RNS Number : 4876H
Nektan PLC
13 March 2018

13 March 2018

NEKTAN PLC

("**Nektan**", the "**Company**" or the "**Group**")

Interim Results for the six months ended 31 December 2017

NEKTAN'S EUROPEAN ARM CONTINUES TO GROW WITH NEW BUSINESS OPPORTUNITIES IN US AND ASIA

Nektan plc (AIM: NKTN), an international B2B and white label gaming software and services provider, announces its unaudited results for the six months ended 31 December 2017.

Financial Summary:

	Unaudited six months ended 31 December 2017 £'000	Unaudited six months ended 31 December 2016 £'000
Total revenue	8,815	5,727
Adjusted EBITDA loss*	(1,647)	(1,498)
Adjusted EBITDA loss* - Managed Gaming Solutions	(918)	(1,498)
Operating loss **	(3,165)	(512)
(Loss)/profit before taxation **	(4,172)	1,188
Basic & diluted (loss)/earnings per share (pence)	(12.6)	4.9

**Adjusted EBITDA loss exclude depreciation, amortisation, income or expenditure relating to exceptional items, profit on brand disposals and non-cash charges relating to share based payments and impairments*

***In 2016 operating profit included the profit on brands disposal of £1,950k and profit before taxation includes the profit on brand disposals and the fair value adjustment on increase in equity ownership of £2,322k*

Summary:

- Revenue up 54% versus six months ended 31 December 2016 and 17% versus six months ended 30 June 2017
- Significantly reduced losses in the Managed Gaming Solutions division with an adjusted EBITDA loss of £918k (H1 FY17: £1,498k)
- First global platform deal signed in B2B technology services with Tyche Digital opening up significant new pipeline of opportunities that Tyche is developing
- First revenues in the European B2B division with 5 deals now live
- Nektan takes first mobile cash bet at casino in US
- Raised £1.76m through a placing and subscription of new shares in December 2017

Post period-end:

- Continued trading momentum in European business with revenue from diversification from white label and gaming service provision business
- Over 100 casino brands now live from 52 partners, including new European-focused partnerships
- Nektan's Evolve Lite Platform live in Asia with 247 Asian games and a number of contracts signed through the Tyche Digital integration
- Following its launch in the US in August, its US business is progressing and is currently installing in three land-based casinos

Gary Shaw, Interim Chief Executive Officer of Nektan, said:

"The European business continues to deliver strong trading momentum. We are developing our mobile first casino product, diversifying our portfolio of services to include additional B2B gaming solutions in Europe, US and now Asia.

Our European white label services business now consists of over 100 casino sites. We continue to leverage our partnerships with numerous global game providers including Realistic Games, Pragmatic Play™, Booongo Gaming and Pocket Games Soft, to deliver the Nektan Technology platform into further new geographic markets with localised content.

I am particularly pleased that we are maintaining a central cost base to develop these revenue opportunities. We are expecting continued margin improvements, as our business partners develop new markets utilising our core technology platform, and to become a successful global technology supplier."

For further information on the Group, please contact:

Nektan Gary Shaw, Interim Chief Executive Officer Patrick Sinclair, Chief Financial Officer	via Newgate below
Stockdale Securities Limited Tom Griffiths / Ed Thomas	+44 20 7601 6100
Newgate (PR Adviser) James Benjamin	+44 20 7680 6550 / + 44 7747 113 930 Email: nektan@newgatecomms.com

Further information on Nektan can be found on the Group's website at www.nektan.com

About Nektan:

Nektan is an international B2B and white label gaming software and services provider, operating in the regulated, interactive real money gaming (RMG) space, delivering original and innovative solutions to commercial organisations that have established online audiences.

Nektan's full end-to-end technology platform, Evolve, simplifies and supports the route to mobile and desktop gaming revenues, managing the full customer experience and back-office operations, allowing commercial partners to focus on marketing the product to their consumers.

Nektan's US operating subsidiary, Respin, provides US land-based casinos with in-venue mobile gaming solutions which allow operators to add mobile technology and content to their existing offerings, with products accessible to players across both cabinets and mobile devices inside the casinos. Respin has a strong intellectual property portfolio including game patents for Rapid Games™ (on-property mobile entertainment), and other captivating concepts and brands.

Nektan is headquartered in Gibraltar, regulated by the Gibraltar Licensing Authority and the UK Gambling Commission, as well as in the Irish market and maintains sales and customer support operations in its two primary geographical targets, Europe and North America. The proprietary Evolve technology is developed and maintained by a talented and experienced team of employees from Nektan's Indian office.

Nektan plc was admitted to the AIM market of the London Stock Exchange in November 2014.

CHIEF EXECUTIVE'S STATEMENT

Overview

Over the period under review, Nektan continued to make significant operational and strategic progress in Europe, its key market and continued to develop its US business, whilst utilising its technology assets to expand further into wider global markets, which is continuing following the period-end.

In line with our strategy to transition from a white label operator to an international gaming software and services provider, the Group has made strong progress in realigning its structure to focus on Managed Gaming Solutions (Europe) and B2B Software & Games Licensing (Europe, US and Asia), which are powered by a single, proprietary technical platform.

The managed casino network continues to deliver growth momentum for our casino partners, with a significant and expanding base of active registered players as we selectively expand the casino network with quality partners, helping to ensure that we deliver sustainable profitable growth.

Real Money Gaming is Nektan's core focus in Europe in our Managed Gaming Solutions turnkey business, leveraging our Gibraltar gaming licence, proprietary back office platform ("**Evolve**") and operational expertise to offer a rewarding and entertaining player experience, that remains attractive to players, across a network of over 100 managed casinos.

During the six months to 31 December 2017, the Evolve casino network registered 77,055 first time depositors (H1 FY17: 49,252), demonstrating the importance and flexibility of the Evolve platform to support and deliver additional growth. Nektan strives to be the best in all operating disciplines across casino management, maximising player entertainment and engagement through the intelligent use of our back-office platform and associated services across customer relationship management, payments, customer service and player marketing.

Nektan is leveraging its proprietary technologies and access to high-quality casino game titles to supply European interactive casino operators through traditional B2B software and gaming licensing arrangements. Several new agreements have been signed with leading game providers which allow Nektan to deliver content on a global basis with one integration via Nektan's Evolve platform. This is very relevant for many of the leading companies in the sector as a single integration with Nektan now facilitates entry into multiple global markets.

Financial Review and KPIs

Both during the period and post-period end, the Group has experienced growth in Net Gaming Revenue ("**NGR**"), as well as other KPIs,demonstrating the operational progress being achieved. The Directors regard, in addition to revenue and adjusted EBITDA, the growth in first time depositors and cash stakes as reliable measures of performance:

· NGR increased 59.3% in the period to £8.6 million (H1 FY17: £5.4 million);

· First time depositors grew 56.5% in the period to 77,055 (H1 FY17: 49,252); and

· Cash stakes increased 56.1% in the period to £254.5 million (H1 FY17: £163.0 million).

The results for the period include six months of Respin as a wholly owned subsidiary compared to the prior period when Respin was equity accounted for. The impact of Respin was a £729k charge in EBITDA. It should also be noted that the prior year included a profit on the fair value adjustment on the increase in equity of Respin of £2,322k and a profit on the disposal of certain brands of £1,950k.

Taking the Managed Gaming Solutions business segment separately, gross profit increased from £3,530k at 61.6% of revenue to £5,728k at 65.0% of revenue. Adjusted EBITDA for Managed Gaming Solutions improved from a loss of £1,498k in the prior period to a reduced loss of £918k in the period.

Marketing, partner and affiliate costs increased from £3,261k, or 56.9% of revenue, to £4,503k, or 51% of revenue, demonstrating efficiencies as the business grows. Administrative costs increased from £781k to £4,391k but the prior year included the profit on brand disposal of £1,950k as well as exceptional items of £134k (2017: £201k) and Respin of £736k (2017: £nil).

Loss before tax in the period was £4.2 million (2016: profit of £1.26 million) and loss per share totalled 12.6p (2016: earnings per share of 4.9p). The profit in the prior period being due to the profit on brands disposal of £1,950k and fair value adjustment on increase in equity ownership of £2,322k.

Funding

The Company raised £1.76 million in December 2017 through a placing and subscription of new shares from both existing and new shareholders. In 2018, it is likely that the Company will require further funding as it nears break-even in its Managed Gaming Solutions business.

Our business model and strategy

Nektan's core market is the regulated mobile real money gaming ("**RMG**") sector. In the early stages of the Group's development, it focused specifically on white label casinos. Nektan is now applying its proprietary technology into new markets via partnerships with local market operators. The technology is built for rapid deployment and continual development to address the current trend for expeditious consumer adoption of new mobile devices and apps.

Our first global platform deal allows our business partner to address a geographic market opportunity leveraging their local knowledge with technology that is already developed and can be quickly adapted creating incremental opportunities for Nektan via the partner with little cost.

We are now beginning to replicate this model across markets where we will further utilise our core technology and develop partnerships across additional jurisdictions. Our key selling point is that we have, via our white label business, already integrated the majority of global game providers and due to the flexibility of our platform we can readily and easily apply localisation. In Asia, we have 247 localised games from global providers. Having control of our central platform allows Nektan to determine its own roadmap and which partnerships it will develop.

Outlook

In Europe, the focus within our Managed Gaming Services business is to continue growing through acquiring new partners, rolling out new casinos and making further improvements in our operations, both in terms of efficiency and product offering, ensuring we attract and retain players for the long term.

Our B2B business is a complementary addition to our European managed casino network. We expect both our current and future platform deals, as well as games licensing and distribution, to bring additional customers, players and revenue to the Group as the business builds.

Furthermore, our North American Respin business, is installing its product and continuing to attract interest from potential casino customers.

The Company continues to leverage its assets, expertise and networks across the Group to maximise revenue in, and deliver profitable growth to, shareholders. We look forward to updating on further progress in due course.

On behalf of the Board, I would like to thank all of Nektan's employees for their continued hard work and commitment.

Gary Shaw
Interim Chief Executive Officer

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the 6 months ended 31 December 2017

	Notes	Unaudited six months to 31 December 2017 £'000	Unaudited six months to 31 December 2016 £'000
Revenue	2	8,815	5,727
Cost of sales	2	(3,080)	(2,197)
Gross profit		5,735	3,530
Marketing, partner and affiliate costs	2	(4,503)	(3,261)
Administrative expenses	2	(4,397)	(781)
Adjusted EBITDA		(1,647)	(1,498)
Exceptional items		(134)	(201)
Depreciation		(73)	(45)
Amortisation of intangible assets		(1,125)	(708)
Profit on brand disposals		-	1,950
Share based payment charge		(186)	-
Operating loss		(3,165)	(512)
Net finance expense	4	(1,007)	(194)
Fair value adjustment on increase in equity ownership of joint venture to subsidiary	11	-	2,322
Share of loss of joint ventures		-	(428)
(Loss)/profit before taxation		(4,172)	1,188
Tax credit/(charge)		128	(7)
(Loss)/profit for the period		(4,044)	1,181
Other comprehensive income for the period			
Exchange differences arising on translation of foreign operations which may be reclassified to profit or loss		46	(153)
Total comprehensive (loss)/profit for the period		(3,998)	1,028
(Loss)/earnings per share attributable to the Ordinary equity holders of the parent			
Basic (pence)	3	(12.6)	4.9
Diluted (pence)	3	(12.6)	4.9

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the six months ended 31 December 2017

	Notes	Unaudited as at 31 December 2017 £'000	Audited at 30 June 2017 £'000
Non-current assets			
Intangible assets		6,233	6,900
Property, plant and equipment		382	432
		6,615	7,332
Current assets			
Trade and other receivables	5	3,344	1,805
Cash and cash equivalents	6	709	638
		4,053	2,443
Total assets		10,668	9,775
Current liabilities			
Trade and other payables	7	7,951	7,362
		7,951	7,362
Non-current liabilities			
Convertible loan notes	8	9,703	9,094
Trade and other payables		-	24
Shareholder loan	10	1,985	-
Deferred tax		1,336	1,482
		13,024	10,600
Total liabilities			

		20,975	17,962
Net liabilities		(10,307)	(8,187)
Equity attributable to equity holder:			
Share capital	9	444	360
Share premium		28,939	27,331
Merger reserve		(2)	(2)
Capital contribution reserve		3,306	3,306
Share option reserve		1,014	828
Foreign exchange reserve		(364)	(410)
Retained earnings		(43,644)	(39,600)
Total deficit		(10,307)	(8,187)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 31 December 2017

	Share capital	Share premium	Minority interest reserve	Share option reserve	Capital contribution reserve	Merger reserve	Foreign exchange reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 2016	241	24,115	-	262	3,306	(2)	(183)	(33,914)	(6,175)
Profit for the period	-	-	-	-	-	-	-	1,181	1,181
Arising during the year on increased ownership of joint venture	-	-	206	-	-	-	-	-	206
Other comprehensive income	-	-	-	-	-	-	(153)	-	(153)
At 31 December 2016	241	24,115	206	262	3,306	(2)	(336)	(32,733)	(4,941)
Loss for the period	-	-	-	-	-	-	-	(7,302)	(7,302)
Other comprehensive income	-	-	-	-	-	-	(74)	-	(74)
Arising during the year on increased ownership of joint venture	-	-	290	-	-	-	-	-	290
Acquisition of minority interest	-	-	(496)	-	-	-	-	435	(61)
Issue of shares (net of costs)	119	3,216	-	-	-	-	-	-	3,335
Share based payments	-	-	-	566	-	-	-	-	566
At 30 June 2017	360	27,331	-	828	3,306	(2)	(410)	(39,600)	(8,187)
Loss for the period	-	-	-	-	-	-	-	(4,044)	(4,044)
Other comprehensive income	-	-	-	-	-	-	46	-	46
Issue of shares (net of costs)	84	1,608	-	-	-	-	-	-	1,692
Share based payments	-	-	-	186	-	-	-	-	186
At 31 December 2017	444	28,939	-	1,014	3,306	(2)	(364)	(43,644)	(10,307)

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

Share capital
Represents the nominal value of shares allotted, called up and fully paid.

Share premium
Represents the amount of subscribed for share capital in excess of nominal value.

Share option reserve
Represents the cumulative value of share option charges recorded in the consolidated statement of comprehensive income.

Minority interest reserve
Represents the minority share of the assets and liabilities of Respin following the move from 50% to 85% ownership and subsequent transfer to retained earnings when the remaining 15% was acquired. The loss during the previous period prior to the ownership increasing from 85% to 100% was immaterial and hence has not been shown on the income statement.

Capital contribution reserve
Represents:
(a) Nominal value of shares held by a shareholder in a subsidiary Company and contributed to Nektan plc.
(b) The release of the Group's obligation to repay borrowings of £3,304,000 by a shareholder.

Merger reserve
The difference between the nominal value of the Nektan (Gibraltar) Limited shares acquired in May 2011 and the nominal value of shares in Nektan plc issued to acquire these shares as part of a Group restructuring.

Foreign exchange reserve
Represents the gains/losses arising on retranslating the net assets of overseas operations into UK Pound Sterling.

Retained earnings
Represents the cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 31 December 2017

	Notes	Unaudited six Months to 31 December 2017 £'000	Unaudited six Months to 31 December 2016 £'000
Cash flow from operating activities			
(Loss)/profit for the period		(4,044)	1,181

Adjustments for:			
Amortisation of intangible assets		1,125	708
Profit on brand disposals		-	(1,950)
Depreciation of property, plant and equipment		73	45
Share based payment expense		186	-
Finance expense		1,007	194
Share of loss of joint ventures		-	428
Fair value adjustment on increase in equity ownership of joint venture		-	(2,322)
Income tax (credit)/charge		(128)	7
Operating cash flow before movement in working capital		(1,781)	(1,709)
Increase in trade and other receivables		(475)	(417)
Increase in trade and other payables		528	2,426
Cash (used in)/generated from operations		(1,728)	300
Cash flow from investing activities			
Purchase of intangible fixed assets		(458)	(255)
Purchase of property, plant and equipment		(38)	(14)
Investments in joint ventures		-	(1,014)
Proceeds on brands disposals		-	1,950
Cash acquired on increase in equity ownership of joint venture		-	24
Net cash (used in)/generated from investing activities		(496)	691
Cash flow from financing activities			
Interest paid		(55)	(555)
Capital payments on finance leases		(14)	-
Payment to acquire JV partner share	11	(250)	-
Issue of debt		1,985	-
Proceeds on subscription for shares (net of costs)		629	-
Net cash generated from/ (used in) financing activities		2,295	(555)
Net increase in cash and cash equivalents		71	436
Cash and cash equivalents at beginning of period	6	638	99
Cash and cash equivalents at end of period	6	709	535

1. Accounting policies

General information

The unaudited condensed interim consolidated financial statements for the six months ended 31 December 2017, which were approved by the Board of Directors on 12 March 2018, do not comprise statutory accounts and should be read in conjunction with the Annual report and Accounts which includes audited financial information for the year ended 30 June 2017 accounts. The report of the auditors on those accounts drew attention to the fact that in forming their opinion on the financial statements, which was unmodified, that they have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Group and the Company's ability to continue as a going concern. The report stated that this is dependent on the ability of the directors successfully to secure sufficient funding for the foreseeable future including further funds should Board approved forecasts not be met.

Basis of preparation

The unaudited interim condensed consolidated financial statements are prepared on the basis of the accounting policies stated in the Group's Annual Report 2017.

There were no new Standards and Interpretations issued by the International Accounting Standards Board ('IASB') that were effective for the first time in the current period and had an impact on the Group. The following relevant standards and interpretations were issued by the IASB or the IFRIC before the period-end but are as yet not effective for the 6 months ended 31 December 2017:

- IFRS 9 Financial Instruments (effective date 1 January 2018)
- IFRS 15 Revenue Recognition (effective date 1 January 2018)
- IFRS 16 Leases (effective date 1 January 2019)

The above standards have not been early adopted and the Directors, based on the review and assessment completed to date, do not expect that the adoption of these standards will have a material impact on the financial statements of the Group in future periods with the exception of IFRS 16 Leases which will bring onto balance sheet operating leases as a right of use asset with a corresponding liability.

The interim financial statements have been prepared on a going concern basis. The Group continues to be loss making and in addition funds its capital expenditure and the development of its US business, ReSpin LLC, which is also loss making.

On 18 December 2017, the Directors announced an equity fundraising of £1,759,535. The Directors have reviewed forecast cash flows for the forthcoming 12 months from the date of approval of these interim financial statements and consider that it is likely that the business will require further funding in order to continue as a going concern and that therefore the Directors would, if required, seek additional capital through further fundraising and/or asset sales or part sales.

Having reviewed the forecasts of the business and based on the ability to raise further funds should this be required, the Directors have a reasonable expectation to believe that it is appropriate to continue to prepare the financial statements on a going concern basis. There are therefore material uncertainties related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern. If the business is unable to raise additional finance it may be unable to realise its assets and discharge its liabilities in the normal course of business.

2. Segmental information

The accounting policies of the reportable segments follow the same policies as described in note 1. Segment result represents the gross profit earned by each segment without allocation of the share of administrative costs including Directors' salaries, finance costs and income tax expense. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance. Administrative expenses comprise principally the employment and office costs incurred by the Group.

Following the acquisition of the remaining 50% of Respin, the Board now reviews the results of the on premise gaming separately and the results for the six months ended 31 December 2017 have been split out as such below.

For the six months ended 31 December 2017	**Managed Gaming Solutions £'000**	**On Premise Gaming £'000**	**Group £'000**
Revenue	8,808	7	8,815
Cost of sales	(3,080)	-	(3,080)
Gross profit	5,728	7	5,735
Marketing, partner, affiliate costs and administrative expenses	(6,646)	(736)	(7,382)
Adjusted EBITDA	(918)	(729)	(1,647)
Depreciation, amortisation, exceptional items and share based payment charges			(1,518)
Net finance expense			(1,007)
Taxation			128
Loss for the period			(4,044)

For the six months ended 31 December 2016	**Managed Gaming Solutions £'000**	**On Premise Gaming £'000**	**Group £'000**
Revenue	5,727	-	5,727
Cost of sales	(2,197)	-	(2,197)
Gross profit	3,530	-	3,530
Marketing, partner, affiliate costs and administrative expenses	(5,028)	-	(5,028)
Adjusted EBITDA	(1,498)	-	(1,498)
Depreciation, amortisation, exceptional items and share based payment charges			(964)
Fair value adjustment on increase in equity			2,322
Profit on brand disposal			1,950
Net finance expense			(194)
Share of loss of joint ventures			(428)
Taxation			(7)
Profit for the period			1,181

Segment assets and liabilities

Assets and liabilities are not separately analysed or reported to the Group's Chief Executive and are not used to assist in decisions surrounding resource allocation and assessment of segment performance. As such, an analysis of segment assets and liabilities has not been included in this financial information.

Geographical analysis of non-current assets

The following table provides an analysis of the Group's non-current assets, excluding goodwill and investments in equity accounted joint ventures, by geographical segment:

	Unaudited at 31 December 2017 £'000	**Audited at 30 June 2017 £'000**
Gibraltar	5,351	5,993
UK	3	6
India	31	37
US	311	377
	5,696	6,413

Geographical analysis of revenues

The following table provides an analysis of the Group's revenue by geographical segment:

	Unaudited six Months to 31 December 2017 £'000	**Unaudited six Months to 31 December 2016 £'000**
UK	8,358	5,546
Rest of the World	457	181
	8,815	5,727

3. (Loss)/earnings per share

Basic loss per share is calculated by dividing the (loss)/profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

	Unaudited six months to 31 December 2017	**Unaudited six months to 31 December 2016**
Basic and diluted		
(Loss)/profit after tax (£'000)	(4,044)	1,181
Weighted average number of shares	32,120,224	24,102,600

Weighted average (loss)/earnings per share (pence)	(12.6)	4.9

At the period-end there are a number of potentially dilutive instruments including share options and convertible loan notes. However, as the exercise price of the share options and convertibles is in excess of the share price at period-end and throughout the period, none of these instruments give rise to a dilution impact for the purposes of calculating the diluted earnings per share. The result for the six months ended 31 December 2017 was a loss and therefore there was no difference between the basic and diluted loss per share.

4. Finance income and costs

	Unaudited six months to 31 December 2017 £'000	Unaudited six months to 31 December 2016 £'000
Finance income		
Gain on movement in fair value of derivative financial instruments	-	251
Total finance income	-	251
Finance expense		
Loss on movement in fair value of derivative financial instruments	(265)	-
Interest payable	(581)	(445)
Interest payable - effective rate adjustment	(161)	-
Total finance expense	(1,007)	(445)
Net finance expense	(1,007)	(194)

5. Trade and other receivables

	Unaudited at 31 December 2017 £'000	Audited at 30 June 2017 £'000
Trade receivables	1,506	958
Prepayments & other debtors	1,838	847
	3,344	1,805

The Directors consider that the carrying amount of the trade receivables, other receivables and the loan to the joint ventures approximate to their fair value due to their short-term maturity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable shown above. The Group does not hold any collateral as security.

At 31 December 3017, prepayments & other debtors included an amount of £1,063,000 relating to the shares issued in December 2017. This balance has now been fully paid.

6. Cash and cash equivalents

	Unaudited At 31 December 2017 £'000	Audited At 30 June 2017 £'000
Cash in bank accounts	709	638

Interest is earned at floating rates on cash held on short-term deposit. All of the Group's cash and cash equivalents are held with major UK, Gibraltar or US banks.

The Directors consider that the carrying value of cash and cash equivalents is approximate to their fair value.

7. Trade and other payables

	Unaudited At 31 December 2017 £'000	Audited At 30 June 2017 £'000
Trade payables	974	1,481
Other payables	2,850	2,339
Corporation tax liability	115	79
Accruals	2,928	2,655
Finance lease obligations	18	8
Derivative financial liability	1,066	800
	7,951	7,362

Player balances represent amounts due to customers including net deposits received, undrawn winnings and certain promotional bonuses. Player balances were £517k (30 June 2017: £384k) and are included within other payables above.

Derivative financial liability relates to the fair value derivative component of the convertible loan notes. Details of the convertible loan notes can be found in Note 8.

The Directors consider that the carrying value of trade and other payables is approximate to their fair value.

The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices.

8. Convertible Loan Notes

The Group raised £11.1m through the issue of convertible loan notes in the years to 30 June 2015 and 2016. The conversion price is at a 25% premium to the price at the most recent equity issue price prior to the conversion of the loan notes, subject to a maximum conversion price. The maximum conversion price is subject to rebasing in the event of a share issue. At the balance sheet date, the conversion price was 26.25p and the maximum conversion price was 101.25p.

Interest of 10 per cent. per annum is payable quarterly in arrears, however during the previous year the Company reached agreement with the loan note holders to defer the interest on the Series A CLNs until April 2020 with the Company having the option quarterly to restart interest payments. If the Company exercised its right to defer interest, the Series A CLN holders were granted a warrant to buy Ordinary Shares, exercisable immediately at the lowest prevailing equity issue price per share up to the value of the interest so deferred. As at 31 December 2017, five quarters of interest payments had been deferred leading to an interest accrual of £1,199k (30 June 2017: 750k). On 18 December 2017, the Company reached agreement with the required proportion of the loan note holders to remove the warrants being issued on deferral of the quarterly interest charge for future periods.

	Unaudited At 31 December 2017 £'000	**Audited At 30 June 2017 £'000**
Convertible loan notes	8,504	8,344
Accrued interest	1,199	750
Non-current liabilities	**9,703**	**9,094**

The number of shares that will be issued upon conversion of the notes is variable and, therefore on recognition, the proceeds received from the issue of the notes, net of directly attributable transaction costs, have been allocated between the derivative financial liability based upon the fair values on inception of the conversion option and the host debt. As at the balance sheet date, £1,094,500 of the Series A CLN had been converted at a price of 34.375p leading to 3,184,000 ordinary shares being issued. Any notes that have not been converted will be redeemed in full on 28 April 2020.

The debt component has subsequently been measured at amortised cost based on an effective interest rate of 11.12% for Tranche 1 and 2 (30 June 2017: 11.12%), and 16.20% for Tranche 3 and 4 (30 June 2017: 19.11%). The difference between the carrying amount of the liability component at the date of issue and the amount reported at 31 December 2017 represents the effective interest rate less the interest paid to that date.

The derivative financial liability has been revalued at the balance sheet date, which has resulted in a fair value loss to the income statement of £266,000 (2016: gain of £251,000). Due to the equity raise during the period, the conversion price of the CLN rebased to 26.25p.

The Convertible Loan Notes are secured by a first ranking fixed and floating charge on the assets of the Company and each of the Company's subsidiaries, with all other loans to the Company ranking behind the Convertible Loan Notes' security.

9. Share capital

	Ordinary shares Number ('000)	**Ordinary shares £**
Allotted, issued and fully paid		
At 1 July 2016 and 31 December 2016	24,103	241,026
Issued during the period	11,932	119,327
At 30 June 2017	36,035	360,353
Issued during the period	8,406	84,059
At 31 December 2017	44,441	444,412

Authorised share capital

The authorised share capital of the Group is £1,000,000 divided into 100,000,000 Ordinary Shares of which 44,441,154 ordinary shares have been issued, credited as fully paid (2017: 36,035,292).

10. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The following related party transactions took place during the period:

During the year, the following directors had transactions or interests in the Company's Convertible Loan Notes:

		At 31 December 2017	**At 30 June 2017**
Gary Shaw	CLN Balance	£300,000	£300,000
	Interest received in the period	-	£7,500
	Deferred interest balance	£37,541	£22,500
	Deferred interest warrants	140,011	81,596
Jim Wilkinson	CLN Balance	£250,000	£250,000
	Interest received in the period	-	£6,250
	Deferred interest balance	£39,811	£18,750
	Deferred interest warrants	116,677	67,997
Venture Tech Assets*	CLN Balance	£1,000,000	£1,000,000
	Interest received in the period	-	£25,000
	Deferred interest balance	£125,137	£75,000
	Deferred interest warrants	466,703	271,982

In July 2017, the Company announced that it had secured commitments to raise £2,500,000 through an unsecured loan facility, providing financing to facilitate the Company's continued growth and associated product development. In order to draw upon the loan, the Company has entered into separate Facility Agreements with two of its Directors, Gary Shaw for £1,300,000 and Sandeep Reddy for £1,200,000 (the "Debt Fundraise"). The loans will carry interest of 10% per annum and the Company will grant to each lender, 5.36 debt warrants and 137 anti-dilution warrants for each £1 drawn down under the facility agreements.

At the balance sheet date the position with respect to the Debt Fundraise was as follows:

		At 31 December 2017	**At 30 June 2017**
Gary Shaw	Loan facility	£1,300,000	-
	Loan drawn down	£1,185,000	-
	Interest paid	-	-
	Interest accrued	£26,033	-
	Warrants @ 27.5p	6,351,600	-
	Anti-dilution warrants issued @ 1p	2,064,270	-

Venture Tech Assets*		Loan facility	£1,200,000	-
		Loan drawn down	£800,000	-
		Interest paid	-	-
		Interest accrued	£33,356	-
		Warrants @ 27.5p	4,288,000	-
		Anti-dilution warrants issued @ 1p	1,393,600	-

* A company controlled by Sandeep Reddy

As part of the equity raise in December 2017, Jim Wilkinson subscribed for 257,143 ordinary shares at 21p.

11. Acquisitions and disposals

On 29 December 2016, the Company increased its ownership of Respin from 50% to 85% as additional funding was converted to an increased membership interest, transitioning the business to an operating subsidiary of Nektan from a joint venture. The directors determined that control passed to Nektan and therefore the investment was consolidated as a subsidiary and no longer accounted for as a joint venture.

The 50% investment was fair valued on acquisition and the difference between the fair value and the carrying value being £2,322k was recorded as a fair value gain in the income statement.

During the six months ended 31 December 2017, £250,000, being the first instalment of the £500,000 consideration agreed to buy out the Company's joint venture partners in NMS, was paid. The second instalment of £150,000 was paid in February 2018 leaving the balance of £100,000 due in August 2018.

12. Post-balance sheet events

Following the year-end, £780,000 of the Series A CLN was converted at the new conversion price of 26.25p giving rise to the issue of 2,971,428 new ordinary shares.

END

IR JTMBTMBIBTJP