RNS Number : 8002T
Nektan PLC
25 March 2019

NEKTAN PLC

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

Interim Results for the six months ended 31 December 2018

NEKTAN ACHIEVES EBITDA BREAK-EVEN AS EUROPEAN ARM CONTINUES TO GROW AND NEW BUSINESS OPPORTUNITIES EMERGE GLOBALLY

Nektan plc (AIM: NKTN), the fast-growing international gaming technology and services provider, announces its unaudited interim results for the six months ended 31 December 2018.

Financial Summary:

	Unaudited six months ended 31 December 2018 £'000	**Unaudited six months ended 31 December 2017 £'000**
Revenue	13,019	8,808
Total Adjusted EBITDA*	336	(916)
Operating loss from continuing operations	(201)	(1,919)
Loss before taxation from continuing operations	(843)	(2,926)
Basic & diluted loss per share (pence) continuing operations	(2.7)	(9.2)
Basic & diluted loss per share (pence) continued & discontinued operations	(14.9)	(12.6)

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

Summary:

- Revenue in the six months ended 31 December 2018 ("**H1 FY19**") up 48% versus the six months ended 31 December 2017 ("**H1 FY18**") and 17.6% versus the six months ended 30 June 2018 ("**H2 FY18**").
- Adjusted EBITDA of £336k (H1 FY18 (£916k) loss), driven by increased revenues and resulting business efficiencies.
- The US operations have been classified as discontinued in the period under review and prior period following the Company's announcement on 27 December 2018, advising of the proposed sale of the majority shareholding of Nektan's US subsidiary, Respin. The associated assets and liabilities of the US subsidiary have been classified as held for sale and an impairment recorded of £2.9m based on the expected sale proceeds.
- Launched new white label casino partners, notably the Shipley Brothers, taking the number of fully-managed global casino brands to a record 152 across Europe.
- Higher margin B2B division established as significant global revenue driver for the business with 10 partners live by 31 December 2018.
- The directors remain in discussions with HMRC for the £2.9m owed for UK point of consumption tax as at 31 December 2018, which will be significantly reduced by virtue of the funds received from the equity fundraising and part disposal of Respin.
- Lucy Buckley joined as Chief Executive Officer on 3 December 2018.

Post period-end:

- Several new B2B partnerships are underway including the previously announced Addison Global's MoPlay.
- US subsidiary, Respin, soft launched its proprietary in-venue mobile gaming product with a major US tier-one casino operator and signed a new contract with one of the largest casinos in Palm Springs, California.
- The proposed sale of the majority shareholding of Nektan's US subsidiary, Respin, is progressing and the Company expects to enter into a binding contract for the sale as soon as possible, but in any event no later than 30 April 2019.
- Nektan announced on 8 February 2019 that it has received more support for the placing and subscription than previously announced on 27 December 2018, with demand at £2.2 million. However, there is a short delay in executing all transactions as they are inter-conditional.
- Trading in Nektan's B2C white label business during Q3 FY19 has, so far, been flat year-on-year and down versus Q2 FY19, due to a number of factors impacting FTDs and deposits, including seasonality, increased UK regulation around player marketing and verifications and a delay in the granting of our Swedish operator licence. The Board expects trading to improve in the next quarter (Q4 FY19).

Lucy Buckley, Chief Executive Officer of Nektan, said:

"Achieving EBITDA break-even during the period is a key milestone for Nektan and our key focus for the remainder of FY19 is on maintaining and improving profitability. EBITDA break-even was reached due to both increased revenues and operational efficiencies. Whilst we believe in our US mobile casino product, and are excited about the macro trends in the market, the proposed sale of the majority shareholding of our US subsidiary is a major contributor to our profitability plan by removing Nektan funding for the US going forward, but retaining a material stake in the emerging US market.

In Europe, Asia and Africa, our emergent B2B division is generating new high margin revenue by licensing our proprietary technology to leading operators. We are successfully attracting major casino and gaming partners as evidenced by our BetVictor launch in October 2018 and post-period end contract win with MoPlay, announced in March 2019. This growth was only achievable with the firmly established B2C and white label network which grew to a record total of 152 casino sites during the period.

All this is underpinned by our cutting-edge proprietary mobile casino technology and agility, allowing us to attract new partners, get live quicker and optimise their revenues with our advanced operational and promotional tools. Nektan is in a strong position to build on the success of the first half of FY19 and we look forward to providing further updates."

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

About Nektan:

Nektan is a fast growing, international gaming technology and services provider, specialising in mobile casino. It licenses its proprietary technology to leading operators including BetVictor and provides end-to-end technology and white label casino services for leading brands including News International's, The Sun Play.

Nektan's full end-to-end technology platform, Evolve, enables the management of the full customer experience and back-office operations, allowing partners to focus on marketing the product to their consumers.

The E-Lite platform is Nektan's B2B gaming content aggregator and bonusing platform that delivers a wide range of premium content from the world's leading game studios. It is an easily-integrated add on module for operators, giving them an array of options and flexibility on how they manage and distribute a breadth of premium gaming content across their networks.

Nektan's US operating subsidiary, Respin, provides US land-based casinos with an in-venue mobile gaming solution. It allows operators to add mobile technology and content to their existing offerings, with products accessible to players across both cabinets and mobile devices inside casinos.

Headquartered in Gibraltar, Nektan is regulated by the Gibraltar Licensing Authority, the UK Gambling Commission and the Information Commissioners Office. As a socially responsible license holder, Nektan endeavours to deliver a safe, secure and robust player gaming experience.

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

CHIEF EXECUTIVE'S STATEMENT

Overview

The first six months of this financial year has been a landmark period for the business. Having signed some significant partnerships during the period, we are increasingly being seen as a major mobile and online casino technology business, providing premium gaming content from some of the best game developers in the world to some of the biggest gaming brands globally. The BetVictor contract win was one such deal that demonstrates this and was only made possible due to the breadth and depth of our gaming content portfolio.

Revenue growth is increasing year-on-year, as is our profitability, and we have achieved EBITDA break-even in the period. Whilst we are still in the process of divesting a majority stake in our US subsidiary, Respin, which will help reduce the cash burden on the business, Nektan will still keep a material stake in the US as we see it as an important emerging market.

Whilst our portfolio of gaming content is large by industry standards, we continue to look for the highest quality games to enrich the product offering to our partners. In certain circumstances, we partner with game developers as this gives us higher margins on the revenue generated from those games. A highlight from this strategy was the launch of Rank Up Dragon in December 2018, which we co-developed with Rising Entertainment and since its launch has been a top performer across our B2C network.

At Nektan, we aim to adhere to the highest levels of game compliance in our regulated markets. On top of this, we are very cognisant of problem gambling and we use our technology to ensure we can limit this wherever possible. As a socially responsible operator in the online gaming industry, we adopt our own standards which extend beyond what is required by the regulator and bodies such as GamStop. We have continuous technical development cycles to create new tools and enhancements to protect all our players with particular emphasis on those who are most vulnerable.

Financial Review and KPIs

Nektan's KPIs continue to demonstrate robust growth for the Company and most significantly we achieved EBITDA break-even in H1 FY19. With revenues continuing to rise and costs being kept under control, we continue on our path to profitability and expect European EBITDA break-even by the end of FY19 (30 June 2019).

- NGR increased 48% in the period to £13.0 million (H1 FY18: £8.8 million);
- First time depositors remained constant in the period at 75,334 (H1 FY18: 74,755); and
- Cash wagering for B2C increased 36% in the period to £346.2 million (H1 FY18: £254.5 million).

Taking the continued operations, gross profit increased from £5,728k at 65% of revenue in H1 FY18 to £8,484k at 65% of revenue for H1 FY19. Adjusted EBITDA for continued operations showed a marked improvement from a loss of £916k in H1 FY18 to a profit of £336k in H1 FY19.

Marketing, partner and affiliate costs increased from £4,503k, or 51% of revenue, to £6,065k, or 47% of revenue, demonstrating efficiencies as the business grows. Administrative costs decreased from £2,141k, being 24% of revenue, to £2,083k (16% of revenue).

The continued loss before tax for the period was £868k compared to £2,926k in the prior period. The total loss was £4,798k which includes a loss of the discontinued US business of £3,930k, this includes an impairment of £2,974k. This led to a loss per share from continuing operations of 2.7p (H1 FY18: loss per share of 9.2p).

Our technology and business model

Nektan aggregates and delivers premium casino content from the industry's leading game providers which, using its proprietary technology, it delivers as either a fully managed white label casino solution to its B2C partners or as a content distributor to its B2B partners. Nektan's white label solution is delivered via its Evolve platform, while the E-Lite platform distributes cutting-edge content.

Our technology is new and has been built from the ground up, making it versatile and highly agile. We can deliver live gaming environments for our partners very quickly and, depending on the requirement or jurisdiction, in multiple languages. As the proliferation of mobile device use continues, Nektan is taking a 'mobile first' approach, especially when it comes to partnering in Asia where mobile adoption and gaming is growing exponentially.

We provide partners with the ability to tailor their offering. Decisions can be informed by our robust business intelligence tools, which provide highly insightful management information for optimisation of bonusing and gaming, leading to exceptional user experience.

Team

On behalf of the Board, I would like to thank the entire team at Nektan for all their hard work over the period. Without their belief in the business we would not find ourselves in this strong turnaround position. It is their dedication and professionalism that is driving the Company forward and helping to attract major partners who want to use our technology to enhance and build their gaming brands across the globe.

We also announce that the Group's CFO, Patrick Sinclair has left the Company and we thank him for his contribution to Nektan during this significant period of growth. Whilst interim-CFO Ken Duncan assumes his responsibilities, the process of finding a replacement is underway.

Funding

During the period, Nektan announced a placing, debt conversion and partial sale of Respin, its US division. Subject to the proposed sale of the majority shareholding of Respin, the Company reaffirms that it has strong support for its placing and subscription, with demand currently at £2.2 million, higher than the minimum £1.5 million sought. The Company expects to enter into a binding contract for the US sale as soon as possible, but in any event no later than 30 April 2019. The directors remain in discussion with HMRC for the £2.9m owed for UK point of consumption tax as at 31 December 2018, which will be significantly reduced by virtue of the funds received from the equity fundraising and part disposal of Respin.

Negotiations on the sale of the majority of our wholly owned US subsidiary, Respin LLC, are progressing and we fully expect to complete this transaction by 30 April 2019. The assets and liabilities related to this business have been presented separately in the Consolidated Statement of Financial Position and are presented as discontinued operations in the Condensed Consolidated Statement of Comprehensive Income. The comparatives in the prior year's statement have also been restated.

Current Trading and Outlook

Following a record two quarters, B2C trading to date in Q3 FY19 is flat year-on-year and down versus Q2 FY19. This is due to a number of factors that have impacted FTDs and deposits on our white label network, including seasonality, increased UK regulation around player marketing and verifications and a delay in the granting of our Swedish operator licence. However, the Board expects trading to improve in the next quarter as we now have a record number of 152 casino brands on our network and are continuing to sign up new white label partners, as well as enhancing our player retention and loyalty tools. Our B2B division grew significantly in H1 FY19 and the pipeline is very positive, especially in high growth regions such as Asia and Africa. We also continue to seek regulation in jurisdictions that we believe will be value accretive and lead to improved trading in the next quarter.

Lucy Buckley
Chief Executive Officer

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the 6 months ended 31 December 2018

	Notes	Unaudited six months to 31 December 2018 £'000	Unaudited six months to 31 December 2017 £'000
Revenue	2	13,019	8,808
Cost of sales	2	(4,535)	(3,080)
Gross profit		8,484	5,728
Marketing, partner and affiliate costs	2	(6,065)	(4,503)
Administrative expenses	2	(2,083)	(2,141)
Adjusted EBITDA		336	(916)
Exceptional items		(6)	(134)
Depreciation		(28)	(31)
Amortisation of intangible assets		(484)	(652)
Share based payment charge		(19)	(186)
Operating loss		(201)	(1,919)
Net finance expense	4	(642)	(1,007)
Loss before taxation		(843)	(2,926)
Tax credit/(charge)		(25)	(36)
Loss after tax from continuing operations		(868)	(2,962)
Loss from discontinued operations		(3,930)	(1,082)
Loss after tax from continuing and discontinued operations		(4,798)	(4,044)
Other comprehensive income for the period			
Exchange differences arising on translation of foreign operations which may be reclassified to profit or loss		41	46
Total comprehensive loss for the period		(4,757)	(3,998)
Loss per share attributable to the Ordinary equity holders of the parent			
Loss per share continuing and discontinued operations			
Basic (pence)	3	(14.9)	(12.6)
Diluted (pence)	3	(14.9)	(12.6)
Loss per share continuing operations			
Basic (pence)	3	(2.7)	(9.2)
Diluted (pence)	3	(2.7)	(9.2)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Unaudited as at 31 December 2018	Audited at 30 June 2018

	Notes	£'000	£'000
Non-current assets			
Intangible assets		2,346	6,083
Property, plant and equipment		321	145
		2,667	6,228
Current assets			
Trade and other receivables	5	2,977	2,602
Cash and cash equivalents	6	197	1,402
Assets in disposal groups classified as held for sale	10	206	-
		3,380	4,004
Total assets		6,047	10,232
Current liabilities			
Trade and other payables	7	12,190	11,127
Liabilities in disposal groups classified as held for sale	10	105	-
		12,295	11,127
Non-current liabilities			
Convertible loan notes	8	9,848	9,411
Shareholder loan	11	998	898
Deferred tax		5	1,157
		10,851	11,466
Total liabilities		23,146	22,593
Net liabilities		(17,099)	(12,361)
Equity attributable to equity holder:			
Share capital	9	474	474
Share premium		29,679	29,679
Merger reserve		(2)	(2)
Capital contribution reserve		3,306	3,306
Share option reserve		1,057	1,038
Foreign exchange reserve		(263)	(304)
Retained earnings		(51,350)	(46,552)
Total deficit		(17,099)	(12,361)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 31 December 2018

	Share capital	Share premium	Share option reserve	Capital contribution reserve	Merger reserve	Foreign exchange reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 July 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)
Loss for the period	-	-	-	-	-	-	(2,908)	(2,908)
Other comprehensive income	-	-	-	-	-	60	-	60
Issue of shares (net of costs)	30	740	-	-	-	-	-	770
Share based payments	-	-	24	-	-	-	-	24
At 30 June 2018	474	29,679	1,038	3,306	(2)	(304)	(46,552)	(12,361)
Loss for the period	-	-	-	-	-	-	(4,798)	(4,798)
Other comprehensive income	-	-	-	-	-	41	-	41
Share based payments	-	-	19	-	-	-	-	19
At 31 December 2018	474	29,679	1,057	3,306	(2)	(263)	(51,350)	(17,099)

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.

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 £3,306,000 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 2018

	Notes	Unaudited six months to 31 December 2018 £'000	Unaudited six months to 31 December 2017 £'000
Cash flow from operating activities			
(Loss)/profit for the period		(4,798)	(4,044)
Adjustments for:			
Amortisation of intangible assets		1,039	1,125
Impairment of intangible assets		2,974	
Profit on brand disposals		-	-
Depreciation of property, plant and equipment		52	73
Share based payment expense		19	186
Finance expense		622	1,007
Income tax (credit)/charge		(139)	(128)
Operating cash flow before movement in working capital		(231)	(1,781)
Increase in trade and other receivables		(268)	(475)
Increase in trade and other payables		862	528
Cash (used in)/generated from operations		363	(1,728)
Cash flow from investing activities			
Purchase of intangible fixed assets		(1,258)	(458)
Purchase of property, plant and equipment		(161)	(38)
Net cash (used in)/generated from investing activities		(1,419)	(496)
Cash flow from financing activities			
Interest paid		(28)	(55)
Capital payments on finance leases		-	(14)
Payment to acquire JV partner share		(100)	(250)
Issue of debt		-	1,985
Proceeds on subscription for shares (net of costs)		-	629
Net cash generated from/ (used in) financing activities		(28)	2,295
Net (decrease)/increase in cash and cash equivalents		(1,184)	71
Cash and cash equivalents at beginning of period	6	1,402	638
Cash and cash equivalents at end of period	6	218	709

1. Accounting policies

General information

The unaudited condensed interim consolidated financial statements for the six months ended 31 December 2018, which were approved by the Board of Directors on 22 March 2019, 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 2018 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 2018, with the exception of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue Recognition which are effective for the first time. The adoption of these standards had no material impact on the condensed interim consolidated financial statements.

IFRS 16 Leases will be adopted in the 2020 year-end 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. On 8 February 2019, the Directors announced an equity fundraising of £2.2 million, pending the sale of the US division. 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. In addition, the directors remain in discussions with HMRC regarding amounts owed for UK point of consumption tax, which will be significantly cleared by virtue of the funds received from the equity fundraising and part disposal of Respin.

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

Following the US business being classified as discontinued the business has one segment only.

Geographical analysis of non-current assets

The following table provides an analysis of the Group's non-current assets, excluding goodwill and assets held for sale

	Unaudited at 31 December 2018 £'000	Audited at 30 June 2018 £'000
Gibraltar	2,380	5,100
UK	3	5
India	31	32
US	0	172
	2,414	5,309

Geographical analysis of revenues

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

	Unaudited six months to 31 December 2018 £'000	Unaudited six months to 31 December 2017 £'000
UK	11,298	8,358
Rest of the World	1,721	450
	13,019	8,808

3. Loss 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 2018	Unaudited six months to 31 December 2017
Basic and diluted - continuing operations		
Loss after tax (£'000)	(868)	(2,962)
Weighted average number of shares	32,120,224	32,120,224
Weighted average loss per share (pence)	(2.7)	(9.2)

	Unaudited six months to 31 December 2018	Unaudited six months to 31 December 2017
Basic and diluted -continuing & discontinued operations		
Loss after tax (£'000)	(4,798)	(4,044)
Weighted average number of shares	32,120,224	32,120,224
Weighted average loss per share (pence)	(14.9)	(12.6)

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 2018 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 2018 £'000	Unaudited six months to 31 December 2017 £'000
Finance income		
Gain on movement in fair value of derivative financial instruments	157	92

Total finance income	157	92
Finance expense		
Loss on movement in fair value of derivative financial instruments	(210)	(38)
Interest expense	(469)	(900)
Interest expense shareholder loans	(120)	
Interest payable - effective rate adjustment		(161)
Total finance expense	(642)	(1,007)
Net finance expense	(642)	(1,007)

5. Trade and other receivables

	Unaudited at 31 December 2018 £'000	Audited at 30 June 2018 £'000
Trade receivables	202	126
Payment processor receivables	2,142	1,801
Prepayments & other receivables	633	675
	2,977	2,602

The Directors consider that the carrying amount of the trade and other receivables 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.

6. Cash and cash equivalents

	Unaudited at 31 December 2018 £'000	Audited at 30 June 2018 £'000
Cash in bank accounts continuing operations	197	1,402
Cash in bank accounts discontinued operations	21	-
Total cash in bank continuing & discontinued operations	218	1,402

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 2018 £'000	Audited at 30 June 2018 £'000
Trade payables	992	613
Other payables	1,560	1,350
Corporation tax liability	46	92
Owed to former NMS joint venture partner	-	100
Accruals	7,191	6,623
Finance lease obligations	-	1
Derivative financial liability	2,401	2,348
	12,190	11,127

Player balances represent amounts due to customers including net deposits received, undrawn winnings and certain promotional bonuses. Player balances were £568k as at 31 December 2018 (30 June 2018: £647k) 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 15p.

Interest of 10 per cent. per annum is payable quarterly in arrears, however during the previous year the Company reached agreement with the loan noteholders 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 2018, nine quarters of interest payments had been deferred leading to an interest accrual of £2,041k (30 June 2018: 1,604k). On 18 December 2017, the Company reached agreement with the required proportion of the loan noteholders to remove the warrants being issued on deferral of the quarterly interest charge for future periods.

	Unaudited at 31 December 2018 £'000	Audited at 30 June 2018 £'000
Convertible loan notes	7,325	7,325

Effective interest less accrued interest	482	482
Accrued interest	2,041	1,604
Non-current liabilities	**9,848**	**9,411**

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.

The difference between the carrying amount of the liability component at the date of issue and the amount reported at 31 December 2018 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 £209,572 (2017: loss of £266,000).

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 31 December 2017	44,441	444,412
Issued during the period	2,972	29,714
At 30 June 2018	47,413	474,126
Issued during the period	-	-
At 31 December 2018	47,413	474,126

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. Net assets held for sale

Following an impairment of £2,974k in respect of intangibles, the following are the assets and liabilities held for sale in respect of the US discontinued operations at 31 December 2018:

	('000's)
Tangible fixed asset	160
Cash at bank and on hand	21
Deposits and prepayments	24
Trade Debtors	1
Trade and other payables	(105)
Net assets held for sale	101

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11. 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 period, the following directors had transactions or interests in the Company's Convertible Loan Notes:

		At 31 December 2018	At 30 June 2018
Gary Shaw	CLN Balance	£300,000	£300,000
	Interest received in the period	£0	£0
	Deferred interest balance	£37,603	£30,000
	Deferred interest warrants	58,417	58.417
Jim Wilkinson	CLN Balance	£250,000	£250,000
	Interest received in the period	£0	£0
	Deferred interest balance	£37,603	£25,000
	Deferred interest warrants	48,682	48,682
Venture Tech Assets*	CLN Balance	£1,000,000	£1,000,000
	Interest received in the period	£0	£0
	Deferred interest balance	£150,411	£100,000
	Deferred interest warrants	194,723	194,723

In July 2017, the Company announced that it had secured commitments to raise £2,500,000 through two separate facility agreements with two of its Directors, Gary Shaw for £1,300,000 and Sandeep Reddy for £1,200,000, with a redemption date of two years following the draw down and a coupon of 10%.

At the balance sheet date, the position with respect to the Directors' loans was as follows:

		At 31 December 2018	At 30 June 2018
Gary Shaw	Loan facility	£1,300,000	£1,300,000
	Loan drawn down	£1,185,000	£1,185,000
	Interest paid	-	-

		Interest accrued	£146,279	£86,542
		Loan liability at amortised cost and effective interest rate	£824	£458
Venture Assets*	Tech	Loan facility	£1,200,000	£1,200,000
		Loan drawn down	£800,000	£800,000
		Interest paid	-	-
		Interest accrued	£113,356	£73,027
		Loan liability at amortised cost and effective interest rate	£491	£440

* A company controlled by Sandeep Reddy

12. Acquisitions and disposals

Europe

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 paid in August 2018.

US

Negotiations on the sale of the majority of the Company's wholly owned US subsidiary, Respin LLC, are progressing and the Company expects to complete this transaction by 30 April 2019. The assets and liabilities related to this business have been presented separately in the Consolidated Statement of Financial Position and are presented as discontinued operations in the Condensed Consolidated Statement of Comprehensive Income. The comparatives in the prior year's statement have also been restated. An impairment has been taken in respect of intangible fixed assets re the US subsidiary and corresponding deferred tax in H1 FY19.

13. Post-balance sheet events

The Company has to date entered into Subscription Agreements under which subscribers will invest a total of £2.2 million into the Company. This is significantly above the minimum of £1.5 million set out in the Company's circular dated 14 January 2019. In addition, the Company has also received further expressions of interest which may increase the funds raised pursuant to the placing and subscription prior to 30 April 2019. Once the date of the Respin transaction is confirmed the Subscription Agreements will be updated.

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