RNS Number : 4795J
Reach4Entertainment Enterprises PLC
12 September 201612

reach4entertainment enterprises plc ('r4e', 'the Company' or 'the Group')
Unaudited interim results for the six months ended 30 June 2016

r4e, the transatlantic media and entertainment company, today announces its unaudited interim results for the six months ended 30 June 2016.

Highlights

	Unaudited six months to 30 June 2016	Unaudited six months to 30 June 2015	Change
Revenue	**£49.0m**	£42.5m	+15%
Gross Profit	**£11.5m**	£9.7m	+19%
Adjusted EBITDA[1]	**£1.4m**	£0.9m	+55%
Profit before tax	**£0.8m**	£0.05m	Improved by £0.75m
Earnings/(loss) per share	**0.07p**	(0.36)p	Improved by 0.43p

[1] Adjusted EBITDA is stated before exceptional items

- Transformative refinancing completed in December 2015 allowing the Group to focus on a strategy of growth and development;
- borrowing reduced by £11.0 million since 30 June 2015;
- strong performance from SpotCo on the back of US shows investing in advance of the Tony Awards in June 2016;
- return to form for Newman Displays which has benefited from bringing key services in-house;
- consistent performance from Dewynters in a challenging market place; and
- second half expected to be more challenging with investment in marketing in new shows having been H1 weighted

David Stoller, Executive Chairman, commented:
"With significant investment going into shows in the first half of this year, particularly in the US, we are pleased to report a strong first six months of the business. We also benefited from an improved performance from Newmans, which was most recently involved in the Harry Potter launch.
The second half is expected to be more challenging, with fewer shows being launched, but the business is well positioned following 2015's transformative changes and we remain on track to meet our targets for the year ahead. The outlook for 2017 is strong, including promising investment opportunities to support our strategic growth objectives."

Enquiries:
reach4entertainment enterprises plc
David Stoller, Executive Chairman +44 (0) 20 7968 1655

Allenby Capital (Nominated Adviser and Broker) +44 (0) 20 3328 5656
Jeremy Porter/James Reeve (Corporate Finance)
Katrina Perez/Kelly Gardiner

Novella Communications (Financial PR) +44 (0) 20 3151 7008
Tim Robertson
Toby Andrews

EXECUTIVE CHAIRMAN'S STATEMENT

Introduction

I am pleased to be reporting on a successful first half for the Company. This follows a year when the Company was fundamentally transformed with the reduction of Group borrowings by £11 million (or 71%) and the support of shareholders who invested £4 million into the business in December 2015.

In 2016, our trading performance was boosted by the significant success of our US based clients, who were competing for Tony Awards. Spot & Company of Manhattan, Inc. ('SpotCo') clients, in unprecedented fashion, won all 110 Tony Awards. This resulted in a highly profitable first six months, recording a 55% increase in Group EBITDA. That said, we are expecting a weaker second half contrary to the normal pattern, principally due to the unusually front loaded show schedule, but this should not offset the progress made in the first 6 months.

The level of indebtedness prior to the restructuring had, for a number of years restricted the Company's ability to invest in the future and support the development of the business. The Company now has a manageable level of debt and stronger cash flows, permitting the Board to actively look at investment opportunities, both internal and external, which we believe will enhance our performance in 2017 and thereafter, and create significant long-term value.

Trading performance

The results for the 6 months ended 30 June 2016 show the following:

<u>Summary of results</u>

	Unaudited 6 months ended 30 June 2016 £'000	Unaudited 6 months ended 30 June 2015 £'000
Total Revenue from continuing operations	48,963	42,496
Adjusted EBITDA[1] from continuing operations	1,369	867
Net exceptional costs (note 5)	-	(264)
Impairment in investment (note 6)	(55)	-
Group EBITDA	**1,314**	**603**
Operating profit	1,015	327
Profit before tax	834	52
Profit after tax	311	(268)

[1]Adjusted EBITDA is EBITDA before exceptional items.

The Group recorded a significant uplift in revenues and profits against the comparable period in 2015. The improvement came primarily from increased marketing budgets amongst our US customers and a much-improved performance from Newman Displays Ltd ('Newmans').

SpotCo increased revenues by 22% to £33.5 million (H1 2015: £27.5 million), which strongly contributed to adjusted Group EBITDA rising 55% to £1.4 million (H1 2015: £0.9 million).

Profit before tax was £0.8 million (H1 2015: £0.05 million). The Group benefited from a reduction in finance costs to £0.2 million (H1 2015: £0.3 million) reflecting the lower level of borrowings. This led to the Company recording earnings per share of 0.07p, reversing the loss per share of 0.36p from the prior period last year.

Total borrowings reduced by £11 million to £4.6 million (30 June 2015: £15.6 million), as the Company achieved a significant restructuring of the business which included a £4 million equity raising completed in December 2015.

The Company has entered into the new loan facility with PNC Business Credit, a trading style of PNC Financial Services UK Ltd. The new Facility is a three year £9.5 million secured asset-based debt facility comprised of a £1 million term loan and a revolving credit facility of up to £8.5 million based on qualifying accounts receivable. The loan covenants are tested on a quarterly basis and the Directors are confident that although covenant breaches are possible in the second half of 2016 (as noted in our recent year end accounts), these are as a result of seasonal fluctuations and not a continuing issue with performance of the Group as a whole. They therefore believe it is highly unlikely that PNC (who have been notified of this possibility) would decide to take any action under the facility. Further details on this matter are set out in the Going Concern section further below.

Market leading positions in London and New York maintained

r4e operations consist of the market-leading London and New York based theatre and live entertainment marketing businesses of Dewynters Ltd ('Dewynters') and SpotCo respectively, together with the London based signage and fascia business, Newmans. Operations of the New York based merchandising business, Dewynters Advertising Inc ('DAI') were transferred at the end of 2015.

Continuing Operations

	Unaudited 6 months ended 30 June 2016					**Unaudited 6 months ended 30 June 2015**				
Company	Revenue	Adjusted EBITDA*	Operating profit	Profit before tax	Profit after tax	Revenue	Adjusted EBITDA*	Operating profit	Profit before tax	Profit after tax
	£'000					£'000				
Dewynters	13,467	201	107	71	(185)	13,303	224	113	191	(49)
Newmans	1,939	216	193	185	185	1,556	(2)	(21)	(34)	(34)
SpotCo	33,557	1,282	1,099	967	490	27,480	779	603	610	330
DAI	-	(5)	(1)	(1)	(1)	157	12	12	10	10
Head Office	-	(325)	(383)	(388)	(178)	-	(146)	(381)	(725)	(525)
TOTAL	**48,963**	**1,369**	**1,015**	**834**	**311**	**42,496**	**867**	**327**	**52**	**(268)**

*Adjusted EBITDA is EBITDA before exceptional administrative items.

The first half of this year has been dominated by the performance of SpotCo which recorded an increase in revenue and EBITDA of 22% and 65% respectively; together with the contribution from

Newmans, which changed from breakeven to contributing £0.2 million of EBITDA, the overall result for the Group was positive.

Spotco's reputation was enhanced by the extraordinary success achieved by its clients and its originality and innovation in marketing theatre shows is growing. The Company experienced an intensive first six months supporting the needs of all its clients ahead of the prestigious Tony Awards in June 2016. This hard work showed in June when every award on offer was won by a Spotco client. This exceptional success by Spotco clients reflects their combined calibre and the strong market position Spotco occupies amongst the leading and up and coming theatre shows in the US.

Dewynters revenues and EBITDA were broadly level with the prior year, which was less than expected. The company has seen substantial organisational changes, particularly with the appointment of a new CEO. The company is implementing plans for expansion, both geographically and strategically, which we believe will result in considerable future returns. Linking to these plans the Company continues to grow its non-West End business, and its touring business, in the UK and internationally. Therefore, while the second half still looks challenging, the Directors consider that the longer-term growth prospects for the company are very positive.

Newmans has had a very good first half, after making important changes to the business, including a substantial reduction in the level of outsourcing, instead investing in in-house printing and cutting machinery, which has showed immediate positive returns. The company has also benefited from an uplift in theatre signage sales, most prominently for the new Harry Potter play, but showing a general increase in film premier work compared to 2015. The company is looking forward to completing a good year with the all-important Christmas period still to come.

Head Office costs have increased on the prior period by £0.2 million (123%), due to the initial recognition of the r4e long term incentive plan plus consultancy costs in relation to the post re-financing growth strategy for the business.

Summary and Outlook

There is no doubt the Company is in a significantly better position than this time last year. The agreement struck with our former lenders last year radically changed the Company's financial structure, flexibility and capacity for growth. Since then, we have recruited senior industry professionals in London and New York to provide solid leadership, we are redesigning certain aspects of our organisations and our businesses to achieve sustainable growth over the long-term, and we are evaluating some specific key opportunities for growth-based investment. Our strategy is simple: we intend to leverage our market leading brands, experience, capabilities and intelligence to substantially grow our revenue base, by expanding geographically, and developing new tools and capabilities, including analytics and data-driven marketing methodologies, to sustain and build the market leadership we already enjoy. Finally, it is noteworthy that the markets for theatre and live entertainment, in both London and New York, continue to grow in terms of gross revenues and audience size, enhancing the value of our brands and the opportunities for our business in those markets.

David Stoller, Executive Chairman
reach4entertainment enterprises plc

Unaudited Condensed Consolidated Income Statement
For the six months ended 30 June 2016

	Note	6 months ended 30 June 2016 (Unaudited) £000's	6 months ended 30 June 2015 (Unaudited) £000's	Year ended 31 December 2015 (Audited) £000's
Continuing Operations				
Revenue		48,963	42,496	85,849
Cost of sales		(37,431)	(32,800)	(65,684)
Gross profit		11,532	9,696	20,165
Administrative expenses		(10,517)	(9,369)	(14,973)
EBITDA before exceptional administrative items		1,369	867	1,843
Exceptional administrative expense	5	-	(264)	(1,149)
Exceptional administrative income	5	-	-	6,025
Impairment of goodwill	6	(55)	-	(965)
Depreciation		(204)	(180)	(370)
Amortisation of intangibles		(95)	(96)	(192)
Operating profit		1,015	327	5,192
Finance income	2	-	64	61
Finance costs	3	(181)	(339)	(714)
Profit before taxation		834	52	4,539
Taxation		(523)	(320)	(273)
Profit/(Loss) for the period		311	(268)	4,266

The profit/(loss) is attributable to the owners of the parent

	Note			
Earnings/(loss) per share (pence)				
Basic	4	0.07	(0.36)	4.01
Diluted	4	0.06	-	-

Unaudited Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2016

	6 months ended 30 June 2016 (Unaudited) £000's	6 months ended 30 June 2015 (Unaudited) £000's	Year ended 31 December 2015 (Audited) £000's
Profit/(loss) for the period	311	(268)	4,266
Other comprehensive income:			
Currency translation gain/(loss)	39	(31)	147
Other comprehensive income (net of tax) for the period	39	(31)	147
Total comprehensive income/(loss) for the period attributable to owners of the parent	350	(299)	4,413

Unaudited Condensed Consolidated Balance Sheet
As at 30 June 2016

	Note	6 months ended 30 June 2016 (Unaudited) £000's	6 months ended 30 June 2015 (Unaudited) £000's	Year ended 31 December 2015 (Audited) £000's
Non-current assets				
Goodwill	6	6,874	7,022	6,339
Intangible assets		3,620	3,698	3,646
Property, plant and equipment		2,659	2,316	2,359
Deferred tax asset		145	88	145
		13,298	13,124	12,489
Current assets				
Inventories		135	283	152
Trade and other receivables		12,166	7,677	12,906
Other current assets		551	470	498
Cash and cash equivalents		522	2,511	1,160
		13,374	10,941	14,716
Total assets		26,672	24,065	27,205
Current liabilities				
Trade and other payables		(15,489)	(11,554)	(14,709)
Current taxation liabilities		(77)	(93)	-
Borrowings	7	(3,893)	(1,423)	(6,002)
		(19,459)	(13,070)	(20,711)
Net current liabilities		(6,085)	(2,129)	(5,995)
Non-current liabilities				
Deferred taxation		(1,615)	(1,381)	(1,470)
Borrowings	7	(702)	(14,155)	(739)
Other payables	8	(1,496)	(1,503)	(1,478)
		(3,813)	(17,039)	(3,687)
Total liabilities		(23,272)	(30,109)	(24,398)
Net assets/(liabilities)		3,400	(6,044)	2,807
Equity				
Called up share capital		2,397	1,872	2,374
Share premium		15,371	13,501	15,329
Deferred shares		1,498	-	1,498
Capital redemption reserve		15	15	15
Share option reserve		178	-	-
Warrant reserve		311	-	311
Retained earnings		(16,259)	(21,104)	(16,570)
Own shares held		(259)	(259)	(259)
Foreign exchange reserve		148	(69)	109
Total equity attributable to owners of the parent		3,400	(6,044)	2,807

Unaudited Condensed Consolidated Statement of Changes in Equity
For the six months ended 30 June 2016

	Share capital £'000	Share premium £'000	Deferred shares £'000	Capital Redemption reserve £000	Share option reserve £000	Warrant reserve £'000	Retained earnings £'000	Own Shares held £'000	Foreign Exchange reserve £'000	Total Equity £'000
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT										
At 1 January 2015	**1,872**	**13,501**	**-**	**15**	**-**	**-**	**(20,836)**	**(259)**	**(38)**	**(5,745)**
(Loss) for the period	-	-	-	-	-	-	(268)	-	-	(268)
Other comprehensive income, net of tax:										
Currency translation differences	-	-	-	-	-	-	-	-	(31)	(31)
Total comprehensive income for the period	-	-	-	-	-	-	(268)	-	(31)	(299)
At 30 June 2015 (Unaudited)	**1,872**	**13,501**	**-**	**15**	**-**	**-**	**(21,104)**	**(259)**	**(69)**	**(6,044)**
At 1 July 2015										
Profit for the period	-	-	-	-	-	-	4,534	-	-	4,534
Other comprehensive income, net of tax:										
Currency translation differences	-	-	-	-	-	-	-	-	178	178
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**4,534**		**178**	**4,712**
Transactions with owners in their capacity as owners: shares issued	2,000	1,828	-	-	-	-	-	-	-	3,828
Share re-organisation	(1,498)	-	1,498	-	-	-	-	-	-	-
Issue of warrants	-	-	-	-	-	311	-	-	-	311
At 31 December 2015 (Audited)	**2,374**	**15,329**	**1,498**	**15**	**-**	**311**	**(16,570)**	**(259)**	**109**	**2,807**
At 1 January 2016										
Profit for the period	-	-	-	-	-	-	311	-	-	311
Other comprehensive income, net of tax:										
Currency translation differences	-	-	-	-	-	-	-	-	39	39
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**311**	**-**	**39**	**350**
Transactions with owners in their capacity as owners: Shares issued	23	42	-	-	-	-	-	-	-	65
Share based payment charge	-	-	-	-	178	-	-	-	-	178
At 30 June 2016 (Unaudited)	**2,397**	**15,371**	**1,498**	**15**	**178**	**311**	**(16,259)**	**(259)**	**148**	**3,400**

Unaudited Condensed Consolidated Statement of Cash Flows
For the six months ended 30 June 2016

	Note	6 months ended 30 June 2016 (Unaudited) £000's	6 months ended 30 June 2015 (Unaudited) £000's	Year ended 31 December 2015 (Audited) £000's
Cash generated from operating activities	10	3,111	1,027	(642)
Income taxes paid		(408)	(166)	(213)
Net cash inflow from operating activities		2,703	861	(855)
Investing activities				
Purchase of property, plant and equipment		(156)	(59)	(193)
Payment of deferred consideration	7	-	(332)	(611)
Dividends received from associated undertaking		-	60	60
Net cash used in investing activities		(156)	(331)	(794)
Financing activities				
Net proceeds from the issue of share capital		-	-	3,828
Proceeds from asset based lending		55,188	-	6,690
Repayment of asset based lending		(58,112)	(200)	(9,630)
Repayment of term loan		(87)	-	-
Repayments of obligations under finance leases		(3)	-	-
Interest paid		(106)	(263)	(604)
Net cash (used in)/generated from financing activities		(3,120)	(463)	284
Net (decrease)/increase in cash and cash equivalents		(573)	67	(1,365)
Cash and cash equivalents at the beginning of the period		1,160	2,446	2,446
Effect of foreign exchange rate changes		(65)	(2)	79
Cash and cash equivalents at end of the period		522	2,511	1,160

Unaudited notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2016

1 Basis of Presentation

These unaudited condensed consolidated interim financial statements are for the six months ended 30 June 2016. They have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) as adopted by the European Union. This report should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and International Financial Reporting Interpretations Committee ('IFRIC') Interpretations and the Companies Act 2006, as applicable to companies reporting under IFRS.

The financial information in this interim announcement does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The unaudited interim financial statements were approved and authorised for issue by the Board on 9 September 2016.

The comparative financial information for the year ended 31 December 2015 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The statutory accounts of reach4entertainment enterprises plc for the year ended 31 December 2015 have been reported on by the Company's auditor, RSM UK Audit LLP, and have been delivered to the Registrar of Companies. The report of the auditor was unqualified but contained an emphasis of matter statement with regard to going concern. The auditor's report did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006.

The financial information for the six months ended 30 June 2016 and 30 June 2015 is unaudited.

Accounting Policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015, with exception of standards, amendments and interpretations effective in 2016.

Standards, amendments and interpretations effective in 2016

The following IFRS/IAS are either new, amended or have interpretations mandatory for the first time for the financial year beginning 1 January 2016, but had no significant impact on the Group:

- IFRS 5, IFRS 7 &, IAS 36. Amendments resulting from September 2014 Annual Improvements to IFRSs.
- IFRS 10 - Amendments regarding the application of the consolidation exception.
- IFRS 11 – Joint Arrangements.
- IFRS 12 - Disclosure of Interests in Other Entities.
- IAS 1 – Presentation of Financial Statements.
- IAS 16 and IAS 38 - Property, Plant and Equipment and Intangible Assets.
- Amendments resulting from September 2014 Annual Improvements to IFRSs.
- IAS 19 – Employee Benefits.
- IAS 27 - Separate Financial Statements.
- IAS 28 - Interests in Associates and Joint Ventures.
- IAS 34 - Improvements to IFRSs.
- IAS 38 – Intangible Assets.

1 Basis of Presentation (*continued*)

The following IFRS/IAS are either new, amended or interpretations have been issued, but are not effective for the financial year beginning 1 January 2016 and have not been early adopted:

- IFRS 2 – Share based payment.
- IFRS 9 – Financial Instruments.
- IFRS 15 – Revenue from Contracts with Customers.
- IFRS 16 – Leases.
- IAS 7 – Statement of Cash Flows.
- IAS 12 – Income Taxes.

Going Concern

These interim condensed consolidated financial statements have been prepared on a going concern basis.

During the year ending 2015 the Group made a considerable change to its debt levels and overall financial position:

- Deferred consideration owing in relation to the SpotCo acquisition at 30 June 2015 was USD $1.5 million (£1.0 million GBP). USD $0.5 million of this was repaid as scheduled (£0.33 million GBP) leaving USD $1.0 million (£0.65 million) outstanding which the Company had the option to pay by the issue of new ordinary shares in the Company. In November 2015 it was agreed with the vendor that the $1 million USD would be waived (£0.72 million including interest). As at 30 June 2016 there is no deferred consideration debt outstanding.

- Bank debt with AIB as at 30 June 2015 was £14.59 million. The Group agreed a re-financing with AIB which took place in December 2015 leaving no debt outstanding with AIB as at 30 June 2016.

As part of the re-financing of AIB, two sources of funds were obtained:

i. The Company issued 400,000,000 ordinary shares of 1p each raising £4,000,000 (before share issue costs)

ii. The Group obtained a new three year secured asset based debt facility of £9.5 million with PNC Business Credit Services Ltd being made up of a £1 million term loan and a revolving credit facility of up to £8.5 million based on qualifying accounts receivable. As at 30 June 2016 the debt owed to PNC totalled £4.36 million, a reduction of £10.23 million from the AIB debt outstanding at 30 June 2016.

The term loan held with PNC is a 3 year facility against which monthly capital repayments commenced in March 2016. The term loan will be fully paid down by October 2018. The asset based lending facility is a revolving credit line based upon qualifying accounts receivable. This means current debt is constantly being paid down and new debt being drawn. The facility will therefore fluctuate but will be no more than £8.5 million at any point. A new set of financial covenants were agreed with PNC in relation to this debt. The financial covenants are measured monthly and there have been no breaches in the period through to 31 July 2016. As disclosed in the 2015 year end accounts, the Group is forecasting possible breaches in the second half of the year due to seasonal fluctuations in EBITDA. The previous covenants with AIB were determined on a 12 month rolling basis in which seasonality was not a risk. The fixed charge covenant with PNC is determined on a 3 month rolling basis and is therefore sensitive to seasonality shifts. As commented on in the Chairman's Statement above, the year has had a stronger first half of the year than is normally the case, and performance is likely to be weaker than usual in the second half resulting in potential covenant breaches on a 3 month rolling measurement basis. PNC have been informed in advance of this issue and although they cannot provide a waiver of a potential future breach as of the date of these statements, they continue to be supportive of the company.

Given the significant reduction in the debt levels of the group, plus the improvement to the balance sheet position, the Directors believe that the going concern basis is appropriate and the Group has adequate resources to continuing trading for the foreseeable future. Regarding the aforementioned PNC covenants, the Directors are confident that although breaches are possible in the second half of 2016, these are as a result of seasonal fluctuations and not a continuing issue with performance of the Group as a whole and therefore believe it highly unlikely that PNC would decide to withdraw the facility.

2 Finance Income

	6 months ended 30 June 2016 (Unaudited) £000's	6 months ended 30 June 2015 (Unaudited) £000's	Year ended 31 December 2015 (Audited) £000's
Bank interest	-	-	1
Dividends received from associated undertaking	-	60	60
Foreign exchange gains on deferred consideration	-	4	-
	-	**64**	**61**

3 Finance Costs

	6 months ended 30 June 2016 (Unaudited) £000's	6 months ended 30 June 2015 (Unaudited) £000's	Year ended 31 December 2015 (Audited) £000's
Finance lease interest	3	-	1
Interest on term loans	27	260	482
Interest on asset based finance	78	-	15
Fees on asset based finance	71	-	37
Amortisation of issue costs of AIB bank loan	-	17	66
Unwinding of discounting on deferred consideration	-	62	91
Net foreign exchange losses on trade	2	-	3
Foreign exchange losses on deferred consideration	-	-	19
	181	**339**	**714**

4 Earnings/(loss) Per Share

The calculations of earnings per share are based on the following results and numbers of shares.

	6 months ended 30 June 2016 (Unaudited)	6 months ended 30 June 2015 (Unaudited)	Year ended 31 December 2015 (Audited)
	Number	Number	Number
Weighted average number of 0.5 pence ordinary shares in issue during the period			
For basic earnings/(loss) per share	477,273,154	74,635,792	106,416,614
Dilutive effect of share options	22,024,476	-	-
For diluted earnings/(loss) per share	499,458,802	74,635,792	106,416,614
	£000's	£000's	£000's
Profit/(loss) for the period	**311**	**(268)**	**4,266**

5 Exceptional Items

	6 months ended 30 June 2016 (Unaudited) £000's	6 months ended 30 June 2015 (Unaudited) £000's	Year ended 31 December 2015 (Audited) £000's
Office relocation costs	-	(13)	(14)
Employee contract termination costs	-	(20)	(13)
Restructuring of bank debt	-	(231)	(539)
Cost of merchandise division transfer	-	-	(272)
Issue of warrants to AIB	-	-	(311)
Exceptional expenses	-	(264)	(1,149)
Income from transfer of merchandise division	-	-	155
Gain on deferred consideration write off	-	-	715
Gain on debt write off	-	-	5,155
Net exceptional administrative (Expenses)/income	**-**	**(264)**	**4,876**

Exceptional costs in the prior 6 month period to 30 June 2015 relate to the new lease agreement of Newman's offices and Dewynters warehouse in London in 2014; further costs incurred in relation to contract termination costs as part of redundancies made in 2014; and, costs incurred in the period on the conditional agreement made with AIB on 9 June to restructure the debt facility (see note 7). For the year ended 31 December 2015, the full cost of the debt restructure of £0.54 million was recognised and included service from legal professionals, consultants, brokers, advisors etc.

5 Exceptional Items (*continued*)

As part of the refinancing deal with AIB in December 2015, the Company granted 24,994,462 Warrants to AIB Joint Ventures, a subsidiary of AIB. These were valued at the date of issue.

Exceptional income for the year ending 31 December 2015 included £0.2 million received for inventory and legal costs as a result of the transfer of the merchandise arm of Dewynters to Playbill UK Ltd, plus income of £5.16 million was recognised as a result of the write off of outstanding debt with AIB Group (UK) plc, as part of the December 2015 debt restructure.

In addition, a waiver of the final deferred consideration liability of $1 million was made by the SpotCo vendor which resulted in exceptional income of £0.72 million including interest.

6 Goodwill

	Total £000's
Cost:	
1 January 2015	7,060
Foreign exchange differences	(38)
30 June 2015	7,022
Impairment charge	(965)
Foreign exchange differences	281
31 December 2015	6,339
Acquired goodwill	55
Impairment to goodwill	(55)
Foreign exchange differences	535
30 June 2016	6,874
Net Book Value:	
30 June 2016 (unaudited)	**6,874**
30 June 2015 (unaudited)	**7,022**
31 December 2015 (audited)	**6,339**

An impairment of £0.55m in the period is related to the purchase of Jampot Consulting Ltd. On 4 March 2016 it was announced that James Charrington had been appointed as CEO of Dewynters. In 2014, Mr Charrington had set up Jampot Consulting Limited ("Jampot") an Arts Marketing Consultancy, working with, amongst others, the National Theatre and Sonia Friedman on ticketing and marketing strategies. On 21 March 2016, the Company acquired 100% of Jampot for consideration totalling £55,000 by the issue of 3,666,666 ordinary shares in r4e at 1.5p per share.

6 Goodwill (*continued*)

The Board of r4e believes the IP in digital marketing that Jampot can bring will be beneficial to the Group and add to its service offering. As this benefit is related to the group as a whole and future revenues cannot be specifically allocated to the acquired company, the goodwill in Jampot has been written off.

An impairment charge of £6.43 million incurred during the prior period ended June 2015 was related to the Dewynters Group. The merchandise division of Dewynters was transferred during 2015 and as a result the royalties from merchandise sales in the USA will no longer be collected by DAI. This means DAI is no longer trading and remains dormant with the exception of minor costs of corporation and tax accounts in the USA. The Company has allocated to DAI a portion of the goodwill in the Dewynters Group, which arose on its acquisition in 2006, based on its proportion of the EBITDA of the Dewynters Group at the time of the acquisition. This resulted in an impairment of £0.97 million recognised in the 2015 accounts

A review has been undertaken at 30 June 2016 and has not identified any further need for impairment.

7 Borrowings

	30 June 2016 (Unaudited) £000's	30 June 2015 (Unaudited) £000's	31 December 2015 (Audited) £000's
Current:			
Term debt	336	430	314
Asset based lending facility	3,409	-	5,665
Finance leases	148	-	23
Deferred consideration	-	993	-
	3,893	1,423	6,002
Non-current:			
Term debt	611	14,155	697
Finance leases	91	-	42
	702	14,155	739
Analysis of borrowings			
On demand or within one year:			
Term debt	336	430	314
Asset based lending facility	3,409	-	5,665
Finance leases	148	-	23
Deferred consideration	-	993	-
In the second to fifth years inclusive:			
Term debt	611	6,760	697
Finance leases	91	-	42
More than five years:			
Bank loan	-	7,395	-

7 Borrowings (*continued*)

Debt restructure

In December 2015, the Company successfully concluded discussion on restructuring the debt which arose on the previous acquisitions of SpotCo and the Dewynters Group of companies. At the end of prior period 30 June 2015, the Company had borrowings with AIB Group (UK) plc amounting to £14.6 million. During 2015 £0.63 million of this debt was repaid in accordance with the debt facility agreement. On 04 December 2015 the remaining debt was restructured as follows:

- The Company raised £4 million (before expenses) through the placing of 400 million new ordinary shares
- The 3 trading companies of the r4e group, SpotCo, Dewynters and Newmans, entered into a new facility with PNC. The new facility is a three year secured asset based debt facility of £8.5 million plus a £1 million term loan. Both the facility and the term loan are shared across the 3 companies
- The proceeds of the equity placing plus new debt with PNC repaid £9 million of the debt facility with AIB
- The remaining £5.16 million of debt with AIB was written off. See note 5
- The Company has granted 24,994,462 warrants to AIB.

Term debt

The new term debt with PNC totalled £1 million when drawn down on 04 December 2015 (£1.02 million at 31 December 2015 due to foreign exchange). £0.87 million has been repaid as at 30 June 2016. The debt was split between SpotCo and Dewynters based on expected future cash flows of the Companies and has interest payable at 4% over Barclays Bank plc. base rate (Dewynters) and the rate published by the central bank or monetary authority of the relevant territory (SpotCo). Repayments are in equal monthly instalments. The debt will be fully repaid by October 2018.

Asset based lending

All 3 trading companies, SpotCo, Dewynters and Newmans, hold asset based lending facilities with PNC. Borrowing is determined by qualifying accounts receivable. The nature of the facility means that the balance will fluctuate from month to month and as the debt is paid down, new debt will arise to finance working capital, therefore the facility has been reflected as a current liability as it will be constantly revolving. Another effect of the facility is that cash balances across the group will be lower as cash drawdown incurs a higher rate of interest therefore cash will only be drawn down as required rather than being held on hand.

The facility with PNC has interest payable at 2.25% over Barclays Bank plc. base rate for amounts borrowed. Borrowings not utilised have interest payable at 0.5%. On top of a fixed and floating charge over its assets, the Group has given PNC an unlimited guarantee in respect of these borrowings. The Group has a set of financial covenants with PNC in relation to the loan which are measured monthly and were met in full as at 30 June 2016 and also at 31 July 2016. Forecasts looking out to the end of 2016 currently reflect possible breaches in the fixed charge cover financial covenant due to seasonal fluctuations in EBITDA, however, PNC remain supportive although they cannot provide a waiver of a potential future breach as of the date of these accounts (please refer to Going Concern note above for further details).

7 Borrowings (*continued*)

Deferred consideration

Movements on deferred consideration during the period are as follows:

	30 June 2016 (Unaudited) £000's	30 June 2015 (Unaudited) £000's	31 December 2015 (Audited) £000's
Opening balance	-	1,266	1,266
Unwinding of discounting on deferred consideration	-	62	91
Payment of deferred consideration - cash	-	(332)	(661)
Foreign exchange differences	-	(3)	19
Write off of remaining $1 million	-	-	(649)
Release of interest previously discounted	-	-	(66)
Closing balance	**-**	**993**	**-**

8 Other payables

Landlord reimbursement accrual

Amounts in non-current other payables of £0.66 million (30 June 2015: £0.62 million) relate to the re-imbursement of leasehold improvement costs from SpotCo's landlord at the new New York office which was moved into during 2013. As with many US leases SpotCo, as tenant, had to undertake a programme of complete refurbishment of the property and some of these expenses, related to the provision of basic utilities and services, were then refunded by the landlord. In line with SIC 15 this reimbursement has been recognised as a liability and will be unwound to the income statement reducing rental costs over the period of the lease. During the 6 months period to 30 June 2015 £0.03 million was unwound and credited to the income statement (30 June 2015: £0.03 million). The balance has increased since prior period 30 June 2015 due to foreign exchange as the liabilities functional currency is in USD.

Amounts in current liabilities relating to the reimbursement total £0.06 million (30 June 2015: £0.06 million).

	30 June 2016 (Unaudited) £000's	30 June 2015 (Unaudited) £000's	31 December 2015 (Audited) £000's
Within one year	68	58	61
Within second to fifth years	270	230	244
More than five years	391	391	384
	661	621	628

8 Other payables (*continued*)

Rent holiday accrual

Other amounts in non-current other payables of £0.84 million (30 June 2015: £0.88 million) relate to an accrual for rental payments built up during a period of 'rent holiday' as provided for in the new leases for Dewynters and SpotCo's Offices which were moved into during 2013. In line with SIC Interpretation 15 the accrual will be released to the income statement over the term of the lease reducing rent costs.

	30 June 2016 (Unaudited) £000's	30 June 2015 (Unaudited) £000's	31 December 2015 (Audited) £000's
Within one year	148	112	144
Within second to fifth years	595	506	577
More than five years	240	376	273
	835	882	850

Total non-current other payables	30 June 2016 (Unaudited) £000's	30 June 2015 (Unaudited) £000's	31 December 2015 (Audited) £000's
Landlord reimbursement accrual	661	621	628
Rent holiday accrual	835	882	850
Total non-current payables	1,496	1,503	1,478

9 Share-based payments

Equity-settled share option plan

Under the Group plan, share options are granted at the average price of the Company's shares at the grant date. The employee is entitled to the exercise the options at 1p per share as to 50 per cent on the third anniversary of the date of grant and as to 50 per cent. on the fourth anniversary of the date of grant. In addition, Options held by David Stoller and certain other senior employees and management may be exercised earlier if the Board determines that any exercise condition as set out below has been met:

Should the Company's mid-market closing share price meet or exceed the following targets for five trading days (which may be non-consecutive) within a period of 30 consecutive calendar days prior to the third anniversary of the date of grant, the Option shall be exercisable as follows:

(a) one third of the Option shall become exercisable on meeting a share price target of £0.035 per share;

(b) a further one third of the Option shall become exercisable on meeting a share price target of £0.045 per share; and

(c) the remaining one third of the Option shall become exercisable on meeting a share price target of £0.055 per share.

9 Share-based payments (*continued*)

However, subject to the Board's discretion, the Option holder shall be required to retain the shares received on exercise of an Option on the Share Price Targets having been met until the earlier of:

i) twelve months following the date the Option is exercised; or

ii) the third anniversary from the date of grant has passed.

If options remain unexercised after a period of 6 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group as a “bad leaver” before they become entitled to exercise the share option.

The following options to subscribe for the Company’s shares have been granted to directors and eligible employees and had not lapsed at 30 June 2016:

Granted to	Date of Option	Number of Shares	First exercisable	Expiry date	Exercise Price
David Stoller	4 March 2016	23,750,000	4 March 2019 or on share price target	4 March 2022	1.00 pence
Eligible Employees	4 March 2016	23,950,000	4 March 2019 or on share price target where applicable	4 March 2022	1.00 pence
Eligible Employees	21 March 2016	9,500,000	21 March 2019 or on share price target	21 March 2022	1.00 pence
Eligible Employees	2 June 2016	24,900,000	2 June 2019 or on share price target where applicable	2 June 2022	1.00 pence
Eligible Employees	29 June 2016	6,300,000	29 June 2019 or on share price target	29 June 2022	1.00 pence

Movement in number of options in the period:	30 June 2016 No. Options
Outstanding at 1 January 2016	-
Granted during the period	89,900,000
Forfeit during the period	(1,500,000)
Outstanding at 30 June 2016	84,400,000

All options granted to date have an exercise price of £0.01. No options were exercised or expired during the period. No options were exercisable at 30 June 2016.

The share options outstanding as at 30 June 2016 had a weighted average remaining contractual life of 5.75years.

9 Share-based payments (*continued*)

The weighted average fair value of options granted during the period was 0.013p. The fair value of equity-settled share options granted is estimated as at the date of grant using a binomial model, taking account of the terms and conditions upon which the options were granted. The key assumptions used to determine the fair value are as follows:

Exercise price	0.01 pence
Share price at valuation date	0.02 pence
Expected life	6 years
Volatility	100%-40%
Risk free interest rate	From 0.14% - 0.65%
Exit rate of employees	5%

During the period ended 30 June 2016 the Group recognised total share-based payment expenses of £0.17 million (30 June 2015: Nil).

10 Cash flows from operating activities

	6 months ended 30 June 2016 (Unaudited) £000's	6 months ended 30 June 2015 (Unaudited) £000's	Year ended 31 December 2015 (Unaudited) £000's
Reconciliation of net cash flows from operating activities			
Profit before taxation	834	52	4,539
Finance costs	181	339	714
Finance income	-	(64)	(61)
Depreciation	204	180	369
Amortisation of intangibles	95	96	192
Impairment of goodwill	55	-	965
Share based payment expense	178	-	-
Exceptional debt write offs	-	-	(6,018)
Operating cash flows before movements in working capital	1,547	603	700
Decrease in inventories	17	119	249
Decrease/(increase) in trade and other receivables	740	4,562	(666)
Increase/(decrease) in trade and other payables	807	(4,257)	(925)
Cash flows from operating activities	**3,111**	**1,027**	**(642)**

11 Related Party Disclosures

Richard Ingham, a non-executive director of the Board in the period up until his resignation on 11 May, is the owner of Glen House Capital Strategies Ltd., a company which provides financial consultancy services. During the 4 months leading up to Mr Ingham's resignation on 11 May 2016, the Group procured services from Glen House Capital Strategies Ltd. totalling £0.05 million (30 June 2015: £0.15 million). £0.13 million was outstanding to Glen House Capital Strategies at 30 June 2016 (2015: £0.15 million) which will be paid up in full by 31 March 2017.

During the 6 months to 30 June 2015, the Group procured consultancy services totalling £0.01 million (2015: £0.03m) from Springtime Consultants Ltd., a company owned by Marcus Yeoman, a non-executive director of the Board during the period. £Nil was outstanding at 30 June 2016 (2015: £0.03 million).

12 Transactions with Directors

At 30 June 2016 David Stoller owed the Group £37,258 (30 June 2015: £1,545). This relates to PAYE payments, whereby following a PAYE assessment it was determined that Mr Stoller's compensation for work in the UK for the Company should be subject to PAYE (as opposed to being taxed only in the US) and therefore the Company was required to immediately pay outstanding PAYE. The Company will seek to recover this amount from Mr Stoller as soon as possible and once the related overpayment of employment tax in the US becomes available. Subsequent to 30 June 2016, Mr Stoller has made repayments of £10,000. The loan is non-interest bearing and no terms and conditions are attached. Full repayment is due by 31 December 2016

13 Interim Report

This document is available on the Group's website at www.r4e.com.