagers are placed is completed. The wagering commission from the Group's commingling of its wagering pools with a host's pool is recognised when the race on which those wagers are placed is completed. The Group acts as a principal when it allows customers to place wagers in the races it hosts and as an agent when it allows customers to place wagers in other entities' races.

Transactions fees are recognised when the Group facilitates customers' deposit transactions into their betting accounts.

There were no restatements in the retained earnings on adoption of IFRS 15 as the resultant amounts, timing and pattern of recognition of revenue did not change.

1.3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

Basis of consolidation

The consolidated financial statements incorporate the results of the Group. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue until the date that such control ceases. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

Inter-company transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US Dollars, which is also the Group's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings are presented in the income statement within 'Finance income' or 'Finance costs'. All other foreign exchange gains and losses are presented in the income statement within 'Other (losses)/gains'.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

Segmental reporting

Segmental reporting is based on the business areas in accordance with the Group's internal reporting structure, which allows the individual operating segments to be identified by the disparate nature of the principal activity they undertake. The Group determines and presents segments based on the information that internally is provided to the Board and Managing Director, the Group's chief operating decision maker.

An operating segment is a component of the Group and engages in business activities from which it may earn revenues and incur expenses. An operating segment's operating results are reviewed regularly by the Board and Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries except for deferred income tax liability, where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference is the liability not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes, assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Intangible assets — goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Intangible assets — other

(a) Trademarks and licences

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of three years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years.

(b) Website design and development costs

Costs associated with maintaining websites are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique websites controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the website so that it will be available for use;
- management intends to complete the website and use it;
- there is an ability to use the website;
- it can be demonstrated how the website will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the website are available; and
- the expenditure attributable to the website during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the website include the website employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Website development costs recognised as assets are amortised over their estimated useful lives, which do not exceed three years.

Property, equipment and motor vehicles

Items of property, equipment and motor vehicles are stated at historical cost less accumulated depreciation (see below) and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Depreciation is calculated using the straight-line method to allocate the cost of property, equipment and motor vehicles over their estimated useful lives of three years.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains/(losses) – net' in the income statement.

Share-based payment expense

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price); and

- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time-period).

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. The Group is not party to any leases that are classified as finance leases.

Equity

Share capital is determined using the nominal value of shares that have been issued.

Equity settled share-based employee remuneration is credited to the share option reserve until related stock options are exercised. On exercise or lapse, amounts recognised in the share option reserve are taken to retained earnings.

Retained earnings include all current and prior period results as determined in the income statement and any other gains or losses recognised in the Statement of Changes in Equity.

Financial instruments

Non-derivative financial instruments include trade and other receivables, cash and cash equivalents, bonds and deposits, borrowings and trade and other payables. Ante-post sports bets are recognised when the Company becomes party to the contractual agreements of the instrument.

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual terms of the instrument. Transaction costs are included in the initial measurement of financial instruments, except financial instruments classified as at fair value through profit and loss. The subsequent measurement of financial instruments is dealt with below.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Cash and cash equivalents

Cash and cash equivalents are defined as cash in bank and in hand as well as bank deposits, money held for processors and cash balances held on behalf of players. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Bonds and deposits

Bonds and deposits are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Borrowings

Interest-bearing borrowings and overdrafts are recorded at the proceeds received net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs are charged on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise.

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Employee benefits

(a) Pension obligations

The Group does not operate any post-employment schemes, including both defined benefit and defined contribution pension plans.

(b) Short-term employee benefits

Short-term employee benefits, such as salaries, paid absences, and other benefits, are accounted for on an accrual's basis over the period in which employees have provided services in the year. All expenses related to employee benefits are recognised in the Statement of Comprehensive Income in operating costs.

(c) Profit sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Standards and interpretations in issue not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year, and have not been applied in preparing these consolidated financial statements:

New/revised International Accounting Standards / International Financial Reporting Standards ("IAS/IFRS")	Effective date (accounting periods commencing on or after)
<i>IFRS 16 Leases</i>	<i>1 January 2019</i>
Amendments	
<i>Amendments to reference to Conceptual Framework in IFRS Standards</i>	<i>1 January 2020</i>
<i>Annual improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017)</i>	<i>Not yet endorsed</i>
<i>Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation (issued on 12 October 2017)</i>	<i>Not yet endorsed</i>

IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is less than 12 months, or the underlying asset is of an immaterial value.

The Group's assessment of the potential impact resulting from the implementation of IFRS 16 is currently in progress. The actual impact of adopting the standard on 1 June 2019 will be known when the Group presents its first financial statements after the date of initial application.

2 Operating Segments

A. Basis for segmentation

The Group has the below two operating segments, which are its reportable segments. The segments offer different services in relation to various forms of pari-mutuel racing, which are managed separately due to the nature of their activities.

Reportable segments and operations provided

Racetrack operations – hosting of races through the management and operation of a racetrack facility, enabling patrons to attend and wager on horse racing, as well as utilise simulcast facilities.

ADW operations – provision of online ADW services to enable customers to wager into global racetrack betting pools.

The Group's Board of Directors review the internal management reports of the operating segment on a monthly basis.

B. Information about reportable segments

Information relating to the reportable segments is set out below. Segment revenue along with segment profit / (loss) before tax are used to measure performance as management considers this information to be a relevant indicator for evaluating the performance of the segments.

	Reportable segments		All other segments	Total
	Racetrack	ADW		
	2019	2019	2019	2019
	US\$000	US\$000	US\$000	US\$000
External revenues	44,753	2,506	–	47,259
Segment revenue	44,753	2,506	–	47,259
Segment loss before tax	(97)	(708)	(125)	(930)
Interest expense	–	–	(41)	(41)
Depreciation and amortisation	(8)	(106)	–	(114)

Other material non-cash items:

- Impairment losses on trade receivables	-	(67)	-	(67)
Segment assets	423	2,612	1,863	4,898
Segment liabilities	181	2,666	899	3,746

	<u>Reportable segments</u>			Total 2018 US\$000
	Racetrack 2018 US\$000	ADW 2018 US\$000	All other segments 2018 US\$000	
External revenues	50,173	4,293	-	54,466
Segment revenue	50,173	4,293	-	54,466
Segment (loss)/profit before tax	(359)	477	(15)	103
Interest expense	-	-	(40)	(40)
Depreciation and amortisation	(41)	(103)	-	(144)
Segment assets	327	15,480	3,058	18,865
Segment liabilities	191	14,628	2,002	16,821

C. Reconciliations of information on reportable segments to the amounts reported in the financial statements

	2019 US\$000	2018 US\$000
i. Revenues		
Total revenue for reportable segments	47,259	54,466
Consolidated revenue	47,259	54,466
ii. (Loss) / profit before tax		
Total (loss) / profit before tax for reportable segments	(805)	118
Loss before tax for other segments	(125)	(15)
Consolidated (loss) / profit before tax	(930)	103
iii. Assets		
Total assets for reportable segments	3,035	15,807
Assets for other segments	1,863	3,058
Consolidated total assets	4,898	18,865
iv. Liabilities		
Total liabilities for reportable segments	2,847	14,819
Liabilities for other segments	899	2,002
Consolidated total liabilities	3,746	16,821
v. Other material items		
Interest expense	(41)	(40)
Depreciation and amortisation	(114)	(144)
Impairment losses on trade receivables	(67)	-

D. Geographic information

The below table analyses the geographic location of the customer base of the operating segments.

		2019 US\$000	2018 US\$000
Turnover			
Racetrack operations	North America	44,753	50,173
ADW operations	North America	1,541	1,323
	British Isles	692	23
	Asia Pacific	273	2,947
		47,259	54,466

3 Operating (loss)/profit

Operating (loss)/profit is stated after charging:		2019 US\$000	2018 US\$000
Auditors' remuneration — audit		81	64
Depreciation of property, equipment and motor vehicles		34	74
Amortisation of intangible assets		80	70
Exchange losses / (gains)		166	(132)
Operating lease rentals — other than plant, equipment and Harness Racetrack		30	29
Operating lease rentals — Harness Racetrack		74	89
Directors' fees		67	69

4 Finance costs

	2019 US\$000	2018 US\$000
Loan interest payable	(41)	(40)
Finance costs	(41)	(40)

5 Staff numbers and cost

	2019	2018
Average number of employees – Pari-mutuel and Racetrack Operations	55	59

The aggregate payroll costs of these persons were as follows:

Pari-mutuel and Racetrack Operations	2019 US\$000	2018 US\$000
Wages and salaries	1,711	1,866
Social security costs	121	132
	1,832	1,998

6 Income tax expense

(a) Current and Deferred Tax Expenses

The current and deferred tax expenses for the year were US\$Nil (2018: US\$Nil). Despite having made losses, no deferred tax was recognised as there is no reasonable expectation that the Group will recover the resultant deferred tax assets.

(b) Tax Rate Reconciliation

	2019 US\$000	2018 US\$000
(Loss)/profit before tax	(930)	103
Tax charge at IOM standard rate (0%)	–	–
Adjusted for:		
Tax credit for US tax losses (at 15%)	(166)	(97)
Add back deferred tax losses not recognised	166	97
Tax charge for the year	–	–

The maximum deferred tax asset that could be recognised at year end is approximately US\$810,000 (2018: US\$644,000). The Group has not recognised any asset as it is not reasonably known when the Group will recover such deferred tax assets.

7 Earnings per ordinary share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares, on the assumed conversion of all dilutive share options.

An adjustment for the dilutive effect of share options in the current period has not been reflected in the calculation of the diluted loss per share, as the effect would have been anti-dilutive.

	2019 US\$000	2018 US\$000
(Loss)/profit for the year	(930)	103
	No.	No.
Weighted average number of ordinary shares in issue	393,338,310	393,338,310
Dilutive element of share options if exercised (note 16)	14,000,000	14,000,000
Diluted number of ordinary shares	407,338,310	407,338,310
Basic earnings per share (cents)	(0.24)	0.03
Diluted earnings per share (cents)	(0.23)	0.03

The earnings applied are the same for both basic and diluted earnings calculations per share as there are no dilutive effects to be applied.

8 Intangible assets

	Software & development costs			Total	
	Goodwill				
	Group US\$000	Group US\$000	Company US\$000	Group US\$000	Company US\$000
Cost					
Balance at 1 June 2017	177	1,354	50	1,531	50
Additions during the year	–	130	14	130	14
Currency translation differences	–	1	–	1	–
Balance at 31 May 2018	177	1,485	64	1,662	64
Balance at 1 June 2018	177	1,485	64	1,662	64

	Goodwill	Software & development costs		Total	
	Group US\$000	Group US\$000	Company US\$000	Group US\$000	Company US\$000
Additions during the year	–	18	–	18	–
Balance at 31 May 2019	177	1,503	64	1,680	64
Amortisation and Impairment					
Balance at 1 June 2017	177	1,249	50	1,426	50
Amortisation for the year	–	70	1	70	1
Balance at 31 May 2018	177	1,319	51	1,496	51
Balance at 1 June 2018	177	1,319	51	1,496	51
Amortisation for the year	–	80	6	80	6
Balance at 31 May 2019	177	1,399	57	1,576	57
Carrying amounts					
At 1 June 2017	–	105	–	105	–
At 31 May 2018	–	166	13	166	13
At 31 May 2019	–	104	7	104	7

The goodwill balance brought forward relates to the historical acquisition of subsidiary businesses. The goodwill balances were fully impaired during the year ended 31 May 2015. The Group tests intangible assets annually for impairment or more frequently if there are indications that the intangible assets may be impaired (see note 1).

9 Property, equipment and motor vehicles

Group	Computer Equipment US\$000	Fixtures, Fittings & Track Equipment US\$000	Motor Vehicles US\$000	Total US\$000
Cost				
Balance at 1 June 2017	579	580	51	1,210
Additions during the year	24	–	–	24
Currency translation differences	1	–	–	1
Balance at 31 May 2018	604	580	51	1,235
Balance at 1 June 2018	604	580	51	1,235
Balance at 31 May 2019	604	580	51	1,235
Depreciation				
Balance at 1 June 2017	546	525	30	1,101
Charge for the year	21	45	8	74
Balance at 31 May 2018	567	570	38	1,175
Balance at 1 June 2018	567	570	38	1,175
Charge for the year	19	7	8	34
Balance at 31 May 2019	586	577	46	1,209
Carrying amounts				
At 1 June 2017	33	55	21	109

Group	Computer Equipment US\$000	Fixtures, Fittings & Track Equipment US\$000	Motor Vehicles US\$000	Total US\$000
At 31 May 2018	37	10	13	60
At 31 May 2019	18	3	5	26

Company	Computer Equipment US\$000	Fixtures & Fittings US\$000	Total US\$000
Cost			
Balance at 1 June 2017	419	139	558
Additions	10	–	10
Balance at 31 May 2018	429	139	568
Balance at 1 June 2018	429	139	568
Balance at 31 May 2019	429	139	568

Company	Computer Equipment US\$000	Fixtures & Fittings US\$000	Total US\$000
Depreciation			
Balance at 1 June 2017	403	139	542
Charge for the year	7	–	7
Balance at 31 May 2018	410	139	549
Balance at 1 June 2018	410	139	549
Charge for the year	9	–	9
Balance at 31 May 2019	419	139	558
Carrying amounts			
At 1 June 2017	16	–	16
At 31 May 2018	19	–	19
At 31 May 2019	10	–	10

10 Investments

Investments in subsidiaries are held at cost. Details of investments at 31 May 2019 are as follows:

Subsidiaries	Country of incorporation	Activity	Holding (%)
WatchandWager.com Limited	Isle of Man	Operation of interactive wagering totaliser hub	100
WatchandWager.com LLC	United States of America	Operation of interactive wagering totaliser hub and harness racetrack	100
Technical Facilities & Services Limited	Isle of Man	Dormant	100
betinternet.com (IOM) Limited	Isle of Man	Dormant	100
B.E. Global Services Limited	Isle of Man	Dormant	100

11 Bonds and deposits

	Group		Company	
	2019 US\$000	2018 US\$000	2019 US\$000	2018 US\$000
Bonds and deposits which expire within one year	882	2,846	–	–
Bonds and deposits which expire within one to two years	–	–	–	–
Bonds and deposits which expire within two to five years	101	101	–	–
	983	2,947	–	–

Cash bonds of US\$875,000 have been paid as security deposits in relation to various US State ADW licences (2018: US\$925,000). These cash bonds are held in trust accounts used exclusively for cash collateral, with financial institutions which have been screened for their financial strength and capitalization ratio. The financial institutions have a credit rating of A-Excellent from AM Best credit rating agency. Therefore, these bonds are considered to be fully recoverable. A rent deposit of US\$100,000 is held by California Exposition & State Fair and is for a term of 5 years (2018: US\$100,000). This is held by an entity of the Californian state government and is therefore considered fully recoverable. Rent and other security deposits total US\$8,227 (2018: US\$10,123). These deposits are repayable upon completion of the relevant lease term, under the terms of legally binding agreements.

Under the terms of the licencing agreement with the Hong Kong Jockey Club the Company is no longer required to hold a retention amount (2018: US\$1,911,461 / HK\$15,000,000).

12 Cash and cash equivalents

	Group		Company	
	2019 US\$000	2018 US\$000	2019 US\$000	2018 US\$000
Cash and cash equivalents – company and other funds	1,363	11,962	185	1,531
Cash and cash equivalents – protected player funds	1,231	1,430	1,231	1,430
Total cash and cash equivalents	2,594	13,392	1,416	2,961

The Group holds funds for operational requirements and for its non-Isle of Man customers, shown as ‘company and other funds’ and on behalf of its Isle of Man regulated customers, shown as ‘protected player funds’.

Protected player funds are held in fully protected client accounts within an Isle of Man regulated bank.

13 Trade and other receivables

	Group		Company	
	2019 US\$000	2018 US\$000	2019 US\$000	2018 US\$000
Trade receivables	770	1,635	–	–
Amounts due from Group undertakings	–	–	393	–
Other receivables and prepayments	421	665	34	57
	1,191	2,300	427	57

Included within trade receivables are impairment losses of US\$67,000 (see note 20), (2018: US\$Nil).

Amounts due from Group undertakings are unsecured, interest free and repayable on demand.

14 Trade and other payables

	Group		Company	
	2019 US\$000	2018 US\$000	2019 US\$000	2018 US\$000
Trade payables	2,619	15,757	12	14
Amounts due to Group undertakings	–	–	–	1,451

	Group		Company	
	2019 US\$000	2018 US\$000	2019 US\$000	2018 US\$000
Taxes and national insurance	17	16	2	2
Accruals and other payables	260	548	35	35
	2,896	16,321	49	1,502

Amounts due to Group undertakings are unsecured, interest free and repayable on demand. Included within trade payables are amounts due to customers of US\$2,194,293 (2018: US\$15,656,146).

15 Loans

	Group		Company	
	2019 US\$000	2018 US\$000	2019 US\$000	2018 US\$000
Loan – Galloway Ltd	850	500	850	500

A loan of US\$500,000 was received from Galloway Ltd in February 2017, to provide financing for cash-backed bonding agreements. The loan is for a term of five years, attracts fixed interest at 7.75% per annum and is secured over the unencumbered assets of the company (see note 19). The loan was issued at a market rate with no issue costs and the interest is settled on a quarterly basis. At year end there are two month's outstanding interest of US\$6,476 (2018: US\$6,476), which is recorded in other payables.

A further loan of US\$350,000 was received from Galloway Ltd in May 2019, to provide additional financing for cash-backed bonding agreements. The loan is for a term of five years, attracts fixed interest at 7.00% per annum and is secured over the unencumbered assets of the company (see note 19). The loan was issued at a market rate with no issue costs and the interest is settled on a quarterly basis. At year end there is one month's outstanding interest of US\$2,081 (2018: US\$Nil), which is recorded in other payables.

16 Share capital

	No.	2019 US\$000	2018 US\$000
Allotted, issued and fully paid			
At beginning and close of year: ordinary shares of 1p each	393,338,310	6,334	6,334
At 31 May: ordinary shares of 1p each	393,338,310	6,334	6,334

The authorised share capital of the Company is US\$9,619,000 divided into 600,000,000 ordinary shares of £0.01 each (2018: US\$9,619,000 divided into 600,000,000 ordinary shares of £0.01 each).

Options

Movements in share options during the year ended 31 May 2019 were as follows:

	No.
At 31 May 2018 – 1p ordinary shares	14,000,000
Options granted	–
Options lapsed	–
Options exercised	–
At 31 May 2019 – 1p ordinary shares	14,000,000

During 2016 the Group established an equity-settled share-based option program. The fair value of options granted is recognised as an expense, with a corresponding increase in equity. The fair value is measured at grant date using a Black-Scholes model and is spread over the vesting period. The amount recognised in equity is adjusted to reflect the actual number of share options which are expected to vest. By taking into consideration the volatility of the shares over the 3 years prior to granting, the volatility of the options is calculated at 75%, with a risk-free interest rate of 0.86%.

The options were issued on 3 March 2016 to Ed Comins, Managing Director of the Group. The fair value of each option on the grant date was estimated as being £0.0022. The share options vested on 3 March 2019 after Ed Comins had remained in the employment of the Group for 3 years from when the options were granted. The options are able to be exercised from 3 March 2019 and expire on 2 March 2026. The weighted average exercise price of all options is £0.01.

The charge for share options recorded in profit and loss for the year was US\$37,989 (2018: US\$1,721), with the corresponding amount reflected in the share option reserve in the Statement of Financial Position and Statement of Changes in Equity. Since the grant date, the total charge in relation to the share options was US\$42,126.

17 Capital commitments

As at 31 May 2019, the Group had no known capital commitments (2018: US\$Nil).

18 Operating lease commitments

At 31 May 2019, the Group was committed to future minimum lease payments of:

	2019 US\$000	2018 US\$000
Payments due within one year	108	108
Payments due between one to five years	186	294
Payments due beyond five years	—	—

The Group has recognised in the income statement operating lease payments of US\$104,000 (2018: US\$118,000).

The Group leases office and racetrack facilities. The office facilities lease expires in May 2021, with an option to renew prior to the expiry date, for a period yet to be determined, customarily with the lease rate increasing 2% annually. The racetrack facilities lease expires in May 2022, with an option to renew before the expiry date, for a period and rate to be determined at renewal.

19 Related party transactions

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 10), and with its Directors and executive officers and with Burnbrae Ltd (significant shareholder).

Transactions with and between subsidiaries

Transactions with and between the subsidiaries in the Group, which have been eliminated on consolidation, are considered to be related party transactions.

Transactions with entities with significant influence over the Group

Rental and service charges of US\$45,484 (2018: US\$52,858) and Directors' fees of US\$46,898 (2018: US\$48,413) were charged in the year by Burnbrae Limited, of which Denham Eke and Nigel Caine are common Directors. The Group also had a loan of US\$850,000 (2018: US\$500,000) from Galloway Ltd, a company related to Burnbrae Limited by common ownership and Directors (note 15).

Transactions with key management personnel

The total amounts for Directors' remuneration were as follows:

	2019 US\$000	2018 US\$000
Emoluments — salaries, bonuses and taxable benefits	348	350
— fees	67	69
	415	419

Directors' Emoluments

	Basic salary US\$000	Fees US\$000	Bonus US\$000	Termination payments US\$000	Benefits US\$000	2019 Total US\$000	2018 Total US\$000
Executive							
Ed Comins	310	—	—	—	38	348	350
Non-executive							
Denham Eke*	—	26	—	—	—	26	27
Nigel Caine*	—	21	—	—	—	21	22
Sir James Mellon	—	20	—	—	—	20	20
Aggregate emoluments	310	67	—	—	38	415	419

* Paid to Burnbrae Limited.

14,000,000 share options were issued to Ed Comins (see note 16) during 2016.

20 Financial risk management

Capital structure

The Group's capital structure is as follows:

	2019 US\$000	2018 US\$000
Cash and cash equivalents	2,594	13,392
Loans and similar liabilities	(850)	(500)
Net funds	1,744	12,892
Shareholders' equity	(1,152)	(2,044)
Capital employed	592	10,848

The Group's policy is to maintain as strong a capital base as possible, insofar as can be sustained due to the fluctuations in the net results of the Group and the inherent effect this has on the capital structure.

The Group's principal financial instruments comprise cash and cash equivalents, trade receivables and payables that arise directly from its operations.

The main purpose of these financial instruments is to finance the Group's operations. The existence of the financial instruments exposes the Group to a number of financial risks, which are described in more detail below.

The principal risks which the Group is exposed to relate to liquidity risks, credit risks and foreign exchange risks.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial obligations as they fall due.

The Group's objective is to maintain continuity of funding through trading and share issues but to also retain flexibility through the use of short-term loans if required.

Management controls and monitors the Group's cash flow on a regular basis, including forecasting future cash flow. Banking facilities are kept under review to ensure they meet the Group's requirements. Funds equivalent to customer balances are held in designated bank accounts where applicable to ensure that Isle of Man Gambling Supervision Commission player protection principles are met. Other customer balances are covered by cash funds held within the Group and by receivables due from ADW racetrack settlement partners. The Directors anticipate that the business will generate sufficient cash flow in the forthcoming period, to meet its immediate financial obligations.

The following are the contractual maturities of financial liabilities:

2019

Financial liabilities

	Carrying amount US\$000	Contractual cash flow US\$000	6 months or less US\$000	Up to 1 year US\$000	1–5 years US\$000
Trade payables	(2,619)	(2,619)	(2,619)	–	–
Other payables and loans	(865)	(15)	(15)	–	(850)
	(3,484)	(2,634)	(2,634)	–	(850)

2018

Financial liabilities

	Carrying amount US\$000	Contractual cash flow US\$000	6 months or less US\$000	Up to 1 year US\$000	1–5 years US\$000
Trade payables	(15,757)	(15,757)	(15,757)	–	–
Other payables and loans	(756)	(256)	(256)	–	(500)
	(16,513)	(16,013)	(16,013)	–	(500)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Impairment losses on financial assets recognised in profit or loss were as follows:

	2019 US\$000	2018 US\$000
Non-credit impaired trade receivables	5	—
Credit impaired trade receivables	62	—
Total impairment losses	67	—

The Group's exposure to credit risk is influenced by the characteristics of the individual racetracks and the settling agents operating on behalf of these tracks. The racetracks themselves are influenced by many factors, including the product they offer, supporting sources of revenue they might generate, such as offering simulcast, slots or sports wagering facilities, current economic conditions, ownership structure and so on, all of which can affect their liquidity.

The Group limits its exposure to credit risk by regular settling and verification of balances due to and from settling agents, with standard terms of one month. While there is on occasion debt that is slower to be settled, historical settlements for the last four years show that of the current trade receivable balance, greater than 99% would be expected to be received.

In addition, more than 80% of the current Group customers have transacted with the Group for four years or more and none of these customers balances have been specifically impaired in that period.

The following table provides information about exposure to credit risk and expected credit losses for trade receivables as at 31 May 2019:

	Weighted Average Loss Rate (%)	Gross Carrying Amount US\$000	Loss Allowance US\$000	Net Carrying Amount US\$000	Credit Impaired
Current (not past due)	0.25%	385	(1)	384	No
1-30 days past due	0.50%	294	(1)	293	No
31-60 days past due	1.00%	55	(1)	54	No
61-90 days past due	2.50%	28	(1)	27	No
More than 90 days past due	5.00%	13	(1)	12	No
More than 90 days past due	100.00%	62	(62)	—	Yes
		837	(67)	770	

The Group uses an allowance matrix to measure the ECLs of trade receivables from racetracks and their settling agents, which comprise a moderate number of balances, ranging from small to large. The Group has reviewed its historical losses over the past four years as well as considering current economic conditions in estimating the loss rates and calculating the corresponding loss allowance.

Classes of financial assets — carrying amounts

	2019 US\$000	2018 US\$000
Cash and cash equivalents	2,594	13,392
Bonds and deposits	983	2,947
Trade and other receivables	1,051	2,133
	4,628	18,472

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet (or in the notes to the financial statements). Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The maximum exposure to credit risks for receivables in any business segment:

	2019 US\$000	2018 US\$000
Pari-mutuel	1,051	2,133

2019	2018
US\$000	US\$000
1,051	2,133

Of the above receivables, US\$770,000 (2018: US\$1,635,000) relates to amounts owed from racing tracks. These receivables are actively monitored to avoid significant concentration of credit risk and the Directors consider there to be no significant concentration of credit risk.

The Directors consider that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality. The banks have external credit ratings of at least Baa3 from Moody's.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high-quality external credit ratings.

Interest rate risk

The Group finances its operations mainly through capital with limited levels of borrowings. Cash at bank and in hand earns negligible interest at floating rates, based principally on short-term interbank rates.

Any movement in interest rates would not be considered to have any significant impact on net assets at the balance sheet date as the Group and Parent Company do not have floating rate loans payable.

Foreign currency risks

The Group operates internationally and is subject to transactional foreign currency exposures, primarily with respect to Pounds Sterling, Hong Kong Dollars and Euros.

The Group does not actively manage the exposures but regularly monitors the Group's currency position and exchange rate movements and makes decisions as appropriate.

At the reporting date the Group had the following exposure:

2019	USD US\$000	GBP US\$000	EUR US\$000	HKD US\$000	Total US\$000
Current assets	3,128	289	427	683	4,527
Current liabilities	(1,911)	(196)	(84)	(688)	(2,879)
Short-term exposure	1,217	93	343	(5)	1,648

2018	USD US\$000	GBP US\$000	EUR US\$000	HKD US\$000	Total US\$000
Current assets	2,744	225	11,214	4,186	18,369
Current liabilities	(2,013)	(281)	(10,027)	(3,984)	(16,305)
Short-term exposure	731	(56)	1,187	202	2,064

The following table illustrates the sensitivity of the net result for the year and equity with regards to the Group's financial assets and financial liabilities and the US Dollar–Sterling exchange rate, US Dollar–Euro exchange rate and US Dollar–Hong Kong Dollar exchange rate.

A 5% weakening of the US Dollar against the following currencies at 31 May 2019 would have increased/(decreased) equity and profit and loss by the amounts shown below:

2019	GBP US\$000	EUR US\$000	HKD US\$000	Total US\$000
Current assets	15	21	34	70
Current liabilities	(10)	(4)	(34)	(48)
Net assets	5	17	–	22

2018	GBP US\$000	EUR US\$000	HKD US\$000	Total US\$000
Current assets	11	561	209	781
Current liabilities	(14)	(501)	(199)	(714)

2018	GBP US\$000	EUR US\$000	HKD US\$000	Total US\$000
Net assets	(3)	60	10	67

A 5% strengthening of the US Dollar against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above on the basis that all other variables remain constant.

21 Controlling party and ultimate controlling party

The Directors consider the ultimate controlling party to be Burnbrae Limited and its beneficial owner Jim Mellon by virtue of their combined shareholding of 63.10%.

22 Subsequent events

To the knowledge of the Directors, there have been no material events since the end of the reporting period that require disclosure in the accounts.