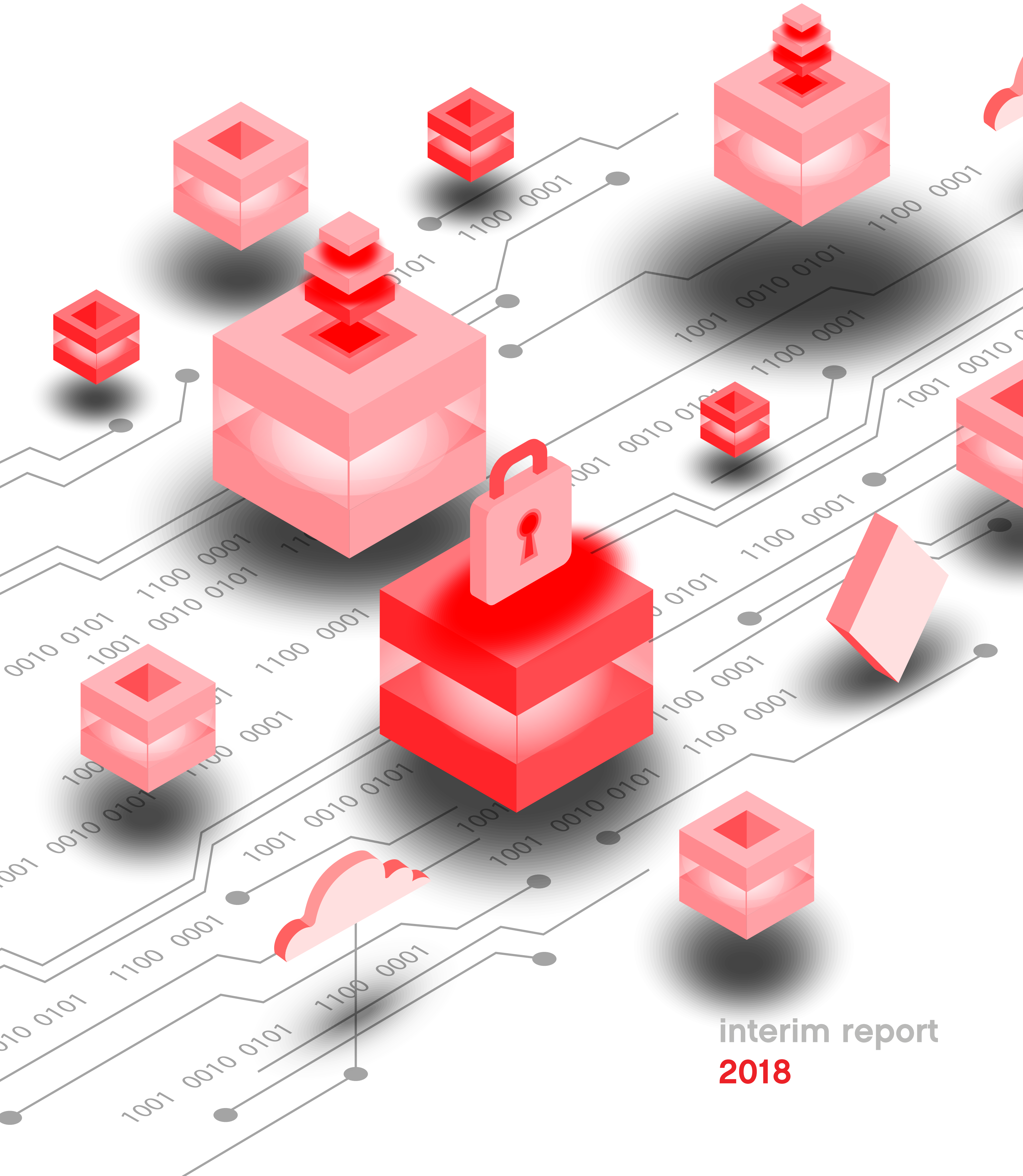
mmx.co



interim report
2018

Minds + Machines Group Limited ("MMX" or the "Company") is a BVI incorporated company, which is traded on the AIM Market operated by the London Stock Exchange ("AIM"). The Company and its subsidiaries (the "Group") is the owner and operator of a world class portfolio of top-level domain assets (gTLDs). As a sales and marketing-led registry business, the Company is focused on commercializing its portfolio in partnership with its expanding global network of distribution partners.

The MMX portfolio is currently focused around geographic domains (e.g. .london, .boston, .miami, .bayern), professional occupations (e.g. .law, .abogado, and .dds), consumer interests (e.g. .fashion, .wedding, .vip), lifestyle (e.g. .fit, .surf, .yoga), outdoor activities (e.g. .fishing, .garden, .horse) and generic names (e.g. .work and .casa). As a business, the Company works through its expanding international network of registrars and distribution partners to bring the benefits of affinity based domain addresses to B2B and consumer audiences. For more information on MMX, please visit www.mmx.co.

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executive summary

Overview

H1 2018 has been another transformative period in the Company's development. The strong registration and renewal revenue growth in our existing MMX portfolio, complemented by the recent ICM acquisition, has contributed to significant revenue growth of 22% and a stronger business with an increasingly predictable level of recurring revenues, leading management to expect renewal revenues to surpass the Group's full cost base (ie. partner payments, cost of sales and operating expenses) within the next 24 months. As highlighted in the Restructuring section below, the treatment of certain historic contracts, most notably those inherited by current management, has been addressed enabling a much clearer picture of the Company's ongoing progress to be presented in future periods.

Highlights

- Registrations within the MMX portfolio, excluding those from the ICM acquisition, up 38% year on year to 1.5million;
- Group revenue increased 22% to $6.4million (H1 2017: $5.3million), ICM providing a two week contribution of $250,000;
- Renewal revenue up 40% to $3.4million representing 52% of H1 revenues (H1 2017: $2.4m representing 51%), ICM's renewal revenue contribution being $241,000;
- Operating EBITDA increased 176% to $661,000 (H1 2017: $238,000);
- Strategic review completed with the ICM acquisition closing 16 June 2018; and
- Exclusive relationship developed with Ethereum's Name Service team enabling the launch of .luxe, scheduled to enter General Availability on 6 November 2018.

H1 Operational Review

In the 2017 year-end results, management set out a clear strategy for delivering value to shareholders in the mid-term from the expected consolidation in the sector by developing the business based on three core tenets:

- continuing to drive profitable growth through organic business development and operational efficiencies;
- accelerate scale and earnings through targeted acquisition; and
- innovation.

Organic growth

Excellent progress was made in H1 within the MMX portfolio – registrations grew year on year by 38% to 1.5million. This was the direct result of streamlining the MMX business development teams so as to improve accountability, keeping them focused on improving relationships with the key registrar partners in each region, and separately develop a network of additional distribution partners that can support our registrars' activities on specific top-level domains.

As a result, the US team, which has been responsible for developing the US and Japanese markets, has delivered the highest rate of registration growth ever of 113%, up from 259,000 to 551,000, reflecting the Group's previously stated aim to improve exposure in these markets in the current year.

In China, .vip had a second strong renewal season of above 76% resulting in overall registrations for the region improving 15% from 728,000 to 836,000 year on year. This performance is all the more noteworthy given the contraction that occurred in the new gTLD market in China in H2 2017 and H1 2018 as it corrected after a period of intense growth and speculation in the previous 24 months. Indeed, the recognition of .vip as a mainstream property in the region is reflected both by the fact that it is one of the few extensions after .cn and .com now supported by all the major registrars in the region, and by the growing number of active .vip web pages on the main Chinese search engines – up 42% year on year to 855,000 pages on Baidu.com and up to 1.4m pages on Bing.cn – demonstrating how domain names originally bought by investors are transitioning into the hands of end-user businesses.

Meanwhile in Europe, year on year registrations grew 20% to 136,000. However, in spite of a healthy growth in registrations in the UK, there was minimal impact to registrations within a key partnership asset following a significant marketing spend by our commercial partner on that asset, effectively underwritten by MMX as part of a contract renegotiation in 2016.

In Germany exceptional renewal rates of above 90% were once again achieved in the period.

In terms of the revenue make-up and split per region as a result of the overall organic growth in registrations, total H1 revenues saw a healthy advance of 22% to $6.4m, ICM representing less than 4% of that total, with H1 renewal revenues growing 40% to $3.4m (52% of H1 revenues), ICM representing just over 7% of that total in the period, there only being a two week contribution from ICM in the period. Looking forward, the ongoing growth of the renewal revenue base will be further boosted in H2 with the first full six-month contribution from ICM. Management therefore expects renewal revenues for the full-year to exceed $10million, the break-down between premium new registrations, standard new sales and premiums to be provided in full at the year-end.

For the US team, total revenues grew 19% to $2.7million – a slower pace than the 38% growth in domains under management reflecting in part the use of first year promotional pricing to drive registrations in Japan and a negative contribution from .law where revenues in H1 2017 were flattered by one-off premium renewal revenue from two high-value name sales. Encouragingly, renewal revenue from the US team nevertheless advanced significantly year on year, up 33% to $1.5million. Meanwhile in Europe, renewal revenue grew 19% to $0.8million representing 81% of European revenues which were up 11% at $1million for the period.

In China H1 2018 renewal revenues also saw significant growth of $0.5million (76%) to $1.1million reflecting a second strong year in .vip renewals, top-line revenues increasing 25% to $2.7million. It should be noted, though, top-line revenues in the region benefited from a sale of premium names in excess of $1million where the revenues, already collected in full, will be used for the marketing of .vip and .luxe over the next 12 months across the Asia region.

Accelerating scale and stability through acquisition

The Company completed its first acquisition of ICM in June 2018, the rationale being the strength of ICM's renewal base and standard sales from the US and European markets would minimise the Group's historic exposure to and reliance on one-off premium sales predominantly from China. The logic and timeliness of this move has been borne out by the correction in the Chinese market which has directly impacted the Company's ability to repeat the high levels of one-off sales to predominantly investor audiences recorded in 2016 and 2017 respectively. Progress of the ICM acquisition will be covered more fully in the Current Trading section below.

Innovation

The key reportable development in the period has been the development of the innovative Ethereum relationship – an important project for the Company from which we can gain insights into how the naming convention developed for routing traffic across the World Wide Web can be best applied to the blockchain environment to support taking that technology more mainstream and making transactions more streamlined and user friendly. In essence, the initiative means that when a name.luxe is entered into a web browser it will route to the relevant website on the World Wide Web, and when the same name.luxe is typed into an Ethereum based search engine or service, it will securely route to whatever the user has associated to that name on the Ethereum blockchain. In short, this move opens up a whole new horizon for our TLDs within our portfolio to potentially serve as the public digital identifiers in the rapidly expanding blockchain universe where long randomly generated strings of characters currently serve as the public identifiers. Progress of the .luxe project is covered more fully in the Current Trading section below.

Restructuring

During the period, Management undertook a full review of historic legacy agreements which has led to a series of necessary decisions being taken on the treatment of certain contracts.

As covered at greater length in the Financial Review, in relation to contracts inherited by management, the review has led to:

- a final $721k final restructuring payment made against one; and
- an onerous contract provision on another resulting in a one-time write down for future expected losses of $7million with an associated $4.1million reduction in intangible assets to $81.5million, further details of which can be found in the Financial Review.

Finally, as also covered in greater depth in the Financial Review, in light of the new international accounting standards coming into effect for periods commencing 1 January 2018, a provision of $2.1million has been made under IFRS 9 and a prior period adjustment of $586,000 to FY 2016 made under IFRS 15. It should be noted that despite the provisions being made under IFRS 9 and 15, the Company has historically not experienced any bad debt. MMX continues to work with its partners and underlying counterparties to collect on the amounts due.

H1 Financial Review

Profit and Loss

Four key factors determine our profit and loss each period: top-line sales, partner payments, Cost of Sales and OPEX.

In terms of top-line sales, as reported above, revenue has continued to trend in the right direction up 22% to $6.4million with a significant growth in renewal revenue, up 40% to $3.4million resulting in renewal income accounting for 52% of total revenue in the period. This growth has been driven by expanding our relationships with several key registrar partners, most notably Alibaba, where associated revenues grew 310% over the same period last year, GoDaddy (up 130%) and GMO (up 67%).

In terms of partner payments, these have been adjusted from $1,377,000 to $1,143,000 (a $234,000 reduction) in the current period based on the onerous contract provision as set out below.

In 2016, the Company successfully renegotiated aspects of the given contract to reduce the then marketing obligations of $10.8million to nearly half this amount under the condition that those marketing funds be provided directly to the commercial partner to manage. In addition, the Company negotiated that the runway on its 2017 minimum guaranteed commitment be extended from 12 months to 17 months to allow the revised marketing strategy to come into effect. To date, a significant portion of that marketing budget has been spent by the partner with minimal impact on revenues in the current year and no expectation of any material uplift in future periods. Accordingly, given recent performance, and expected future performance, the Company is now impairing the asset ($4.1million) and is providing for a one-time onerous contract provision in the amount of $7million, reflecting the future expected losses of $1.7million per year above revenue for the remainder of the contract, based on flat growth of the asset. The provision reflects net future obligations (i.e., cash due above total revenue per annum), which will be paid from 2018 until the contract end in August 2021. The Company will seek to renegotiate a more equitable settlement given the losses incurred on this asset (c. $11.9million) since the start of the contract, as a result of the terms agreed by former management.

Turning to Cost of Sales, whilst Cost of Sales typically increase commensurately to an increase in sales, the rate of increase in the period to $2million (31% of gross revenue) significantly exceeded the 20% of gross revenue KPI historically set by management. Whilst the majority of the variable costs in the period related to marketing spend, which has been successful in helping enable continued and consistent growth across the portfolio, management will continue to closely monitor the return on marketing investment so as not to significantly exceed our KPI.

Accordingly, whilst Gross Profit increased 14% to $3.3million (H1 2017: $2.9million) Gross Profit Margin decreased to 62% in H1 2018 from 67% in H1 2017.

Turning to OPEX, H1 2018 operating expenses ($2.6million) have remained flat (H1 2017: $2.6million) despite the acquisition of ICM.

Looking at the remainder of the year, we do expect certain Cost of Sales and operating expenses to naturally increase in H2 2018 whilst we complete the integration of ICM. Post completion of the integration, management expects to achieve economies of scale in 2019 through streamlining processes, systems and teams with the goal of bringing overall OPEX to be at or below $6million in 2019.

As a result H1 2018 Operating EBITDA increased by 176% to $661,000 (H1 2017: $238,000), reflecting Company's strategy to improve its top-line revenue and renewal base through organic development, acquisition and innovation.

One-off items

In 2018 we also had certain one-off costs, a change in accounting policies as a result of new International Financial Reporting Standards (IFRS), and the provision for an onerous contract inherited by management, discussed above.

One-off costs totalled nearly $1.4million from concluding the Strategic Review in April 2018, the restructuring of certain contracts, and fees paid to external parties to complete the acquisition of ICM. We do not expect to incur any further costs in these areas for the remainder of 2018 or in 2019.

In accordance with new accounting standards, the Company has reviewed its 1) provisions for the possibility of not collecting the full amounts due to the Company on long term arrangements (IFRS 9) 2) accounting practices on revenue recognition (IFRS 15).

Under IFRS 9 there is a requirement to review for the provision of bad debt in the event management believes that there is a possibility of not collecting full amounts due based on facts and circumstances. The Company has never had any bad debts since it began generating operational revenue in 2014. In addition, its long-term debtors have been diligent in fulfilling their obligations to date. Nevertheless, following the extension of payment time-frames on certain contracts, the Company believes that it is prudent to provision $2.1million against the possibility of bad debt based on fluctuations in market conditions and possible changes in circumstances related to certain existing partners in the US. It should be noted that management continues to work with its partners and underlying counterparties to collect on monies due.

Under IFRS 15 – an adjustment of $586,000 is being made against a contract signed in 2016 as a prior period adjustment FY 2016 to properly reflect revenue pursuant to IFRS 15. The contract had a variable component that was recognized as revenue at the time it was entered into but would not have been recognized under the requirements of IFRS 15. Note, similar contracts were entered into in 2017 where the variable component was not recognized and were therefore consistent with IFRS 15. Consequently, no adjustments are necessary for FY 2017. Management nevertheless hopes to collect on the contract in the fullness of time at which time any revenue will be recognised against cash receipts.

Balance Sheet

As a result of the corporate activity and onerous contract provision, intangible assets have increased from $45.9million at the end of FY 2017 to $81.5million at the end of H1 2018. The change reflects the acquisition of ICM at $39.6million which is based on the value of the cash paid ($10million), MMX shares issued and to be issued (c. $21million), and the value of deferred revenue ($9.5million) less the impairment of intangible assets ($4.1million) as a result of the onerous contract.

Trade receivables (before taking into account bad debt provisions) are down from $6.7million at the end of FY 2017 to $5.7million at the end of H1 2018.

Cash and cash equivalents have changed from $15.9million at the end of FY 2017 to $9.5million at the end of H1 2018. The primary reason for the reduction in cash is the $10million paid to acquire ICM. Note, in the period the Company has moved restricted cash of $2.2million from Other Long Term Assets to Cash and Cash Equivalents.

Current Liabilities have increased from $12.7million at the end of FY 2017 to $26.7million at end of H1 2018. During the period, the Company paid down liabilities in the amount of $1.5million. However, overall liabilities have increased primarily due to the inclusion of deferred revenue from ICM of $9.5million, the onerous contract provision of $7million of which $3.1million is current, and a $3million working capital facility to support future innovation and acquisition orientated activity by the Company.

Cash flow

Cash generated from ongoing operations was $0.5million compared to a cash loss of $0.9million for the period ending H1 2017.

Overall, cash and cash equivalents decreased by $6.4million to $9.5million at the end of H1 2018. Major cash inflows comprise cash from operations of $0.5million, funds received from a working capital facility of $3million, restricted cash previously classed as long-term assets now reclassified to cash and cash equivalents of $2.2million and cash acquired as a result of the acquisition of $0.9million. The $2.2million reclassification remains currently as restricted cash and is now reported consistently with other restricted cash balances. Major cash outflows comprise the acquisition of ICM of $10million, one-off costs paid of $1.4million, and paying down of 2016 restructured liabilities of $0.8million.

Current Trading and Outlook

We are currently seeing healthy new sales activity on our standard and lower value premium names through the registrar channel across the portfolio. Likewise, our renewal revenue continues to build, bolstered by the renewals from the ICM portfolio, which is performing in line with management's expectations.

The integration of the ICM and MMX teams has also progressed well. We are already experiencing the highly complementary skill-sets as well as registrar relationships the two teams have, the productivity of the combined unit being far greater than that of the individual groups. As we move into 2019, we see continuing opportunities to increase revenue and improve operating EBITDA whilst containing overhead and cost of sales.

As part of the strategy to increase market share and awareness of the Company, we are separately greatly encouraged by the progress of the .luxe initiative which is helping to position MMX as a leading innovator within our industry, management having been asked to present on the theme of innovation at major industry events in China, Europe and US. The solution we have developed for the .luxe launch to allow names to be associated with Ethereum identifiers is being applauded by registrars for its ease-of-implementation for the channel and ease-of-use for consumers. Currently we have 57 registrars from around the globe supporting the introduction of .luxe which is due to enter General Availability on 6 November 2018.

In summary, the stable revenue streams we have now established, when combined with the series of new initiatives coming into play around those properties launched in China in Q3 (ie. .law and .gowou) and the forthcoming launch of .luxe, lead management to remain cautiously optimistic about the full year operating EBITDA and the wider opportunities ahead. However, a slow-down in high value one-off sales is likely to impact top-line revenues.

Toby Hall, CEO

Michael Salazar, COO/CFO

consolidated statement of total comprehensive income
for the period ended 30 June 2018

	Notes	Period ended 30 Jun 2018 (unaudited) $'000's	Period ended 30 Jun 2017 (unaudited) $'000's	Year ended 31 Dec 2017 (audited) $'000's
Continuing operations:				
Revenue		6,423	5,277	14,315
Less: Partner payments	2	(1,143)	(1,008)	(2,364)
Revenue less partner payments		5,280	4,269	11,951
Cost of sales	3	(2,009)	(1,401)	(3,440)
Gross profit		3,271	2,868	8,511
Gross profit margin %		62%	67%	71%
Profit on gTLD auctions		-	-	2,108
Operating expenses	4	(2,610)	(2,630)	(5,285)
Operating earnings before interest, taxation, depreciation and amortisation (Operating EBITDA)		661	238	5,334
Strategic review costs	5	(105)	(143)	(301)
Acquisition costs	6	(586)	-	-
Restructuring costs - contracts	7	(721)	-	-
Bad debt provision	13	(2,112)	-	-
Impairment loss on intangible assets	11	(4,100)	-	-
Onerous lease provision	16	(6,992)	-	-
Foreign exchange (loss) / gain		(197)	(21)	(45)
(Loss) / profit on disposal of fixed assets		(13)	3	4
Share based payments	8	(484)	(505)	(1,002)
Share of results of joint venture		5	4	9
(Loss) / earnings before interest, taxation, depreciation, and amortisation (EBITDA)		(14,644)	(424)	3,999
Depreciation and amortisation charge		(101)	(92)	(187)
Finance revenue		8	11	21
(Loss) / profit before taxation		(14,737)	(505)	3,833
Income tax		53	(21)	(19)
(Loss) / profit for the period		(14,684)	(526)	3,814

consolidated statement of total comprehensive income
for the period ended 30 June 2018, continued

	Notes	Period ended 30 Jun 2018 (unaudited) $'000's	Period ended 30 Jun 2017 (unaudited) $'000's	Year ended 31 Dec 2017 (audited) $'000's
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Currency translation differences		(82)	281	455
Items that will not be reclassified to profit or loss:				
Loss on fair value through other comprehensive income financial assets		(201)	-	-
Other comprehensive (loss) / income for the period net of taxation		(283)	281	455
Total comprehensive (loss) / income for the period		(14,967)	(245)	4,269
Retained (loss) / profit for the period attributable to:				
Equity holders of the parent		(14,681)	(528)	3,859
Non-controlling interests		(3)	2	(45)
		(14,684)	(526)	3,814
Total comprehensive (loss) / profit for the period attributable to:				
Equity holders of the parent		(14,964)	(224)	4,314
Non-controlling interests		(3)	(21)	(45)
		(14,967)	(245)	4,269
(Loss) / earnings per share (cents)				
From continuing operations				
Basic	9	(2.07)	(0.08)	0.55
Diluted	9	(2.07)	(0.08)	0.52

condensed consolidated statement of financial position
as at 30 June 2018

	Notes	30 Jun 2018 (unaudited) $'000's	Restated 31 Dec 2017 (audited) $'000's	Restated 30 Jun 2017 (unaudited) $'000's
Assets				
Non-current assets				
Goodwill		2,828	2,828	2,828
Intangible assets	11	81,475	46,182	45,940
Tangible assets		62	80	73
Investments		299	500	-
Interest in joint ventures		430	428	422
Other long-term assets	12	555	2,957	3,327
Total non-current assets		85,649	52,975	52,590
Current assets				
Trade and other receivables	13	6,344	8,833	5,744
Cash and cash equivalents	14	9,455	15,868	14,228
Total current assets		15,799	24,701	19,972
Total assets		101,449	77,676	72,562
Liabilities				
Current liabilities				
Trade and other payables	15	(23,608)	(12,708)	(12,426)
Provisions	16	(3,116)	-	-
Total current liabilities		(26,724)	(12,708)	(12,426)
Net current assets		(10,925)	11,993	7,546
Non-current liabilities				
Long term provisions	16	(3,642)	-	-
Total non-current liabilities		(3,642)	-	-
Total liabilities		(30,366)	(12,708)	(12,426)
Net assets		71,082	64,968	60,136
Equity				
Share capital		-	-	-
Share premium	17	68,912	60,060	60,060
Shares to be issued	10	11,745	-	-
Other reserves		(201)	-	-
Foreign exchange reserve		1,115	1,197	1,046
Retained earnings		(10,416)	3,781	(619)
Equity attributable to owners of the Company		71,155	65,038	60,487
Non-controlling interests		(73)	(70)	(351)
Total equity		71,082	64,968	60,136

condensed consolidated statement of cash flows
for the period ended 30 June 2018

	Period ended 30 Jun 2018 (unaudited) $'000's	Period ended 30 Jun 2017 (unaudited) $'000's	Year ended 31 Dec 2017 (audited) $'000's
Cash flows from operations			
Operating EBITDA	661	238	5,334
Adjustments for:			
Foreign exchange (loss) / gain	(220)	(87)	21
Loss on withdrawal of gTLD applications	-	-	240
Strategic review	(105)	(143)	(301)
Acquisition costs	(586)	-	-
Restructuring costs – contracts	(721)	-	-
Onerous provision utilisation	(234)	-	-
Change in working capital, net of effects from acquisition:			
Decrease / (increase) in trade, long-term and other receivables including bad debt provisions and amounts transferred to cash and cash equivalents	3,223	1,623	(1,096)
(Decrease) / increase in trade and other payables	(1,518)	(2,559)	430
Net cash inflow / (outflows) from operations	500	(928)	4,628
Cash flows from investing activities			
Interest received	8	11	21
Payments towards 2016 restructured contracts	(776)	-	(3,105)
Payments to acquire intangible assets	-	(116)	(235)
Payments to acquire fixtures & equipment	(9)	(3)	(31)
Receipts from the disposal of tangible assets	-	3	4
Acquisition of subsidiary, net of cash acquired (note 10)	(9,136)	-	-
Increase in investment in subsidiary	-	-	(155)
Payments to acquire investments	-	-	(500)
Net cash flow from investing activities	(9,913)	(105)	(4,002)
Cash flows from financing activities			
Proceeds from borrowings	3,000	-	-
Repurchase of vested equity instruments	-	(14)	(33)
Net cash flow from financing activities	3,000	(14)	(33)
Net decrease in cash and cash equivalents	(6,413)	(1,047)	593
Cash and cash equivalents at beginning of period	15,868	15,275	15,275
Cash and cash equivalents at end of period	9,455	14,228	15,868

condensed consolidated statement of changes in equity
for the period ended 30 June 2018

Group	Share capital $'000's	Share premium reserve $'000's	Shares to be issued $'000's	Other reserves $'000's	Foreign currency translation reserve $'000's	Retained earnings $'000's	Total $'000's	Non-controlling interests $'000's	Total equity $'000's
At 1 January 2017 as previously reported	-	60,060	-	-	742	4	60,806	(330)	60,476
Cumulative effect of change in accounting policy for revenue recognition (note 1)	-	-	-	-	-	(586)	(586)	-	(586)
As restated	-	60,060	-	-	-	(582)	60,220	(330)	59,890
Loss for the period	-	-	-	-	-	(528)	(528)	2	(526)
Other comprehensive income	-	-	-	-	304	-	304	(23)	281
Total comprehensive (loss) / income	-	60,060	-	-	304	(528)	(224)	(21)	(245)
Credit to equity for equity-settled share based payments	-	-	-	-	-	505	505	-	505
Share based payments (repurchase of vested equity instruments)	-	-	-	-	-	(14)	(14)	-	(14)
As at 30 June 2017	-	60,060	-	-	1,046	(619)	60,487	(351)	60,136
As at 1 January 2018	-	60,060	-	-	1,197	3,781	65,038	(70)	64,968
Loss for the period	-	-	-	-	-	(14,681)	(14,681)	(3)	(14,684)
Other comprehensive income	-	-	-	(201)	(82)	-	(283)	-	(283)
Total comprehensive (loss) / income	-	-	-	(201)	(82)	(14,681)	(14,964)	(3)	(14,967)
Additions to share premium	-	8,852	-	-	-	-	8,852	-	8,852
Shares to be issued	-	-	11,745	-	-	-	11,745	-	11,745
Credit to equity for equity-settled share based payments	-	-	-	-	-	484	484	-	484
As at 30 June 2018	-	68,912	11,745	(201)	1,115	(10,416)	71,155	(73)	71,082

notes to the financial statements
for the period ended 30 June 2018

1. Basis of Preparation

The condensed financial statements have been prepared under the historical cost convention.

The Goup's condensed financial statements have been prepared on the basis of the accounting policies consistent with those applied in the financial statements for the year ended 31 December 2017.

The adoption of Standards and Interpretations in 2018 has not affected the Group's accounting policies however the application of IFRS 15 Revenue from Contracts with Customers has results in the restatement (a decrease) of the revenue reported.

Basis of consolidation

The condensed consolidated financial information incorporates the results of the Company and its subsidiaries.

Prior period adjustment

The Group has elected to retrospectively apply IFRS 15, as permitted under the standard, resulting in a decrease in the revenue reported, with a corresponding decrease in trade and other receivables, in FY 2016 as detailed below. The restatement is accounted for the as a prior period adjustment as required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. See Executive's Summary for further details

	H1 2018 $'000's	2017 $'000's	2016 $'000's
Decrease in revenue	-	-	586

Approval

The Board of Directors approved this Interim Financial Report on 25 September 2018.

2. Partner Payments

	H1 2018 $'000's	H1 2017 $'000's
Partner Payments	1,143	1,008

Partner payments represent the expense relating to certain TLDs where royalty and similar payments are required to be made. The increase in the period compared to H1 2017 is due to the increase in revenue for the related assets. See Note 16 for further details regarding the impact of onerous contract.

3. Cost of Sales

	H1 2018 $'000's	H1 2017 $'000's
Third Party Fees	373	371
ICANN Fees	472	428
Marketing	1,045	518
Other	119	84
	2,009	**1,401**

The increase in ICANN fees relates to the variable components based on domains under management. The increase in marketing spend is due to gTLDs launched in China, including the upcoming launch of .luxe.

4. Operating Expenditure

Operating expenses remained flat at $2,610k (H1 2017: $2,630k). However, Operating expenses are expected to increase in the second half of the year as impact of the acquisition of ICM (see Note 10) is realized.

5. Strategic Review Costs

The Group concluded its strategic review resulting in the acquisition of ICM Registry (see note 6 and the Executive Summary for further details). Strategic review costs of $105k (H1 2017: $143k) were incurred.

6. Acquisition Costs

The Group acquired ICM Registry in the period (see note 10 and Executive Summary for further details) and incurred acquisition costs, consisting of legal and professional fees as well as certain internal costs which totalled $586k (H1 2017: $nil).

7. Restructuring Costs – Contracts

Restructuring costs of $721k (H1 2017: $Nil) relates to costs incurred to re-negotiate certain legacy registry contracts.

8. Share Based Payments

	H1 2018 $'000's	H1 2017 $'000's
Share based payments	484	505

Share based payments expenses of $484k (H1 2017: $505k) relate to the fair value of the share options determined by using the Black-Scholes model expensed over the vesting period of the share option.

9. Earnings / (loss) per share

	H1 2018 $'000's	H1 2017 $'000's
Earnings for the purpose of basic and diluted earnings per share		
Earnings from continuing operations	(14,681)	(528)
Total earnings for the period	**(14,681)**	**(528)**
Number of shares		
Weighted average number of ordinary shares used in calculating basic loss per share (millions)	708.00	699.86
Effect of dilutive potential ordinary shares – share options and warrants (millions)	-	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share (millions)	708.00	699.86
Loss per share from continuing operations		
Basic (cents)	(2.07)	(0.08)
Diluted (cents)	(2.07)	(0.08)

For the purpose of calculating loss per share, all potential shares were anti-dilutive due to the losses reported. The number of potential dilutive ordinary shares is 39 million (H1 2017: 28.26 million).

10. Business Combinations

On 3 May 2018, MMX entered into an agreement to acquire the entire membership interest of ICM Registry, LLC ("ICM"). The acquisition was completed on 16 June 2018.

The consideration for the acquisition was split into a cash payment of $10m and 225,000,000 new MMX ordinary shares with a value of $20,597k based on the share price of MMX on the date of the acquisition (9.2c/6.9p).

Of the 225,000,000 new MMX ordinary shares 96,699,235 shares ($8,852k) were issued on the date of the acquisition with the remaining 128,300,765 shares ($11,745k) deferred and to be issued on 4 January 2019.

ICM, a Florida based company, is the owner of four high value, niche TLDs and enhances MMX's already strong TLD portfolio by increasing ongoing renewal revenue and minimizing exposure to any one geographic region.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of ICM Registry, LLC at the date of acquisition were:

	Fair value recognised on acquisition $'000
Assets	
Intangible assets	39,603
Cash and cash equivalents	864
Other assets	354
	40,821
Liabilities	
Accounts and other payables	(739)
Deferred revenue	(5,915)
	(6,654)
Total identifiable net assets at fair value	34,167
Purchase consideration transferred	30,597

Analysis of cash flows on acquisition

	$'000
Net cash acquired with the acquisition	864
Net cash flow on acquisition	864

Analysis of cash flows at reporting date relating to ICM Registry, LLC

	$'000
Cash flows from operating activities	
Operating EBITDA	122
Adjustments for:	
Decrease in trade and other receivables including long term receivables	116
Decrease in trade and other payables	(158)
Net cash flow from operating activities	80
Cash flows from investing activities	
Cash paid upon acquisition of ICM	(10,000)
Net cash acquired with the acquisition	864
Net cash flow from investing activities	(9,136)
Net decrease in cash and cash equivalents	(9,056)

11. Intangible Assets

	generic top level domains $'000's	Software & development costs $'000's	Contract based Intangible assets $'000's	Other $'000's	Total $'000's
Cost					
At 1 January 2017	41,561	2,297	3,815	170	47,843
Additions	-	235	-	-	235
Exchange differences	68	138	391	-	597
At 31 December 2017	**41,629**	**2,670**	**4,206**	**170**	**48,675**
Additions	39,603	-	-	-	39,603
Exchange differences	(18)	(31)	(106)	-	(155)
At 30 June 2018	**81,214**	**2,639**	**4,100**	**170**	**88,123**
Accumulated Amortization and Impairment					
At 1 January 2017	-	(2,070)	-	(170)	(2,240)
Charge for the year	-	(140)	-	-	(140)
Exchange differences	-	(113)	-	-	(113)
At 31 December 2017	**-**	**(2,323)**	**-**	**(170)**	**(2,493)**
Charge for the period	-	(82)	-	-	(82)
Impairment loss	-	-	(4,100)	-	(4,100)
Exchange differences	-	27	-	-	27
At 30 June 2018	**-**	**(2,378)**	**(4,100)**	**(170)**	**(6,648)**
Carrying amount					
At 30 June 2018	**81,214**	**261**	**-**	**-**	**81,475**
At 31 December 2017	41,629	347	4,206	-	46,182

generic Top Level Domains

In 2012, the Group applied for new generic Top Level Domains to the Internet Corporation for Assigned Names and Numbers (ICANN). Successful applications are transferred from other long-term assets to Intangible assets. The Group capitalises the full cost incurred to pursue the rights to operate generic Top Level Domains including amounts paid at auction to gain this right where there are more than one applicant to ICANN for the same generic Top Level Domain.

This class of intangible assets are assessed to have an indefinite life as it is deemed that the application fee and amounts paid at auction give the Group indefinite right to this generic Top Level Domain. The additions of $39,603k in the period are through the acquisition of ICM (see note 10).

Contract based intangible assets

In H1 2018, the Company impaired one of its intangible assets based on the onerous contract provisions as disclosed in Note 16. The total value of the impairment was $4,100k.

12. Other Long-Term Assets

	H1 2018 $'000's	31 Dec 2017 $'000's
Other long-term receivables	555	1,110
Restricted cash	-	2,217
	555	3,327

During the application process payments for gTLD applications are included in Other Long Term Assets. While there is no assurance that MMX will be awarded any gTLDs, long-term receivables payments will be reclassified as intangible assets once the gTLD strings are available for their intended use, which is expected to occur following the delegation of gTLD strings by ICANN. In general, MMX does not expect to withdraw any of its applications unless the application has not passed the evaluation process and there is no further recourse or there is an agreement to sell or dispose of its interest in certain applications.

During the 2012 financial period, the Group paid US$13.5 million in application fees to the Internet Corporation for assigned Names and Numbers (ICANN) under ICANN's New generic Top Level Domain (gTLD) Program and deposited US$3.6 million to fund the letters of credit required by ICANN.

Other long-term receivables has decreased to $555k (2017: $740k) as a result of management decision to withdraw its application with ICANN, in some cases due to participation in auctions. Where MMX receives a partial cash refund for certain gTLD applications and/or to the extent the Group elects to sell or dispose of its interest in certain gTLD applications throughout the process, it may incur gains or losses on amounts invested. In such cases the application fee will be reclassified from a long-term asset. Refunds received will be properly recorded when received, gains on the sale of the Group's interest in gTLD applications will be recognised when realised, and losses will be recognised when deemed probable. Other costs incurred by MMX as part of its gTLD initiative not directly attributable to the acquisition of gTLD operator rights are expensed as incurred.

Restricted cash has increased to $2,220k (2017: $2,217k) as a result of the combined effect of the acquisition of ICM (see note 10) and withdrawal of applications with ICANN. In the period, to better reflect the Group's cash balances (note 14), restricted cash is reflected as cash and cash equivalents.

13. Trade and Other Receivables

	H1 2018 $'000's	Restated 31 Dec 2017 $'000's
Trade receivables	5,677	6,714
Allowance for doubtful debts	(2,112)	-
	3,565	6,714
Other receivables	319	580
Prepayments and accrued revenue	2,415	1,489
Due from joint ventures	45	50
	6,344	8,833

Movement in the allowance for doubtful debts

	H1 2018 $'000's	31 Dec 2017 $'000's
Balance at the beginning of the period	-	-
Impairment losses recognised in the period	2,112	-
Amounts written off during the period as uncollectible	-	-
Balance at the end of the period	2,112	-

As required under IFRS 9 Financial Instruments, which takes effect in 2018, Management has reviewed the collection risk associated with certain long-term agreements with debtors. Accordingly, while the Company has agreements in place to collect on all outstanding receivables and continues to progress those discussions, Management believes that it is appropriate to provision for the possibility that some portion of the receivables may not be collected.

14. Cash and Cash Equivalents

Restricted cash

Included in the Group's cash and cash reserves is restricted funds of $3,220k (2017: $1,000k) of which $2,220k (note 12) is reclassified in the period from Other-long term assets to Cash and Cash equivalents. These amounts are held to fund the letters of credit required by ICANN and $1,000k (2017: $1,000k) is held in escrow to satisfy certain vendor requirements, to be released back to the Group in September 2021.

15. Trade and Other Payables

	H1 2018 $'000's	31 Dec 2017 $'000's
Trade payables	296	115
Credit balances on customer accounts	984	224
Taxation liabilities (VAT, income tax and other)	526	217
Borrowings	3,000	-
Other liabilities	2,117	2,959
Deferred revenue	15,018	6,472
Accruals	1,601	2,617
Due to Joint Ventures	66	104
	23,608	**12,708**

Deferred revenue has increased by $8,546k mostly as a result of its ongoing obligations associated with the acquisition of ICM.

Separately, MMX entered into a Facility Agreement with London and Capital Assets Management Limited, a significant shareholder. The facility provides $3million of working capital to support future innovation and acquisition orientated activity by the Company.

16. Provisions

	H1 2018 $'000's	31 Dec 2017 $'000's
Onerous contract provision	6,758	-
	6,758	**-**
Current	3,116	-
Non-current	3,642	-
	6,758	**-**

	Onerous contract provisions $'000's
At 1 January 2018	-
Provision in the year	6,992
Utilisation of provision	(234)
At 30 June 2018	**6,758**

Under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an onerous contract provision has been created as a result of Management's assessment of future earnings against future obligations associated with a specific agreement. The terms of the agreement provide for an annual minimum revenue guarantee to the business partner. The directors believe that over the term of the agreement the net loss to the Group, which is reflective of the gap between the minimum revenue guarantee payable to the business partner and the expected revenue earned by the intangible asset, is $6,992k, see Executive's summary. As a result, the associated intangible asset of $4,100k has also been fully impaired (see Note 11).

17. Share Capital and Premium

Called up, allotted, issued and fully paid ordinary shares of no par value	Note	Number of shares	Price per share (cents/pence)	Total $'000
As at 31 December 2017 and 30 June 2018		699,857,562		60,060
Shares issued:				
Issued on 15 June 2018 for acquisition of ICM Registry, LLC	10	96,699,235	9.2c/6.9p	8,852
30 June 2018				68,912

18. Post Balance Sheet Events

On the 6 August 2018, awards of options and restricted stock units ("RSU") over ordinary shares of the Company, with a nil exercise price, were made to certain directors and employees of the company.

Details of the options / RSUs granted are as follows:

	Number of Options / RSUs Granted
Toby Hall (CEO)	5,000,000
Michael Salazar (COO / CFO)	5,000,000
Employees	3,600,000
	13,600,000

The options and RSUs granted to Toby Hall and Michael Salazar, subject to the achievement of vesting conditions, the Directors' Awards will vest on the publication of the accounts of the Company for the year ended 31 December 2020. The options will vest on a straight line basis, based on total shareholder return from a base price of above 7p per Ordinary Share up to full vesting at 14p per Ordinary Share.

50% of the options and RSUs granted to the employees, subject to the same performance conditions as outlined above, will vest on the publication of the accounts of the Company for the year ended 31 December 2020. The remaining 50% vest on the publication of the accounts of the Company for the year ended 31 December 2020.

corporate information

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Michael Salazar
Chief Operating Officer and
Chief Finance Officer

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