Company Registration No. 07751649 (England and Wales)

# FACE IT LIMITED

# ANNUAL REPORT AND FINANCIAL STATEMENTS

# FOR THE YEAR ENDED 31 DECEMBER 2018

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# FACE IT LIMITED

## COMPANY INFORMATION

| | | |
|---|---|---|
| **Directors** | N Maisto | |
| | M Attisani | |
| | J Seghers | |
| | J P Farr | |
| | M Cheung | (Appointed 20 February 2019) |
| **Secretary** | L Greening | |
| **Company number** | 07751649 | |
| **Registered office** | Millbank Tower<br>25th Floor<br>21-24 Millbank<br>London<br>SW1P 4QP | |
| **Auditor** | Mercer & Hole<br>21 Lombard Street<br>London<br>EC3V 9AH | |

## CONTENTS

The directors present the strategic report for the year ended 31 December 2018.

**Fair review of the business**

FACEIT is the largest competitive platform for online multiplayer games, with over 12 Million Users playing a total of over 14 Million online game sessions per month across 12 supported titles and within the console & PC market. FACEIT enables millions of players to participate in online tournaments, leagues, ladders, Hubs and Championships for virtual and real-world prizes.

FACEIT aims to further the esports ecosystem by offering players of all levels the chance to compete in a competitive environment with the games they love while providing publishers and third party organisers with the tools needed to build their competitive community.

**Platform Development**

FACEIT has continued to invest heavily in the core platform to ensure that it maintains a market leading position and is the competitive gaming platform of choice for online players. Specific platform developments have been focused on new features for players/communities, innovative tools to enhance monetisation opportunities and expansion into new markets and developer tools to enable the seamless integration of third-party games and services into the FACEIT platform.

**FACEIT Brings $1 Million CS:GO Major to London**

In 2018 FACEIT were awarded the coveted CS:GO Major, one of the most prestigious tournaments in the *esports calendar. We excelled in terms of execution and viewership,* the FACEIT Major was the 3rd most viewed esports tournament on record and the largest ever from an independent tournament organiser. There were over 60m hours of content watched and a peak concurrent viewership of over 1m viewers.

The $1 million main event of the competition saw 10,000 fans fill the iconic Wembley SSE Arena between September 20 and 23. The best teams in the world competed for their share of the prizes, and the prestigious title of Major champions, the highest honour in the world of CS:GO.

Unlike many other Majors, FACEIT ran every stage of the competition, from open qualifiers through to the grand finals. This was the first time that a Major has been hosted in the UK and was one of the biggest esports events the UK has ever seen.

**FACEIT to partner with PUBG to host the FACEIT Global Summit: PUBG Classic**

FACEIT is to partner with PUBG (PlayerUnknown's Battlegrounds) to host the very first global event in the newly-launched PUBG esports circuit. The FACEIT Global Summit: PUBG Classic will take place at ExCeL London on April 16th-21st 2019.

24 teams from PUBG's nine competitive regions – North America, Europe, Korea, China, Japan, Chinese Taipei/ Hong Kong/Macao, Southeast Asia, Latin America, and Oceania – will compete in the tournament, which marks the conclusion of the circuit's first phase.

Michele Attisani, Co-Founder & CBO of FACEIT discussed the event in a statement: "We've been on an incredible journey with PUBG since the platform integration. Building an esports ecosystem, incentivising players and creating a calendar that engages fans is no mean feat and we're honoured to have been selected as a partner for the first premier event that gathers the top teams from all over the world. We're looking to offer the ultimate fan experience in April and we're excited to bring another major esports event back to London."

The Summit will also host a show match between six teams that took part in the FACEIT PUBG Showdown, an online tournament that launched earlier this month. FACEIT officially implemented PUBG into its competitive platform on September 28th, 2018.

Jake Sin, Global Esports Manager for PUBG Corporation added: "In this next chapter of PUBG esports, we're thrilled to be working with FACEIT on our first PUBG Classic and bringing the top battle royale esports teams in the world to the United Kingdom. *FACEIT's track record of esports innovation and proven success in live event* production mean fans are in for a real treat with the FACEIT Global Summit."

**Esports Championship Series (ECS)**
ECS is the largest non-publisher funded CS:GO league in the world. The league was launched in 2016 and 6 seasons have now been held. Featuring Valve's massively popular Counter-Strike: Global Offensive (CS:GO), ECS is a ground-breaking esports initiative designed with the goal to help esports grow beyond its current state, while respecting the core values of the esports ecosystem and the community.

The league has been built by adapting concepts common in traditional sports systems, while leveraging the characteristics that are unique to this vertical. Some of these concepts include team co-ownership, protection of players and promotion of all parties involved to increase the value of a common product.

Rising from one of the most community focused companies in the industry our sights are on providing the best possible experience for our community. With the focus on growth, from players climbing the ranks, to stability at the top, our goal is to guarantee a stable and profitable future for everyone in ECS.

The Top 20 Teams from North America and Europe competed in the ECS Season's 5 & 6 with a combined Prize Fund of $3M. The Finals were held at SSE Wembley Arena, London & Arlington, Texas respectively. As the most watched CS:GO league in the world, ECS broke YouTube viewership records for a CS:GO tournament during season 6.

The FACEIT platform manages the entire league structure including:
• Match scheduling
• Match configuration and full life-cycle
• Real-time match and player statistics
• Live data syndication
• Anti-Cheat measures

FACEIT Media provides:
• Top quality live production from high-end studios
• Global Broadcasting on both linear and digital TV
• Live stadium event coverage with past finals held at Wembley, Anaheim and Arlington arenas
• World's leading hospitality for teams and players

The Group's loss for the financial year was £3,240,732.

The average number of employees decreased to 71 (2017: 77).

**Key performance indicators**
The directors consider that Registered Users and Total Revenue are the most reliable and important indicators for measuring the group's performance.

Registered Users and Total Revenue have both shown exponential growth during the financial year. Registered Users increased by 31%. The Group has Total Revenue of £15,750,290 an increase of £6,801,142 (76%) compared to 2018.

2018 Platform Revenues increased by £894,761 (17%) versus 2017.

**Principal risks and uncertainties**
The principal risks and uncertainties facing the group are as follows:

*Foreign Currency Risk*
The Group has exposure to exchange rate fluctuations mainly in the US dollar. Whilst the Group does have a natural hedge in its receivables and payables this remains a risk.

*Liquidity Risk*
The directors closely monitor the working capital requirements of the Group. Short, mid and long-term business plans and cash flow forecasts are regularly prepared and updated and the Group undertakes regular dialogue with its investors and bankers. These measures help alert the directors to any future risks and ensure that there are sufficient funds available for operations.

*Brexit*
Although the implications of the referendum vote to leave the EU are unknown (in the short and long-term) the Group envisages there may be a risk of reduced talent mobility in terms of attracting talent to the UK from the EU. Current employees from other EU countries may also be faced with work authorisation issues depending on their circumstances and our HR team is reviewing current hires and future policies.

On behalf of the board

..............................
N Maisto
Director
9/5/19

# FACE IT LIMITED

## DIRECTORS' REPORT

### *FOR THE YEAR ENDED 31 DECEMBER 2018*

The directors present their annual report and financial statements for the year ended 31 December 2018.

**Principal activities**
FACEIT is the leading competitive platform for online multiplayer games, allowing players to easily compete in tournaments and leagues for virtual and real-world prizes through automated tournament management and matchmaking technology.

FACEIT has also created and produced its own League called the Esports Championship Series (ECS) - the largest non-publisher owned league in the world.

**Directors**
The directors who held office during the year and up to the date of signature of the financial statements were as follows:

| | |
|---|---|
| N Maisto | |
| M Attisani | |
| J Seghers | |
| J P Farr | |
| M Cheung | (Appointed 20 February 2019) |

**Results and dividends**
The results for the year are set out on page 9.

No dividends were paid. The directors do not recommend payment of a final dividend.

**Research and development**
The group continues to invest in the development of its software platform to improve both functionality and player experience.

**Post reporting date events**
In February 2019, Face IT closed a Series B funding round with $12m which included both the conversion of the loan notes in issue at the year end and new shares issued for cash.

**Auditor**
In accordance with the company's articles, a resolution proposing that Mercer & Hole be reappointed as auditor of the group will be put at a General Meeting.

**Statement of disclosure to auditor**
So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the auditor of the company is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the auditor of the company is aware of that information.

On behalf of the board

..............................
N Maisto
Director
9/5/19

## DIRECTORS' RESPONSIBILITIES STATEMENT

### *FOR THE YEAR ENDED 31 DECEMBER 2018*

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company, and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# INDEPENDENT AUDITOR'S REPORT
# TO THE MEMBERS OF FACE IT LIMITED

**Opinion**
We have audited the financial statements of Face It Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the group statement of comprehensive income, the group balance sheet, the company balance sheet, the group statement of changes in equity, the company statement of changes in equity, the group statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:
- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

**Conclusions relating to going concern**
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**
In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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

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

**Auditor's responsibilities for the audit of the financial statements**
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

## TO THE MEMBERS OF FACE IT LIMITED

**Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mercer & Hole

**Ross Lane (Senior Statutory Auditor)**
**for and on behalf of Mercer & Hole**

13/5/19

**Chartered Accountants**
**Statutory Auditor**

21 Lombard Street
London
EC3V 9AH

# FACE IT LIMITED

## GROUP STATEMENT OF COMPREHENSIVE INCOME

### *FOR THE YEAR ENDED 31 DECEMBER 2018*

| | Notes | 2018<br>£ | 2017<br>£ |
|---|---|---|---|
| **Turnover** | 3 | 15,750,290 | 8,949,148 |
| Cost of sales | | (10,100,351) | (4,977,738) |
| **Gross profit** | | 5,649,939 | 3,971,410 |
| Administrative expenses | | (9,563,520) | (8,638,523) |
| **Operating loss** | 4 | (3,913,581) | (4,667,113) |
| Interest receivable and similar income | 8 | 18 | 3,567 |
| Interest payable and similar expenses | 9 | (338,182) | (77,023) |
| **Loss before taxation** | | (4,251,745) | (4,740,569) |
| Tax on loss | 10 | 999,766 | 465,157 |
| **Loss for the financial year** | 23 | (3,251,979) | (4,275,412) |
| **Other comprehensive income** | | | |
| Currency translation differences | | 11,247 | (28,757) |
| **Total comprehensive income for the year** | | (3,240,732) | (4,304,169) |

Loss for the financial year is all attributable to the owners of the parent company.

Total comprehensive income for the year is all attributable to the owners of the parent company.

The Profit And Loss Account has been prepared on the basis that all operations are continuing operations.

# FACE IT LIMITED

## GROUP BALANCE SHEET

### *AS AT 31 DECEMBER 2018*

| | Notes | 2018 £ | 2018 £ | 2017 £ | 2017 £ |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 11 | | 2,815,459 | | 1,821,405 |
| Tangible assets | 12 | | 562,814 | | 527,742 |
| | | | 3,378,273 | | 2,349,147 |
| **Current assets** | | | | | |
| Debtors | 16 | 1,449,888 | | 1,506,464 | |
| Cash at bank and in hand | | 888,632 | | 4,246,805 | |
| | | 2,338,520 | | 5,753,269 | |
| **Creditors: amounts falling due within one year** | 17 | (9,546,942) | | (5,091,317) | |
| **Net current (liabilities)/assets** | | | (7,208,422) | | 661,952 |
| ***Total assets less current liabilities*** | | | (3,830,149) | | 3,011,099 |
| **Creditors: amounts falling due after more than one year** | 18 | | - | | (3,664,647) |
| **Net liabilities** | | | (3,830,149) | | (653,548) |
| **Capital and reserves** | | | | | |
| Called up share capital | 22 | | 34,527 | | 34,435 |
| Share premium account | 23 | | 8,290,095 | | 8,262,007 |
| Equity reserve | 23 | | 107,319 | | 107,319 |
| Profit and loss reserves | 23 | | (12,262,090) | | (9,057,309) |
| **Equity attributable to owners of the parent company** | | | (3,830,149) | | (653,548) |
| **Non-controlling interests** | | | - | | - |
| | | | (3,830,149) | | (653,548) |

The financial statements were approved by the board of directors and authorised for issue on 9/5/2019 and are signed on its behalf by:

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N Maisto
**Director**

# FACE IT LIMITED

## COMPANY BALANCE SHEET

### *AS AT 31 DECEMBER 2018*

| | Notes | 2018 £ | 2018 £ | 2017 £ | 2017 £ |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 11 | | 2,815,459 | | 1,821,405 |
| Tangible assets | 12 | | 152,582 | | 171,082 |
| Investments | 13 | | 105,947 | | 105,948 |
| | | | 3,073,988 | | 2,098,435 |
| **Current assets** | | | | | |
| Debtors | 16 | 4,082,682 | | 3,109,844 | |
| Cash at bank and in hand | | 343,646 | | 2,412,723 | |
| | | 4,426,328 | | 5,522,567 | |
| **Creditors: amounts falling due within one year** | 17 | (8,884,984) | | (2,196,348) | |
| **Net current (liabilities)/assets** | | | (4,458,656) | | 3,326,219 |
| **Total assets less current liabilities** | | | (1,384,668) | | 5,424,654 |
| **Creditors: amounts falling due after more than one year** | 18 | | - | | (3,664,647) |
| **Net (liabilities)/assets** | | | (1,384,668) | | 1,760,007 |
| **Capital and reserves** | | | | | |
| Called up share capital | 22 | | 34,527 | | 34,435 |
| Share premium account | 23 | | 8,290,095 | | 8,262,007 |
| Equity reserve | 23 | | 107,319 | | 107,319 |
| Profit and loss reserves | 23 | | (9,816,609) | | (6,643,754) |
| **Total equity** | | | (1,384,668) | | 1,760,007 |

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes. The company's loss for the year was £3,208,806 (2017 - £3,168,691 loss).

The financial statements were approved by the board of directors and authorised for issue on 9/5/2019 and are signed on its behalf by:

..............................

N Maisto
**Director**

**Company Registration No. 07751649**

# FACE IT LIMITED

## GROUP STATEMENT OF CHANGES IN EQUITY

### *FOR THE YEAR ENDED 31 DECEMBER 2018*

| | Notes | Share capital | Share premium account | Equity reserve | Profit and loss reserves | Total |
|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ |
| **Balance at 1 January 2017** | | 34,435 | 8,262,007 | - | (4,894,458) | 3,401,984 |
| **Year ended 31 December 2017:** | | | | | | |
| Loss for the year | | - | - | - | (4,275,412) | (4,275,412) |
| Other comprehensive income: | | | | | | |
| Currency translation differences | | - | - | - | (28,757) | (28,757) |
| Total comprehensive income for the year | | - | - | - | (4,304,169) | (4,304,169) |
| Issue of convertible loan | 19 | - | - | 107,319 | - | 107,319 |
| Credit to equity for equity settled share-based payments | 21 | - | - | - | 141,318 | 141,318 |
| **Balance at 31 December 2017** | | 34,435 | 8,262,007 | 107,319 | (9,057,309) | (653,548) |
| **Year ended 31 December 2018:** | | | | | | |
| Loss for the year | | - | - | - | (3,251,979) | (3,251,979) |
| Other comprehensive income: | | | | | | |
| Currency translation differences on overseas subsidiaries | | - | - | - | 11,247 | 11,247 |
| Total comprehensive income for the year | | - | - | - | (3,240,732) | (3,240,732) |
| Issue of share capital | 22 | 92 | 28,088 | - | - | 28,180 |
| Credit to equity for equity settled share-based payments | 21 | - | - | - | 35,951 | 35,951 |
| **Balance at 31 December 2018** | | 34,527 | 8,290,095 | 107,319 | (12,262,090) | (3,830,149) |

# FACE IT LIMITED

## COMPANY STATEMENT OF CHANGES IN EQUITY

### *FOR THE YEAR ENDED 31 DECEMBER 2018*

| | Notes | Share capital £ | Share premium account £ | Equity reserve £ | Profit and loss reserves £ | Total £ |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | | 34,435 | 8,262,007 | - | (3,616,381) | 4,680,061 |
| **Year ended 31 December 2017:** | | | | | | |
| Loss and total comprehensive income for the year | | - | - | - | (3,168,691) | (3,168,691) |
| Issue of convertible loan | 19 | - | - | 107,319 | - | 107,319 |
| Credit to equity for equity settled share-based payments | 21 | - | - | - | 141,318 | 141,318 |
| **Balance at 31 December 2017** | | 34,435 | 8,262,007 | 107,319 | (6,643,754) | 1,760,007 |
| **Year ended 31 December 2018:** | | | | | | |
| Loss and total comprehensive income for the year | | - | - | - | (3,208,806) | (3,208,806) |
| Issue of share capital | 22 | 92 | 28,088 | - | - | 28,180 |
| Credit to equity for equity settled share-based payments | 21 | - | - | - | 35,951 | 35,951 |
| **Balance at 31 December 2018** | | 34,527 | 8,290,095 | 107,319 | (9,816,609) | (1,384,668) |

# FACE IT LIMITED

## GROUP STATEMENT OF CASH FLOWS

### *FOR THE YEAR ENDED 31 DECEMBER 2018*

| | Notes | 2018 £ | 2018 £ | 2017 £ | 2017 £ |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash (absorbed by)/generated from operations | 27 | | (2,189,165) | | 1,152,619 |
| Interest paid | | | (2,803) | | (5,502) |
| Income taxes refunded | | | 604,222 | | 462,311 |
| **Net cash (outflow)/inflow from operating activities** | | | (1,587,746) | | 1,609,428 |
| **Investing activities** | | | | | |
| Purchase of intangible assets | | (1,365,825) | | (1,276,633) | |
| Purchase of tangible fixed assets | | (440,215) | | (220,735) | |
| Proceeds on disposal of tangible fixed assets | | 1,508 | | - | |
| Interest received | | 18 | | 3,567 | |
| **Net cash used in investing activities** | | | (1,804,514) | | (1,493,801) |
| **Financing activities** | | | | | |
| Proceeds from issue of shares | | 28,180 | | - | |
| Issue of convertible loans | | - | | 3,701,593 | |
| **Net cash generated from financing activities** | | | 28,180 | | 3,701,593 |
| **Net (decrease)/increase in cash and cash equivalents** | | | (3,364,080) | | 3,817,220 |
| Cash and cash equivalents at beginning of year | | | 4,246,805 | | 447,062 |
| Effect of foreign exchange rates | | | 5,907 | | (17,477) |
| **Cash and cash equivalents at end of year** | | | 888,632 | | 4,246,805 |

## 1 Accounting policies

**Company information**
Face It Limited ("the company") is a private limited company domiciled and incorporated in England and Wales. The registered office is Millbank Tower, 25th Floor, 21-24 Millbank, London, SW1P 4QP. Its company registration number is 07751649.

The group consists of Face It Limited and all of its subsidiaries.

### 1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

The company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements for parent company information presented within the consolidated financial statements:

- Section 4 'Statement of Financial Position': Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows': Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues': Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 26 'Share based Payment': Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements;
- Section 33 'Related Party Disclosures': Compensation for key management personnel.

### 1.2 Basis of consolidation

In the parent company financial statements, the cost of a business combination is the fair value at the acquisition date of the assets given, equity instruments issued and liabilities incurred or assumed, plus costs directly attributable to the business combination. The excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill. The cost of the combination includes the estimated amount of contingent consideration that is probable and can be measured reliably, and is adjusted for changes in contingent consideration after the acquisition date. Provisional fair values recognised for business combinations in previous periods are adjusted retrospectively for final fair values determined in the 12 months following the acquisition date. Investments in subsidiaries, joint ventures and associates are accounted for at cost less impairment.

Deferred tax is recognised on differences between the value of assets (other than goodwill) and liabilities recognised in a business combination accounted for using the purchase method and the amounts that can be deducted or assessed for tax, considering the manner in which the carrying amount of the asset or liability is expected to be recovered or settled. The deferred tax recognised is adjusted against goodwill or negative goodwill.

**1 Accounting policies** **(Continued)**

The consolidated financial statements incorporate those of Face It Limited and all of its subsidiaries (ie entities that the group controls through its power to govern the financial and operating policies so as to obtain economic benefits). Subsidiaries acquired during the year are consolidated using the purchase method. Their results are incorporated from the date that control passes.

All financial statements are made up to 31 December 2018. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The group profit and loss account and statement of cash flows include the results and cash flows of Overlord Media Ltd, Esports Championship Series CS Limited and of Face It Inc. for both years.

Entities other than subsidiary undertakings or joint ventures, in which the group has a participating interest and over whose operating and financial policies the group exercises a significant influence, are treated as associates. In the group financial statements, associates are accounted for using the equity method.

Entities in which the group holds an interest and which are jointly controlled by the group and one or more other venturers under a contractual arrangement are treated as joint ventures. In the group financial statements, joint ventures are accounted for using the equity method.

**1.3 Going concern**

The directors have prepared cash flow forecasts which indicate, following the successful round of fund raising in February 2019 and conversion of loan notes in issue at the year end to equity, that the group will have sufficient resources to enable liabilities to be settled as they fall due for at least the next 12 months from the date of signature of these financial statements. As a result the directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

**1.4 Turnover**

Turnover is recognised at the fair value of the consideration received or receivable for services provided in the normal course of business, and is shown net of VAT and other sales related taxes.

**1 Accounting policies** **(Continued)**

*Advertising and sponsorship*
Revenue from advertising and sponsorship is recognised evenly over the campaign period to which it relates.

*Media Rights*
Revenue from media rights is recognised over the period the agreed audio and audio-visual content is contracted to be made available for use by the licensee. Revenue is recognised evenly over the term of the contract unless there are clearly identifiable stages within the contract that varies the content and/or service to be provided; in which case revenue is then recognised by reference to the content to be provided in each stage separately.

*Subscriptions*
Revenue from subscriptions for a period greater than 1 month are spread over the period of the subscription. Subscriptions for 1 month only are recognised in full in the month of subscription which reflects the non-refundable nature of the subscription as well as the fact there are minimal incremental costs associated with the delivery of a 1 month subscription.

*Other revenue*
Revenue from the provision of other services is recognised as those services are provided.

**1.5 Research and development expenditure**
Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

**1.6 Intangible fixed assets other than goodwill**
Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date where it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the fair value of the asset can be measured reliably.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

| | |
|---|---|
| Development costs | 3 years straight line |

**1.7 Tangible fixed assets**
Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

| | |
|---|---|
| Leasehold improvements | Over the remaing life of the lease |
| Fixtures and fittings | 3 years straight line |
| Computers | 3 years straight line |

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the profit and loss account.

**1 Accounting policies** **(Continued)**

**1.8 Fixed asset investments**

Equity investments are measured at fair value through profit or loss, except for those equity investments that are not publicly traded and whose fair value cannot otherwise be measured reliably, which are recognised at cost less impairment until a reliable measure of fair value becomes available.

In the parent company financial statements, investments in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses.

A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Entities in which the group has a long term interest and shares control under a contractual arrangement are classified as jointly controlled entities.

**1.9 Impairment of fixed assets**

At each reporting period end date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The carrying amount of the investments accounted for using the equity method is tested for impairment as a single asset. Any goodwill included in the carrying amount of the investment is not tested separately for impairment.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**1.10 Cash at bank and in hand**

Cash at bank and in hand are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

**1 Accounting policies** **(Continued)**

**1.11 Financial instruments**

The group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the group's balance sheet when the group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

***Basic financial assets***

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

***Other financial assets***

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

***Impairment of financial assets***

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

***Derecognition of financial assets***

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

***Classification of financial liabilities***

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

**1 Accounting policies** **(Continued)**

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

***Other financial liabilities***
Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value though profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

***Derecognition of financial liabilities***
Financial liabilities are derecognised when the group's contractual obligations expire or are discharged or cancelled.

**1.12 Compound instruments**
The component parts of compound instruments issued by the group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity net of income tax effects and is not subsequently remeasured.

**1.13 Equity instruments**
Equity instruments issued by the group are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the group.

**1.14 Taxation**
The tax expense 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 as reported in the profit and loss account 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 end date.

**1 Accounting policies** **(Continued)**

***Deferred tax***

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end 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 calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset if, and only if, there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

**1.15 Employee benefits**

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

**1.16 Retirement benefits**

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

**1.17 Share-based payments**

Equity-settled share-based payments are measured at fair value at the date of grant by reference to the fair value of the equity instruments granted using the Black-Scholes model. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest. A corresponding adjustment is made to equity.

When the terms and conditions of equity-settled share-based payments at the time they were granted are subsequently modified, the fair value of the share-based payment under the original terms and conditions and under the modified terms and conditions are both determined at the date of the modification. Any excess of the modified fair value over the original fair value is recognised over the remaining vesting period in addition to the grant date fair value of the original share-based payment. The share-based payment expense is not adjusted if the modified fair value is less than the original fair value.

Cancellations or settlements (including those resulting from employee redundancies) are treated as an acceleration of vesting and the amount that would have been recognised over the remaining vesting period is recognised immediately.

The financial effect of awards by the parent company of options over its equity shares to the employees of subsidiary undertakings are recognised by the parent company in its individual financial statements. In particular the parent company records an increase in its investment in subsidiaries with a credit to equity equivalent to the cost in the subsidiary undertakings.

**1 Accounting policies** **(Continued)**

**1.18 Leases**

Rentals payable under operating leases, including any lease incentives received, are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

**1.19 Foreign exchange**

**Functional currency and presentation currency**

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position are presented in sterling (£).

**Transactions and balances**

In preparing the financial statements of the individual entities, transactions in currencies other than the functional currency of the individual entities (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the profit and loss account for the period.

**Translation of group companies**

For the purpose of presenting consolidated financial statements, the assets and liabilties of the group's foreign operations are translated from their functional currency to sterling (£) using the closing exchange rate. Income and expenses are translated using the average rate for the period. Exchange differences arising on the translation of group companies are recognised in other comprehensive income and are not reclassified to profit or loss.

**2 Judgements and key sources of estimation uncertainty**

In the application of the group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

**Critical judgements**

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

***Capitalisation and amortisation of development costs***

A critical judgement in applying accounting policies that had a significant effect on the amounts recognised in the financial statements for the financial year was the capitalisation of development costs, particularly on the assessment of technical, commercial and financial feasibility for the purposes of asset capitalisation.

There are also assumptions and estimation uncertainties that could have a significant risk of resulting in material adjustments within the next financial years in relation to the recoverability of the development costs. The carrying amount of intangible assets representing a development of software is £2,815,459. The directors have been required to exercise judgment in determining the useful life of this intangible for its amortisation.

## 3 Turnover and other revenue

An analysis of the group's turnover is as follows:

| | 2018 | 2017 |
|---|---|---|
| | £ | £ |
| **Turnover analysed by class of business** | | |
| Subscriptions | 5,678,282 | 4,798,983 |
| Advertising | 362,971 | 430,758 |
| Media Rights & Sponsorship | 9,521,531 | 3,717,554 |
| Other | 187,506 | 1,853 |
| | 15,750,290 | 8,949,148 |

| | 2018 | 2017 |
|---|---|---|
| | £ | £ |
| ***Turnover analysed by geographical market*** | | |
| United Kingdom | 1,600,356 | 378,964 |
| EU | 7,696,924 | 3,073,016 |
| USA | 4,088,141 | 4,196,496 |
| Rest of World | 2,364,869 | 1,300,672 |
| | 15,750,290 | 8,949,148 |

## 4 Operating loss

| | 2018 | 2017 |
|---|---|---|
| | £ | £ |
| Operating loss for the year is stated after charging/(crediting): | | |
| Exchange losses | 281,352 | 146,081 |
| Research and development costs | 728,917 | 382,479 |
| Depreciation of owned tangible fixed assets | 409,700 | 264,800 |
| Profit on disposal of tangible fixed assets | (723) | - |
| Amortisation of intangible assets | 371,771 | 206,374 |
| (Profit)/loss on disposal of intangible assets | - | 19,306 |
| Share-based payments | 35,951 | 141,318 |
| Operating lease charges | 354,792 | 211,682 |

### 5 Auditor's remuneration

| | 2018 | 2017 |
|---|---|---|
| Fees payable to the company's auditor and associates: | £ | £ |
| **For audit services** | | |
| Audit of the financial statements of the group and company | 12,500 | 12,500 |
| Audit of the financial statements of the company's subsidiaries | 8,000 | 8,000 |
| | 20,500 | 20,500 |
| **For other services** | | |
| Taxation compliance services | 6,000 | 4,500 |
| Other taxation services | 945 | - |
| All other non-audit services | 14,365 | 5,000 |
| | 21,310 | 9,500 |

### 6 Employees

The average monthly number of persons (including directors) employed by the group and company during the year was:

| | Group 2018 | 2017 | Company 2018 | 2017 |
|---|---|---|---|---|
| | Number | Number | Number | Number |
| TV | 14 | 10 | - | - |
| Development | 25 | 34 | 25 | 34 |
| Product Development | 20 | 21 | 20 | 21 |
| Sales | 2 | 2 | 2 | 2 |
| Management | 10 | 10 | 10 | 10 |
| | 71 | 77 | 57 | 67 |

Their aggregate remuneration comprised:

| | Group 2018 | 2017 | Company 2018 | 2017 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Wages and salaries | 3,931,679 | 3,673,342 | 3,135,766 | 2,970,559 |
| Social security costs | 445,562 | 390,243 | 354,832 | 322,931 |
| Pension costs | 32,989 | 11,081 | 25,711 | 8,884 |
| | 4,410,230 | 4,074,666 | 3,516,309 | 3,302,374 |

**7 Directors' remuneration**

| | 2018 £ | 2017 £ |
|---|---|---|
| Remuneration for qualifying services | 268,017 | 225,000 |

Remuneration disclosed above includes the following amounts paid to the highest paid director:

| | 2018 £ | 2017 £ |
|---|---|---|
| Remuneration for qualifying services | 150,000 | 150,000 |

**8 Interest receivable and similar income**

| | 2018 £ | 2017 £ |
|---|---|---|
| **Interest income** | | |
| Interest on bank deposits | 18 | 3,567 |

**9 Interest payable and similar expenses**

| | 2018 £ | 2017 £ |
|---|---|---|
| **Interest on financial liabilities measured at amortised cost:** | | |
| Interest on convertible loan notes | 335,379 | 71,521 |
| **Other finance costs:** | | |
| Other interest | 2,803 | 5,502 |
| Total finance costs | 338,182 | 77,023 |

**10 Taxation**

| | 2018 £ | 2017 £ |
|---|---|---|
| **Current tax** | | |
| UK corporation tax on profits for the current period | (560,544) | (147,198) |
| Adjustments in respect of prior periods | (471,822) | (317,959) |
| Total UK current tax | (1,032,366) | (465,157) |
| Foreign current tax on profits for the current period | 32,600 | - |
| Total current tax | (999,766) | (465,157) |

**10 Taxation** **(Continued)**

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge accordingly and reduce the value of the unrecognised deferred tax asset at 31 December 2018.

The actual charge for the year can be reconciled to the expected charge based on the profit or loss and the standard rate of tax as follows:

| | 2018 | 2017 |
|---|---|---|
| | £ | £ |
| Loss before taxation | (4,251,745) | (4,740,569) |
| Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%) | (807,832) | (912,560) |
| Tax effect of expenses that are not deductible in determining taxable profit | 6,439 | 12,271 |
| Tax effect of utilisation of tax losses not previously recognised | - | (24,272) |
| Unutilised tax losses carried forward | 725,920 | 843,417 |
| Depreciation on assets not qualifying for tax allowances | 7,459 | 11,951 |
| Amortisation on assets not qualifying for tax allowances | - | 39,727 |
| Research and development tax credit | (1,032,366) | (482,959) |
| Share based payment charge | 6,831 | 27,204 |
| Effect of overseas tax rates | 32,168 | 6,954 |
| Foreign exchange differences | 610 | 1,161 |
| Deferred tax on fixed assets not recognised | 61,005 | - |
| Fixed asset differences | - | 11,949 |
| Taxation credit | (999,766) | (465,157) |

The group has estimated tax losses available to be used against future profits of £10,584,000 (2017: £7,013,000).

## 11 Intangible fixed assets

| Group and company | Development costs |
|---|---|
| | £ |
| **Cost** | |
| At 1 January 2018 | 2,116,791 |
| Additions - internally developed | 1,365,825 |
| At 31 December 2018 | 3,482,616 |
| **Amortisation and impairment** | |
| At 1 January 2018 | 295,386 |
| Amortisation charged for the year | 371,771 |
| At 31 December 2018 | 667,157 |
| **Carrying amount** | |
| At 31 December 2018 | 2,815,459 |
| At 31 December 2017 | 1,821,405 |

## 12 Tangible fixed assets

| Group | Leasehold improvements | Fixtures and fittings | Computers | Total |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Cost** | | | | |
| At 1 January 2018 | 230,048 | 468,103 | 223,783 | 921,934 |
| Additions | 91,511 | 224,562 | 124,142 | 440,215 |
| Disposals | (61,966) | (210) | (1,723) | (63,899) |
| Exchange adjustments | 6,096 | 1,150 | 1,413 | 8,659 |
| At 31 December 2018 | 265,689 | 693,605 | 347,615 | 1,306,909 |
| **Depreciation and impairment** | | | | |
| At 1 January 2018 | 115,186 | 180,627 | 98,378 | 394,191 |
| Depreciation charged in the year | 133,404 | 187,973 | 88,323 | 409,700 |
| Eliminated in respect of disposals | (61,966) | - | (1,148) | (63,114) |
| Exchange adjustments | 2,016 | 612 | 690 | 3,318 |
| At 31 December 2018 | 188,640 | 369,212 | 186,243 | 744,095 |
| **Carrying amount** | | | | |
| At 31 December 2018 | 77,049 | 324,393 | 161,372 | 562,814 |
| At 31 December 2017 | 114,862 | 287,477 | 125,403 | 527,742 |

## 12 Tangible fixed assets (Continued)

| Company | Leasehold improvements | Fixtures and fittings | Computers | Total |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Cost** | | | | |
| At 1 January 2018 | 129,580 | 101,386 | 152,848 | 383,814 |
| Additions | 91,511 | 10,237 | 81,223 | 182,971 |
| Disposals | (61,966) | - | (1,723) | (63,689) |
| At 31 December 2018 | 159,125 | 111,623 | 232,348 | 503,096 |
| **Depreciation and impairment** | | | | |
| At 1 January 2018 | 81,949 | 64,434 | 66,348 | 212,731 |
| Depreciation charged in the year | 112,091 | 26,397 | 62,409 | 200,897 |
| Eliminated in respect of disposals | (61,966) | - | (1,148) | (63,114) |
| At 31 December 2018 | 132,074 | 90,831 | 127,609 | 350,514 |
| **Carrying amount** | | | | |
| At 31 December 2018 | 27,051 | 20,792 | 104,739 | 152,582 |
| At 31 December 2017 | 47,631 | 36,952 | 86,499 | 171,082 |

## 13 Fixed asset investments

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| | Notes | £ | £ | £ | £ |
| Investments in subsidiaries | 14 | - | - | 105,947 | 105,948 |

**Movements in fixed asset investments**

| Company | Shares in group undertakings |
|---|---|
| | £ |
| **Cost or valuation** | |
| At 1 January 2018 | 105,948 |
| Disposals | (1) |
| At 31 December 2018 | 105,947 |
| **Carrying amount** | |
| At 31 December 2018 | 105,947 |
| At 31 December 2017 | 105,948 |

**14 Subsidiaries**

Details of the company's subsidiaries at 31 December 2018 are as follows:

| Name of undertaking | Registered office | Nature of business | Class of shares held | % Held Direct | Indirect |
|---|---|---|---|---|---|
| Esports Championship Series CS Ltd | Millbank Tower, 25th Floor, 21-24 Millbank, London, SW1P 4QP | Organisation of Esports leagues & tournaments | A Ordinary | - | 88.50 |
| Face It, Inc. | 160 Greentree Drive, Suite 101, Dover, Delaware 19904, County of Kent, Delaware, USA | Business Development & Marketing | Common Stock | 100.00 | - |
| Overlord Media Ltd | Millbank Tower, 25th Floor, 21-24 Millbank, London, SW1P 4QP | Media services | Ordinary | 100.00 | - |

On 20 December 2018, the company transferred it's entire shareholding of Esports Championship Series CS Ltd to Overlord Media Ltd for consideration of £1.

**15 Financial instruments**

| | Group 2018 | 2017 | Company 2018 | 2017 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Carrying amount of financial assets** | | | | |
| Debt instruments measured at amortised cost | 543,409 | 663,665 | 3,212,351 | 2,547,603 |
| ***Carrying amount of financial liabilities*** | | | | |
| Measured at amortised cost | 8,573,637 | 6,321,401 | 7,971,623 | 5,117,242 |

**16 Debtors**

| | Group 2018 | 2017 | Company 2018 | 2017 |
|---|---|---|---|---|
| **Amounts falling due within one year:** | £ | £ | £ | £ |
| Trade debtors | 325,920 | 424,314 | 251,675 | 349,403 |
| Corporation tax recoverable | 560,544 | 165,000 | 560,544 | 165,000 |
| Amounts owed by group undertakings | - | - | 2,875,971 | 2,080,439 |
| Other debtors | 198,969 | 451,701 | 84,705 | 117,761 |
| Prepayments and accrued income | 364,455 | 465,449 | 309,787 | 397,241 |
| | 1,449,888 | 1,506,464 | 4,082,682 | 3,109,844 |

## 17 Creditors: amounts falling due within one year

| | Notes | Group 2018 £ | 2017 £ | Company 2018 £ | 2017 £ |
|---|---|---|---|---|---|
| Convertible loans | 19 | 4,234,038 | - | 4,234,038 | - |
| Trade creditors | | 1,765,817 | 684,641 | 781,748 | 252,610 |
| Amounts due to group undertakings | | - | - | 1,944,381 | 146,702 |
| Other taxation and social security | | 309,630 | 345,064 | 249,686 | 323,753 |
| Deferred income | | 663,675 | 2,089,499 | 663,675 | 420,000 |
| Other creditors | | 1,696,894 | 1,508,907 | 720,297 | 724,227 |
| Accruals | | 876,888 | 463,206 | 291,159 | 329,056 |
| | | 9,546,942 | 5,091,317 | 8,884,984 | 2,196,348 |

## 18 Creditors: amounts falling due after more than one year

| | Notes | Group 2018 £ | 2017 £ | Company 2018 £ | 2017 £ |
|---|---|---|---|---|---|
| Convertible loans | 19 | - | 3,664,647 | - | 3,664,647 |

## 19 Convertible loan notes

| | Group 2018 £ | 2017 £ | Company 2018 £ | 2017 £ |
|---|---|---|---|---|
| Liability component of convertible loan notes | 4,234,038 | 3,664,647 | 4,234,038 | 3,664,647 |

The net proceeds received from the issue of the convertible loan notes have been split between the financial liability element and an equity component, representing the fair value of the embedded option to convert the financial liability into equity.

The liability component is measured at amortised cost, and the difference between the carrying amount of the liability at the date of issue and the amount reported in the Balance Sheet represents the effective interest rate less interest paid to that date.

The effective rate of interest is 9%.

The equity component of the convertible loan notes has been credited to the equity reserve.

## 20 Retirement benefit schemes

| **Defined contribution schemes** | **2018** £ | **2017** £ |
|---|---|---|
| Charge to profit or loss in respect of defined contribution schemes | 32,989 | 11,081 |

A defined contribution pension scheme is operated for all qualifying employees. The assets of the scheme are held separately from those of the group in an independently administered fund.

## 21 Share-based payment transactions

Certain employees of the company along with other group employees have been granted options over the shares in Face It Ltd. The options are granted with a fixed exercise price, have graded vesting with a 1 year cliff and expire 10 years after the date of grant. Employees are required to remain in employment with the group.

| **Group and company** | **Number of share options** | | **Weighted average exercise price** | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **Number** | **Number** | **£** | **£** |
| Outstanding at 1 January 2018 | 255,093 | 278,608 | 2.95 | 2.89 |
| Granted | 30,885 | 2,500 | 3.56 | 3.42 |
| Forfeited | (6,714) | (26,015) | 3.22 | 2.89 |
| Exercised | (9,176) | - | 3.07 | - |
| Outstanding at 31 December 2018 | 270,088 | 255,093 | 2.94 | 2.95 |
| Exercisable at 31 December 2018 | 214,510 | 170,762 | 2.74 | 1.26 |

The options outstanding at 31 December 2018 had an exercise price ranging from £0.01 to £3.56 and a remaining contractual life of between 1 and 3 years.

**Group and company**

The fair value of equity-settled share options granted is estimated at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | **£** | **£** | **£** | **£** |
| **Expenses recognised in the year** | | | | |
| Arising from equity settled share based payment transactions | 35,951 | 141,318 | 35,951 | 141,318 |

## 22 Share capital

| | Group and company 2018 | 2017 |
|---|---|---|
| **Ordinary share capital** | **£** | **£** |
| **Issued and fully paid** | | |
| 2,183,226 Ordinary shares of 1p each | 21,832 | 21,832 |
| 9,176 Ordinary B shares of 1p each | 92 | - |
| | 21,924 | 21,832 |
| **Preference share capital** | | |
| **Issued and fully paid** | | |
| 275,580 Preference of 1p each | 2,756 | 2,756 |
| 984,730 Series A preferred of 1p each | 9,847 | 9,847 |
| | 12,603 | 12,603 |

## 23 Reserves

**Share premium**
Share premium accounts includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

**Equity reserve**
The equity reserve represents the cumulative equity elements of convertible loan notes currently in issue.

**Non-controlling interest**
No amount has been attributed to the non-controlling interest this year as they are not required to make good their share of any losses arising.

**Profit and loss reserves**
Profit and loss reserves represents accumulated comprehensive deficit for the year and prior periods less dividends paid.

## 24 Operating lease commitments

**Lessee**
At the reporting end date the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | Group 2018 | 2017 | Company 2018 | 2017 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Within one year | 222,666 | 325,328 | 31,716 | 141,175 |
| Between two and five years | 251,190 | 645,284 | - | 31,716 |
| | 473,856 | 970,612 | 31,716 | 172,891 |

## 25 Events after the reporting date

In February 2019, Face IT closed a Series B funding round with $12m which included both the conversion of the loan notes in issue at the year end and new shares issued for cash.

## 26 Related party transactions

**Remuneration of key management personnel**
The remuneration of key management personnel is as follows.

| | 2018 £ | 2017 £ |
|---|---|---|
| Aggregate compensation | 810,211 | 900,089 |

**Transactions with related parties**
During the year the group entered into the following transactions with related parties:

| | Services provided 2018 £ | 2017 £ |
|---|---|---|
| **Group and company** | | |
| Key management personnel | 180,000 | 201,371 |

## 27 Cash generated from group operations

| | 2018 £ | 2017 £ |
|---|---|---|
| Loss for the year after tax | (3,251,979) | (4,275,412) |
| Adjustments for: | | |
| Taxation credited | (999,766) | (465,157) |
| Finance costs | 338,182 | 77,023 |
| Investment income | (18) | (3,567) |
| Gain on disposal of tangible fixed assets | (723) | - |
| (Gain)/loss on disposal of intangible assets | - | 19,306 |
| Amortisation and impairment of intangible assets | 371,771 | 206,374 |
| Depreciation and impairment of tangible fixed assets | 409,700 | 264,800 |
| Foreign exchange gains on convertible loan notes | 234,011 | (1,148) |
| Equity settled share based payment expense | 35,951 | 141,318 |
| Movements in working capital: | | |
| Decrease in debtors | 228,896 | 3,983,090 |
| Increase/(decrease) in creditors | 1,870,634 | (301,392) |
| (Decrease)/increase in deferred income | (1,425,824) | 1,507,384 |
| **Cash (absorbed by)/generated from operations** | (2,189,165) | 1,152,619 |

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Mercer & Hole
21 Lombard Street
London
EC3V 9AH

Dear Sirs

The following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience such as we consider necessary in connection with your audit of the group's financial statements for the year ended 31 December 2018. These enquiries have included inspection of supporting documentation where appropriate. All representations are made to the best of our knowledge and belief.

**GENERAL**

1. We have fulfilled our responsibilities as directors, as set out in the terms of your engagement letter dated 2 March 2016 under the Companies Act 2006, for preparing financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice), for being satisfied that they give a true and fair view and for making accurate representations to you.
2. All the transactions undertaken by the group have been properly reflected and recorded in the accounting records.
3. All the accounting records have been made available to you for the purpose of your audit. We have provided you with unrestricted access to all appropriate persons within the group, and with all other records and related information requested, including minutes of all management and shareholder meetings.
4. The financial statements are free of material misstatements, including omissions.
5. The effects of uncorrected misstatements are immaterial both individually and in total.

**INTERNAL CONTROL AND FRAUD**

6. We acknowledge our responsibility for the design, implementation and maintenance of internal control systems to prevent and detect fraud and error. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud.
7. We have disclosed to you all instances of known or suspected fraud affecting the entity involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
8. We have also disclosed to you all information in relation to allegations of fraud or suspected fraud affecting the entity's financial statements communicated by current or former employees, analysts, regulators or others.

**ASSETS AND LIABILITIES**

9. The group has satisfactory title to all assets and there are no liens or encumbrances on the group's assets, except for those that are disclosed in the notes to the financial statements.
10. All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.
11. We have no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

**ACCOUNTING ESTIMATES**

12. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

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13. We confirm that all development costs capitalised meet the criteria necessary to do so. We confirm that 3 years is an appropriate period over which to amortise these costs.
14. We confirm that the prize liability provision is appropriate and sufficient to meet expected claims.
15. We confirm that no bonus is due to Niccolo Maisto in respect of the work done in the year to December 2018.

**LOANS AND ARRANGEMENTS**

16. The group has not granted any advances or credits to, or made guarantees on behalf of, directors other than those disclosed in the financial statements.

**LEGAL CLAIMS**

17. We have disclosed to you all claims in connection with litigation that have been, or are expected to be, received and such matters, as appropriate, have been properly accounted for and disclosed in the financial statements.

**LAWS AND REGULATIONS**

18. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

**RELATED PARTIES**

19. Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements. We have disclosed to you all relevant information concerning such relationships and transactions and are not aware of any other matters which require disclosure in order to comply with the requirements of company law or accounting standards.

**SUBSEQUENT EVENTS**

20. All events subsequent to the date of the financial statements which require adjustment or disclosure have been properly accounted for and disclosed.

**GOING CONCERN**

21. We believe that the group's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the group's ability to continue as a going concern need to be made in the financial statements.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

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Signed on behalf of the board of directors

Date: 9 MAY 2019

**www.faceit.com**

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Reg. Number 07751649,
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