



JPJ Group plc

Unaudited Interim Condensed Consolidated Financial Statements

[in pounds sterling, except where otherwise noted]

For the Three and Six Months Ended 30 June 2019

JPJ Group plc

Unaudited Interim Condensed Consolidated Statements of Comprehensive Income

For the three and six months ended 30 June 2019

(GBP)

		Three months ended 30 June 2019	Three months ended 30 June 2018	Six months ended 30 June 2019	Six months ended 30 June 2018
Note		(£000's)	(£000's)	(£000's)	(£000's)
	Gaming revenue	86,234	74,953	169,526	148,961
	Costs and expenses				
	Distribution costs	46,574	36,556	87,912	74,727
	Administrative costs	26,152	24,208	52,775	49,008
	Severance costs	-	-	-	450
	Transaction related costs	11,086	1,065	12,201	1,065
	Foreign exchange (gain)/loss	(504)	(220)	(277)	143
	Total costs and expenses	83,308	61,609	152,611	125,393
	Fair value adjustments on contingent consideration	-	-	460	11,450
	Interest income	(120)	(85)	(219)	(170)
	Interest expense	4,908	4,950	9,830	9,889
	Accretion on financial liabilities	308	489	651	2,026
	Financing expenses	5,096	5,354	10,722	23,195
	Net (loss)/income for the period before taxes from continuing operations	(2,170)	7,990	6,193	373
	Current tax provision	654	228	1,212	699
	Deferred tax recovery	(91)	(98)	(182)	(197)
	Net (loss)/income for the period after taxes from continuing operations	(2,733)	7,860	5,163	(129)
	Net income/(loss) from discontinued operations	658	(549)	(660)	(307)
	Net (loss)/income for the period attributable to owners of the parent	(2,075)	7,311	4,503	(436)
	Other comprehensive income/(loss): Items that will or may be reclassified to profit or loss in subsequent periods				
	Foreign currency translation (loss)/gain	(161)	1,081	160	198
	Unrealised gain on foreign exchange forward	341	-	341	-
	Unrealised loss on interest rate swap	(303)	(559)	(1,084)	(974)
	Total comprehensive (loss)/income for the period attributable to owners of the parent	(2,198)	7,833	3,920	(1,212)
	Net (loss)/income for the period per share				
	Basic	£(0.03)	£0.10	£0.06	£(0.01)
	Diluted	£(0.03)	£0.10	£0.06	£(0.01)
	Net (loss)/income for the period per share - continuing operations				
	Basic	£(0.04)	£0.11	£0.07	£(0.00)
	Diluted	£(0.04)	£0.10	£0.07	£(0.00)

See accompanying notes

JPJ Group plc
Unaudited Interim Condensed Consolidated Balance Sheets
30 June 2019
(GBP)

ASSETS	Note	As at 30 June 2019 (£000's)	As at 31 December 2018 (£000's)
Current assets			
Cash	9, 17	114,121	84,383
Restricted cash	9, 17	13,519	6,161
Customer deposits	17	10,864	9,032
Trade and other receivables	10, 12, 17	27,585	17,070
Taxes receivable		10,493	7,313
Total current assets		176,582	123,959
Non-current assets			
Tangible assets		3,902	2,232
Intangible assets	13	205,228	226,324
Goodwill	13	274,119	288,355
Right-of-use assets	3	6,132	-
Other long-term receivables	11, 17	5,000	5,036
Total non-current assets		494,381	521,947
Total assets		670,963	645,906
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	14, 17	27,139	20,606
Other short-term payables	12, 15, 17, 18	16,688	9,709
Short-term lease liabilities	3	1,555	-
Interest payable	17	321	264
Payable to customers	17	10,864	9,032
Current portion of contingent consideration	17	5,000	4,540
Provision for taxes		8,202	8,169
Total current liabilities		69,769	52,320
Non-current liabilities			
Other long-term payables	12, 17, 18	1,009	1,817
Lease liabilities	3	4,378	-
Deferred tax liability		999	1,196
Long-term debt	16, 17	371,667	371,450
Total non-current liabilities		378,053	374,463
Total liabilities		447,822	426,783
Equity			
Retained earnings		186,212	182,435
Share capital	19	7,448	7,434
Share premium		2,991	2,068
Other reserves		26,490	27,186
Total equity		223,141	219,123
Total liabilities and equity		670,963	645,906

See accompanying notes

On behalf of the Board:

(signed) " Neil Goulden "

Neil Goulden, Executive Chairman

(signed) " Keith Laslop "

Keith Laslop, Chief Financial Officer

JPJ Group plc
Unaudited Interim Condensed Consolidated Statements of Changes in Equity
For the period ended 30 June 2019
(GBP)

Note	Share Capital (£000's)	Share Premium (£000's)	Merger Reserve (£000's)	Share-Based Payment Reserve (£000's)	Translation Reserve (£000's)	Hedge Reserve (£000's)	Retained Earnings/ (Deficit) (£000's)	Total (£000's)
Balance at 1 January 2018	7,407	1,342	(6,111)	9,971	23,649	-	167,799	204,057
Comprehensive income/(loss) for the period:								
Net loss for the period (continued and discontinued operations)	-	-	-	-	-	-	(436)	(436)
Other comprehensive income/(loss)	-	-	-	-	198	(974)	-	(776)
Total comprehensive income/(loss) for the period:	-	-	-	-	198	(974)	(436)	(1,212)
Contributions by and distributions to shareholders:								
Conversion of debentures	6	186	-	-	-	-	-	192
Exercise of options	14	379	-	(110)	-	-	110	393
Share-based compensation	-	-	-	326	-	-	-	326
Total contributions by and distributions to shareholders:	20	565	-	216	-	-	110	911
Balance at 30 June 2018	7,427	1,907	(6,111)	10,187	23,847	(974)	167,473	203,756
Balance at 1 January 2019	7,434	2,068	(6,111)	10,395	24,043	(1,141)	182,435	219,123
Comprehensive income/(loss) for the period:								
Net income for the period (continued and discontinued operations)	-	-	-	-	-	-	4,503	4,503
Other comprehensive income/(loss)	-	-	-	-	160	(743)	-	(583)
Total comprehensive income/(loss) for the period:	-	-	-	-	160	(743)	4,503	3,920
Contributions by and distributions to shareholders:								
Costs relating to issue of shares	-	-	-	-	-	-	(1,005)	(1,005)
Exercise of options	19	923	-	(279)	-	-	279	937
Share-based compensation	19	-	-	166	-	-	-	166
Total contributions by and distributions to shareholders:	14	923	-	(113)	-	-	(726)	98
Balance at 30 June 2019	7,448	2,991	(6,111)	10,282	24,203	(1,884)	186,212	223,141

See accompanying notes

JPJ Group plc

Unaudited Interim Condensed Consolidated Statements of Cash Flows

For the three and six months ended 30 June 2019

(GBP)

	Note	Three months ended 30 June 2019 (£000's)	Three months ended 30 June 2018 (£000's)	Six months ended 30 June 2019 (£000's)	Six months ended 30 June 2018 (£000's)
Operating activities					
Net (loss)/income for the period		(2,075)	7,311	4,503	(436)
Add (deduct) items not involving cash					
Amortisation and depreciation		11,379	15,635	26,086	31,198
Share-based compensation expense	19	76	170	166	326
Current tax provision		654	228	1,212	699
Deferred tax recovery		(91)	(98)	(182)	(197)
Interest expense, net	7	5,096	5,354	10,262	11,745
Fair value adjustments on contingent consideration	17	–	–	460	11,450
Foreign exchange (gain)/loss		(504)	(285)	(277)	125
Loss on sale of discontinued operation, net of tax	6	–	–	26	–
		14,535	28,315	42,256	54,910
Restriction of cash balances		(3,581)	–	(7,173)	(75)
(Increase)/reduction in trade and other receivables		(3,038)	2,061	(4,633)	1,821
(Increase)/reduction in other long-term receivables		(32)	328	(17)	508
Increase/(reduction) in accounts payable and accrued liabilities		2,475	(2,697)	713	(3,322)
Increase/(reduction) in other short-term payables		8,628	(620)	9,197	(2,103)
Cash generated from operations		18,987	27,387	40,343	51,739
Income taxes paid		(3,467)	(3,236)	(4,194)	(3,236)
Income taxes received		–	402	–	402
Total cash provided by operating activities		15,520	24,553	36,149	48,905
Financing activities					
Proceeds from exercise of options		256	–	937	393
Debenture settlement		–	(62)	–	(62)
Lease payments		(354)	–	(626)	–
Repayment of non-compete liability	18	(2,000)	(2,000)	(4,000)	(4,000)
Interest repayment		(4,572)	(5,328)	(9,580)	(10,254)
Payment of contingent consideration	17	–	(63,455)	–	(63,455)
Total cash used in financing activities		(6,670)	(70,845)	(13,269)	(77,378)
Investing activities					
Purchase of tangible assets		(2,044)	(89)	(2,646)	(163)
Purchase of intangible assets		(1,467)	(1,370)	(2,694)	(2,457)
Proceeds from sale of intangible assets		–	–	–	1,450
Disposal of discontinued operation	6	–	–	12,000	–
Total cash (used in)/provided by investing activities		(3,511)	(1,459)	6,660	(1,170)
Net increase/(decrease) in cash during the period		5,339	(47,751)	29,540	(29,643)
Cash, beginning of period		106,146	76,231	84,383	59,033
Exchange gain on cash and cash equivalents		2,636	982	198	72
Cash, end of period		114,121	29,462	114,121	29,462

See accompanying notes

1. Corporate information

JPJ Group plc is an online gaming holding company that was incorporated under the *Companies Act 2006* (England and Wales) on 29 July 2016. JPJ Group plc's registered office is located at 35 Great St. Helen's, London, United Kingdom. Unless the context requires otherwise, use of 'Group' in these accompanying notes means JPJ Group plc and its subsidiaries, as applicable.

The Group currently offers bingo, casino and other games to its customers using the Jackpotjoy, Starspins, Botemania, Vera&John, InterCasino, Solid Gaming and other brands. The Jackpotjoy, Starspins, and Botemania brands operate off proprietary software owned by the Gamesys group, the Group's principal B2B software and support provider. The Vera&John, InterCasino and Solid Gaming brands operate off proprietary software owned by the Group.

On 13 June 2019, the Group entered into a conditional agreement to acquire the business of Gamesys (Holdings) Limited, excluding sports brands and games, for a mixture of cash and new Group shares (the 'Gamesys Acquisition'). Total valuation of the Gamesys Acquisition is expected to amount to approximately £490.0 million, comprising of: (i) £250.0 million in cash, of which £175.0 million is to be funded by an add-on to the Group's existing Term Facility and (ii) 33.7 million in newly issued shares, representing approximately £240.0 million. Completion of the Gamesys Acquisition is expected by 30 September 2019.

These Unaudited Interim Condensed Consolidated Financial Statements were authorised for issue by the Board of Directors of JPJ Group plc on 13 August 2019.

2. Basis of preparation

Basis of presentation

These Unaudited Interim Condensed Consolidated Financial Statements have been prepared by management on a going concern basis, are presented in compliance with International Accounting Standard ('IAS') 34 – *Interim Financial Reporting*, and have been prepared on a basis consistent with the accounting policies and methods used and disclosed in JPJ Group plc's consolidated financial statements for the year ended 31 December 2018 (the 'Annual Financial Statements'), except as described below. Certain information and disclosures normally included in the Annual Financial Statements prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, and in accordance with IFRS as issued by the International Accounting Standards Board, have been omitted or condensed.

These Unaudited Interim Condensed Consolidated Financial Statements should be read in conjunction with the Annual Financial Statements. All defined terms used herein are consistent with those terms as defined in the Annual Financial Statements.

These Unaudited Interim Condensed Consolidated Financial Statements have been prepared under the historical cost convention, other than for the measurement at fair value of the Group's Interest Rate Swap, FX Forward, contingent consideration, certain hedged loan instruments, and certain loans receivable.

The comparative financial information for the year ended 31 December 2018 in these Unaudited Interim Condensed Consolidated Financial Statements does not constitute statutory accounts for that year. The auditors' report on the statutory accounts for the year ended 31 December 2018 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under sections 498(2) or 498(3) of the *Companies Act 2006*.

3. Summary of significant accounting policies

For a description of the Group's significant accounting policies, critical accounting estimates and assumptions, and related information see notes 3 and 4 to the Annual Financial Statements. Other than what is described below, there have been no changes to the Group's significant accounting policies or critical accounting estimates and assumptions during the six months ended 30 June 2019.

Leases

Effective from 1 January 2019, the Group adopted IFRS 16 – *Leases* ('IFRS 16'), which replaces IAS 17 – *Leases* and related interpretations.

The Group elected to apply the modified retrospective approach which does not require restatement of comparative periods. As a result, lease liabilities were recognised in the opening consolidated balance sheet as at 1 January 2019 at an amount equal to the Group's remaining lease payments discounted using the Group's incremental borrowing rate. Additionally, the Group elected to measure right-of-use assets by reference to the measurement of the lease liabilities on the same date. As a result, net assets were not impacted. There was also no impact on the Group's equity at 1 January 2019.

On 1 January 2019, the Group recognised right-of-use assets and lease liabilities of £3.2 million.

Under IFRS 16, the Group amortises its right-of-use assets and accretes interest on its lease liabilities. As at 30 June 2019, the carrying value of the right-of-use assets amounted to £6.1 million and the carrying value of lease liabilities amounted to £5.9 million, with £1.5 million of this balance shown as short-term lease liabilities and the remaining portion of £4.4 million reflected under non-current liabilities.

Hedge accounting

The Group elected to use hedge accounting for the purposes of recognising realised and unrealised gains and losses associated with the FX Forward (as defined in note 12).

IFRS 9 – *Financial Instruments* ('IFRS 9') permits hedge accounting under certain circumstances provided that the hedging relationship is:

- formally designated and documented, including the entity's risk management objective and strategy for undertaking the hedge, identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the entity will assess the hedging instrument's effectiveness;
- expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk as designated and documented, and effectiveness can be reliably measured; and
- assessed on an ongoing basis and determined to be highly effective.

Based on the Group's analysis of the requirements outlined above, it was concluded that the FX Forward meets all the necessary criteria and qualifies for use of hedge accounting. The FX Forward was designated as a cash flow hedge.

4. Segment information

As discussed in note 6, the Group sold its Mandalay business in the period ended 31 March 2019 and it sold its social gaming business in the period ended 30 September 2018. All current period and 2018 comparative segment figures have been restated accordingly. The Mandalay and social gaming businesses were previously reported as part of the Jackpotjoy segment.

The following tables present selected financial results for each segment and the Unallocated Corporate Costs:

Three months ended 30 June 2019:

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Gaming revenue	48,662	37,572	—	86,234
Distribution costs	29,024	17,550	—	46,574
Amortisation and depreciation	8,136	2,984	259	11,379
Compensation, professional, and general and administrative expenses	4,310	7,542	2,921	14,773
Transaction related costs	—	26	11,060	11,086
Foreign exchange gain	(82)	(213)	(209)	(504)
Financing, net	8	9	5,079	5,096
Income/(loss) for the period before taxes from continuing operations	7,266	9,674	(19,110)	(2,170)
Taxes	—	485	78	563
Net income/(loss) for the period after taxes from continuing operations	7,266	9,189	(19,188)	(2,733)
Net income/(loss) for the period after taxes from continuing operations	7,266	9,189	(19,188)	(2,733)
Interest expense, net	8	9	4,771	4,788
Accretion on financial liabilities	—	—	308	308
Taxes	—	485	78	563
Amortisation and depreciation	8,136	2,984	259	11,379
EBITDA	15,410	12,667	(13,772)	14,305
Share-based compensation	—	—	76	76
Transaction related costs	—	26	11,060	11,086
Foreign exchange gain	(82)	(213)	(209)	(504)
Adjusted EBITDA	15,328	12,480	(2,845)	24,963
Net income/(loss) for the period after taxes from continuing operations	7,266	9,189	(19,188)	(2,733)
Share-based compensation	—	—	76	76
Transaction related costs	—	26	11,060	11,086
Foreign exchange gain	(82)	(213)	(209)	(504)
Amortisation of acquisition related purchase price intangibles	8,097	1,834	—	9,931
Accretion on financial liabilities	—	—	308	308
Adjusted net income/(loss)	15,281	10,836	(7,953)	18,164

Six months ended 30 June 2019:

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Gaming revenue	97,741	71,785	—	169,526
Distribution costs	55,219	32,668	25	87,912
Amortisation and depreciation	18,826	5,681	491	24,998
Compensation, professional, and general and administrative expenses	8,412	13,353	6,012	27,777
Transaction related costs	—	33	12,168	12,201
Foreign exchange (gain)/loss	(175)	135	(237)	(277)
Financing, net	17	7	10,698	10,722
Income/(loss) for the period before taxes from continuing operations	15,442	19,908	(29,157)	6,193
Taxes	—	874	156	1,030
Net income/(loss) for the period after taxes from continuing operations	15,442	19,034	(29,313)	5,163
Net income/(loss) for the period after taxes from continuing operations	15,442	19,034	(29,313)	5,163
Interest expense, net	17	7	9,587	9,611
Accretion on financial liabilities	—	—	651	651
Taxes	—	874	156	1,030
Amortisation and depreciation	18,826	5,681	491	24,998
EBITDA	34,285	25,596	(18,428)	41,453
Share-based compensation	—	—	166	166
Fair value adjustments on contingent consideration	—	—	460	460
Transaction related costs	—	33	12,168	12,201
Foreign exchange (gain)/loss	(175)	135	(237)	(277)
Adjusted EBITDA	34,110	25,764	(5,871)	54,003
Net income/(loss) for the period after taxes from continuing operations	15,442	19,034	(29,313)	5,163
Share-based compensation	—	—	166	166
Fair value adjustments on contingent consideration	—	—	460	460
Transaction related costs	—	33	12,168	12,201
Foreign exchange (gain)/loss	(175)	135	(237)	(277)
Amortisation of acquisition related purchase price intangibles	18,748	3,661	—	22,409
Accretion on financial liabilities	—	—	651	651
Adjusted net income/(loss)	34,015	22,863	(16,105)	40,773

Three months ended 30 June 2018:

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Gaming revenue	50,774	24,179	—	74,953
Distribution costs	24,748	11,785	23	36,556
Amortisation and depreciation	11,202	2,464	97	13,763
Compensation, professional, and general and administrative expenses	3,960	4,019	2,466	10,445
Transaction related costs	—	—	1,065	1,065
Foreign exchange loss/(gain)	76	(180)	(116)	(220)
Financing, net	1	(30)	5,383	5,354
Income/(loss) for the period before taxes from continuing operations	10,787	6,121	(8,918)	7,990
Taxes	—	130	—	130
Net income/(loss) for the period after taxes from continuing operations	10,787	5,991	(8,918)	7,860
Net income/(loss) for the period after taxes from continuing operations	10,787	5,991	(8,918)	7,860
Interest expense/(income), net	1	(30)	4,894	4,865
Accretion on financial liabilities	—	—	489	489
Taxes	—	130	—	130
Amortisation and depreciation	11,202	2,464	97	13,763
EBITDA	21,990	8,555	(3,438)	27,107
Share-based compensation	—	—	170	170
Transaction related costs	—	—	1,065	1,065
Foreign exchange loss/(gain)	76	(180)	(116)	(220)
Adjusted EBITDA	22,066	8,375	(2,319)	28,122
Net income/(loss) for the period after taxes from continuing operations	10,787	5,991	(8,918)	7,860
Share-based compensation	—	—	170	170
Transaction related costs	—	—	1,065	1,065
Foreign exchange loss/(gain)	76	(180)	(116)	(220)
Amortisation of acquisition related purchase price intangibles	11,202	1,968	—	13,170
Accretion on financial liabilities	—	—	489	489
Adjusted net income/(loss)	22,065	7,779	(7,310)	22,534

Six months ended 30 June 2018:

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Gaming revenue	103,611	45,350	—	148,961
Distribution costs	50,207	24,495	25	74,727
Amortisation and depreciation	22,403	4,862	189	27,454
Compensation, professional, and general and administrative expenses	7,462	8,504	5,588	21,554
Severance costs	—	450	—	450
Transaction related costs	—	—	1,065	1,065
Foreign exchange loss/(gain)	231	(70)	(18)	143
Financing, net	3	(66)	23,258	23,195
Income/(loss) for the period before taxes from continuing operations	23,305	7,175	(30,107)	373
Taxes	—	488	14	502
Net income/(loss) for the period after taxes from continuing operations	23,305	6,687	(30,121)	(129)
Net income/(loss) for the period after taxes from continuing operations	23,305	6,687	(30,121)	(129)
Interest expense/(income), net	3	(66)	9,782	9,719
Accretion on financial liabilities	—	—	2,026	2,026
Taxes	—	488	14	502
Amortisation and depreciation	22,403	4,862	189	27,454
EBITDA	45,711	11,971	(18,110)	39,572
Share-based compensation	—	—	326	326
Severance costs	—	450	—	450
Fair value adjustments on contingent consideration	—	—	11,450	11,450
Transaction related costs	—	—	1,065	1,065
Foreign exchange loss/(gain)	231	(70)	(18)	143
Adjusted EBITDA	45,942	12,351	(5,287)	53,006
Net income/(loss) for the period after taxes from continuing operations	23,305	6,687	(30,121)	(129)
Share-based compensation	—	—	326	326
Severance costs	—	450	—	450
Fair value adjustments on contingent consideration	—	—	11,450	11,450
Transaction related costs	—	—	1,065	1,065
Foreign exchange loss/(gain)	231	(70)	(18)	143
Amortisation of acquisition related purchase price intangibles	22,403	3,948	—	26,351
Accretion on financial liabilities	—	—	2,026	2,026
Adjusted net income/(loss)	45,939	11,015	(15,272)	41,682

The following table presents net assets per segment and Unallocated Corporate Costs as at 30 June 2019:

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Current assets	36,689	85,354	54,539	176,582
Goodwill	217,049	57,070	—	274,119
Other non-current assets	177,865	36,152	6,245	220,262
Total assets	431,603	178,576	60,784	670,963
Current liabilities	16,510	33,965	19,294	69,769
Non-current liabilities	560	3,937	373,556	378,053
Total liabilities	17,070	37,902	392,850	447,822
Net assets	414,533	140,674	(332,066)	223,141

The following table presents net assets per segment and Unallocated Corporate Costs as at 31 December 2018:

	Jackpotjoy (£000's)	Vera&John (£000's)	Unallocated Corporate Costs (£000's)	Total (£000's)
Current assets	18,055	54,394	51,510	123,959
Goodwill	231,322	57,033	—	288,355
Other non-current assets	200,642	28,152	4,798	233,592
Total assets	450,019	139,579	56,308	645,906
Current liabilities	19,758	25,788	6,774	52,320
Non-current liabilities	—	1,196	373,267	374,463
Total liabilities	19,758	26,984	380,041	426,783
Net assets	430,261	112,595	(323,733)	219,123

During the six months ended 30 June 2019 and 2018, revenue was earned from customers situated in the following locations: United Kingdom – 47% (six months ended 30 June 2018 – 59%), Japan – 27% (six months ended 30 June 2018 – 12%), Spain – 10% (six months ended 30 June 2018 – 10%), Sweden – 5% (six months ended 30 June 2018 – 8%), rest of Europe – 6% (six months ended 30 June 2018 – 7%), rest of world – 5% (six months ended 30 June 2018 – 4%).

During the six months ended 30 June 2019, the Group's B2B Revenue, Affiliate Revenue and Game Aggregation Revenue comprised 4% (six months ended 30 June 2018 – 3%) of total Group revenues, with the remaining portion being revenues earned from Net Gaming Revenue operations.

Non-current assets by geographical location as at 30 June 2019 were as follows: Europe £93.2 million (31 December 2018 – £85.2 million) and Americas £401.2 million (31 December 2018 – £436.8 million).

5. Costs and expenses

As discussed in note 6, the Group sold its Mandalay business in the period ended 31 March 2019 and its social gaming business in the period ended 30 September 2018. All current period and 2018 comparative figures have been restated accordingly.

	Three months ended 30 June 2019 (£000's)	Three months ended 30 June 2018 (£000's)	Six months ended 30 June 2019 (£000's)	Six months ended 30 June 2018 (£000's)
Distribution costs:				
Selling and marketing	16,040	12,672	30,980	26,611
Licensing fees	12,394	10,016	23,425	19,824
Gaming taxes	12,317	9,486	22,290	19,981
Processing fees	5,823	4,382	11,217	8,311
	46,574	36,556	87,912	74,727
Administrative costs:				
Compensation and benefits	10,549	7,050	19,654	14,579
Professional fees	1,250	779	2,358	2,049
General and administrative	2,974	2,616	5,765	4,926
Tangible asset depreciation	518	122	955	231
Intangible asset amortisation	10,861	13,641	24,043	27,223
	26,152	24,208	52,775	49,008

6. Discontinued operations

On 12 March 2019, the Group completed the sale of its Mandalay business for consideration of £18.0 million. The Mandalay business was not previously classified as held-for-sale. As discussed in note 7 of the Annual Financial Statements, the Group disposed of its social gaming business in the period ended 30 September 2018. The comparative unaudited interim condensed consolidated statements of comprehensive income are presented below to show the Mandalay and social gaming business discontinued operations separately from continuing operations. The results of the Mandalay and social gaming businesses have been excluded from notes 4 and 5 above.

Results of discontinued operations

	Three months ended 30 June 2019 (£000's)	Three months ended 30 June 2018 (£000's)	Six months ended 30 June 2019 (£000's)	Six months ended 30 June 2018 (£000's)
Gaming revenue	13	2,775	1,595	6,482
Social gaming revenue	—	2,738	—	5,695
Expenses	(645)	6,062	2,229	12,484
Results from operating activities	658	(549)	(634)	(307)
Income tax	—	—	—	—
Income/(loss) for the period*	658	(549)	(634)	(307)
Loss on disposal of discontinued operations	—	—	(26)	—
Income tax on loss on sale of discontinued operations	—	—	—	—
Income/(loss) from discontinued operations, net of tax	658	(549)	(660)	(307)
Basic income/(loss) per share from discontinued operations	£0.01	£(0.01)	£(0.01)	£(0.01)
Diluted income/(loss) per share from discontinued operations	£0.01	£(0.00)	£(0.01)	£(0.01)

*Income for the three months ended 30 June 2019 consists of true-ups to prior period accruals.

Cash flows from discontinued operations

	Three months ended 30 June 2019 (£000's)	Three months ended 30 June 2018 (£000's)	Six months ended 30 June 2019 (£000's)	Six months ended 30 June 2018 (£000's)
Net cash provided by/(used in) operating activities	124	1,514	525	3,751
Net cash provided by investing activities	—	—	12,000	—
Net cash from financing activities	—	—	—	—
Net cash flows for the period	124	1,514	12,525	3,751

Effect of disposal on the financial position of the Group

	30 June 2019 (£000's)
Non-current assets	3,753
Goodwill	14,273
Net assets	18,026
Consideration received, satisfied in cash	12,000
Consideration receivable	6,000
Loss on disposal of discontinued operations	(26)

Goodwill disposed of was allocated to the Mandalay business on the basis of earnings before interest, taxes, depreciation and amortisation, relative to that of the overall segment.

7. Interest income/expense

	Three months ended 30 June 2019 (£000's)	Three months ended 30 June 2018 (£000's)	Six months ended 30 June 2019 (£000's)	Six months ended 30 June 2018 (£000's)
Total interest income	120	85	219	170
Interest paid and accrued on long-term debt	4,837	4,947	9,719	9,883
Interest paid and accrued on lease liabilities	71	—	111	—
Interest paid and accrued on convertible debentures	—	3	—	6
Total interest expense	4,908	4,950	9,830	9,889
Accretion of discount recognised on contingent consideration	—	32	—	1,055
Interest accretion recognised on convertible debentures	—	—	—	8
Debt issue costs and accretion recognised on long-term debt	151	143	298	282
Interest accretion recognised on other long-term liabilities	157	314	353	681
Total accretion on financial liabilities	308	489	651	2,026

8. Earnings per share

The following table presents the calculation of basic and diluted earnings per share:

	Three months ended 30 June 2019 (£000's)	Three months ended 30 June 2018 (£000's)	Six months ended 30 June 2019 (£000's)	Six months ended 30 June 2018 (£000's)
Numerator:				
Net (loss)/income – basic	(2,075)	7,311	4,503	(436)
Net (loss)/income – diluted ¹	(2,075)	7,324	4,503	(436)
Denominator:				
Weighted average number of shares outstanding – basic	74,471	74,259	74,406	74,177
Weighted average effect of dilutive share options	—	733	301	—
Weighted average number of shares outstanding – diluted ¹	74,471	74,992	74,707	74,177
Instruments, which are anti-dilutive:				
Weighted average effect of dilutive share options	326	—	—	740
Weighted average effect of convertible debentures	—	—	—	39
Net (loss)/income per share ^{2,3}				
Basic	£(0.03)	£0.10	£0.06	£(0.01)
Diluted ¹	£(0.03)	£0.10	£0.06	£(0.01)

¹ In the case of a net loss, the effect of share options potentially exercisable on diluted loss per share will be anti-dilutive; therefore, basic and diluted net loss per share will be the same.

² Basic income/(loss) per share is calculated by dividing the net income/(loss) attributable to owners of the parent by the weighted average number of shares outstanding during the period.

³ Diluted income per share is calculated by dividing the net income attributable to owners of the parent by the weighted average number of shares outstanding during the period and adjusted for the number of potentially dilutive share options and contingently issuable instruments.

9. Cash and restricted cash

	30 June 2019 (£000's)	31 December 2018 (£000's)
Cash	114,121	84,383
Restricted cash*	13,519	6,161
Total cash balances	127,640	90,544

*Increase in balance from 31 December 2018 relates to reserves held with payment service providers.

10. Trade and other receivables

Trade and other receivables consist of the following items:

	30 June 2019 (£000's)	31 December 2018 (£000's)
Due from the Gamesys group	6,287	8,764
Due from the 888 group*	6,049	1,665
B2B and affiliate revenue receivable	6,277	2,722
FX Forward	341	—
Prepaid expenses	4,345	2,925
Other	5,286	1,994
Less: expected credit loss provision for trade and other receivables	(1,000)	(1,000)
	27,585	17,070

*Includes £6.0 million receivable for the sale of the Mandalay business.

The following table summarises the Group's expected credit loss on its trade receivables and loan receivables:

	0-30 days (£000's)	31-60 days (£000's)	61-90 days (£000's)	90 days + (£000's)	Total (£000's)
Trade and other receivables	2	179	42	429	652
Other long-term receivables	—	—	—	348	348
	2	179	42	777	1,000

11. Other long-term receivables

In connection with the Gaming Realms Transaction, the Group recognised a long-term receivable of £3.6 million (31 December 2018 – £3.6 million) for the secured convertible loan, in accordance with IFRS 9, based on the calculation of fair value at 30 June 2019, as explained in note 17.

As at 30 June 2019, the remaining balance of £1.4 million (31 December 2018 – £1.5 million) relates to a long-term loan receivable by the Group.

12. Interest rate swap and foreign exchange forward

As at 30 June 2019, the fair value of the Interest Rate Swap was a £1.3 million payable (31 December 2018 — £0.5 million). The Group has included £0.3 million of this payable in current liabilities, as shown in note 15 (31 December 2018 — £0.1 million), with the value of the remaining balance, being £1.0 million (31 December 2018 — £0.4 million), included in other long-term payables.

On 26 June 2019, JPJ Group plc entered into a foreign exchange forward agreement (the 'FX Forward') in order to minimise the Group's exposure to foreign exchange rate fluctuations between GBP and EUR as the Group is expecting to add €196.0 million to its EUR Term Facility in relation to the Gamesys Acquisition. Under the FX Forward, the Group will be able to convert €196.0 million to £176.4 million at an exchange rate of 0.89975. The FX Forward has a settlement date of 30 September 2019 and is designated as a cash flow hedge, as described in note 3.

As at 30 June 2019, the fair value of the FX Forward was a £0.3 million receivable (31 December 2018 — £nil). The Group has included the entire amount of this receivable in trade and other receivables, as shown in note 10.

13. Intangible assets and goodwill

As at 30 June 2019

	Gaming licences (£000's)	Customer relationships (£000's)	Software (£000's)	Brand (£000's)	Partnership agreements (£000's)	Non-compete clauses (£000's)	Goodwill (£000's)	Total (£000's)
Cost								
Balance, 1 January 2019	91	320,060	30,955	70,326	12,900	20,434	309,121	763,887
Additions*	—	—	3,037	—	4,673	—	—	7,718
Disposals (note 6)	—	(27,200)	(350)	(1,610)	—	—	(14,273)	(43,433)
Translation	—	(1)	64	14	126	—	142	337
Balance, 30 June 2019	91	292,859	33,706	68,730	17,699	20,434	294,990	728,509
Accumulated amortisation/impairment								
Balance, 1 January 2019	56	172,574	18,280	13,577	6,080	17,875	20,766	249,208
Amortisation	23	16,774	3,133	1,727	915	2,559	—	25,131
Disposals (note 6)	—	(24,700)	(329)	(378)	—	—	—	(25,407)
Translation	(29)	46	92	11	5	—	105	230
Balance, 30 June 2019	50	164,694	21,176	14,937	7,000	20,434	20,871	249,162
Carrying value								
Balance, 30 June 2019	41	128,165	12,530	53,793	10,699	—	274,119	479,347

*On 17 April 2019, the Group entered into a five-year service agreement with a third-party operator, which is reflected as an addition to partnership agreements in the schedule above. Under the terms of the service agreement, the Group will make certain software, content and services available for use by the operator in return for a share of the revenue generated by the operator from certain software, content and services made available to it by the Group.

As at 31 December 2018

	Gaming licences (£000's)	Customer relationships (£000's)	Software (£000's)	Brand (£000's)	Partnership agreements (£000's)	Non-competes clauses (£000's)	Goodwill (£000's)	Total (£000's)
Cost								
Balance, 1 January 2018	93	337,655	25,211	70,019	12,900	20,434	316,386	782,698
Additions	—	—	5,318	—	—	—	—	5,318
Disposals (note 6)	—	(18,000)	—	—	—	—	(9,638)	(27,638)
Translation	(2)	405	426	307	—	—	2,373	3,509
Balance, 31 December 2018	91	320,060	30,955	70,326	12,900	20,434	309,121	763,887
Accumulated amortisation/impairment								
Balance, 1 January 2018	81	139,333	12,551	10,005	4,458	7,661	19,605	193,694
Amortisation	44	40,496	5,518	3,502	1,622	10,214	—	61,396
Disposals (note 6)	—	(7,635)	—	—	—	—	—	(7,635)
Translation	(69)	380	211	70	—	—	1,161	1,753
Balance, 31 December 2018	56	172,574	18,280	13,577	6,080	17,875	20,766	249,208
Carrying value								
Balance, 31 December 2018	35	147,486	12,675	56,749	6,820	2,559	288,355	514,679

14. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following items:

	30 June 2019 (£000's)	31 December 2018 (£000's)
Affiliate/marketing expenses payable	6,443	7,038
Payable to game suppliers	4,624	3,181
Compensation payable	6,279	5,773
Professional fees	1,114	1,231
Gaming tax payable	1,763	1,174
Partnership agreement payable	4,726	—
Other	2,190	2,209
	27,139	20,606

15. Other short-term payables

Other short-term payables consist of:

	30 June 2019 (£000's)	31 December 2018 (£000's)
Transaction related payables	9,987	516
Current portion of other long-term payables (note 18)	6,449	8,667
Interest Rate Swap (note 12)	252	97
Working capital adjustment payable	—	429
	16,688	9,709

16. Credit facilities

	EUR Term Facility (£000's)	GBP Term Facility (£000's)	Total (£000's)
Balance, 1 January 2018	122,903	246,584	369,487
Accretion*	172	404	576
Foreign exchange translation	1,387	—	1,387
Balance, 31 December 2018	124,462	246,988	371,450
Accretion*	87	211	298
Foreign exchange translation	(81)	—	(81)
Balance, 30 June 2019	124,468	247,199	371,667
Current portion	—	—	—
Non-current portion	124,468	247,199	371,667

*Effective interest rates are as follows: EUR Term Facility – 4.19% (2018 – 4.44%), GBP Term Facility – 5.97% (2018 – 6.01%).

17. Financial instruments

The principal financial instruments used by the Group are summarised below:

Financial assets

	Financial assets as subsequently measured at amortised cost	
	30 June 2019 (£000's)	31 December 2018 (£000's)
Cash and restricted cash	127,640	90,544
Trade and other receivables	27,585	17,070
Other long-term receivables	1,423	1,462
Customer deposits	10,864	9,032
	167,512	118,108

Financial liabilities

	Financial liabilities as subsequently measured at amortised cost	
	30 June 2019 (£000's)	31 December 2018 (£000's)
Accounts payable and accrued liabilities	27,139	20,606
Other short-term payables	16,436	9,612
Other long-term payables	—	1,429
Interest payable	321	264
Payable to customers	10,864	9,032
Long-term debt	371,667	371,450
	426,427	412,393

The carrying values of the financial instruments noted above approximate their fair values.

Other financial instruments

	Financial instruments at fair value through profit or loss – assets/(liabilities)	
	30 June 2019 (£000's)	31 December 2018 (£000's)
Interest Rate Swap	(1,261)	(485)
FX Forward	341	—
Contingent consideration	(5,000)	(4,540)
Other long-term receivables	3,577	3,574
	(2,343)	(1,451)

Fair value hierarchy

The hierarchy of the Group's financial instruments carried at fair value is as follows:

	Level 2		Level 3	
	30 June 2019 (£000's)	31 December 2018 (£000's)	30 June 2019 (£000's)	31 December 2018 (£000's)
Interest Rate Swap	(1,261)	(485)	—	—
FX Forward	341	—	—	—
Other long-term receivables	3,577	3,574	—	—
Contingent consideration	—	—	(5,000)	(4,540)

The Interest Rate Swap and FX Forward balances represent the fair values of expected cash flows under the Interest Rate Swap and FX Forward agreements.

Other long-term receivables represent the fair value of the loan receivable from Gaming Realms. The key inputs into the fair value estimation of this balance include the share price of Gaming Realms on the date of cash transfer, a 3.7-year risk-free interest rate of 0.9974%, and an estimated share price return volatility rate of Gaming Realms of 49.2%.

As at 30 June 2019, the entire contingent consideration balance relates to one remaining milestone payment for the Jackpotjoy segment.

The movement in Level 3 financial instruments is detailed below:

	(£000's)
Contingent consideration, 1 January 2018	59,583
Fair value adjustments	7,208
Payments	(63,455)
Accretion of discount	1,204
Contingent consideration, 31 December 2018	4,540
Fair value adjustments	460
Contingent consideration, 30 June 2019	5,000
Current portion	5,000
Non-current portion	—

18. Other long-term payables

The Group is required to pay the Gamesys group £24.0 million in equal monthly instalments in arrears over the period from April 2017 to April 2020, for additional non-compete clauses. The Group has included £6.4 million of this payable in current liabilities, as shown in note 15 (31 December 2018 – £8.7 million). During the six months ended 30 June 2019, the Group has paid a total of £4.0 million (six months ended 30 June 2018 – £4.0 million) in relation to the additional non-compete clauses.

As at 30 June 2019, the other long-term payables figure of £1.0 million (31 December 2018 – £1.8 million) consists of the non-current portion of the Group's Interest Rate Swap (as discussed in note 12).

19. Share capital

As at 30 June 2019, JPJ Group plc's issued share capital consisted of 74,473,678 ordinary shares, each with a nominal value of £0.10.

	(£000's)	Ordinary shares of £0.10 #
Balance, 1 January 2018	7,407	74,064,931
Conversion of convertible debentures, net of costs	6	56,499
Exercise of options	21	207,500
Balance, 31 December 2018	7,434	74,328,930
Exercise of options	14	144,748
Balance, 30 June 2019	7,448	74,473,678

Ordinary shares

During the six months ended 30 June 2019, JPJ Group plc did not issue any additional ordinary shares, except as described below.

Share options

During the six months ended 30 June 2019, nil share options were granted, 144,748 share options were exercised, 116,166 share options were forfeited, and nil share options expired.

Long-term incentive plan

During the three and six months ended 30 June 2019, the Group recorded £0.1 million and £0.2 million, respectively (three and six months ended 30 June 2018 – £0.1 million and £0.1 million, respectively) in share-based compensation expense relating to its long-term incentive plans with a corresponding increase in share-based payment reserve.

20. Contingent liabilities

Indirect taxation

JPJ Group plc subsidiaries may be subject to indirect taxation on transactions that have been treated as exempt supplies of gambling, or on supplies that have been zero rated where legislation provides that the services are received or used and enjoyed in the country where the service provider is located. Revenue earned from customers located in any particular jurisdiction may give rise to further taxes in that jurisdiction. If such taxes are levied, either on the basis of current law or the current practice of any tax authority, or by reason of a change in the law or practice, then this may have a material adverse effect on the amount of tax payable by the Group or on its financial position.

Where it is considered probable that a previously identified contingent liability will give rise to an actual outflow of funds, then a provision is made in respect of the relevant jurisdiction and period impacted. Where the likelihood of a liability arising is considered remote, or the possible contingency is not material to the financial position of the Group, the contingency is not recognised as a liability at the balance sheet date. As at 30 June 2019, the Group had recognised £nil (31 December 2018 – £nil) related to potential contingent indirect taxation liabilities.

21. Subsequent events

On 1 August 2019, the Group entered into a cross currency swap agreement (the 'Currency Swap') in order to minimise the Group's increased exposure to exchange rate fluctuations between GBP and EUR as cash generated from the Gamesys Acquisition will largely be in GBP, while the add-on debt of €196.0 million to the Group's existing EUR Term Facility (the 'Add-on Debt') required to fund the Gamesys Acquisition is in EUR.

Under the Currency Swap, 57% of the Group's Add-on Debt will be swapped into GBP and 82% of the Add-on Debt's coupon value will be swapped from EUR LIBOR plus 3.5% (floor of 0%) to a fixed rate of 5.24%. The Currency Swap has an effective date of 30 September 2019 and a maturity date of 30 September 2022 ('Maturity Date'). Under the terms of this agreement, the Group will be able to exchange £100.0 million to €109.3 million at Maturity Date.

On 5 August 2019, JPJ Group plc amended the terms of its existing Interest Rate Swap to further minimise its exposure to interest rate fluctuations. Under the new terms, the Group will pay a fixed 6.33% rate of interest in place of floating GBP interest payments of GBP LIBOR plus 5.25%. On 15 August 2019, the starting Notional Amount will go back to being 60% of the GBP Term Facility (£150.0 million) and will decrease to £69.0 million by 15 June 2021.