reach4entertainment

reach4entertainment enterprises plc
Report and Financial Statements

for the year ended 31 December 2018

company registration no: 2725009

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WHO WE ARE

reach4entertainment enterprises plc ("r4e") is a group of market leading branding, design and advertising agencies that specialises in the theatrical, film and live entertainment sectors.

Our decades of experience, combined with our innovative, data-driven approach to addressing the challenges of promoting our clients' events, ensures that our campaigns deliver maximum consumer impact.

With leading positions in London and New York, we have built a strong platform in the world's foremost theatrical markets and marketed over 100 events worldwide, including many of the best-known theatre shows including Kinky Boots, Lion King, Les Miserables, Book of Mormon and School of Rock.

FINANCIAL HIGHLIGHTS

	FY 2018	FY 2017
• Revenue	£77.7 million	£80.2 million
• Net revenue*	£31.8 million	£36.8 million
• Gross profit margin	25.0%	25.1%
• Gross profit margin on net revenues*	61.2%	54.7%
• Operating profit/(loss)	£0.1 million	£(2.4 million)
• EBITDA before exceptional items	£0.9 million	£0.7 million
• Adjusted EBITDA**	£1.4 million	£1.0 million
• Loss after tax	£0.2 million	£1.9 million
• Loss per share	(0.02) pence	(0.30) pence
• Net cash	£1.6 million	£4.3 million

** For more information on net revenues see Strategic report page 5*
*** Adjusted EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) is before exceptional items, goodwill impairment and share based payment charges.*

Operational Highlights – A year of considerable progress

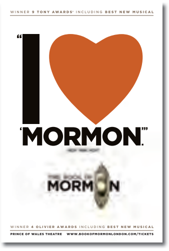
- Marked improvement in second half performance and profitability, ahead of expectations
- Strong focus on reducing overheads and aligning agencies resulted in a 14.0% reduction in administration costs
- Improving margins and absolute levels of profitability at SpotCo following change of management team. Strong run of pitch wins including Beetlejuice, Park Avenue Armory, Alice by Heart, and Magic Mike
- Dewynters maintains leading position in live entertainment, launching major campaigns for Waitress, Dear Evan Hanson and & Juliet
- New initiatives Wake the Bear Limited ('Wake the Bear') and Story House PR Limited ('Story House'), performing strongly, respectively diversifying the groups client base and adding new offering to current clients
- HY2 made considerable progress on HY1 reflecting the work of the new r4e plc management team. Adjusted EBITDA increased by £1.1 million from £0.3 million at HY1 and operating profit by £0.6 million to £0.1 million.

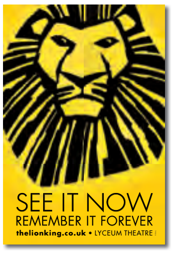
Outlook

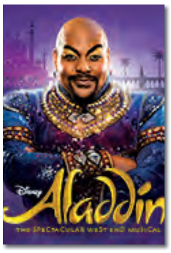
The positive momentum achieved in the second half of 2018 has continued into 2019.

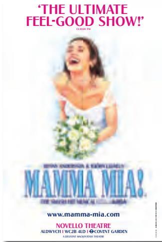
A successful £3 million placing post period end has enabled the company to buy Agency Press Limited (trading as 'Sold Out'), a full serviced advertising agency with turnover of approximately £30 million. This transaction has already unlocked significant cross selling opportunities. Furthermore, the joint venture with Buzz 16 Production was created expanding the Group's offering into sport and opening up multiple new revenue streams.

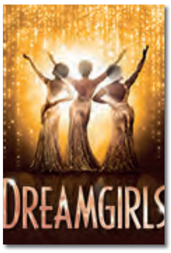
The Group's momentum following leadership changes has continued in 2018 notably in the second half of the year. This positive progress has continued into 2019 and the Board is confident of delivering expectations.

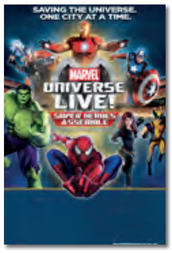


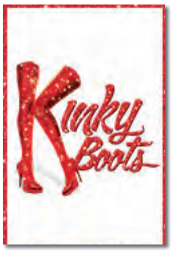


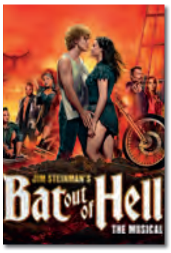


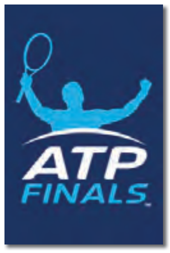


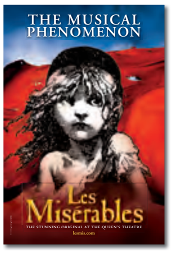


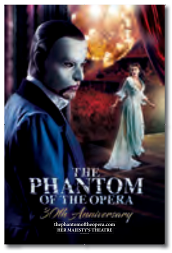












LONDON OPERATIONS

DEWYNTERS

Dewynters Limited ('Dewynters') is a world-leading specialist live entertainment branding, sales and marketing agency. With several decades of experience, Dewynters has an unrivalled track record of delivering ground-breaking, creative and innovative campaigns for theatre, the arts, sport and live entertainment events.

OUR YEAR

- Revenues up £2.2 million on 2017 with a significant increase in EBITDA of £1.5 million driven by both revenue growth and recent restructure and overhead review
- New theatrical projects won in the year including the musical Dear Evan Hansen and Book of Mormon UK and European tour
- Diversification of client base continuing with Body Worlds exhibit in Piccadilly Circus, Esme Loans and Mamma Mia the Party
- Subsequent to year end, additional projects won include Joseph and the Amazing Technicolour Dreamcoat, BIG, White Christmas and The Light in the Piazza

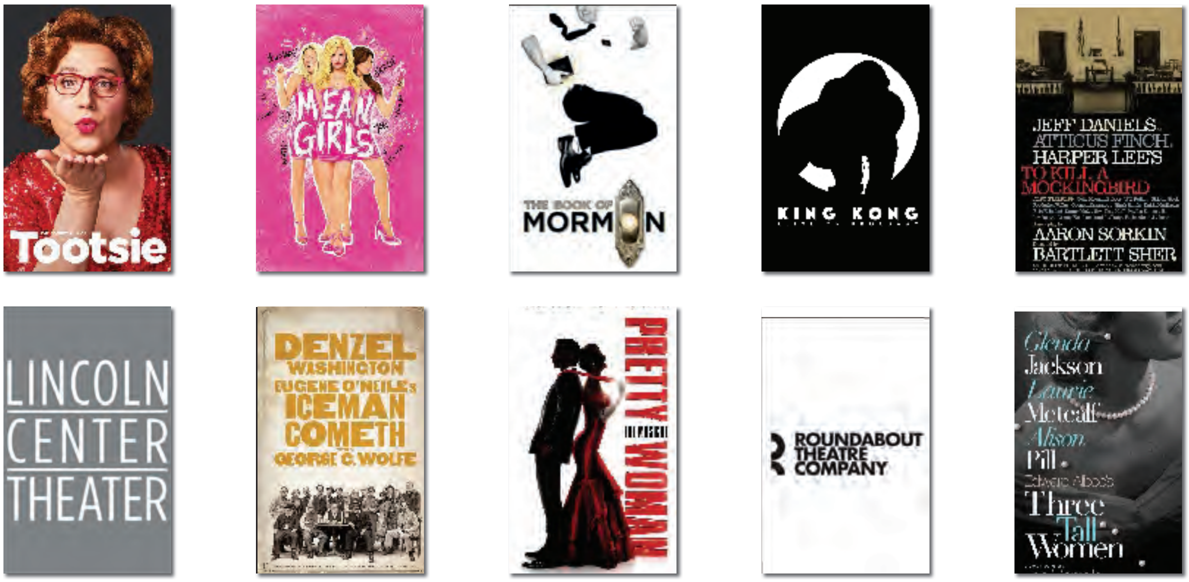
- Aladdin
- The Twilight Zone
- Barclays ATP World Tour Finals
- Bat Out of Hell the Musical
- Book of Mormon
- Delfont Mackintosh Theatres
- Musical Theatre Festival UK
- Waitress
- Les Misérables
- Lion King
- Phantom of the Opera
- Mamma Mia!
- Nimax Theatres
- Really Useful Theatres
- Royal Shakespeare Company
- Seikh Jaber Al-Ahmad Cultural Centre
- Touring productions of Cats, Annie
- Universal Live

NEWMAN DISPLAYS LIMITED

Newman DISPLAYS LIMITED

For over 25 years, Newman Displays Limited ('Newmans') has pushed creative boundaries to deliver tailored outdoor signage, displays and installations that deliver eye catching, inspiring results. This includes theatre and cinema fronts, opening night events and press events through to building identification signage, front of house digital display screens and large format LED screens. 2018 included:

- BFI London Film Festival
- A Star is Born premier
- Tina the Musical theatre front
- Black Panther premier
- Aquaman premiere
- Company theatre front
- Mountview Academy signage
- Wreck it Ralph
- And many many more…



NEW YORK OPERATIONS

SPOTCO

Established in 1996, Spot and Company of Manhattan Inc. ('SpotCo') is New York's leading live events branding, design and marketing agency. It is committed to a process of continual evolution and innovation to ensure its campaigns are delivered through traditional and emerging media platforms, to guarantee maximum impact.

OUR YEAR

- Against the tough backdrop of 2017, a new senior management team have set up strong base for 2019 by reducing overheads and winning a stream of pitches for new shows
- Revenues down £4.6 million on 2017 (a drop of 9.4%) but adjusted EBITDA up by £0.1 million (increase of 29.6%), and EBITDA up by £0.04 million (increase of 8.0%)
- Major shows worked on during the year included Book of Mormon, Kinky Boots, Lincoln Center Theatre and Mean Girls
- The agency was awarded 12 news shows in 2018 for productions opening in 2018, 2019 & 2020
    - In 2018 the agency started working on King Kong, Pretty Woman and To Kill A Mockingbird which will deliver revenues into 2019
    - New productions delivering revenues in 2019 and 2020 include Almost famous, Magic Mike, Beetlejuice, Hadestown and Tootsie
- Staff numbers reduced to 83 (2017: 89)
- Positive outlook for future performance

OUR WORK

- The Book of Mormon
- The Ferryman
- King Kong
- Mean Girls
- Pretty Woman
- Waverly Gallery
- Beetlejuice
- Lincoln Center Theater
- Tootsie
- Roundabout Theatre Company
- Hadestown
- To Kill a Mockingbird
- Three Tall Women
- Iceman Cometh

INTRODUCTION

After a change in management and raising £5.5 million in Q4 2017 to strengthen the balance sheet, the Board immediately set about addressing the structures and processes within r4e's core theatre businesses in order to improve performance and profitability. I am pleased to report that excellent progress was made throughout 2018 in this regard, putting r4e in a much stronger position, both operationally and financially. At the same time, Marc Boyan and his team have been heavily active in developing new commercial opportunities, with strategic investments made to acquire complimentary capabilities, launch new ventures and attract new talent.

FINANCIALS

During 2018 management focused on reducing overheads and aligning the agencies, resulting in a 14.0% reduction in administration costs and offsetting the decline in revenues to £77.7 million (2017: £80.2 million) and net revenues to £31.8 million (2017: £36.8 million). Improved processes drove better client servicing and operational efficiencies, with adjusted earnings for 2018 increasing by 45% to £1.42 million (2017: £0.98 million) and operating profit improving by £2.50 million to £0.1 million (2017: £2.39 million loss). Gross margin remained steady at 25.0% (2017: 25.1%).

NEW STRATEGY

With a new senior team installed at SpotCo, the business has made major improvements to its client servicing and new business development, all of which has led to better margins and new contract wins. Dewynters has also taken major strides to control overheads and improve margins as well as winning mandates for the launch of the permanent Body Worlds exhibit in Central London, Goodwood Festival, plus Waitress, Dear Evan Hanson and & Juliet in the West End.

The strategy to broaden the Group's service offering and client base led to a series of exciting events during the year with the launch of Wake the Bear, a strategy led marketing communications agency and the launch of Story House, a theatre and live entertainment PR agency, amongst others. These new agencies have been quick to build their client rosters and the Board has been pleased with early progress.

The momentum has continued into the start of 2019 with the acquisition of the arts and entertainment advertising agency, Sold Out, with the Group successfully raising £3 million (gross) as part of the acquisition process. The highly regarded London-based agency has a prized client base that includes Live Nation, AEG Presents, S.J.M Concerts and Cirque Du Soleil, making it an excellent fit for the Group as it seeks to broaden its client base beyond just theatre.

During the first quarter r4e also acquired a 50% stake in sports content creator, Buzz 16 Productions, which was founded by former Manchester United player and respected broadcaster, Gary Neville, and former Sky Sports Premier League producer, Scott Melvin. This is another very exciting move for the Group which takes us into a new segment and sees us working with a high profile team of individuals within sports media.

The Group has evolved during the year to become more aligned and much more commercial. Combining this with the new agencies launched and the recent acquisitions, the Board is assured the correct path is being taken and is confident about delivering on its targets for 2019.

BOARD AND EMPLOYEES

Early in the year, Claire Hungate left the Board. In April 2018, the Company was pleased to announce the appointment of Sir David Michels as its Deputy Chairman. Given David's extensive blue-chip company board experience his appointment adds greatly to the skills on the Board.

I would also like to thank our employees across all the agencies for all the hard work and dedication during what has been a busy year for the Group and wish them every success for 2019.

Lord Michael Grade
Non-Executive Chairman

1 May 2019

CEO STATEMENT

Introduction

When I first joined as CEO in late 2017, it was immediately clear that the Group had huge potential given the market leading position held within the theatre sector and some exceptional talent across the individual agencies. However, the business suffered from a lack of focus on driving profitability and a cohesive approach both within and across our agencies to unlock commercial opportunities which had historically inhibited the Group's potential to develop and grow.

During 2018, we set about addressing these key issues alongside our agencies' management teams and I am delighted with the progress achieved to put the Group on a much stronger footing through the implementation of a thorough cost structure review as well as rebuilding senior teams across the Group where necessary. The turnaround has had the desired effect, with an improvement in performance and profitability.

Whilst major improvements have been made to the Group's profitability, we have also been executing our strategy to diversify into the wider live entertainments space, with brand and marketing communications agency, Wake the Bear and live entertainment PR agency, Story House both launched during the summer months.

2019 has got off to an excellent start with the completion of two transactions that broaden our offering and sector exposure. In January the Group acquired a 50% stake in Buzz 16 Productions, which see us step into sports orientated content and working with a very talented team that includes Gary Neville and Scott Melvin, who have enormous experience in this field. At the end of March, we completed the acquisition of advertising agency Sold Out, which has a stellar cast of clients across the live entertainment sector which is exactly in line with our strategy.

London

I am pleased with the results we have achieved at our London based agencies. Dewynters has continued to build its leading position in live entertainment marketing by growing and developing its use of digital and data driven marketing activities. The business had a strong second half, which made a significant impact on profit compared with the previous year. I am delighted to report that Dewynters' revenue is up 8.0% to £28.3 million (2017: £26.2 million), net revenue down 18.8% to £12.3 million (2017: £15.2 million), adjusted EBITDA is up 190% to £2.3 million (2017: £0.8 million) and operating profit was up 432% £1.2 million (2017: £0.4 million).

Our second core London-based agency, Newman Displays, which produces large scale outdoor signage, front of house displays and installations, continued to service major West End theatre productions, leading film companies, cinemas and major global events. The Company generated revenues of £3.6 million (2017: £4 million), adjusted EBITDA of £0.24 million (2017: £0.33 million) and operating profit of £0.17 million (2017: £0.26 million). This fall reflects 15 West End shows having long standing residences meaning new front of house installations in these theatres are not required. The Company still continues to dominate the theatre installation market.

Our objective to develop a pipeline of new business opportunities was realised through the launch of Wake the Bear, a strategy led marketing communications agency, and Story House, a public relations agency focused on the live entertainments industry.

Wake the Bear, which was launched in the first half of 2018 by two former executives from WPP, works with new and established businesses with a focus on growth. Wake the Bear won several client mandates during its first 6 months of operations and its performance met initial expectations. Story House, which launched in August 2018, came to market with a number of leading West End, UK, and world-touring clients on its roster, including 42nd Street, Strictly Ballroom, True West, Benidorm, and Walking with Dinosaurs, and as a result was already generating profits by 31 December 2018. Collectively, Wake the Bear and Story House generated revenue of £0.37 million (2017: £Nil) having only begun operating in the second half of the year.

New York

As previously reported in the 2017, SpotCo was impacted by the downturn in Broadway ticket sales during 2017 and the loss of several clients. Following a strategic review of the business, a new senior team was promoted who have implemented new systems and processes to significantly reduce costs whilst also improving client servicing and winning new mandates, with data now at the heart of decision making and marketing strategy. SpotCo's adjusted EBITDA rose by 30% to £0.58 million in 2018 (EBITDA increase of 8.0% to £0.53 million), with the agency now generating an operating profit of £0.1 million after making a £1.5 million loss in 2017.

With the business on much surer footing, major shows worked on by SpotCo during the year included Book of Mormon, Kinky Boots, Lincoln Center Theatre and Mean Girls. The agency also begun working on King Kong, Pretty Woman and To Kill A Mockingbird during the second half of the year and revenues are expected to continue into 2019, given the shows are open ended.

Hamburg and Amsterdam

Dewynters in Hamburg, set up by the previous management team, had a new Managing Director appointed on 1 January 2019, and the business model is being reviewed and restructured under his management. The team continue to service their clients successfully with over £1 million in turnover in the year (2017: £1.4 million). Dewynters Amsterdam, launched in April 2018, is still in its infancy with £0.3 million turnover in the year (2017: £Nil).

Outlook

A successful £3 million placing post period end has enabled the company to buy Sold Out, a full serviced advertising agency with turnover of £30 million. This transaction has already unlocked significant cross selling opportunities. Furthermore, the joint venture with Buzz 16 Production was created expanding r4e's offering into sport and opens up multiple new revenue streams.

The group has evolved well in 2018 especially in the second half. This positive progress has continued into 2019 and the Board is confident of delivering on targets and expectations.

Marc Boyan
Chief Executive Officer

1 May 2019

GROUP FINANCE DIRECTOR REPORT

Principle Activities

The principal activities of the Group during the year were to provide creative, advertising, marketing and other services to the theatrical, film and live entertainment industries including media strategy and buying, marketing and sales promotions, signage and publishing.

Review of Performance and Future Developments

Year ended 31 December 2018

	Dewynters £'000	Newmans £'000	Other London £'000	**London Total £'000**	SpotCo £'000	Europe £'000	Head Office £'000	**Group Total £'000**
Revenue	28,334	3,630	420	**32,384**	43,960	1,389	–	**77,733**
Adjusted EBITDA*	2,288	242	(155)	**2,375**	578	(727)	(808)	**1,418**
Share based charges	(34)	(11)	–	**(45)**	(53)	–	(386)	**(484)**
EBITDA pre-exceptional	2,254	231	(155)	**2,330**	525	(727)	(1,194)	**934**
Exceptional items	(134)	–	–	**(134)**	(86)	–	(10)	**(230)**
Depreciation & amortisation	(195)	(60)	–	**(255)**	(334)	(7)	(4)	**(600)**
Operating profit/(loss)	1,925	171	(155)	**1,941**	105	(734)	(1,208)	**104**

Year ended 31 December 2017

	Dewynters £'000	Newmans £'000	Jampot £'000	**London Total £'000**	SpotCo £'000	Europe £'000	Head Office £'000	**Group Total £'000**
Revenue	26,153	4,099	65	**30,317**	48,508	1,386	**–**	**80,211**
Adjusted EBITDA*	788	331	(107)	**1,012**	446	(52)	(430)	**976**
Share based charges	(80)	(3)	–	**(83)**	40	(40)	(151)	**(234)**
EBITDA pre-exceptional and goodwill impairment	708	328	(107)	**929**	486	(92)	(581)	**742**
Exceptional items	(157)	–	–	**(157)**	(78)	–	(727)	**(962)**
Impairment of goodwill	–	–	–	**–**	(1,533)	–	–	**(1,533)**
Depreciation & amortisation	(189)	(71)	–	**(260)**	(373)	(5)	(3)	**(641)**
Operating profit/(loss)	362	257	(107)	**512**	(1,498)	(97)	(1,311)	**(2,394)**

*Adjusted EBITDA is before exceptional items, goodwill impairment and share based payment charges. This is a measure used by r4e's provider of finance, PNC, to monitor covenant compliance, as well as by the Board as a proxy for cash profit.

Revenue & Performance

Under IFRS 15 (Revenue from Contracts with Customers) the Company recognises revenue on the basis that we act as principal, however, management also perform their internal analysis of performance on revenues net of media costs. A comparative of billings & revenue for the year as performed by management is as follows:

	2018 £'000	2017 £'000
Revenue	77,733	80,211
Third party costs	(45,907)	(43,405)
Net revenue	31,826	36,806
Cost of sales	(12,335)	(16,660)
Gross profit	19,491	20,146

Gross profit reduced slightly by 3% to £19.49 million (2017: £20.15 million) despite a decline of 13.5% in net revenues. Gross profit margin on a net revenue basis has increased by 6.5 percentage points from 54.7% to 61.2% reflecting the Group's focus on higher margin business. Management also include the analysis of net margin in their KPI's as discussed below.

For the year ended 31 December 2018 the Group has seen an improving trend following the restructuring taken at the end of 2017 and subsequent cost savings and growth initiatives.

Operating profit/(loss) improved as a result of a reduction of exceptional administrative expenses from £1.0 million in 2017 to £0.2 million in 2018 as the final stages of staff restructuring came through in the year and the absence of an impairment charge compared to £1.5 million written off in the prior year in relation to the carrying value of SpotCo's goodwill and intangible assets;

Debt Financing

The amount owing to debt provider PNC increased slightly during the year, to £3.5 million (2017: £2.5 million), which was a result of timings on drawdowns of the facility. As at December 2018 revenues were £1.6 million up on 2017 against which year end drawdowns took place. There has been no breach of covenants during the year.

In March 2019, as part of the approval process for the acquisition of Sold Out and the Buzz 16 joint venture, the Company agreed to an amendment of the facility which included an increase on the borrowing rates of 0.5% per annum.

The initial 3-year term of the facility expired on 3rd December 2018, and the facility has automatically continued in place indefinitely on a rolling basis. Either party can give at least six months' notice to end the agreement. The Group believes that the relationship with PNC is good, that they remain supportive of the Company, and that they appear likely to want to continue the arrangement after the end of the initial term.

Market

The Group's market is the provision of marketing and media services to ticketed live events. Historically, it has focused upon the entertainment sector, and specifically theatre. The Group's subsidiaries, Dewynters in London and SpotCo in New York, are market leaders in their respective theatrelands. As a result, the Group is diversifying into new territories, and beyond theatre. This is evidenced by the start-up companies Wake the Bear Limited and Story House PR Limited. In addition new ventures subsequent to year end (see subsequent events note 26), Buzz 16 and Sold Out, show this diversification strategy into both other live entertainment markets and sport.

London

The London segment comprises Dewynters, Newmans, Jampot, and, since they started trading in September, Wake the Bear and Story House. During the year the London operations generated adjusted EBITDA, before exceptional items, of £2.3 million compared to the year ended 31 December 2017 of £0.9 million. Operating profit of £1.9 million was also up on the prior year (2017: £0.5 million). This result was mostly generated by Dewynters, which had a very strong year. Wake the Bear and Story House, incurring start-up costs, generated an operating loss of £0.1 million and break even respectively. Jampot contributed an operating loss to this result, of £0.06 million (2017: a loss of £0.1 million). The Company is being wound down as its services are now core competences within the Group's other operating entities, so it is no longer required as a separate profit centre.

Dewynters, after a challenging year in 2017, faired better in 2018 with revenues increasing by £2.2 million (8.3%). Gross profit margin on revenues increased to 29.8% (2017: 26.9%), and gross profit margin on net revenues also rose significantly to 68.4% (2017: 46.4%). In addition, a real drive to reduce overheads meant that adjusted EBITDA before exceptional items increased by £1.5 million. After, the non-cash affecting LTIP employee share options charge of £0.03 million to employee costs (2017: £0.1 million), and exceptional items down to £0.13 million finishing the restructuring initiative started in 2018 (2017: £0.16m), plus depreciation and amortisation, operating profit was up £1.53 million, at £1.93 million (2017: £0.4 million).

Newmans had a quieter year in 2018 with a reduction in revenue of £0.5 million, 12.6%, to £3.6 million. Contributing to the lower revenue was the Odeon cinema in Leicester Square closing for refurbishment plus Vue cinema installing a digital screen. In addition 15 West End shows have long standing shows in situ new front of house installations are not required, and the majority were installed by Newmans. Savings have been clawed back from personnel and administrative cost to try and counteract the profit reduction (and more work is to come on this in 2019). Despite the reduction in revenue Gross Profit remains consistant at 37% and operating profit has remained steady at £0.2 million (2017: £0.3 million).

Wake the Bear and Story House performed above expectations in their first 4 months of trading and although not contributing profitably to 2018, they are expected to do well in 2019.

New York

Following on from an extremely tough 2017, SpotCo's revenue contribution to the group decreased in 2018 by £4.5 million (9.3%) to £44.0 million (2017: £48.5 million). In US Dollars, SpotCo's 2018 revenue was $58.5 million, a $4.4 million (7.0%) decrease on 2017's $62.9 million. The weighted average exchange rate between the US Dollar and British Pound in 2017 for SpotCo's revenues was 1.33, compared with 2017's average of 1.30 exaggerating the revenue reduction further. As reported in the 2017 report, SpotCo felt the effects of new competition and lack of large new shows opening, however under the new management team of Shelby Ladd and Stephen Santore, a number of pitches have been won and SpotCo will see the effects of this in 2019 and 2020, returning to form.

Gross margin on revenue fell by 1.9% (gross margin on net revenue also fell by 4.33% to 63.9%) given the revenue mix being more weighted to media buying services, however, a real drive on reducing personnel and overhead costs meant Adjusted EBITDA increased by £0.13 million. Due to a £1.5 million impairment within the Group of the Goodwill in SpotCo in the prior year (nothing in 2018), operating profit at £0.1 million was £1.6 million above 2017 (a £1.50 million loss).

Other Performance Highlights

Long Term Incentive Plan (LTIP)

The Board recognises the importance of retaining and incentivising employees, and has continued to operate the r4e plc Long Term Incentive Plan, set up in 2016, which allows the Company to make grants of share options of up to 20 per cent of the issued share capital. Included within employee costs and therefore within EBITDA before exceptional items, in 2018, is £0.5 million of costs related to the valuation of the LTIP options granted to employees in the year (2017: £0.2 million). There is no cash effect of the valuation, with the costs being recognised within personnel costs in the Statement of Comprehensive Income and the creation of an option reserve on the Statement of Financial Position. 4.5 million options were exercised in 2018 (2017: 19.4 million) and 12.98 million were forfeit (2017: 17.8 million).

Finance Costs

Finance costs for the year amount to £0.3 million (2017: £0.3 million), and primarily comprise interest and fees on PNC debt of £0.25 million (2017: £0.2.8 million). The moderate reduction in the cost is attributable to lower levels of borrowings over the course of the year.

Tax

A tax credit of £1,000 has been recognised in the year (2017: £0.8 million credit) as an adjustment to prior periods netted off against credits in SpotCo. Group relief – mainly from r4e, but also Wake the Bear and Jampot – has enabled the Group to extinguish the liability due from Dewynters and reduce Newman's tax charge to £0.01 million, whilst no tax is due in the USA on SpotCo profits again this year (2017: £Nil).

Cash Flow

Cash outflow from operating activities in the year was £2.0 million (2017: £1.8 million inflow) as a result of working capital movements. Trade receivables are significantly higher at 31 December 2018 which is simply a result of revenue being much higher in November and December 2018 than during the same period in the prior year. As part of its investing activities, property plant and equipment expenditure was £0.1 million (2017: £0.1 million).

Financing activity cash flow has significant movements as a result of the PNC asset based lending facility. As cash is drawn down to fund working capital, proceeds from the facility totalled £79.49 million, and repayments to the lender through the facility totalled £78.48 million (2017: £83.72 million and £84.4 million respectively). Proceeds from the issues of share capital arising upon exercise of share options totalled £0.05 million (2017: £5.5 million – including £0.2 million arising upon the exercise of share options – after related expense), Interest and fees paid out on debt totalled £0.25 million (2017: £0.29 million), reduced because of lower debt levels.

As explained in the prior year accounts, the cash position is not expected to increase over the short term as drawdowns from the PNC facility are charged a higher interest than unutilised borrowings. Therefore, cash for working capital purposes is only drawn down as required for payments rather than being retained on hand for any length of time.

POSITION AT 31 DECEMBER 2018

As at 31 December 2018, the Group balance sheet has strengthened by £0.2 million with a net asset position of £9.4 million (2017: £9.2 million), caused primarily by a better performance in the year. After excluding share based payment charges (as these net off in the income statement against the share options reserve) profit after tax is £0.3 million. Plus the exercise of employee share options resulted in share issue income (net of costs) of £0.05 million.

Non-current assets are lower by £0.2 million at £10.8 million (2017: £11.1 million), as a result of depreciation and amortisation offset by additions of £0.7 million and the effects of foreign exchange rates on the value of intangibles (goodwill and brands) in SpotCo.

Current assets have increased by £3.6 million, from £18.4 million at 31 December 2017 to £22.0 million. That is as a result of trade and other receivables being higher by £5.1 million – as a result of timing with higher revenues at year end – offset by cash being lower by £1.5 million.

Trade and other payables have also increased year-on-year, by 12.4%, or £2.2 million, at £18.0 million. This reflects the increased levels of work in November and December 2018. Current borrowings have also increased slightly from £2.4 million to £3.6 million, as the asset based lending liability has increased, caused by higher levels of drawdown in parallel with higher trading levels. This can be due to timing as cash is drawn down and repaid on a constant rolling basis.

Net current assets have improved by £0.2 million, from £0.2 million to £0.4 million, primarily to the increase in trade and other receivables.

Non-current liabilities have been reduced by £0.2 million, from £2.0 million to £1.8 million. This is a result of the repayment of the liability owed to David Stoller (previous CEO) in relation to pay in lieu of notice and compensation for loss of office, and related payroll tax obligations.

In equity, there's been an increases of £0.02 million increase to share capital and £0.02 million to share premium, from the exercise of employee share options. £0.5 million was charged to the share option reserve in connection with the value of r4e plc LTIP options granted to employees. These were offset £0.2 million by the loss for the year. (Share options exercised during 2018 resulted in the release of £0.03 million from share option reserve to retained earnings.)

KEY PERFORMANCE INDICATORS

The Group manages its internal operational performance through the monitoring of several key performance indicators ("KPIs"). These are monitored and evaluated with respect to the level at which they are used and their purpose. Currently the focus at Group level is on the following KPIs for continuing operations:

	2018	**2017**	**Analysis**
Adjusted EBITDA (£'000)	1,418	976	Stronger performance driven by maintenance of gross margin and cost savings initiatives in overheads
Gross profit margin	25.1%	25.1%	Consistent margin against lower revenues due to improvement in UK offset by reduction in USA
Gross profit margin on net revenues	61.2%	54.7%	Reflects less media income in the year. Higher media revenues drive a lower margin
Staff costs to gross profit	71.3%	72.7%	Employee costs reduction from restructure offsets the reduction in gross profits
Net cash/(debt) to profit	1.2x	4.4x	Timing of borrowings increases debt against a stronger result
Working capital (£'000)	406	208	Increased trade and other receivables offsets lower cash position and increased current liabilities due to strong end of year performance
Cash (outflow)/inflow (£'000)	(1,335)	4,661	Due to changes in working capital reflecting significant levels of work in final 2 months of 2018
Employee numbers	207	222	Staff redundancies as part of restructure
Debtor days	44	45	Consistent collection as expected from majority of agencies big clients
Creditor days	35	63	Skewed by high level of accruals where invoices not received at 31 December 2018 £6.6 million in 2018 (2017: £3.4 million)

At each individual company level, the KPIs are a combination of profitability measures including achievement of annual budget, gross/net margin, productivity measures including employee costs/gross profit, adjusted EBITDA per head, and non-financial measures such as client profitability, client retention, and new business awarded.

KPI Definitions and Purposes

Adjusted EBITDA	Adjusted EBITDA is before exceptional items, goodwill impairment and share based payment charges. Used by r4e's debt provider, PNC, for covenants, and as a proxy for cash profit
Gross profit margin	Gross profit as a percentage of turnover. A measure of commercial trading success
Gross profit margin on net revenues	Net revenues reflect management's view of income on a net basis stripping out gross media revenue which is a pass through of cost plus a small margin
Staff costs to gross profit	Administrative expense staff costs, excluding share based payments costs, as a percentage of gross profit. A measure of the efficiency of delivery of work
Net cash/(debt) to profit	Excess/(shortfall) of cash versus borrowings, as a multiple of Adjusted EBITDA. An indication of net cash or debt position relative to cash profit
Working capital	Net current assets/(liabilities) as per the Consolidated Statement of Financial Position. A measure of liquidity
Cash inflow/(outflow)	Net increase/(decrease) in cash and cash equivalents at the end of the year. A measure of the trend in cash
Employee numbers	Average number of employees measured on a monthly basis. Fundamental for assessing how many people are in the business, and against key 250 trigger point
Debtor days	Average trade payable debtor days measured on a monthly basis. A measure of how well the trade receivables are being managed
Creditor days	Average trade payable creditor days measured on a monthly basis. A measure of how well the trade payables are being managed

RISKS ASSOCIATED WITH THE GROUP

Financial Instruments

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk, see note 23 on Financial Instruments for further details. The Group is not currently subject to any material, legal or economic restrictions on the ability of its subsidiaries to transfer funds to the Company in the form of dividends, loans or advances. The main financial instrument risks are liquidity and foreign exchange risks.

Liquidity

The Group had net current assets at 31 December 2018 of £0.4 million (2017: of £0.2 million). As referenced further below, the Group's debt provider PNC remains supportive; there is also unused availability within the lending facility. In addition, as mentioned in the Going Concern note further below, the Group has considered its cash position going forward and believes it is sufficient for its purposes. Liquidity risk is material in the event of a withdrawal of facilities, but that is considered unlikely.

Foreign Exchange Rates

The Group is subject to a number of macroeconomic factors, in common with the rest of the economy, such as foreign exchange rate fluctuations, which are outside of the Group's sphere of influence. The Group does not explicitly hedge any borrowings in either GBP or USD and so a risk exists in relation to foreign exchange rates. The borrowings the Group has with PNC are split in USD currency for SpotCo and GBP currency for Dewynters and Newman, this creates a natural hedge for SpotCo against FX fluctuations on the debt but exposes the Group to foreign exchange fluctuation risk on consolidation of the USD debt into the GBP presentational currency.

Foreign exchange risk could be material to the Group's revenues, since SpotCo trades in USD and forms over half of the Group – a 5% swing in the USD rate against GBP would have about a £2.3 million impact – but since SpotCo's revenues and costs are both contracted in USD, the risk is automatically hedged for profit and cash purposes and is therefore ultimately considered not to be material.

Banking Facilities

The Group has a set of financial covenants with PNC in relation to the revolving asset based lending facility, of which the drawn down balance at 31 December 2018 totalled £3.5 million. These covenants are measured monthly and were not breached at any time in 2018. In the event of a breach, PNC would be entitled to immediately terminate the facility at any time following an Event of Default which is continuing, but would not be obliged to so terminate. A breach of a financial covenant is considered to be an Event of Default which would pose a going concern risk to the business, notwithstanding the Group's strong cash balance at 31 December 2018. Forecasts monitored by the Group have not identified the risk of any covenant breach in the foreseeable future. PNC have confirmed that they remain supportive of r4e.

Client Relationships

The Group recognises that there is a risk for the core continuing operations, in respect of the client relationships it has with key producers of London's West End and New York's Broadway shows and – in some cases – venues. If these relationships, for any reason, cease to yield further business, this could have an adverse effect on the trading results and therefore the Group results. The Group believes this risk to be low-to-medium given the historically strong position of producers in the market and the limited dependence of the trading results on any single producer.

Theatres

The restricted number of theatres in the West End of London and on Broadway in New York means there is a limit to how many new shows can open, therefore restricting the opportunities for growth within those segments. To address this risk, the Group is broadening its geographical footprint, and widening its focus beyond the traditional core theatre sector.

Key Management

The Group acknowledges that there is a risk that key operational management within subsidiaries may leave. In order to counteract this risk, the Group has established and maintained succession plans for key positions to ensure a spread of key functions across the Group, including some cross-fertilisation of roles between the two core businesses of Dewynters and SpotCo to reduce the onus on specific individuals. The Board also believe that the LTIP is a motivator for long-term retention of employees.

Technology

The Group recognises that there are technological risks associated with the marketing and media sectors, for example the development of new technologies that supersede existing software use and capabilities. In particular the Group continues to embed data-driven marketing technology and techniques into its service offerings and operations.

Brexit

The Group believes that generic risks associated with Brexit's impact upon the UK economy, and upon London's economy specifically, are broadly mitigated by the specific circumstances inherent in the Group's mix of operating geographies and in the complexion of its primary client sector.

Whilst London – and therefore the UK – formed over a third of all business in 2018, SpotCo is expected to make up much more of the group's turnover in 2019 and onwards, as is Wake the Bear which has a significantly different client base to the other UK companies being non theatre. Moreover, the West End theatres – being physically rooted to London – cannot of themselves relocate to Europe, and their ticket-buying customer base is extremely international, something for which there is a natural hedge: in the event that the British economy were to weaken, it may become more financially attractive, and therefore more likely, for overseas tourists to make visits to London.

Data regulation

The Group also acknowledges that there are risks of greater regulation of industry access to consumer data. This should not restrict the Group's ability to operate, which is primarily based upon the promotion of live events which will continue to require marketing and media regardless of the level of consumer data available. Additionally, the Group has adopted a programme of GDPR compliance.

Accounting estimates

Accounting estimates for uncertainties, in particular relating to goodwill impairment, are an inherent risk from a reporting perspective. To this end, the Group reforecasts twelve months forward, each calendar quarter, and also looks at projections up to five years forward. These views include recalculation of financial covenants using a range of sensitivity analysis – see the Accounting Policy re Impairment of Assets on page 39, and also Note 8 to the accounts, Goodwill and Intangibles.

Going Concern

The Group recognises that Going Concern is an important inherent risk for any business to monitor. As set out above, and in the Accounting Policy regarding Going Concern on page 38, the Group has in place a significant borrowing facility. Additionally, an equity placing of £3 million in March 2019, to facilitate growth without putting undue pressure on working capital. The Group's budget for 2019 is cash positive, before any possible investments. The Group has considered its cash position for twelve months after the date of release of this report, and considers it should meet all covenants and cash requirements.

DIRECTORS' PROMOTING OF THE GROUP'S SUCCESS

The Directors have addressed, what they consider to be, a relatively low Group share price, in various ways. Principally they have implemented changes in the composition of the Board and of local management teams where required. Since 2017 they have facilitated a more liquid market for the Group's shares by increasing the proportion of shares held in public hands, as the opportunity has arisen. Moreover, they have set a strategy of income stream diversification coupled with a keen focus upon cost management.

By way of employee retention, the Directors have added new key staff members to the LTIP scheme subsequent to year end. They have also supported a strategy of pay-rises and bonuses where appropriate, based upon performance.

The Directors continue to focus upon a one-Group unified mindset, designed to ensure the various operating units are all pulling in the same direction. The results of this have been since in 2018 results.

The Directors have identified material customers and suppliers, and are ensuring that key relationships are identified and monitored, and that regular account reviews occur.

Regarding the composition of the Board, the Directors have striven at all times to ensure the Board comprises a balanced mix of representation controlled by a majority of independent non-executive directors.

DEVELOPMENTS AND FUTURE ACTIVITIES

Having now successfully completed its 3 year term under debt provider PNC who continues to be supportive on a rolling basis, and with exciting developments in acquisitive work subsequent to year end, the business has taken steps to pursue opportunities as outlined in this and the previous year's accounts. The Group now has a presence in the UK, US and Europe plus has had 2 new start-ups in the year perform better than expected. The Group has further streamlined its staff cost base in 2018 to reflect the benefits of more efficient organisation and a more commercial trading environment. The Board believes that these initiatives will both create business for the Group outside of its current client base and also help it to continue to build upon its market leading positions in London and New York.

By order of the board

Linzi Allen
Group Finance Director

1 May 2019

Directors

Marc Boyan
Linzi Allen (returned from maternity leave 19 November 2018)
Lord Michael Grade
Sir David Michels
Marcus Yeoman
Charles Lycett

Marc Boyan ***(Chief Executive Officer, Executive Director)*** **–** is the founder of Miroma International, a successful commercial media trading business which works with brands, media agencies and media owners to enable brand owners to extract additional value from their marketing budgets. Marc extended the business under Miroma Ventures to focus on investing in, seeding and managing media and technology companies. Marc is a director and controlling shareholder in Miroma R4E Holdings Limited, a substantial shareholder in r4e. Marc began his career in the media sector 20 years ago before going on to found Miroma International in 2003.

Lord Michael Grade ***(Chairman, Non-Executive Director)*** **–** was awarded a CBE in 1998 for his significant achievements in broadcasting and has over 40 years' experience in the entertainment industry. He was formerly Chairman of the BBC, Executive Chairman of ITV plc, Chief Executive of Channel 4, and he has held positions on the boards of a number of public companies, including Pinewood Group plc. Lord Grade is currently a director of Gate Ventures plc, which was throughout 2017 a substantial shareholder in r4e. He is also a co-founder of The Gradelinnit Company Ltd, a prominent theatrical production company.

Sir David Michels ***(Deputy Chairman, Non-Executive Director)*** **–** is a well-known leading British businessman. He has extensive experience in the hospitality industry as former Chief Executive of Hilton Group plc and was knighted for his services to the hotel and catering industry in 2006. Prior to joining Hilton, he was Group Chief Executive of Stakis plc for 10 years following 20 years in the hotel and gaming industry. Sir David is currently Chairman of Miroma Holdings Ltd, a company founded and led by Marc Boyan. Sir David was formerly President of the British Hospitality Association, Deputy Chairman of Marks & Spencer plc, easyJet plc and British Land plc, and a non-executive director of various other British and overseas companies.

Linzi Kristina Allen ***(Finance Director)*** **–** joined the Company as Group Financial Controller in 2012, becoming Finance Director in 2015. Prior to that she was at KPMG for 7 years in both internal and external audit roles working across a range of clients and industries including retail, construction, manufacturing, investment funds, logistics and Government.

Marcus Yeoman ***(Senior Independent Director, Non-Executive Director)*** **–** has acted for a number of AIM quoted companies and various private companies. His early career started with the formation of three companies in IT infrastructure and distribution, after which he moved into small company broking and corporate work with Rathbone Stockbrokers Limited and Cheviot Capital (Nominees) Limited. In 2003, Marcus established Springtime Consultants Ltd and has been acting as a consultant or non-executive director to a number of listed companies and SME ventures, which require help with their growth strategies, including M&A activity.

Nicholas Richard Charles Geary Lycett ***(Non-Executive Director)*** **–** set up The Lucid Group in 2003 making it the largest online and broadcast music agency in the UK by 2010 (representing the likes of David Bowie, Beyonce and The Rolling Stones). In 2006, he became an advisor and shareholder in bebo, helping it become the largest social network in the UK until their $850m sale to AOL in 2010. In 2010, he became the Managing Director of RCA Records, selling a stake in The Lucid Group to Sony Music Entertainment in the process. Charlie's current interests include Operator Records, Black Butter (a Joint Venture with Sony Music), online broadcaster SB.TV and Now Present (a joint venture with Universal Music).

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THE BOARD

The Board currently comprises:

Executive Directors and Officers

Marc Boyan	Chief Executive Officer
Linzi Allen	Group Finance Director

Non-Executive Directors

Lord Michael Grade	Non-Executive Chairman
Sir David Michels	Non-Executive Deputy Chairman
Marcus Yeoman	Non-Executive Senior Independent Director
Charles Lycett	Other Non-Executive Director

The Board has adopted the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Companies. The Board believes that the QCA Code provides the Group with the right governance framework in view of its size, strategy, resources and stage of development, as it offers a flexible but rigorous outcome-oriented framework in which we can continue to develop our governance model to support our business. The QCA Code is based on ten broad principles and a corresponding set of disclosures, it states what they consider to be appropriate applications for growing companies, and it asks them to provide an explanation as to how they are meeting each principle, through various disclosures. Our Corporate Governance Statement is available on our website and outlines how we meet the principles.

https://www.r4e.com/pdfs/QCA%20Code-governance-statement-r4e-plc-2018_09-final.pdf

The Board is collectively responsible for the success of the Company, and entrepreneurial leadership is balanced by the scrutiny and oversight provided by independent Non-Executive Directors. There is a clear division of responsibilities between Board members, and all Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring compliance with Board procedures and with applicable regulation and legislation.

The Board reviews the effectiveness of its performance as a unit, as well as that of its committees and the individual directors, on an annual basis. Reviews are conducted internally, by the Nomination Committee, taking input from the CEO and our Nomad. Independent professional advice is taken as required. Effectiveness is considered against the criteria of strategic input, independence, integrity, and value creation. Changes to the Board are reviewed by the Companies Nominated Advisor and any new members are inspected closely to ensure they are fit for purpose and that there is a suitable balance of independents and non-independents. More details on Board performance is available in the Company's Corporate Governance Statement. All Directors are subject to re-election by shareholders at intervals of no more than three years.

Lord Michael Grade is a Director of Gate Ventures plc ('Gate'), which was a substantial shareholder in r4e during 2017. As such, Lord Grade was on r4e's Board as a shareholder representative. Gate sold its shares in r4e in February 2018, but Lord Grade has been retained on r4e's Board because of his skills, experience, and contacts in the marketing media and theatre worlds.

Sir David Michels is Chairman of Miroma Holdings Ltd, a company started and run by Marc Boyan who – through Miroma R4E Holdings Ltd – is a significant shareholder in r4e. Sir David may therefore technically be considered a shareholder representative. Moreover though, he has been brought onto the Board because of his tremendous business experience and wisdom, having been on the Boards of Hilton Group, Stakis plc, Marks & Spencer plc, easyJet plc, and British Land plc, amongst various British and overseas companies.

The Board meet formally on a regular basis; in addition, ad hoc meetings are called to address specific issues requiring Board approval. At formal meetings the Board reviews the Group's corporate responsibility issues and receives detailed reports on:

- operational matters and performance from the Chief Executive Officer;
- financial performance from the Group Finance Director; and
- legal and compliance issues from the Company Secretary, when required.

In 2018, 7 formal Board meetings were held. Several other ad hoc meetings were also held during the both in person and by phone. Attendance by Directors at the formal meetings held was as follows:

	Number of meetings attended
Marc Boyan	7
Linzi Allen (on maternity leave 01/01/2018- 19/11/2018)	3
Ralph Wilson (interim – resigned 31/12/2018)	7
Lord Michael Grade	7
Marcus Yeoman	6
Charlie Lycett	5
Sir David Michels (appointed 12/04/2018)	4

The Board also sets and monitors Group strategy, approves the annual budget and examines acquisition and/or disposal possibilities. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Independent professional advice is taken as required.

The Board meetings are also used to review the Company's culture and its consistency with company's objectives, strategy and business model. The Board monitors and promotes a healthy corporate culture through regular reporting from the executives of each group company. The Board are provided with information on HR initiatives, and also review monthly reporting on employee turnover.

There is a formal schedule of matters reserved for the Board, and routine business may be delegated to a committee of two Directors or one Director and the Company Secretary.

BOARD COMMITTEES

During the year under review the Company maintained three Board Committees, as follows:

Audit Committee

The Audit Committee is required to comprise of a minimum of two members, all of whom shall be independent non-executive directors, at least one of whom has recent and relevant financial experience. During the year under review the Committee comprised Marcus Yeoman (Chairman) and Charlie Lycett. The Committee meets at least twice a year at appropriate times in the reporting and audit cycle, and otherwise as required by the Chairman. The Committee has an independent role, operating as an overseer and a maker of recommendations to the Board for its consideration and final approval.

The Committee does not assume the functions of management. Its remit includes monitoring the integrity of the financial statements, and reviewing internal controls and risk management systems. In addition, the Committee considers matters relating to the appointment, independence and objectivity of the Auditor and reviews the results and effectiveness of the audit. Only members of the Committee have the right to attend its meetings. However, other Directors and executives may be invited to attend all or part of any meeting, and the external auditor is invited to attend meetings on a regular basis. The decision has been taken not include a separate Audit Committee report in this Governance Statement as the Board believes relevant information is contained elsewhere within the Annual Report.

The Audit Committee terms of reference are available on the Company's website.

Remuneration Committee

Members of the Committee shall be appointed by the Board. The Committee shall comprise at least two members, all of whom shall be independent non-executive directors. During the year under review the Committee comprised Marcus Yeoman (Chairman) and Charlie Lycett.

The Committee will meet at least once a year and at such other times as the Chairman of the Committee shall require. The Committee has an independent role, operating as an overseer and a maker of recommendations to the Board for its consideration and final approval. The role of the Committee is to assist the Board to ensure that the directors, executives and prescribed officers are remunerated fairly and responsibly in line with the long-term interests of the company and that the remuneration report and disclosure of director and other executive remuneration is simple to read and understand and is accurate and complete. In addition, the committee is to ensure that an effective remuneration policy is in place, aligned with the company's strategy, and is applied consistently throughout the Company and Group at all employee levels.

The Remuneration Committee terms of reference are available on the Company's website.

Nomination Committee

The Committee shall comprise a minimum of three members: the Company Chairman and at least two independent non-executive directors. The Committee is to be made up of a majority of independent non-executive directors. During the year under review the Committee comprised Lord Michael Grade, Marcus Yeoman and Charlie Lycett.

The Committee will meet at least annually and at such other times as the Chairman of the Committee shall require. The Committee's responsibilities include reviewing the size, structure and composition of the Board; identifying and nominating suitable candidates for appointment to the Board; board succession planning; and making recommendations for appointments to board committees.

The Nomination Committee terms of reference are available on the Company's website.

RELATIONS WITH SHAREHOLDERS

The Board recognises the importance of communications with shareholders. There is regular dialogue with institutional shareholders including presentations following the announcement of the Company's interim and full year results.

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the Group's systems of internal control and risk management and for reviewing the effectiveness of those systems. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives; any system can provide only reasonable and not absolute assurance against material misstatement or loss.

The following controls have continued in place throughout the year:

- Defined organisational structure with appropriate delegation of authority
- Regular Board meetings
- Clear responsibilities on the part of financial management for the maintenance of good financial controls and the production and review of detailed, accurate and timely financial management information
- Authorisation levels and proper segregation of accounting duties
- A comprehensive financial review cycle, which includes an annual budget approved by the main board, detailed monthly variances against budget at subsidiary level with, where necessary, remedial action

- Annual performance is reforecast quarterly; and
- Provision to the Board of relevant, accurate and timely management information

The Group Manual of Policies and Procedures provides a framework of rules, controls and processes to enable the Group to operate efficiently, legally and effectively within its marketplaces.

The internal control environment will continue to be monitored and reviewed by the Board and, where necessary, it will ensure that improvements are implemented.

On behalf of the Board

Lord Michael Grade
Chairman

1 May 2019

DIRECTORS' REMUNERATION 2018 (Audited)

The remuneration of the Directors who served during the year ended 31 December 2018 is shown below:

	Salary £'000	Bonus £'000	Taxable Benefits £'000	Total £'000
Marc Boyan	250	–	1	251
Linzi Allen (maternity leave 01/01/18 to 19/11/18)	28	–	1	29
Ralph Wilson	102	10	–	112
Lord Michael Grade*	68	–	–	68
Marcus Yeoman*	25	–	–	25
Charlie Lycett*	25	–	–	25
Claire Hungate* (resigned 23/01/18)	2	–	–	2
Sir David Michels* (appointed 12/04/18)	26	–	–	26
	526	10	2	538

Details of any share options held by Directors are given in note 19. Charges in the year for share options held by directors were: Marc Boyan £209,359, and Linzi Allen £13,868.

DIRECTORS' REMUNERATION 2017 (Audited)

The remuneration of the Directors who served during the year ended 31 December 2017 is shown below:

	Salary £'000	Bonus £'000	Taxable Benefits £'000	Pay in lieu of notice £'000	Compensation for loss of office £'000	Total £'000
Marc Boyan (appointed 16/10/17)	53	–	–	–	–	53
David Stoller (resigned 30/09/17)	195	–	11	293	220	719
Linzi Allen (appointed 24/01/17) (maternity leave 23/10/17 to year end)	91	–	1	–	–	92
Ralph Wilson (appointed 02/10/17)	25	–	–	–	–	25
Lord Michael Grade* (appointed 24/01/17)	29	–	–	–	–	29
Marcus Yeoman*	25	–	–	–	–	25
Charlie Lycett*	25	–	–	–	–	25
Claire Hungate* (appointed 24/01/17, resigned 23/01/18)	23	–	–	–	–	23
	466	–	12	293	220	991

Charges in 2017 for share options held by directors were: Marc Boyan £24,277, David Stoller £126,470, and Linzi Allen £13,868.

* Denotes Non-Executive Director.

POLICY ON DIRECTORS' REMUNERATION

The Remuneration Committee is responsible for determining and agreeing with the Board the remuneration policy for the Executive Directors and Officers and for approving their remuneration packages and contract terms. The Committee's remit also includes approving the design of performance related pay schemes and share incentive plans, and the remuneration packages of the directors of the subsidiary companies.

Through monitoring the market place the Committee seeks to offer remuneration packages which not only reflect current market conditions but are also commensurate with attracting, retaining and motivating executives of quality to ensure the continued growth and success of the Group.

The Executive Director determines the remuneration of the Non-Executive Directors based on the requirements of each individual role, whilst referring to publicly available Executive remuneration reports by third party consultants.

DIRECTORS' SERVICE CONTRACTS

For all directors, the terms of their service agreements include, inter alia, that the agreements can be terminated by written notice given by either party at any time, in line with their contractual notice periods.

Further details concerning Directors' emoluments are disclosed in note 5 to the Consolidated Financial Statements.

On behalf of the Remuneration Committee

Marcus Yeoman
Non-Executive Director

1 May 2019

The Directors submit their report and the Group financial statements of reach4entertainment enterprises plc for the year ended 31 December 2018.

GOING CONCERN

The financial statements have been prepared on a going concern basis. An explanation of this going concern assumption is set out on page 37 within the Accounting Policies section.

RESULTS AND DIVIDENDS

The loss after tax for the year was £0.2 million (2017: a loss of £1.9 million).

The Directors did not pay an interim dividend (2017: £Nil) and do not recommend the payment of a final dividend (2017: £Nil).

The Group manages its internal operational performance through the monitoring of several key performance indicators (see Strategic Report on page 12).

RISKS ASSOCIATED WITH THE GROUP

Risks – including financial risks – are described in the Strategic Report on page 13, due to their strategic importance, and as part of the Financial Instruments note on page 67.

DIRECTORS

The following Directors held office during the year:

Linzi Kristina Allen	
Marc Jason Boyan	
Lord Michael Ian Grade	
Claire Elizabeth Hungate	(resigned 23 January 2018)
Nicholas Richard Charles Geary Lycett	
Sir David Michels	(appointed 12 April 2018)
Arthur Thomas Ralph Wilson	(resigned 31 December 2018)
Marcus Yeoman	

DIRECTORS INTERESTS

The Directors in office at 31 December 2018 held the following number of shares during the year:

	1 January 2018*	31 December 2018
Marc Boyan**	113,333,336	126,666,669
Marcus Yeoman	1,200,943	1,200,943
Linzi Allen	130,000	130,000

*or date of appointment, if later
** Marc Boyan's shares are held by Miroma R4E Holdings Limited, a company of which Marc Boyan is a director and controlling shareholder.

SUBSTANTIAL SHAREHOLDINGS

Interests of 3% or greater in the share capital of the Company as at 1 May 2019 were as follows:

	Number of shares in which beneficially interested	Percentage of issued share capital
Mr Nigel Wray	253,959,503	19.90%
Herald Investment Management	184,006,824	14.42%
Marc Boyan*	135,000,002	10.58%
David Stoller/Stoller Family Partners LLP	50,000,000	3.92%

* Marc Boyan's shares are held by Miroma R4E Holdings Limited, a company of which Marc Boyan is a director and controlling shareholder.

CORPORATE GOVERNANCE

The Company has adopted the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Companies. Details concerning the Group arrangements relating to corporate governance and internal controls are given in the Corporate Governance report on pages 19 to 22.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

The Directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

DIRECTORS' INDEMNITY

Qualifying third party indemnity provisions (as defined in Section 234 (2) of the Companies Act 2006) are in force for the benefit of the directors.

INFORMATION CONTAINED IN THE STRATEGIC REPORT

The following information has been included in the Strategic Report (page 6) in accordance with s414C (11) of the Companies Act:

- Particulars of any important events affecting the company which have occurred since the end of the financial year
- An indication of likely future developments in the business of the company

AUDITOR

RSM UK Audit LLP has indicated its willingness to continue in office.

By order of the board

Linzi Allen
Group Finance Director

1 May 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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

Company law requires the directors to prepare group and company financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the company financial statements in accordance with Financial Reporting Standard 102 (United Kingdom Accounting Standards and applicable law).

The group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

In preparing each of the group and company financial statements, the directors are required to:

a. Select suitable accounting policies and then apply them consistently

b. Make judgements and accounting estimates that are reasonable and prudent

c. For the group financial statements, state whether they have been prepared in accordance with IFRS adopted by the EU and for the company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the company financial statements

d. Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the reach4entertainment enterprises plc. website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Opinion

We have audited the financial statements of reach4entertainment enterprises plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the consolidated income statement, the consolidated statement of total comprehensive income, the consolidated and company statements of changes in equity, the consolidated and company statements of financial position, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

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

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill and intangibles

Risk

The Group carries goodwill and other intangibles amounting to £8.7m in respect of past business acquisitions. As set out in note 8 the recoverability of the goodwill and other intangibles arising on these acquisitions is dependent on the cash generating units to which the intangible is allocated generating sufficient cash flows in the future.

We considered this to be a key audit matter because of the significant management judgement in forecasting the cash flows and selecting an appropriate discount rate there is a high level of estimation uncertainty which results in there being a significant risk associated with determining whether goodwill is impaired.

Our response

Our audit procedures included auditing the discounted cash flow model, testing and challenging the judgements and assumptions used by management in their assessment of whether goodwill had been impaired and performing sensitivity analysis on the cash flow model.

We have used our knowledge of comparable companies and market data to challenge the assumptions, in particular the revenue growth rate assumptions and the inputs and methodology in determining the discount rate used to calculate the present value of projected future cash flows.

We audited management's assessment of the recoverability of the Group's intangible assets.

We considered the historical accuracy of key assumptions by comparing the accuracy of the previous estimates of profitability and related cash flows to the actual amounts realised. We assessed management's sensitivity analysis of key assumptions, including the revenue growth forecasts and the discount rate and considered whether the disclosures about the sensitivity of the outcome of the impairment assessment to reasonably possible changes in key assumptions were adequate and properly reflected the risks inherent in the assessment of the carrying value of goodwill.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning materiality for the group financial statements as a whole was calculated as £186k, which was not significantly changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £121k, which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £10k, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Group and its control environment, including Group-wide controls, and assessing the risks of material misstatement. The financial statements were audited on a consolidated basis and an entity level using Group materiality. The scope of our audit covered 100% of both consolidated loss before tax and consolidated net assets.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

DAVID CLARK (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London EC4A 4AB

Date: 1 May 2019

reach4entertainment enterprises plc
CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2018

	Note	**2018** £'000	**2017** £'000
Continuing operations			
Revenue	1	77,733	80,211
Cost of sales	4	(58,242)	(60,066)
GROSS PROFIT		19,491	20,145
Administrative expenses	4	(19,387)	(22,539)
Adjusted EBITDA*		1,418	976
Share based payment charges		(484)	(234)
EBITDA before exceptional items and goodwill impairment		934	742
Exceptional administrative expenses	2	(230)	(962)
Impairment of goodwill	8	–	(1,533)
Depreciation	9	(426)	(452)
Amortisation of intangible assets	8	(174)	(189)
OPERATING PROFIT/(LOSS)		104	(2,394)
Finance income		14	–
Finance costs	3	(279)	(295)
LOSS BEFORE TAXATION		(161)	(2,689)
Taxation	6	1	824
LOSS FOR THE YEAR		(160)	(1,865)
The loss is attributable to:			
Non-controlling interests		(121)	–
Equity holders of the company		(39)	(1,865)
		(160)	(1,865)
Basic and diluted loss per share (pence)			
Basic loss per share	7	(0.02)	(0.30)
Diluted loss per share	7	(0.02)	(0.30)

* Adjusted EBITDA is before exceptional items, goodwill impairment and share based payment charges.

reach4entertainment enterprises plc
CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME
for the year ended 31 December 2018

	2018	**2017**
	£'000	£'000
LOSS FOR THE YEAR	(160)	(1,865)
Other comprehensive income:		
Items that will not be reclassified to profit and loss:		
Currency translation differences	(174)	(33)
Other comprehensive income for the year, net of tax	(174)	(33)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(334)	(1,898)
Total comprehensive loss for the year attributable to:		
Non-controlling interests	(121)	–
Equity holders of the parent	(213)	(1,898)
	(334)	(1,898)

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 6.

reach4entertainment enterprises plc

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Note	2018 £'000	2017 £'000
NON-CURRENT ASSETS			
Goodwill and intangible assets	8	8,737	8,635
Property, plant and equipment	9	1,956	2,230
Deferred tax asset	15	160	187
		10,853	11,052
CURRENT ASSETS			
Inventories	10	126	139
Trade and other receivables	11	16,057	10,981
Other current assets	12	582	549
Cash and cash equivalents		5,223	6,758
		21,988	18,427
TOTAL ASSETS		32,841	29,479
CURRENT LIABILITIES			
Trade and other payables	13	(18,007)	(15,773)
Borrowings	14	(3,575)	(2,446)
		(21,582)	(18,219)
NET CURRENT ASSET		406	208
NON-CURRENT LIABILITIES			
Deferred taxation	15	(861)	(785)
Other payables	16	(977)	(1,194)
Borrowings	14	–	(56)
		(1,838)	(2,035)
TOTAL LIABILITIES		(23,420)	(20,254)
NET ASSETS		9,421	9,225
EQUITY			
Called up share capital	17	5,028	5,005
Share premium	17	20,275	20,252
Deferred shares	20	1,498	1,498
Retained earnings		(18,248)	(18,154)
Own shares held	17	(259)	(259)
Other reserves	18	1,166	883
Attributable to equity holders of the parent		9,460	9,225
Non-controlling interests		(39)	–
TOTAL EQUITY		9,421	9,225

The financial statements on pages 32 to 73 were approved by the board of Directors and authorised for issue on 1 May 2019 and are signed on its behalf by:

Linzi Allen
Director

reach4entertainment enterprises plc

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Share capital £'000	Share premium £'000	Deferred shares £'000	Own Shares held £'000	Retained earnings £'000	Other reserves £'000	Attributable to equity holders of the parent £'000	Non-controlling interests £'000	Total equity £'000
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT									
At 31 December 2016	**3,074**	**16,645**	**1,498**	**(259)**	**(16,480)**	**873**	**5,351**	**–**	**5,351**
Loss for the year	–	–	–	–	(1,865)	–	(1,865)	–	(1,865)
Other comprehensive income, net of tax:									
Currency translation differences	–	–	–	–	–	(33)	(33)	–	(33)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(1,865)**	**(33)**	**(1,898)**	**–**	**(1,898)**
Transactions with owners in their capacity as owners:									
Shares issued	1,931	3,607	–	–	–	–	5,538	–	5,538
Share based payment charges	–	–	–	–	–	234	234	–	234
Share options exercised	–	–	–	–	191	(191)	–	–	–
Total transactions with owners in their capacity as owners:	**1,931**	**3,607**	**–**	**–**	**191**	**43**	**5,772**	**–**	5,562
At 31 December 2017	**5,005**	**20,252**	**1,498**	**(259)**	**(18,154)**	**883**	**9,225**	**–**	**9,225**
Loss for the year	–	–	–	–	(121)	–	(121)	(39)	(160)
Other comprehensive income, net of tax:									
Currency translation differences	–	–	–	–	–	(174)	(174)	–	(174)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(121)**	**(174)**	**(295)**	**(39)**	**(334)**
Transactions with owners in their capacity as owners:									
Shares issued, net of costs	23	23	–	–	–	–	46	–	46
Share based payment charges	–	–	–	–	–	484	484	–	484
Share options exercised/lapsed	–	–	–	–	27	(27)	–	–	–
Total transactions with owners in their capacity as owners:	**23**	**23**	**–**	**–**	**27**	**457**	**530**	**–**	**530**
At 31 December 2018	**5,028**	**20,275**	**1,498**	**(259)**	**(18,248)**	**1,166**	**9,460**	**(39)**	**9,421**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

	Note	**2018** £'000	**2017** £'000
Cash (used in)/generated from operating activities	21	(2,044)	1,797
Income taxes paid		(18)	(44)
Net cash (used in)/generated from operating activities		(2,062)	1,753
Investing activities			
Purchases of property, plant and equipment	9	(71)	(115)
Net cash used in investing activities		(71)	(115)
Financing activities			
Net proceeds from the issue of share capital		46	5,538
Finance income		14	–
Proceeds from asset based lending		79,492	83,722
Repayment of asset based lending		(78,484)	(85,114)
Repayment of term loan		–	(788)
Repayments of obligations under finance leases		(19)	(65)
Interest and fees paid on borrowings		(251)	(295)
Net cash generated from financing activities		798	2,998
Net (decrease)/increase in cash and cash equivalents		(1,335)	4,636
Cash and cash equivalents at the beginning of the year		6,758	2,097
Effect of foreign exchange rate changes		(200)	25
Cash and cash equivalents at the end of the year		5,223	6,758

RECONCILIATION OF NET DEBT

	2017 £'000	Cash flows £'000	Non-cash £'000	2018 £'000
Cash and cash equivalents	6,758	(1,335)	(200)	5,223
Borrowings	(2,502)	(940)	(133)	(3,575)
Net cash/(debt)	4,256	(2,275)	(333)	1,648

GENERAL INFORMATION

reach4entertainment enterprises plc (‘r4e’) is a public limited company incorporated and domiciled in England and Wales, with its registered office at Wellington House, 125 Strand, London, WC2R 0AP. The Company’s ordinary shares are traded on AIM of the London Stock Exchange.

BASIS OF PRESENTATION

The Group financial statements have been prepared under the historic cost convention on a going concern basis and in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

DEVELOPMENTS IN ACCOUNTING STANDARDS/IFRS:

- New and amended standards effective and adopted by the Group during the year beginning 1 January 2018:

  - IFRS 9 has been adopted from 1 January 2018 and has not resulted in the amendment of the measurement categories, or carrying amounts of, the Group’s financial statements. Trade and other receivables and payables are not held for trading or meet the definition of items that could be carried at fair value. Such instruments therefore remain at amortised cost.
  - IFRS 15 has been adopted from 1 January 2018. The adoption of this standard has not resulted in any changes to the way the Group accounts for revenue or costs of sales. No judgements or changes in judgements were made as a result of application of this standard.

- Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the group:

  - IFRS 16 ‘Leases’ establishes principles for the recognition, measurement, presentation and disclosure of leases – IFRS 16 is applicable for periods beginning on or after 1 January 2019. The Group expects the adoption of IFRS 16 to increase the Group’s total assets by approximately £10.7m and liabilities by £11.4m because of the requirement to capitalise both the right to use leased assets and the contractual payments to be made under lease obligations. The liability is calculated using an appropriate discount rate for the Group and the nature of its leased assets. The 2019 rental charge, previously recognised as a single administrative charge within the income statement, will be split into a depreciation charge relating to the capitalised asset (within administrative expenses) and a finance cost representing the unwinding of the discount. As a result, adjusted EBITDA, and EBITDA are expected to be increased during the term of the leases, but profit before tax will be lower in the earlier years, and higher in the later years.
  - Revisions to the Conceptual Framework for IFRS Standards Effective date: Periods commencing on or after 1 January 2020, with early application permitted. (EU-Endorsement expected 2019.)
  - Amendments to Business Combinations (IFRS 3), Joint Arrangements (IFRS 11), Income Taxes (IAS 12) and Borrowing Costs (IAS 23). Effective date: Periods beginning on or after 1 January 2019.

Certain other new accounting standards, amendments to existing accounting standards and interpretations which are in issue but not yet effective, either do not apply to the Group or are not expected to have any material impact on the Group’s net results or net assets.

The Directors anticipate that the adoption of these Standards and Interpretations as appropriate in future periods will have no material impact on the financial statements of the Group.

BASIS OF CONSOLIDATION

The Group consolidated financial statements incorporate the financial statements of r4e and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company, using consistent accounting policies.

BASIS OF CONSOLIDATION (continued)

The excess of cost of acquisition over the fair values of the Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the income statement.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The costs of an acquisition are measured as the total of the fair values of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at acquisition date, irrespective of the extent of any minority interest.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

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

GOING CONCERN

As at 31 December 2018 the Group had net assets of £9.4 million (2017: net assets £9.2 million) and made an operating profit in the year then ended of £0.1 million (2017: loss of £2.4 million inclusive of a £1.5 million impairment loss). Subsequent to year end, in March 2018, the Group also conducted a successful equity placing raising funds of £3 million (before costs).

At the end of 2015 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. The term loan was paid off in full by year end 2017. As at 31 December 2018 the total debt owed to PNC – now relating solely to the asset based lending facility – was £3.5 million (2017: £2.4 million).

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 set of financial covenants in place with PNC in relation to this debt and are measured monthly. There was no breach of covenants during the year, and non-are forecast to be breached in 2019. The Group's budget for 2019 is cash positive, before any possible investments. The Group has considered its cash position for twelve months after the date of release of this report, and considers it should meet all covenants and cash requirements.

The initial 3-year term of the facility expired in December 2018, and the facility has automatically continued in place and will do so indefinitely unless either party gives at least six months' notice. The directors believe that the relationship with PNC is good, that they remain supportive of the Company.

Given the significant reduction in the debt levels of the group since the re-financing in 2015, plus the improvement to the balance sheet position including the £3 million (gross) fund raise subsequent to year end, the Directors believe that the going concern basis is appropriate and the Group has adequate resources to continuing trading for the foreseeable future.

GOODWILL

Goodwill is reviewed for impairment at least annually and any impairment will be recognised in the income statement and is not subsequently reversed. As such it is stated at cost less provision for impairment in value. The indefinite-life nature of goodwill is considered appropriate given the longevity of agencies in the theatre world – for example Dewynters has been in existence for about a century now. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

OTHER INTANGIBLE ASSETS

Customer relationships and customer contracts acquired through business combinations are included at fair value less accumulated amortisation and impairment losses. Amortisation is charged to the income statement in proportion to the benefits derived from the relevant asset over a period of between 5 and 20 years using a reducing balance calculation.

Brand intangibles have been recognised at fair value. The Dewynters brand is deemed to have an indefinite life, due to its dominance in the marketplace in which it operates and that there is no foreseeable limit on the period over which the asset is expected to generate cash inflows. It is not amortised, but is subject to annual impairment reviews. The brand value applied to SpotCo is being amortised over 15 years using a straight-line method.

JOINT ARRANGEMENTS

A joint arrangement (ie either a joint operation or a joint venture, depending on the rights and obligations of the jointly controlling parties to the arrangement), is one in which the Group is party to an arrangement of which two or more parties have joint control, which is the contractually agreed sharing of control of the arrangement; it exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

In a joint venture, the parties with joint control have rights to the net assets of the arrangement. The Group's interests in joint ventures are recognised using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost less accumulated depreciation.

Depreciation is provided on all property, plant and equipment at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows:

Short leasehold improvements	over period of the lease
Plant and machinery	25% straight line
Fixtures and fittings	20% straight line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Administrative expenses' in the income statement.

IMPAIRMENT OF ASSETS (INTANGIBLE AND PROPERTY, PLANT AND EQUIPMENT)

Goodwill is not subject to amortisation but is tested annually or whenever there is an indication that the asset may be impaired. For the purpose of impairment testing, assets are grouped at the lowest levels for which they have separately identifiable cash flows, known as cash generating units (CGUs). If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses recognised for goodwill are not reversed in a subsequent period.

IMPAIRMENT OF ASSETS (INTANGIBLE AND PROPERTY, PLANT AND EQUIPMENT) (continued)

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

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement. Where an impairment loss subsequently reverses the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

INVENTORIES

Inventories are valued at the lower of cost and net realisable value, with cost determined on a first in first out basis. Provision is made where necessary for obsolete, slow-moving and damaged inventories.

DEFERRED CONSIDERATION

Deferred consideration liability is recognised at present value. The difference between the present value and the total amount payable at a future date gives rise to a finance charge which will be charged to the income statement and credited to the liability over the period of the deferral.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

The classification of financial assets and financial liabilities depends upon the nature and purpose of the instruments and is determined at the time of initial recognition.

Interest Bearing Loans and Borrowings
All interest-bearing loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

FINANCIAL INSTRUMENTS (CONTINUED)

Trade and Other Receivables
Trade receivables are classified as loans and receivables and are initially recognised at fair value. The group is of a size and nature that its trade receivables can be reviewed individually and expected credit losses (ECLs) impaired as required. The Group considers a trade receivable to be credit impaired when one or more detrimental events have occurred, such as significant financial difficulty of the client or it is becoming probable that the client will enter bankruptcy or other financial reorganization. When a trade receivable is credit impaired, it is written off against trade receivables and the amount of the loss is recognised in the income statement. Subsequent recoveries of amounts previously written off are credited to the income statement.

The Group also applies IFRS 9 simplified approach to measuring expected credit losses (ECLs) for trade receivables at an amount equal to lifetime ECLs. The ECLs on trade receivables are calculated based on actual historic credit loss experience over the preceding four years plus the year of measurement, on the total balance of non-credit impaired trade receivables. A general ECL impairment is only recognised if review of historical data and consideration of current credit exposures required an impairment above those specifically identified.

Trade and Other Payables
Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method. Trade and other payables are classified as 'financial liabilities'.

Cash and Cash Equivalents
Cash and cash equivalents include cash in hand and deposits held at call with banks. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Deferred Financing Costs
Bank arrangement fees and associated legal costs are amortised over the term of the debt facility.

LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments as determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the management team including the Chief Executive Officer.

The chief operating decision-maker considers the business from both a geographic and operational perspective. Geographically, management considers the performance in the UK, the US and Europe. They are managed separately because each segment operates within a particular economic environment and is subject to risks and returns that are different from those of components operating in other economic environments. From an operational perspective, management separately considers external service activities versus internal supporting administration.

SEGMENTAL REPORTING (continued)

During the year under review the Group has 4 reportable segments: New York operations, London operations, European operations, and Head Office.

RETIREMENT BENEFITS

The amount charged to the income statement in respect of pension costs is equal to the contributions payable to money purchase schemes in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

REVENUE RECOGNITION

Revenue for media comprises commission and fees earned during the year in respect of amounts billed, whether for marketing or advertising services or for the sale of physical merchandise. Direct costs include fees paid to external suppliers where they are retained to perform part or all of a specific project for a client and the resulting expenditure is directly attributable to the revenue earned. The Group recognises that it acts as principal not agent due to its control of services before transfer to the client and therefore revenue is recognised at gross amount billed.

Revenue and profit for events is recognised when the event takes place. Where revenue is conditional on the occurrence of future events, that revenue is not recognised until that event occurs.

Revenue is net of VAT and other sales-related taxes.

FOREIGN CURRENCY TRANSLATION

a) Functional and Presentation Currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'sterling' ('£'), which is the company's functional and presentation currency.

b) Transactions and Balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in finance income /costs in the income statement.

c) Group Companies
The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity.

OPERATING PROFIT

Operating profit is defined as profit after all costs except finance income, finance costs and taxation.

EBITDA

Earnings before interest, tax, depreciation and amortisation (EBITDA), is defined as profits from operations before all depreciation and amortisation charges, finance income, finance costs, and taxation.

ADJUSTED EBITDA

Earnings before interest, tax, depreciation and amortisation, exceptional items and share based payment charges.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

EXCEPTIONAL ITEMS

Exceptional items represent income or expenses, which based on their materiality, frequency or non-operating nature, have been separately disclosed to facilitate the assessment of the Group's underlying operating profitability.

EMPLOYEE BENEFIT TRUST

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the Group accounts. Any assets held by the EBT cease to be recognised on the balance sheet when the assets vest unconditionally to identified beneficiaries. The costs of purchasing own shares held by the EBT are shown as a deduction against equity. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the income statement.

SHARE BASED PAYMENTS

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured using a Black-Scholes valuation model for vanilla options and a binomial model for more complex options. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of the Group's accounting policies, described above, with respect to the carrying amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting year. These judgements, estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, including current and expected economic conditions.

Although these judgements, estimates and associated assumptions are based on management's best knowledge of current events and circumstances, the actual results may differ. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

The judgements, estimates and assumptions which are of most significance to the Group are as follows:

Going Concern
As noted in the going concern section above, judgements, estimates and assumptions used in cash flow forecasts are of key significance to determining the going concern status of the Group. Management regularly reviews them for significant changes in circumstances.

Estimated Impairment of Goodwill
The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations required the use of estimates (note 8).

Valuation of Intangible Assets
Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses. For impairment purposes to determine the fair value of acquisition-related intangible assets, in the absence of market prices for similar assets, valuation techniques are applied. These techniques use a variety of estimates including projected future results and expected future cash flows discounted using the weighted average cost of capital (note 8).

Recoverability of Trade and Other Receivables
The Group assesses regularly the recoverability of trade debtors not yet received, to ensure these are likely to be met in full. At 31 December 2018 the sensitivity of estimates made regarding recoverability was £0.6 million.

CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital – the combination of equity and debt funding – are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to adjust the capital structure, the Group may issue new shares or sell assets to reduce debt.

As part of the Capital Risk Management process the Group acknowledges the need to monitor, and meet in full, covenants held over the revolving asset based facility with PNC. More details on the bank debt are in the Group Strategic Report on page 9 and in Borrowings note 14. The covenants were met for the key full-year measure, and until the date of the release of these accounts.

1. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments
For management purposes, the Group is currently organised into four operating segments – New York operations, London operations, European operations and Head Office. These divisions are the basis on which the Group reports its segment information to the chief operating decision maker.

Principal continuing activities are as follows:

New York (NY) – data-driven marketing, design, advertising, promotions, digital media services, and publishing.

London – data-driven marketing, design, advertising, promotions, digital media services, publishing, signage and fascia displays.

Europe (Hamburg in prior year but inclusive of Holland in 2018) – data-driven marketing strategy and planning, media planning, design, event production, PR, CRM and data consulting.

Head Office – corporate strategy, finance and administration services for the Group.

Segment information for continuing operations of the Group for the year ended 31 December 2018 is presented below:

	NY operations £'000	London operations £'000	European operations £'000	Head Office £'000	Group £'000
Provision of services	43,960	31,256	1,389	–	76,605
Sale of goods	–	1,128	–	–	1,128
Revenue (all external customers)	43,960	32,384	1,389	–	77,733
Adjusted EBITDA	578	2,375	(727)	(808)	1,418
Share based payment charges	(53)	(45)	–	(386)	(484)
EBITDA before exceptional items	525	2,330	(727)	(1,194)	934
Exceptional administrative	(86)	(134)	–	(10)	(230)
Depreciation	(221)	(194)	(7)	(4)	(426)
Amortisation	(113)	(61)	–	–	(174)
Operating profit/(loss)	105	1,941	(734)	(1,208)	104
Finance income	–	–	–	14	14
Finance costs	(190)	(85)	–	(4)	(279)
(Loss)/profit before tax	(85)	1,856	(734)	(1,198)	(161)
Tax credit/(charge)	104	(1,893)	–	1,790	1
Profit/(loss) after tax	19	(37)	(734)	592	(160)

Management fees charged at an arm's-length basis between reportable segments are reflected in the figures above on the basis that this is a true reflection of the operating costs of each segment.

1. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

	NY operations £'000	London operations £'000	European operations £'000	Head Office £'000	Group £'000
Capital additions:					
Property, plant and equipment	8	55	4	4	71
Balance sheet:					
Segment assets					
Non-current assets	5,946	4,847	18	42	10,853
Current assets	9,382	9,019	476	3,111	21,988
Total segment assets	15,328	13,866	494	3,153	32,841
Liabilities:					
Total segment liabilities	(13,872)	(8,184)	(152)	(1,212)	(23,420)

Segment information for continuing operations of the Group for the year ended 31 December 2017 is presented below.

	NY operations £'000	London operations £'000	European operations £'000	Head Office £'000	Group £'000
Sale of services	48,508	30,317	1,386	–	80,211
Adjusted EBITDA	446	1,012	(52)	(430)	976
Shared based payment credit/(charges)	40	(83)	(40)	(151)	(234)
EBITDA before exceptional items and goodwill impairment	486	929	(92)	(581)	742
Exceptional administrative	(78)	(157)	–	(727)	(962)
Impairment of goodwill	(1,533)	–	–	–	(1,533)
Depreciation	(245)	(199)	(5)	(3)	(452)
Amortisation	(128)	(61)	–	–	(189)
Operating profit/(loss)	(1,498)	512	(97)	(1,311)	(2,394)
Finance costs	(212)	(42)	(2)	(39)	(295)
Profit/(loss) before tax	(1,710)	470	(99)	(1,350)	(2,689)
Tax (charge)/credit	912	(31)	–	(57)	824
Profit/(loss) after tax	(798)	439	(99)	(1,407)	(1,865)

Management fees charged at an arm's-length basis between reportable segments are reflected in the figures above on the basis that this is a true reflection of the operating costs of each segment.

1. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

	NY operations £'000	London operations £'000	European operations £'000	Head Office operations £'000	Group £'000
Capital additions:					
Property, plant and equipment	–	90	25	–	115
Balance sheet:					
Segment assets					
Non-current assets	5,914	5,096	21	21	11,052
Current assets	5,106	7,028	649	5,644	18,427
Total segment assets	11,020	12,124	670	5,665	29,479
Liabilities:					
Total segment liabilities	(9,921)	(7,822)	(868)	(1,643)	(20,254)

Segment assets for 2017 comparatives have been adjusted to reflect the allocation of goodwill and intangibles to the related segments.

2. EXCEPTIONAL ADMINISTRATIVE ITEMS

	2018 £'000	2017 £'000
Employee contract termination-related costs	230	814
Costs relating to reorganisation of the Board	–	104
Costs expensed to Income Statement re share issues	–	44
Exceptional administrative expenses	230	962

Employee Contract Termination-Related Costs

The employee contract termination-related costs of £0.23 million (2017: £0.81 million) relate to employees of Dewynters, SpotCo, and Head Office, and are considered exceptional due to the level of redundancy, PILON, and compensation for loss of office required as a result of company performance.

Costs Relating to Reorganisation of Board (2017 only)

In order to ensure governance compliance when reorganising the Board, exceptional legal and other costs were incurred in 2017.

Costs Expensed to Income Statement Re Share Issues (2017 only)

Other costs of £0.15m directly associated with the equity placing of December 2017, raising £5.5 million (gross proceeds), were charged against the share premium account, making a total of £0.2m of costs re share issues.

3. FINANCE COSTS

	2018 £'000	2017 £'000
Finance lease interest	19	20
Interest on PNC debt	160	170
Fees on PNC debt	86	108
Amortisation of PNC debt issue costs	5	–
Foreign exchange loss/(gain) on finance items	9	(3)
	279	295

4. EXPENSES BY NATURE AND AUDITOR'S REMUNERATION

	2018 £'000	2017 £'000
Media, marketing and promotional services	57,417	60,066
Staff costs (note 5)	14,186	14,646
Share based payment costs (note 19)	484	234
Depreciation, amortisation and impairment	600	2,174
Exceptional administrative items (note 2)	230	962
General office expenses	1,734	1,596
Operating lease payments:		
Land and buildings	1,339	1,460
Plant and machinery	135	62
Professional costs	982	636
Travelling	389	498
Other	133	271
Total cost of sales and administrative expenses	77,629	82,605

During the year the Group obtained the following services from the Company's auditor and its associates:

	2018 £'000	2017 £'000
Audit fees		
– statutory audit of the parent and consolidated accounts	39	63
Fees payable to the company's auditor and its associates for other services:		
– the audit of the company's subsidiaries, pursuant to legislation	69	55
– audit related services	10	15
	118	133

5. EMPLOYEES AND DIRECTORS

The average monthly number of employees (including executive directors) was:

	2018 Number	2017 Number
Services and promotion	165	177
Professional and administrative	42	45
	207	222

Staff costs for above persons, included in administrative expenses:

	2018 £'000	2017 £'000
Wages and salaries	11,765	12,122
Social security costs and other benefits	1,855	1,971
Other pension costs (defined contribution)	566	553
Share based payment charges	484	234
	14,670	14,880

Staff costs for above persons, included in cost of sales:

	2018 £'000	2017 £'000
Wages and salaries	705	672
Social security costs	75	70
Other pension costs (defined contribution)	46	45
	826	787

Directors' Remuneration

The remuneration of Directors is set out on page 23 within the Annual Report on Remuneration.

The number of directors for whom benefits were accruing under defined contribution pension schemes was Nil (2017: Nil).

The key management personnel within the Group are the directors as noted above and in the Directors' Report, and certain other senior executive staff.

The number of key management personnel at 31 December was:

	2018 Number	2017 Number
Executive directors	2	2
Non-executive directors	4	4
Other senior executive staff	6	4
	12	10

See table in the Annual Report of Remuneration for details of total remuneration per individual Director.

5. EMPLOYEES AND DIRECTORS (continued)

Remuneration of above key management personnel in 2018 was:

	Salary £'000	Bonus £'000	Social Security £'000	Taxable Benefits £'000	Severance Payments £'000	Total £'000
Directors	526	10	84	2	–	622
Other senior executive staff	603	61	66	12	24	766

The above other senior executive staff received no gains on share options during the year.

Remuneration of above key management personnel in 2017 was:

	Salary £'000	Bonus £'000	Social Security £'000	Taxable Benefits £'000	Severance Payments £'000	Total £'000
Directors	466	–	40	12	513	1,031
Other senior executive staff	738	48	36	–	–	822

The above other senior executive staff received no gains on share options during the year.

6. TAXATION

	2018 £'000	2017 £'000
Current tax:		
UK corporation tax	13	–
Adjustments in respect of prior periods	96	–
Overseas tax credit on losses of the year	(104)	(22)
Total current tax charge/(credit)	5	(22)
Deferred tax:		
Origination and reversal of timing differences	18	(234)
Adjustments in respect of prior periods	(24)	–
Deferred tax rate change	–	(568)
Total deferred tax credit (note 15)	(6)	(802)
Tax credit on loss of ordinary activities	(1)	(824)

6. TAXATION (continued)

Factors affecting the tax charge for the year:

	2018 £'000	2017 £'000
The tax assessed for the year differs from the effective average rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are explained below:		
Loss on ordinary activities before tax	(161)	(2,689)
Loss on ordinary activities multiplied by effective average rate of corporation tax in the UK of 19.00% (2017: 19.25%)	(31)	(518)
Effects of:		
Fixed asset differences	14	20
Expenses not deductible for tax purposes	54	393
Other tax adjustments, reliefs and transfers	(111)	(135)
Adjustment in respect of prior periods	96	–
Adjustment in respect of prior periods (deferred tax)	(24)	–
Timing differences not recognised in the computation	20	128
Impact of changes in foreign tax rates for deferred tax	(7)	(568)
FX difference on opening gross timing differences	–	32
Deferred tax not previously recognised	(12)	(176)
Total tax credit for the year	(1)	(824)

A deferred tax asset of approximately £1.04 million (2017: £1.05 million) has not been recognised due to uncertainty over future profitability. At 31 December 2018, the Group had trade losses carried forward of £2.9 million (2017: £3.0 million), available for offset against future profits in the UK, as well as non-trade loan relationship deficit of £3.2 million (2017: £3.2 million) and capital losses of £4.7 million (2017: £4.7 million).

Taxation is calculated at the rates prevailing in the respective jurisdictions. The standard tax rates in each jurisdiction are 21% in the United States (2017: 21%) and 19% in the United Kingdom (2017: 19%).

7. EARNINGS PER SHARE

The calculations of earnings per share are based on the following profits and number of shares:

	2018	2017
Profit attributable to equity holders of the company	£'000	£'000
For basic and diluted profit per share		
Loss for financial year	(160)	(1,865)
Number of shares	Number	Number
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share*	1,004,709,678	627,060,836
Potentially dilutive effect of share options	181,178,710	97,573,736

7. EARNINGS PER SHARE (continued)

Loss per share	2018 pence	2017 pence
Basic loss per share	(0.02)	(0.30)
Diluted loss per share	(0.02)	(0.30)

* The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purposes of calculating the diluted loss per share are the same as those used for basic loss per ordinary share. This is because the exercise of share options and other benefits would have the effect of reducing loss per share and is therefore not dilutive under the terms of IAS 33, Earnings Per Share.

8. GOODWILL AND INTANGIBLE ASSETS

	Brands £'000	Customer relationships £'000	Purchased goodwill £'000	Total £'000
Cost				
1 January 2017	4,670	2,607	14,996	22,273
Foreign exchange differences	(213)	–	(531)	(744)
31 December 2017	4,457	2,607	14,465	21,529
Foreign exchange differences	140	–	347	487
31 December 2018	4,597	2,607	14,812	22,016
Amortisation and impairment				
1 January 2017	1,704	1,992	7,631	11,327
Charged in the year	128	61	–	189
Impairment charge	–	–	1,533	1,533
Foreign exchange differences	(155)	–	–	(155)
31 December 2017	1,677	2,053	9,164	12,894
Charged in the year	113	61	–	174
Foreign exchange differences	114	–	97	211
31 December 2018	1,904	2,114	9,261	13,279
Net book value				
31 December 2018	2,693	493	5,551	8,737
31 December 2017	2,780	554	5,301	8,635
31 December 2016	2,966	615	7,365	10,946

Goodwill relates to the anticipated profitability and future operating synergies arising on the acquisition of subsidiaries.

Brands relate to the expected future benefit associated with the subsidiaries' well-known names in the market, as arising on acquisition.

Customer relationships represent the probable value over time of clients obtained by way of acquisition.

All amortisation and impairment charges have been recognised as administrative expenses in the income statement.

8. GOODWILL AND INTANGIBLE ASSETS (continued)

Impairment Tests for Goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the operations as grouped upon acquisition. An operating level summary of the goodwill allocation is presented below:

	2018 £'000	2017 £'000
Dewynters Group (Dewynters, Newmans)	1,351	1,351
SpotCo	4,200	3,950
Total goodwill	5,551	5,301

An impairment of £1.53 million in the prior year was related to the carrying value of SpotCo's goodwill. After a disappointing year in 2017 and with recovery looking like it may take longer than previously anticipated, management reviewed and cautiously revised the key assumptions for the value-in-use calculations of SpotCo, in particular pulling back from revenue growth rate for 2019 onwards from 1.5% to 1.0%, which – on the back of the softened outlook for 2018 – resulted in the impairment. Management have continued to monitor the trading outlook and, although recovery looks to be strong in 2019, key revenue growth assumptions have been maintained at a prudent 1.0% as historically SpotCo's performance has been cyclical and a lower growth rate assumption will highlight any upcoming risk should performance start to decline.

The recoverable amount of CGUs has been determined based on value-in-use calculations which cover a period of 5 years plus a terminal value. These calculations use pre-tax cash flow projections based on financial budgets for the year ended 31 December 2019 as approved by management and cash flows beyond the one-year period are extrapolated using straight line growth rates stated below. Prudent assumptions have been used in the value-in-use calculations in the tables detailed below and on the next page.

Management have determined budgeted gross margin, revenue growth and costs based on past performance and expectations of the market development for each CGU. The discount rates are pre-tax and reflect management's assessment of the risks relating to each CGU. In line with the conservative approach adopted in valuing the CGUs, the discount rate applied in the value-in-use calculations has been adjusted to reflect long term rates.

Initial growth rates in year 1 are taken from the CGU's 2019 operational forecasts, and so in some cases can show a difference to the straight-line growth rates applied to subsequent years. Growth after year 1 has been determined on the basis of a combination of general industry market growth – occasionally flexed if necessary for specific CGU circumstances – and so the rate generally remains consistent. The growth rates used are considered by management to be in line with general trends in which each CGU operates and deemed by management to be a reasonable expectation for the CGU.

The table for Dewynters Group, below, also reflects the level of movements required in revenue or costs which could result in a potential impairment per the value in use calculation. A further percentage (fall)/increase, of the magnitude indicated in the table below, in any one of the key assumptions as set out, would result in a removal of the headroom in the value-in-use calculations in 2018.

The key assumptions used in 2018, for the value-in-use calculations and the change required to remove the headroom – along with whether the Board considers that to be a reasonable change – are as follows:

8. GOODWILL AND INTANGIBLE ASSETS (continued)

Dewynters Group	Value-in-use assumption	Headroom removal*	Reasonable change?
Revenue growth – year 1	7.47%	(15.5%)	No
Revenue growth per annum – years 2-5	1.5%	(6.1%)	No
Employee costs growth – year 1	9.1%	28.7%	No
Overhead costs growth – year 1	11.6%	72.4%	No
Discount rate	15.5%	264.9%	No
Capitalisation rate	15.5%	(334.7%)	No
EBITDA reduction – year 1	(12.3%)	(497.0%)	No

* The percentage by which the assumption needs to increase/(decline) to cause risk of impairment

As well as reflecting the key assumptions for the value-in-use calculations, the table for SpotCo, below, also shows the potential level of adverse change in revenue or costs that the Board considers to be possible in the future, along with the impairment that would arise were that change to occur:

SpotCo	Value-in-use assumption	Headroom removal	Reasonable change?
Revenue growth – year 1	13.08%	(4.8%)	Yes
Revenue growth per annum – years 2-5	1.0%	(1.75%)	Yes
Employee costs growth – year 1	(10.5%)	7.0%	No
Overhead costs reduction – year 1	5.7%	27.5%	No
Discount rate	15.5%	79.5%	No
Capitalisation rate	15.5%	(229.7%)	No
EBITDA growth – year 1	80.2%	(281.0%)	No

Brands and customer relationships all arise on acquisition; there are no internally-generated intangible assets. The brand allocated to the Dewynters CGU totalling £2.3 million (2017: £2.3 million) is determined to have an indefinite life. It is subject to an annual impairment review using the same assumptions as for goodwill. The brand value allocated to SpotCo CGU totalling £0.4 million (2017: £0.5 million) is being amortised over 15 years and has 6 years remaining.

Intangible customer relationships are attributable to Dewynters only. The useful economic life for customer relationships within Dewynters is 20 years of which 9 are remaining as at 31 December 2018. It has a carrying value of £0.5 million (2017: £0.6 million). Where there are any indications of impairment within these businesses the Group carries out impairment reviews on brands and customer relationships using the same assumptions as for goodwill.

9. PROPERTY, PLANT AND EQUIPMENT

	Short leasehold improvements £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost				
1 January 2017	2,282	623	532	3,437
Additions	–	108	7	115
Foreign exchange differences	(182)	(86)	(36)	(304)
31 December 2017	2,100	645	503	3,248
Additions	5	54	12	71
Foreign exchange differences	119	57	23	199
31 December 2018	2,224	756	538	3,518
Depreciation				
1 January 2017	183	361	173	717
Charge for the year	213	118	121	452
Foreign exchange differences	(47)	(73)	(31)	(151)
31 December 2017	349	406	263	1,018
Charge for the year	214	111	101	426
Foreign exchange differences	49	54	15	118
31 December 2018	612	571	379	1,562
Net book value				
31 December 2018	1,612	185	159	1,956
31 December 2017	1,751	239	240	2,230
31 December 2016	2,099	262	359	2,720

The net carrying amount of property, plant and equipment includes £0.01 million of computer equipment (2017: £0.03 million) and £0.07 million of plant and machinery (2017: £0.11 million) held under finance lease. The leased equipment secures lease obligations.

All depreciation charges, included in the note above, have been recognised in administrative expenses in the Consolidated Income Statement.

Under the terms of the Group's borrowing arrangements, the loan disclosed in note 14 is secured on the assets of the Group including all property, plant and equipment.

10. INVENTORIES

	2018 £'000	2017 £'000
Finished goods	126	139

The cost of inventories recognised as an expense and the amount included in cost of sales was £0.16 million (2017: £0.11 million).

11. TRADE AND OTHER RECEIVABLES

	2018 £'000	2017 £'000
Current trade and other receivables:		
Trade receivables	14,087	9,979
Impairment losses	(63)	(18)
Net trade receivables	14,024	9,961
Other receivables	409	303
Corporation tax	–	63
Prepayments	711	469
Accrued income	913	185
	16,057	10,981

Trade receivables are generally non-interest bearing. The average credit period taken on sales is 44 days (2017: 45 days). Trade receivables are provided against based on estimated irrecoverable amounts, determined by reference to past default experience.

The asset based lending facility with PNC is secured over the trade receivables of the company (see note 14 for details).

The Group has an impairment against specifically identified expected credit losses (ECLs) at year end of £0.06 million (2017 £0.02 million). In line with the Group's historical experience, and after consideration of current credit exposures, the Group does not expect to incur any ECL's above those specifically identified and so has not recognised any non-specific ECLs in the current year (2017: nil).

Movement in the allowance account for ECL's:

	2018 £'000	2017 £'000
Opening balance	18	21
Amounts provided for as impaired through the income statement	90	121
Provision for impairment written off in the year	(30)	(124)
Amounts recovered in the year	(15)	–
	63	18

Included in the Group's trade receivable balance are debtors with a carrying amount of £3.23 million (2017: £4.51 million) which are aged at more than 60 days but not provided against as management are confident of payment in full. Ageing of past due-but-not-impaired receivables:

	2018 £'000	2017 £'000
Less than 60 days	3,621	2,099
Between 60-90 days	1,353	1,322
More than 90 days	1,874	1,087
	6,848	4,508

Trade and other receivables are held in Pound Sterling, US Dollars and Euro.

12. OTHER CURRENT ASSETS

Other current assets:		
Bank deposit	582	549

The bank deposit of £0.59 million (2017 £0.55 million) is used as security for a letter of credit guaranteeing lease payments in relation to the SpotCo office lease in New York. This letter of credit has a 12-month term but is expected to be renewed on expiry. The balance will reduce from \$0.74 million to \$0.49 million on the 5th anniversary of the lease commencement date (February 2019), and then to \$0.33 million on the 9th anniversary.

13. TRADE AND OTHER PAYABLES

	2018 £'000	2017 £'000
Current:		
Trade payables	8,661	10,337
Other taxation and social security	1,256	914
Corporation tax	40	–
Other payables	1,047	1,114
Accruals and deferred income	7,003	3,408
	18,007	15,773

Trade and other payables principally comprise amounts outstanding for trade purchases and on-going costs. The average credit period taken for trade purchases is 36 days (2017: 63 days) skewed in 2018 by the high level of accruals. For most suppliers no interest is charged but for overdue balances interest may be charged at various interest rates.

Trade and other payables are held in Pounds Sterling, US Dollars and Euros.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

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

14. BORROWINGS

	2018 £'000	2017 £'000
Current:		
Asset based lending facility	3,518	2,372
Finance leases	57	74
	3,575	2,446
Non-current:		
Finance leases	–	56
	–	56

14. BORROWINGS (continued)

	2018 £'000	2017 £'000
Analysis of borrowings:		
On demand or within one year		
Asset based lending facility	3,518	2,372
Finance leases	57	74
	3,575	2,446
In the second to fifth years inclusive		
Finance leases	–	56
	–	56
Amounts due for settlement	3,582	2,502
Less amounts due within one year	(3,582)	(2,446)
Amounts due for settlement after one year	–	56

Analysis of borrowings by currency:

	Sterling £'000	US Dollar £'000	Total £'000
31 December 2018			
Asset based lending facility	304	3,214	3,518
Finance leases	57	–	57
	361	3,214	3,575

	Sterling £'000	US Dollar £'000	Total £'000
31 December 2017			
Asset based lending facility	190	2,182	2,372
Finance leases	130	–	130
	320	2,182	2,502

Asset based lending facility – summary:

	31 December 2018 £'000	31 December 2017 £'000
Drawn down	3,518	2,372
Available for drawdown but undrawn	2,196	1,264
Not available for draw down	3,190	4,864
	8,904	8,500

14. BORROWINGS (continued)

Asset Based Lending

SpotCo, Dewynters and Newmans all 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 than they would otherwise be, since cash drawdown incurs a higher rate of interest and 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 in Sterling, or for amounts in Euro or US Dollars 2.25% over the rate published by the central bank or relevant monetary authority. Borrowing facility amounts not utilised incur interest payable at a fixed 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 Company did not breach any covenants in 2018. As announced in October 2017 the Company breached its quarterly monitoring covenant in the third quarter of 2017. The breach was due to the covenant being determined on a 3-month rolling basis which is therefore sensitive to seasonality fluctuations in EBITDA. As announced in March 2018, the Company received formal agreement from PNC to waive its rights in connection with the breach. As announced in February 2018, the Company stayed within its key overall full-year monitoring covenant for 2017.

The initial 3-year term of the facility expired on 3rd December 2018, and the facility continues indefinitely on a rolling basis unless either party gives at least six months' notice. In March 2019, as part of the approval process for the acquisition of Agency Press Limited (Trading as 'Sold Out') and the Buzz 16 Productions Limited joint venture, the Company agreed to an amendment of the facility which included an increase on the borrowing rates of 0.5%. We believe that the relationship with PNC is good, that they remain supportive of the Company, and that they appear likely to want to continue the arrangement after the end of the initial term. The Directors are confident the Group remains a going concern – see page 38 for further details.

15. DEFERRED TAXATION

The movement in the year of the Group's deferred tax liability was as follows:

	2018 £'000	2017 £'000
At start of year	(598)	(1,566)
Foreign exchange differences	(109)	166
Transfer to income statement	6	802
At year end	(701)	(598)

15. DEFERRED TAXATION (continued)

The net deferred taxation liability disclosed above relates primarily to intangible assets as follows:

	2018 £'000	2017 £'000
Deferred tax assets:		
Accumulated depreciation in excess of capital allowances	131	121
Other temporary differences	29	66
Total deferred tax assets	160	187
Deferred tax liabilities:		
Intangible assets	(861)	(785)
Net deferred taxation provision	(701)	(598)

The UK Government has indicated that it intends to reduce the main rate of Corporation tax to 17% from 19% from 1 April 2020. This change in rate has been substantively enacted at the balance sheet date hence the UK deferred tax liability is recognised at 17%.

16. OTHER NON-CURRENT PAYABLES

Landlord Reimbursement Accrual

Amounts in non-current other payables of £0.52 million (2017: £0.56 million) relate to the re-imbursement of leasehold improvement costs from SpotCo's landlord at the New York office. As with many US leases SpotCo, as tenant, had to undertake a programme of refurbishment of the property. Some of the expenses, related to the provision of basic utilities and services, were then refunded by the landlord. £0.84 million ($1.25 million) was received in cash from the Landlord in 2013. In line with SIC Interpretation 15 this reimbursement has been recognised as a liability and is being unwound to the income statement over the period of the lease, reducing rental costs. £0.07 million was unwound during the year (2017: £0.06 million). Amounts in current liabilities relating to the reimbursement total £0.07 million (2017: £0.06 million).

	2018 £'000	2017 £'000
Within one year	71	60
Between two and five years	272	296
More than five years	248	260
	520	556

16. OTHER NON-CURRENT PAYABLES (continued)

Rent Holiday Accrual

Other amounts in non-current other payables of £0.46 million (31 December 2017: £0.46 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. In line with SIC Interpretation 15 the accrual will be released to the income statement over the term of the lease thus reducing rent costs.

	2018 £'000	2017 £'000
Within one year	127	133
Between two and five years	450	393
More than five years	7	69
	457	462

Separation Payments

Other amounts in non-current other payables in the prior year of £0.18 million relate to remaining payments owed to David Stoller in relation to pay in lieu of notice and compensation for loss of office, and related payroll tax obligations. The remaining payment of £0.16 million will be made in 2018.

	2018 £'000	2017 £'000
Within one year	164	352
Between two and five years	–	176
Summary		
Total non-current payables	977	1,194

17. SHARE CAPITAL

	2018	2017
Authorised, allotted, issued and fully paid:	£'000	£'000
1,005,597,052 ordinary shares at 0.5 pence each (2017: 1,001,079,415 ordinary shares of 0.5 pence each)	5,028	5,005

17. SHARE CAPITAL (continued)

Authorised, allotted, issued and fully paid:		Number of shares No.	Nominal Value £'000	Share Premium £'000
Date	Detail			
01 Jan 2017	Balance brought forward	614,992,671	3,074	16,645
07 Dec 2017	Options exercised	19,420,076	98	98
20 Dec 2017	Shares issued	366,666,668	1,833	3,509
31 Dec 2017	Balance carried forward	1,001,079,415	5,005	20,252
18 Jan 2018	Options exercised	3,054,110	15	15
06 March 2018	Options exercised	768,322	4	4
28 June 2018	Options exercised	695,205	4	4
31 Dec 2019	Balance carried forward	1,005,097,052	5,028	20,275

Employee Benefit Trust

	2018 Shares	2018 £'000	2017 Shares	2017 £'000
Cost				
At the beginning and end of the year	259,000	259	259,000	259

Date	Event	Shares	Price	Detail
07 Dec 2017	Share Options Exercise	19,420,076	1.0p	Exercise of share options (see note 18) by David Stoller
20 Dec 2017	Fund Raise	366,666,668	1.5p	On fund raise resulting in share premium of £3.67m. Costs of issue totalled £0.20m, of which £0.04m was expensed in the P&L
18 Jan 2018	Share Options Exercise	3,054,110	1.0p	Exercise of employee share options by 'Good Leaver' as part of the r4e plc 2016 Long term Incentive Plan
06 Mar 2018	Share Options Exercise	768,322	1.0p	Exercise of employee share options by 'Good Leaver' as part of the r4e plc 2016 Long term Incentive Plan
28 Jun 2018	Share Options Exercise	695,205	1.0p	Exercise of employee share options by 'Good Leaver' as part of the r4e plc 2016 Long term Incentive Plan

During 2007 and 2008 the company funded an employee benefit trust to purchase its own shares to meet the Group's expected obligations under an employee share scheme. As at 31 December 2018 the market value of own shares held in trust was £2,461 (2017: £5,569).

During the year the mid-price of the Company's shares traded between 0.95 pence and 2.2 pence (2017: 1.12 pence and 2.25 pence). At 31 December 2017 the share price was 0.98 pence (2017: 2.15 pence).

18. OTHER RESERVES

	2018 £'000	2017 £'000
Capital redemption reserve	15	15
Share option reserve	854	392
Warrant reserve	311	311
Foreign exchange reserve	(14)	165
	1,166	883

19. 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 1.0p – 2.0p 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 former or current 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

In addition, Options held by Marc Boyan 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 i) a share price target of £0.025 per share and/or ii) an increase in Adjusted EBITDA of £1,000,000 over the Company's Adjusted EBITDA* for the 2017 financial year

(b) A further one third of the Option shall become exercisable on meeting i) a share price target of £0.035 per share and/or ii) an increase in Adjusted EBITDA of £2,000,000 over the Company's Adjusted EBITDA* for the 2017 financial year; and

(c) The remaining one third of the Option shall become exercisable on meeting i) a share price target of £0.045 per share and/or ii) an increase in Adjusted EBITDA of £3,000,000 over the Company's Adjusted EBITDA* for the 2017 financial year

*Adjusted EBITDA is before exceptional items and share based payment charges, measured using consistent Generally Accepted Accounting Policies.

19. SHARE-BASED PAYMENTS (continued)

However, subject to the Board's discretion, the Option holders 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 ('Eligible Ees'), at – and had not lapsed or been exercised by – 31 December 2018:

Granted to	Date of Option	Number of Shares	First exercisable*	Expiry date	Exercise Price
Eligible Ees	04 Mar 2016	4,329,924	01 Oct 2017	04 Mar 2022	1.00 pence
Linzi Allen	04 Mar 2016	4,750,000	04 Mar 2019	04 Mar 2022	1.00 pence
Eligible Ees	04 Mar 2016	10,500,000	04 Mar 2019	04 Mar 2022	1.00 pence
Eligible Ees	21 Mar 2016	9,500,000	21 Mar 2019	21 Mar 2022	1.00 pence
Eligible Ees	02 Jun 2016	10,800,000	02 Jun 2019	02 Jun 2022	1.00 pence
Eligible Ees (good leaver)	01 Mar 2017	521,804	31 Jan 2019	01 May 2019	2.00 pence
Eligible Ees	13 Sep 2017	2,000,000	13 Sep 2020	13 Sep 2023	1.40 pence
Marc Boyan	20 Dec 2017	124,635,959	20 Dec 2020	20 Dec 2023	1.50 pence

*or on share price target where applicable

Movement in number of options in the year:

	2018 No. Options	2017 No. Options
Outstanding brought forward at 1 January	184,533,520	93,100,000
Granted during the year	–	128,635,959
Exercised during the year	(4,517,637)	(19,420,076)
Forfeited during the year	(12,978,196)	(17,782,363)
Outstanding carried forward at 31 December	167,037,687	184,533,520

Options granted in 2017 were granted only on the dates, in the volumes, and at the exercise prices as shown in the above table. 4,851,728 options were exercisable at 31 December 2018 (2017: 8,147,561).

The share options outstanding as at 31 December 2018 had a weighted average remaining contractual life of 4.56 years (2017: 5.48 years). The weighted average share price of exercised options at the date of exercise was 1.0p (2017: 1.80p).

19. SHARE-BASED PAYMENTS (continued)

No options were granted during the period. The weighted average fair value of options granted during 2017 was 1.03p.

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	1.00-2.00 pence, as applicable
Share price at valuation date	0.98 pence
Expected life	6 years
Volatility	100% – 40%
Risk free interest rate	From 0.24% – 1.5%
Exit rate of employees	5%

During the year the Group recognised total share-based payment expenses of £0.48 million (31 December 2017: £0.23 million).

20. RESERVES

Share Premium

The share premium account is the additional amount over and above the nominal share capital that is received for shares issued less any share issue costs.

Deferred Shares

Deferred Shares are valueless and do not carry any rights to vote or any dividend rights. The Deferred Shares are not quoted on AIM or any other stock market and will not be transferable unless with the prior written consent of the Company.

Own Shares held

This reserve arose from the purchase of shares in the Company by the Employee Benefit Trust, funded through loans from the Company.

Retained Earnings

Retained earnings records the cumulative profits and losses recognised in the Consolidated Income Statement, net of any distributions and share-based payments made.

OTHER RESERVES

Capital Redemption Reserve

This reserve arose from the redemption of redeemable preference shares.

20. RESERVES (continued)

Foreign Exchange Reserve

The foreign exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations that do not have sterling as a functional currency. Exchange differences are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the income statement in the period in which an operation is disposed of. Movement in foreign exchange reserves in the year is shown on the Consolidated Statement of Changes in Equity.

Warrant Reserve

The warrant reserve comprises the equity component of warrants issued by the Company. On 4 December 2015 the Company granted 24,994,462 Warrants to AIB Joint Ventures, a subsidiary of AIB. The Warrants are exercisable for five years at an exercise price of 1 penny per Warrant, only when the closing mid-market price of a New Ordinary Share reaches 5 pence or more on any Trading Day during that five-year period, subject to the right to exercise earlier upon the occurrence of certain specified Acceleration Events (as defined in the Warrant Agreement). The warrants were accounted for at fair value in full through the profit and loss account in 2015.

Share Option Reserve

The share option reserve includes an expense based on the fair value of share options issued to employees since 4 March 2016. At 31 December 2018 a total of 167,037,687 (2017: 184,533,520) ordinary shares with a nominal value of £835,188 (2017: £922,667) were reserved for issue under the Company's share option plan (see note 19).

21. CASH GENERATED FROM OPERATIONS

	2018 £'000	2017 £'000
Reconciliation of net cash flows from operating activities		
Loss before taxation	(161)	(2,689)
Adjustments:		
Finance costs	280	295
Finance income	(15)	–
Depreciation	426	452
Amortisation of intangibles	174	189
Impairment of goodwill	–	1,533
Share based payment charges	484	234
Operating cash flows before movements in working capital	1,188	14
Decrease in inventories	13	–
(Increase)/decrease in trade and other receivables	(5,138)	2,654
Increase/(decrease) in trade and other payables	2,109	(783)
Decrease in other non-current liabilities	(216)	(88)
Cash (used in)/generated from operating activities	(2,044)	1,797

22. COMMITMENTS UNDER LEASES

Operating Leases

The Group had aggregate minimum lease payments under non-cancellable operating leases as follows:

	2018 £'000	2017 £'000
Land and buildings		
within one year	1,518	1,438
within second to fifth years	5,847	5,755
more than five years	3,375	5,651
	10,740	12,844
Plant and machinery		
within one year	117	146
within second to fifth years	93	233
	210	379
Total commitments	10,950	13,223

SpotCo's lease term is 14 years and commenced on 18 December 2012. The lease has inbuilt cost increases which will allow the business to forecast reliably and removes the need for rent reviews. Dewynters' lease term is 10 years and commenced on 5 April 2013. A rent review took place in the year which resulted in an increase in Dewynters rent costs of approximately 4.3%. Operating lease payments for land and buildings represent rent payable by the Group for warehouse space in London plus office properties in New York, London and Hamburg.

23. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash, debt, and various other receivable and payable balances that arise from its operations. The main purpose of these financial instruments was to finance the Group's operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for the management of these risks and these are summarised below. These policies have remained unchanged throughout the period.

Interest Rate Risk

The Group's cash balances, deposits and debt through term and asset backed borrowings will be subject to fluctuations in current and future interest rates. All other significant financial assets and liabilities do not bear interest. The Group monitors the rates of interest receivable and payable on its cash and debt balances, but given the nature of these assets and liabilities, interest liabilities are not capped.

Liquidity Risk

It is the Group's policy to manage its financing of its business through internally generated funds with surplus funds invested in short and medium fixed term money market deposits. Requirements are kept under regular review by the Board and Group companies have negotiated overdraft or other borrowing facilities with their bankers to minimise any exposure to short term liquidity risks. Facilities available but undrawn as at 31 December 2018 are £2.20 million (2017: £1.26 million), and facilities unavailable are £3.19 million (2017: £4.86 million).

23. FINANCIAL INSTRUMENTS (continued)

Foreign Currency Risk

The subsidiary SpotCo, based in the US, has its functional currency in USD. Dewynters GmbH, based in Germany, and Dewynters Amsterdam BV, based in the Netherlands, have their functional currency in Euros.

The Company and its subsidiaries enter into transactions denominated in GBP, USD and Euro. The Group's revenue and expenditure can therefore be affected by foreign currency exchange movements.

The Board monitors all foreign currency exposure but the Group does not currently hedge against movements in the exchange rates of Sterling and foreign currencies in respect of any financial assets and liabilities.

Credit Risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

Senior management receives monthly reports summarising trade receivable balances and their ageing profile and appropriate action is taken to manage any significant items. A provision for impairment is made if considered necessary. An ageing analysis can be found in note 11.

Cash and cash equivalents are also part of the Group's credit risk and further information is provided below.

	2018				2017			
	Funds held in GBP £'000	Funds held in USD £'000	Funds held in Euro £'000	Total funds held £'000	Funds held in GBP £'000	Funds held in USD £'000	Funds held in Euro £'000	Total funds held £'000
Barclays Bank	4,039	–	–	4,039	6,156	–	–	6,156
TD Bank	–	969	–	969	–	460	–	460
Haspa	–	–	164	164	–	–	122	122
ING	–	–	48	48				
Other	2	1	–	3	2	18	–	20
	4,041	970	212	5,223	6,158	478	122	6,758

Financial Instruments by Category

	2018			2017		
Asset/(liability)	Total £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Total £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
Trade and other receivables	15,929	15,929	–	10,997	10,997	–
Cash and cash equivalents	5,223	5,223	–	6,758	6,758	–
Trade and other payables	(16,329)	–	(16,329)	(14,822)	–	(14,822)
Other non–current payables	–	–	–	(176)	–	(176)
Borrowings	(3,575)	–	(3,575)	(2,502)	–	(2,502)
	1,248	21,152	(19,904)	255	17,755	(17,500)

23. FINANCIAL INSTRUMENTS (continued)

Financial instruments have been categorised as trade and other receivables, cash and cash equivalents, trade and other payables, or borrowings.

Trade and other receivables include any impairment losses and exclude prepayments. Trade and other payables exclude statutory liabilities, and deferred income.

The directors consider that the carrying amount of all financial instruments approximates to their fair value.

Interest Rate Profile of Financial Assets and Liabilities

The interest rate profile of the Group's financial assets and liabilities was:

		2018			2017	
	Total	Non-interest bearing	Floating rate	Total	Non-interest bearing	Floating rate
Asset/(liability)	£'000	£'000	£'000	£'000	£'000	£'000
Trade and other receivables	15,929	15,929	–	10,997	10,997	–
Cash and cash equivalents	5,223	–	5,223	6,758	–	6,758
Trade and other payables	(16,329)	(16,329)	–	(14,822)	(14,822)	–
Other non–current payables	–	–	–	(176)	(176)	–
Borrowings	(3,575)	–	(3,575)	(2,502)	–	(2,502)
	1,248	(400)	1,648	255	(4,001)	4,256

In both 2018 and 2017 the interest rate received for the floating rate financial assets was at prevailing bank rates.

Floating rate liabilities in GBP bear interest over prevailing Barclays Bank Plc rates, those in USD bear interest over prevailing rate of the Federal Reserve.

	2018	2017
	%	%
Cash flow term debt	–	4.00
Asset based lending facility	2.25	2.25

The weighted average period to maturity for non-interest bearing financial liabilities is less than 1 year (2017: less than 1 year).

Interest Rate Sensitivity

The Group has derived a sensitivity analysis based on 2% variances in floating interest rates. The sensitivity analysis below has been determined based on the exposure to interest rates for all floating rate financial assets and liabilities at the balance sheet date. 2% is the rate used internally when reporting to key management personnel.

	2018	2017
	£'000	£'000
Impact on equity and profit after tax		
2% increase in rate of interest	(72)	(50)
2% increase in rate of interest	72	50

23. FINANCIAL INSTRUMENTS (continued)

Foreign Currency Exposures

The foreign exchange rate profile of the Group's financial assets and liabilities was:

	2018				2017			
	Total	Sterling	US Dollar	Euro	Total	Sterling	US Dollar	Euro
Asset/(liability)	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trade and other receivables	15,929	8,038	7,625	266	10,997	5,153	5,674	170
Cash and cash equivalents	5,223	4,041	970	212	6,758	6,158	478	122
Trade and other payables	(16,329)	(6,321)	(9,838)	(170)	(14,822)	(4,705)	(9,749)	(368)
Other non-current payables	–	–	–	–	(176)	(176)	–	–
Borrowings	(3,575)	(361)	(3,214)	–	(2,502)	(320)	(2,182)	–
	1,248	5,397	(4,457)	308	255	6,110	(5,779)	(76)

Foreign Exchange Rate Sensitivity

The Group has derived a sensitivity analysis based on 5% variances in the foreign exchange rates used for US Dollar. The sensitivity analysis below has been determined based on the exposure to foreign exchange rates for all financial assets and liabilities held in a foreign currency at the balance sheet date. 5% is the sensitivity variable used internally when reporting to key management personnel:

	2018		2017	
	US Dollar	Euro	US Dollar	Euro
Impact on equity	£'000	£'000	£'000	£'000
20% increase in foreign exchange rate	212	(15)	275	4
20% decrease in foreign exchange rate	(235)	16	(304)	(4)

Maturity of Financial Instruments

Financial Liabilities
The maturity profile of the Group's financial liabilities, including interest payable on borrowings, was:

	2018	2017
	£'000	£'000
In one year or less, or on demand	19,904	17,268
In more than one year, but not more than two years	–	232
	19,904	17,500

23. FINANCIAL INSTRUMENTS (continued)

Financial Assets
The maturity profile of the Group's financial assets was:

	2018 £'000	2017 £'000
In one year or less, or on demand	21,152	17,755
	21,152	17,755

Fair Value of Assets and Liabilities

The fair value amounts of the Group's financial assets and liabilities as at 31 December 2018 and 31 December 2017 did not vary materially from the carrying value amounts due to the short-term nature of current assets and liabilities and the interest rates applicable to the non-current liabilities.

Maximum Credit Risk

The Group's exposure to credit risk arises mainly as follows:

	2018 £'000	2017 £'000
Cash and cash equivalents	5,223	6,758
Trade and other receivables	15,929	10,997
	21,152	17,755

The majority of the Group's trade receivables are due for collection within 30 days. Details of trade and other receivables past due at the reporting date are given in note 11. As at 31 December 2018 the provision for impaired trade receivables is £0.06 million (2017: £0.02 million) see note 11. No other financial assets are impaired as at 31 December 2018 (2017: Nil).

Credit Quality of Financial Assets

Cash and cash equivalents are not held with any institutions with a rating of lower than A-.

24. RELATED PARTY DISCLOSURES

During the year ended 31 December 2018, transactions with Key Management Personnel are in relation to Directors and other senior executive staff of the Group and are presented in the Directors Remuneration and other tables on page 23 and in note 5 to the accounts.

As announced on 12 February 2018, a media buying agreement was set up between Dewynters and SpotCo with Miroma International Limited and Miroma Outcomes LLC respectively. Miroma are companies wholly owned by Miroma Holdings Limited, a company of which Marc Boyan, the CEO of r4e, is a director and the controlling shareholder. During 2018 Dewynters had income from Miroma companies totalling £728,810 (2017 £nil) and purchased £7,363,810 of services (2017 £Nil). SpotCo had income totalling $187,827 (2017 $nil) and purchased $3,623,747 of services (2017 $nil).

As at 31 December 2018 Dewynters had amounts totalling £478,578 due from Miroma companies, and SpotCo had amounts totalling $1,281,450 owing to Miroma companies.

24. RELATED PARTY DISCLOSURES (continued)

Lord Grade (non-executive Director of r4e) is currently a director of Gate Ventures plc, which was a substantial shareholder in r4e until February 2018. He is also a co-founder of The GradeLinnit Company Ltd ("GradeLinnit"). During 2017, Dewynters had an existing agreement in place with GL 42nd Street Limited, a subsidiary company of GradeLinnit, for the provision of marketing and media services for the West End production of 42nd Street, which launched at the Theatre Royal Drury Lane in the first half of 2017. The fees payable to Dewynters under the agreement were on the Company's normal commercial terms and amounted to £nil (2017: £1,516,384). The balance owed to Dewynters at 31 December 2018 was £nil (2017: £nil).

25. TRANSACTIONS WITH DIRECTORS

During the year ended December 2018, the Group procured consultancy services totalling £0.03 million (2017: £0.03 million) from Springtime Consultants Ltd., a company owned by Marcus Yeoman, a non-executive director of the Board. No balance was outstanding at 31 December 2018 (2017: £nil).

26. SUBSEQUENT EVENTS

Acquisition of stake in Buzz 16 Productions

On 30 January 2019 the Company signed an agreement to acquire 50% of the issued share capital of Buzz 16 Productions Limited ("Buzz 16"). The total consideration for the shareholding will be satisfied through r4e's existing cash resources and the Board expects the acquisition to be earnings accretive in 2019. Buzz 16, which was founded in 2016, creates both short and long form sports orientated content and is co-owned by shareholders including former Manchester United player and respected broadcaster, Gary Neville, along with former Sky Sports Premier League producer, Scott Melvin. This acquisition will bring together Buzz 16's strong in-house production capabilities and impressive network of both emerging and established sporting talent with r4e's multi-disciplinary approach to media and marketing services. With nearly 30 years of experience in entertainment marketing, r4e will work with Buzz 16 to expand its commercial offerings to sporting talent, clubs, brands and media houses, through optimised strategies across traditional and digital communications, experiential, partnerships and sponsorship.

Grant of Employee Options

On 8 March 2019, the Company announced it had Granted 11,829,924 options to its employees from its 2016 Long Term Incentive Plan. 4,329,924 of these options were granted to r4e plc CEO and Director Marc Boyan. The options were granted with the same performance conditions as previously disclosed in note 19 'Share Based Payments'.

Acquisition of Agency Press Limited (trading as 'Sold Out')

On 21 March 2019, the Company announced the successful completion the acquisition of Sold Out, a full-service advertising agency, specialising in arts and entertainment. London-based integrated agency Sold Out, has specialised in arts and entertainment advertising for over 25 years. During this period it has established a strong reputation in its field and built a portfolio of high profile clients, which includes S.J.M. Concerts, AEG Presents, Live Nation and Cirque Du Soleil. Its services include campaign development, media planning and buying, events, partnerships, design and creative, broadcast and digital media production; all of which will bolster r4e's group offering. The consideration for the Acquisition comprises an initial consideration of £3.94 million payable in cash and £250,000 payable in 20,833,333 Ordinary Shares and additional deferred cash consideration based on the financial performance of Sold Out during the period commencing on 1 June 2017 to 31 December 2021, excluding working capital adjustments. The aggregate of the Initial Consideration and the Deferred Consideration is to be capped at £10 million. The net proceeds of the Placing are to be used to finance the Initial Consideration. With the consent of r4e's existing debt provider, the Initial Consideration was funded in part by way of a £500,000 loan provided by In The Loop Limited, a company of which Marc Boyan, the CEO of r4e, is the ultimate beneficial owner. The loan bears interest at 5%. accruing over a period of 5 years. The debt is unsecured and is to be subordinated to the Company's existing facility.

26. SUBSEQUENT EVENTS (continued)

As at the date of these accounts it is impracticable to give further detail around the fair value of net assets acquired, or any goodwill or intangibles attributed to the acquisition, as the subsidiary has not yet provided the Company with initial acquisition date accounts given that the legally agreed deadline for provision has not yet passed.

Placing completed on 19 March 2019

Consideration for the acquisition of Sold Out as outlined above, was funded in part by the placing of 250,000,000 new Ordinary shares at 1.2 pence per share. The issue raised gross proceeds of £3 million. Following the issue of the Placing shares, the Company's total issued share capital consisted of 1,255,597,052 Ordinary Shares.

reach4entertainment enterprises plc

COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2018 Company number: 2725009

	Notes	2018 £'000	2017 £'000
FIXED ASSETS			
Tangible assets	1	3	3
Investments	2	12,070	11,397
		12,073	11,399
CURRENT ASSETS			
Debtors	3	918	1,237
Cash at bank and in hand		3,019	5,571
		3,937	6,808
CURRENT LIABILITIES: Creditors amounts falling due within one year	4	(13,426)	(15,507)
NET CURRENT LIABILITIES		(9,489)	(8,699)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,584	2,701
CREDITORS: Amounts falling due after more than one year	5	–	(176)
NET ASSETS		2,584	2,525
CAPITAL AND RESERVES			
Called up share capital	7	5,028	5,005
Deferred shares	7	1,498	1,498
Share premium account	7	20,275	20,251
Capital redemption reserve	7	15	15
Warrant reserve		311	311
Own shares held	7	(259)	(259)
Share option reserve	8	462	79
Profit and loss account	7	(24,746)	(24,375)
TOTAL EQUITY		2,584	2,525

The company's loss after tax for the year ended 31 December 2018 amounted to £0.4 million (December 2017: loss of £2.6 million after a £3.4 million non-cash impairment of investments).

The Company financial statements on pages 74 to 84 were approved by the board of Directors and authorised for issue on 1 May 2019 and are signed on its behalf by:

Linzi Allen
Director

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COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	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	Total equity £'000
At 1 January 2017	**3,074**	**16,645**	**1,498**	**15**	**119**	**311**	**(21,967)**	**(259)**	**(564)**
Loss for the year	–	–	–	–	–	–	(2,600)	–	(2,600)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(2,600)**	**–**	**(2,600)**
Transactions with owners in their capacity as owners:									
Shares issued	1,931	3,607	–	–	–	–	–	–	5,538
Share based payment charges	–	–	–	–	151	–	–	–	151
Share options lapsed/forfeit/exercised	–	–	–	–	(191)	–	191	–	–
Total transactions with owners in their capacity as owners:	1,931	3,607	–	–	(40)	–	191	–	5,689
At 31 December 2017	**5,005**	**20,252**	**1,498**	**15**	**79**	**311**	**(24,376)**	**(259)**	**2,525**
Loss for the year	–	–	–	–	–	–	(370)	–	(370)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(370)**	**–**	**(370)**
Transactions with owners in their capacity as owners:									
Shares issued	23	23	–	–	–	–	–	–	46
Share based payment charges	–	–	–	–	383	–	–	–	383
Total transactions with owners in their capacity as owners:	23	23			383	–	–	–	429
At 31 December 2018	**5,028**	**20,275**	**1,498**	**15**	**462**	**311**	**(24,746)**	**(259)**	**2,584**

BASIS OF ACCOUNTING

These financial statements have been prepared in accordance with FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (“FRS 102”) and the requirements of the Companies Act 2006, including the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, and under the historical cost convention.

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union. Where these financial statements cross reference to the Group accounts there is no difference in treatment.

No Statement of Comprehensive Income is presented for r4e, as provided by Section 408 (3) of the Companies Act 2006.

Auditor’s remuneration information is provided in note 4 of the Group accounts.

REDUCED DISCLOSURES

In accordance with FRS 102, the Company has taken advantage of the exemptions from the following disclosure requirements;

- Section 7 ‘Statement of Cash Flows’ – Presentation of a Statement of Cash Flow and related notes and disclosures
- Section 11 ‘Basic Financial Instruments’ & Section 12 ‘Other Financial Instrument Issues’ – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income
- Section 33 ‘Related Party Disclosures’ – Compensation for key management personnel

The financial statements of the Company are consolidated in the financial statements of r4e. The consolidated financial statements of r4e are available from its registered office, Wellington House, 125 Strand, London, WC2R 0AP.

GOING CONCERN

Full details of the going concern assumption are provided in the accounting policies of the Groups’ accounts on page 38.

TANGIBLE FIXED ASSETS

Fixed assets are stated at historical cost less accumulated depreciation.

Depreciation is provided on all tangible fixed assets other than freehold land at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows:

Plant and machinery	25% straight line
Fixtures and fittings	20% straight line

INVESTMENTS

Long-term investments are classified as fixed assets and stated at cost less provision for any impairment in value.

EMPLOYEE BENEFITS

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

PENSIONS

The Company operates defined contribution schemes and makes contributions to the personal schemes of certain employees. Pension costs charged against profits represent the amounts payable to the schemes in respect of the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rates ruling at the date of the transactions. All differences are taken to the profit and loss account.

EMPLOYEE BENEFIT TRUST

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the Company's accounts. Any assets held by the EBT cease to be recognised on the Company balance sheet when the assets vest unconditionally to identified beneficiaries. The costs of purchasing own shares held by the EBT are shown as a deduction against equity. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Company income statement.

SHARE BASED PAYMENTS

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Fair value is measured using a Black-Scholes valuation model for vanilla options and a binomial model for more complex options. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. See page 40 of the group accounts for full details of the accounting policy which is the same for the individual parent entity.

TAX

Taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is not discounted. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is recognised on income or expenses from subsidiaries that will be assessed to or allow for tax in a future period except where the Company is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future.

1. TANGIBLE FIXED ASSETS

	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
COMPANY			
Cost			
31 December 2017	25	3	28
Additions in the year	–	2	2
31 December 2018	25	5	30
Depreciation			
31 December 2017	23	2	25
Charge for the year	1	1	2
31 December 2018	24	3	27
Net book value			
31 December 2018	1	2	3
31 December 2017	2	1	3

2. FIXED ASSET INVESTMENTS

	Subsidiary undertakings £'000
Cost	
31 December 2017	25,462
Additions	673
31 December 2018	26,135
Provision for impairment	
31 December 2017	(14,065)
31 December 2018	(14,065)
Net book value	
31 December 2018	12,070
31 December 2017	11,397

During the year, the Company provided funding of £361,441 to Dewynters GmbH (2017: £155,269), £311,725 to Dewynters Amsterdam (2017: £Nil) and £Nil to Jampot (2017: £204,266). These amounts have been treated as investment additions. The amount related to Jampot in 2017 was then impaired because of a lack of certainty regarding future net cash inflows, since Jampot is run as a centre of excellence on a breakeven basis. Separately, an impairment of £3.2 million was made in 2017 against the investment in Spot and Company of Manhattan Inc ('SpotCo'), bringing it down to its recoverable amount.

2. FIXED ASSET INVESTMENTS (continued)

As at 31 December 2018 the Group holds more than 20% of the equity and voting rights of the following principal companies:

Name of subsidiary	Country of incorporation	Proportion of shares held	Class of shares	Nature of business
Spot and Company of Manhattan Inc.	USA	100%	Ordinary	Marketing and promotion
reach4entertainment Inc.	USA	100%	Ordinary	Holding company
Dewynters Limited	Great Britain	100%	Ordinary	Marketing and promotion
Dewynters GmbH	Germany	100%	Ordinary	Marketing and promotion
Newman Displays Limited*	Great Britain	100%	Ordinary	Signage and fascia displays
Jampot Consulting Limited	Great Britain	100%	Ordinary	Digital data analysis and marketing
Dewynters Amsterdam BV	Amsterdam	60%	Ordinary	Marketing and promotion
Story House PR Limited	Great Britain	92.5%	Ordinary	Public relations
Wake the Bear Limited**	Great Britain	90%	Ordinary	Marketing communications

* Subsidiary wholly owned by Dewynters Limited
All companies above denoted with a ** are exempt from audit by virtue of Section 479A of the Companies Act 2006. In accordance with Section 479C of the Companies Act 2006, reach4entertainment enterprises plc has provided guarantees over the liabilities of these subsidiaries.

Dewynters Limited is wholly owned by r4e Limited, and Spot and Company of Manhattan Inc. is wholly owned by reach4entertainment Inc.

Registered Address of subsidiaries

Spot and Company of Manhattan Inc.- 119 W. 40th Street, 18th Floor, New York, NY 10018
reach4entertainment Inc. – 160 Greentree Drive, Suite 101, Dover, DE 19904-7620
Dewynters GmbH – Rödingsmarkt 9, 20459 Hamburg, Germany
Reach4entertainment Amsterdam BV and Dewynters Amsterdam BV – Gedempt Hamerkanaal 247,1021 KP Amsterdam, the Netherlands
Story House PR Limited – 4th Floor Henry Wood House, 2 Riding House Street, London, England, W1W 7FA
All other subsidiaries – Wellington House, 125 Strand, London, WC2R 0AP

As at 31 December 2018 the Group holds less than 20% of the equity and voting rights of the following company:

Stage17 Inc.	USA	17%	Ordinary	Digital platform

3. DEBTORS

	2018 £'000	2017 £'000
Due within one year:		
Owed by subsidiary undertakings	762	981
Other debtors	63	2
Prepayments	26	27
Corporation tax	–	144
Deferred tax asset	40	69
Other tax	27	14
	918	1,237

4. CREDITORS: Amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	40	97
Amounts owed to subsidiary undertakings	13,047	14,979
Other taxation and social security	40	37
Other creditors	167	362
Accruals and deferred income	132	32
	13,426	15,507

Interest is charged on amounts owed to SpotCo and Dewynters at an average rate in the year of 1.90% (2017: 0.5%) and 2.84% (2017: 3.56%) per annum respectively.

5. CREDITORS: Amounts falling due after more than one year

	2018 £'000	2017 £'000
Amounts owed to David Stoller	–	176
	–	176

There are no amounts owed to David Stoller due after more than 1 year at 31 December 2018. Amounts in current liabilities at 31 December 2018 total £164,031 in relation to pay in lieu of notice and compensation for loss of office (2017: £352,243).

6. EMPLOYEES AND DIRECTORS

The average monthly number of employees (including executive directors) was:

	2018 Number	2017 Number
Professional and administrative	6	4

Staff costs for above persons, included in administrative expenses:

	£'000	£'000
Wages and salaries	675	553
Social security costs and other benefits	52	63
Other pension costs (defined contribution)	28	12
Share based payment costs	449	151
	1,204	779

7. SHARE CAPITAL AND RESERVE

	2018 £'000	2017 £'000
Authorised, allotted, issued and fully paid: 1,005,597,052 ordinary shares at 0.5 pence each (2017: 1,001,079,415 ordinary shares of 0.5 pence each)	5,028	5,005

Authorised, allotted, issued and fully paid:		Number of shares No.	Nominal Value £'000	Share Premium £'000
Date	Detail			
01 Jan 2017	Balance brought forward	614,992,671	3,074	16,645
07 Dec 2017	Options exercised	19,420,076	98	97
20 Dec 2017	Shares issued	366,666,668	1,833	3,509
31 Dec 2017	Balance carried forward	1,001,079,415	5,005	20,251
18 Jan 2018	Options exercised	3,054,110	16	16
06 March 2018	Options exercised	768,322	4	4
28 June 2018	Options exercised	695,205	3	3
31 Dec 2018	Balance carried forward	1,005,597,052	5,028	20,274

For explanation of Share Capital and Reserve accounts, see notes 17 and 20 to the Group accounts.

8. 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 1.0p – 2.0p 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 certain other former or current 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

In addition, Options held by Marc Boyan 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 i) a share price target of £0.025 per share and/or ii) an increase in Adjusted EBITDA of £1,000,000 over the Company's Adjusted EBITDA* for the 2017 financial year

(b) A further one third of the Option shall become exercisable on meeting i) a share price target of £0.035 per share and/or ii) an increase in Adjusted EBITDA of £2,000,000 over the Company's Adjusted EBITDA* for the 2017 financial year; and

(c) The remaining one third of the Option shall become exercisable on meeting i) a share price target of £0.045 per share and/or ii) an increase in Adjusted EBITDA of £3,000,000 over the Company's Adjusted EBITDA* for the 2017 financial year

*Adjusted EBITDA is before exceptional items and share based payment charges.

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.

8. SHARE – BASED PAYMENTS (continued)

The following options to subscribe for the Company's shares have been granted to directors and eligible employees ('Eligible Ees'), at – and had not lapsed or been exercised by – 31 December 2018:

Granted to	Date of Option	Number of Shares	First exercisable*	Expiry date	Exercise Price
Eligible Employees	04 Mar 2016	4,329,924	01 Oct 2017	04 Mar 2022	1.00 pence
Linzi Allen	04 Mar 2016	4,750,000	04 Mar 2019	04 Mar 2022	1.00 pence
Marc Boyan	20 Dec 2017	124,635,959	20 Dec 2020	20 Dec 2023	1.50 pence

* or on share price target where applicable

Movement in number of options in the year:

	2018 No. Options	2017 No. Options
Outstanding brought forward at 1 January	134,915,883	31,200,000
Granted during the year	–	124,635,959
Exercised during the year	–	(19,420,076)
Forfeited during the year	(1,200,000)	(1,500,000)
Outstanding carried forward at 31 December	133,715,883	134,915,883

4,329,924 options were exercisable at 31 December 2018 (2017: 4,329,924).

The share options outstanding as at 31 December 2017 had a weighted average remaining contractual life of 4.85 years (2017: 5.84 years). The weighted average share price of exercised options at the date of exercise was 0.9p (2017: 1.80p).

No options were granted in the period. The weighted average fair value of options granted during 2017 was 0.90p.

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	1.00-1.50 pence, as applicable
Share price at valuation date	0.0098 pence
Expected life	6 years
Volatility	100% – 40%
Risk free interest rate	From 0.24% – 1.5%
Exit rate of employees	5%

During the year the Company recognised total share-based payment expenses of £0.36 million (2017: £0.15 million). £0.07 million was released from share option reserve to retained earnings, in relation to options exercised during the year (2016: £0.19 million).

9. CONTINGENT LIABILITIES

On top of a fixed and floating charge over its assets, the company has given a cross guarantee in respect of the borrowings held by other r4e group subsidiaries with PNC.

10. SUBSEQUENT EVENTS

See the subsequent events as set out in note 26 to the consolidated financial statements on page 72.

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