

Adept4 plc

("Adept4", the "Group" or the "Company") Interim Results for the six months ended 31 March 2018

Adept4 plc (AIM: AD4), the AIM quoted provider of IT as a Service, today announces its unaudited interim results for the six months ended 31 March 2018.

FINANCIAL HIGHLIGHTS

- Revenue increased 7% to £5.4m (H1 2017: £5.0m), of which 69% is recurring
- Gross profit of £3.1m of which 68% comes from recurring revenues (H1 2017: £3.1m), and which represents a gross profit margin of 57% (H1 2017: 62%)
- Trading Group EBITDA¹ of £0.5m (H1 2017: £0.6m)
- Adjusted Group EBITDA² of £0.2m (H1 2017: 0.3m)
- Loss before tax for the period £0.8m (H1 2017: £0.8m) after £0.5m amortisation of intangible assets and £0.3m of finance costs
- Cash at bank of £2.0m (30 September 2017: £2.9m), with net debt³ standing at £3.0m (30 September 2017: £2.0m)

OPERATIONAL HIGHLIGHTS

Progress made against each key objective:

- Strengthening of senior operational management team, with new Sales Director identified post period end and due to join business shortly to drive revenue growth
- Development of partnership with Microsoft – awarded Gold Cloud Platform Partner status
- Appointed as exclusive reseller of Nyotron cybersecurity products in the UK market
- A number of strategic customer wins

Simon Duckworth, Non-Executive Chairman of Adept4, commented:

“We are satisfied with the progress made in the period against our stated key objectives and believe we have the building blocks in place to allow us to focus on driving the operational performance of the business.

“The appointment of a new Sales Director and a strengthening of the sales team will be key to us achieving future revenue growth. Successful execution of our cost rationalisation programme will ensure we enter the next phase of our development with a cost base appropriate to a business of our size whilst maintaining the ability to capitalise on the pipeline of opportunities we have built.

“There is work to be done to achieve the potential of the business but we believe we have the right platform in place to move forward.”

¹Trading Group EBITDA is measured as earnings from continuing operations before plc costs, interest, taxation, depreciation, amortisation of intangibles, separately identifiable costs and income and share based payments

²Adjusted Group EBITDA is measured as Trading Group EBITDA after plc costs

³ Net debt represents cash and cash equivalents less short-term and long-term borrowings

All company announcements can be found at www.adept4.co.uk

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The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No 596/2014.

CHAIRMAN'S STATEMENT

I am pleased to report the results of the Group for the six months ended 31 March 2018. As outlined in the 2017 Annual Report, last year was one of consolidation for the Group, with the completion of the integration of the three companies previously acquired into one single operating platform, laying the foundations for future growth in the IT as a Service sector. We also set out our key areas of strategic development for 2018 to enable us to build on those foundations. These key areas of focus primarily comprised of the strengthening of our senior operational management team, the development of our partnership with Microsoft, development of our IT security offering and the transition of customers' legacy telephone systems to next generation Skype.

I am pleased to report that we have made good progress against each of these key objectives during the period under review, whilst also moderately increasing our revenues across all segments of the business.

There remains work to be done, but we believe we now have the foundations in place to begin to drive the business forward. As we transition from a period of development and investment into one of operational execution, we are now able to recognise certain cost synergies and have commenced a programme of cost rationalisation, ensuring that our costs are appropriate for a business of our size today, whilst maintaining our ability to scale the business as we convert the pipeline of opportunities we have built.

BOARD CHANGES

In March we announced that Ian Winn, Chief Financial Officer and M&A director, had stepped down from the Board to pursue other interests. At the same time, Nick Deman was appointed to the Board as Interim Finance Director. Nick is a chartered accountant who recently performed the role of Interim Finance Director at Thruvision Group plc ("Thruvision") where he managed the balance sheet and capital restructuring following Thruvision's divestment of its Video Business as well as overseeing the transitional arrangements for the finance department. Prior to Thruvision Nick was Finance Director at Bluefin Solutions Ltd, an international technology consultancy acquired in July 2015 by Mindtree Limited, an Indian multinational information technology and outsourcing company.

Nick has been appointed on an interim basis as we continue to undertake a process to find a permanent successor.

OPERATIONAL REVIEW

During the period, we have further strengthened the management team responsible for the day to day operations of the business. We have brought in a Director of Operations from a large metropolitan police authority and a Chief Technology Officer from Microsoft. These appointments, together with our existing executives, provide us with an effective team to guide the business through its next phase of development. It has taken time to identify a suitable candidate for the key role of Sales Director and this is affecting our sales performance in the short term. We have now identified a suitable candidate for the role and look forward to them joining the business in the near future.

We have continued the development of our technical skills, our competencies and our engagement with our key vendor partners. We have been awarded Microsoft's coveted 'Gold Cloud Platform' partner status; a certification that validates our high level of competency in cloud technologies, identity management, systems management, virtualization, storage and networking. In addition, we have completed, with Microsoft, an end to end review of our managed services capability; the purpose of this review is to demonstrate our suitability to qualify for entry into the Microsoft Managed Service Partner (MSP) program. MSP status is only open to a limited number of companies and provides the

Microsoft indirect sales team with trusted partners to fulfil Microsoft sales enquiries. We envisage that if we are successful in securing a place on this programme, this will become a source of significant opportunity for the Company.

In relation to our security proposition, we have been awarded exclusivity to sell the Nyotron security portfolio in the UK. Nyotron's next generation cybersecurity solution distinguishes between legitimate operating system behaviour of IT users versus threatening activities carried out by attackers. This provides real-time protection from any attack without foreknowledge of the exploit. We are now able to dramatically improve the security of our customers by bundling Nyotron products within our managed service proposition. We have already seen significant interest for this next generation product and we are working on several large opportunities across a number of territories.

Our customers' adoption of Skype and Anywhere365 (the replacement for legacy telephony platforms) has increased, with sales across a number of market sectors demonstrating the reach and appetite for next generation contact centre technology. We continue to develop our technical skills and service capability to meet demand as we increase our customer penetration and pipeline development.

Our customer service engagement model has further developed with the introduction of a technical account manager (TAM) as a trusted advisor and strategist for all major clients on all matters of a technical nature. This approach is providing high levels of customer satisfaction and is proving to generate new opportunities and additional revenue.

During the period, we have had success in securing new sales across each of our market segments. Some of the highlights include:

- Global provider of Customer Contact Centres – £0.3m application development
- Real estate and business centre provider - £0.3m, 5-year telephony managed service
- First two Nyotron next generation security orders – minimum £0.2m, multi-year contracts

Within our sales pipeline, we are clearly starting to see an increase in our customers' appetite to understand how they can embrace digital transformation, i.e. how they can utilise cloud technology to drive business agility, improve time to market, understand and predict client behaviour and make better use of their business data. We are seeing a steady increase in these early discussions on how to approach such a significant change in their business and how Adept4 can assist in doing so.

As part of digital transformation, customers typically see a change in the profile of their IT spend with an increase in upfront professional services to make the journey from "traditional to cloud" but then a reduction in infrastructure hardware and monthly recurring spend as they have less infrastructure for us to support. This is manifesting itself in a reduction in recurring spend which is likely to reduce revenue growth in the short term but we expect the impact of this to lessen as we add new customers as well as continuing to assist existing customers with their digital transformation.

We are also seeing this reduction in recurring spend being replaced by our customers' willingness to adopt new services as part of their digital transformation program including technology areas such application redevelopment, BOT technology and Artificial Intelligence alongside Big Data and analytics. We believe we are well placed to benefit from these opportunities and replace any potential loss of recurring revenue, and as such we are already seeing an increase in pipeline and orders won in our software development division which can provide many of these new services. We have agreed a partnership with a "nearshore" development provider to assist with our own software development capabilities in a cost efficient and scalable manner.

We continue to monitor our cost base closely to ensure that it is always appropriate for our current and near-term future operations. As we transition from a period of development and investment into one of operational execution, we have commenced a programme of cost rationalisation which we believe can be effected without impacting the operational performance of the business. Alongside this, we are undertaking a review of our customer base to ensure that we are maximising our efficiencies and profitability.

FINANCIAL SUMMARY

The financial results for the six months ended 31 March 2018, reflect a period of further change, consolidation and investment as we continue to pursue our strategy of delivering IT as a Service to SMEs and public sector customers in the UK.

Continued revenue growth was demonstrated across all business segments, delivering revenue of £5.4m in the six-month period to 31 March 2018 (H1 2017: £5.0m), representing year-on-year growth of 7%. Our professional services segment, although the smallest revenue contributor, delivered the largest percentage increase in this period mainly due to the transformation projects performed for some of our key customers (as can be seen in note 3.1). As explained above, transformation projects can result in reduced ongoing monthly recurring fees for our customers, offset by an increase in one-off professional services revenues and other revenues.

Given the timing of the transformation projects undertaken in the period, overall, recurring revenues increased modestly by £0.1m to £3.7m in the six-month period to 31 March 2018, (H1 2017: £3.6m) representing 69% (2017: 71%) of all revenues in the period. This revenue stream relates to our regular contracted and service-based revenues, recurring on a monthly, quarterly or annual basis.

Gross profit for this current half-year was £3.1m (H1 2017: £3.1m). Gross profit margin achieved for the period was 57% (H1 2017: 62%). The gross profit margin achieved in H1 2017 was higher due to the increased proportion of recurring revenues and reduced expenditure on third-party vendor services in that period, with the result for the current period in line with the 58% achieved in the second half of 2017.

Other operating costs, excluding plc costs, during the current period increased by £0.1m to £2.6m (H1 2017: £2.5m) primarily as a result of our continued investment in the management team. As a consequence, our Trading Group EBITDA, representing the underlying profits from the trading business, excluding plc costs, was lower at £0.5m for the period (H1 2017: £0.6m).

Plc costs during the period were £0.3m (H1 2017: £0.3m), whilst non-cash items charged to the income statement in respect of amortisation of intangible assets, depreciation and share-based payments totalled £0.6m (H1 2017: £0.6m). In addition, we incurred £0.1m (H1 2017: £0.03m) of separately identifiable costs relating to professional and legal fees and restructuring costs.

After net interest costs of £0.3m (H1 2017: £0.5m) and a tax credit of £0.1m (H1 2017: £0.1m), the loss after tax for the period was £0.8m (H1 2017: £0.7m).

Cash balances at 31 March 2018 were £2.0m (30 September 2017: £2.9m), an outflow of £0.9m in the six months. The cash movement can be summarised as follows:

- Cash flows from trading operations were neutral arising from trading EBITDA of £0.5m offset by an increase of £0.5m in trade debtors and accrued income;
- Cash utilised on plc and separately identifiable costs of £0.4m;
- Loan interest paid of £0.2m;
- Investment in fixed assets of £0.1m;
- Cash items relating to discontinued operations of £0.1m.

The increase in our trade receivables balance of £0.5m includes £0.3m of accrued income relating to large customer transformation projects and other professional services projects in progress at 31 March 2018. These projects were worked on during the months leading up to 31 March 2018, but were subsequently completed and invoiced in full during April and May 2018. In addition, trade debtors increased by £0.2m in the period as a result of some large public sector and education sector invoices raised in March 2018 and collected during April and May 2018.

In respect of payments relating to discontinued operations, we settled a dispute with Chess ICT Limited ("Chess") in October 2017 by payment of £0.1m, relating to the recovery of an asset included in the sale of the trade and assets of Pinnacle CDT Limited to Chess in May 2016. This cost was provided for in the Group's financial statements for the year ended 30 September 2017. A further £0.1m will be

paid in September 2018 if no further recovery of the asset is made. We expect to make some recovery against this and therefore no further provision has been made.

Net debt was £3.0m (H2 2017: £2.0m). This includes the deferred consideration of £1.0m payable to the sellers of Adept4 Managed IT Limited (“MIT”) on 2 January 2018. There is currently an ongoing legal dispute with the vendors of MIT which has resulted in, amongst other matters, a delay in the payment of the deferred consideration. We continue to recognise the full amount of the deferred consideration due to the early stage of this dispute.

In addition, as detailed in the Group financial statements for the year ended 30 September 2017, the performance criteria for achievement of the earn-out relating to the acquisition of MIT were not achieved and therefore the full value of the contingent consideration accrued (of £1.1m) was written back. Although the vendors of MIT have not yet accepted this position, our assessment remains unchanged and therefore no contingent liability has been recognised. Once we have clarity on all these matters, we will undertake a full impairment review of our intangible assets to ensure that all amounts recognised in the accounts are appropriately stated.

We have identified a number of opportunities to unlock cost savings in the trading business which will reduce our overhead base going forward. Our focus continues to be on developing and growing our trading business to generate a cash surplus sufficient to support the costs of the plc and loan interest payments and increase our cash reserves.

OUTLOOK

We are satisfied with the progress made in the period against our stated key objectives and believe we have the building blocks in place to allow us to focus on driving the operational performance of the business.

The appointment of a new Sales Director and a further strengthening of the sales team will be key to us achieving future revenue growth. Successful execution of our cost rationalisation programme will ensure we enter the next phase of our development with a cost base appropriate to a business of our size whilst maintaining the ability to capitalise on the pipeline of opportunities we have built.

There is work to be done to achieve the potential of the business but we believe we have the right platform in place to move forward.

Simon Duckworth
Non-Executive Chairman
27 June 2018

INDEPENDENT REVIEW REPORT TO ADEPT4 PLC (“the Company”)

Introduction

We have been engaged by the Company to review the interim condensed financial statements for the six months ended 31 March 2018 which comprise the consolidated income statement, the consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related explanatory notes.

We have read the other information contained in the interim results announcement and considered whether it contains any apparent misstatements or material inconsistencies with the financial information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the AIM Rule 18. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report or for the conclusions we have reached.

Directors’ responsibilities

The interim results announcement is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim results announcement in accordance with AIM Rule 18.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRS as adopted by the European Union. It is the responsibility of the directors to ensure that the condensed set of financial statements included in this interim results announcement have been prepared on a basis consistent with that which will be adopted in the Group’s annual financial statements.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim results announcement based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim results announcement for the six months ended 31 March 2018 is not prepared, in all material respects, in accordance with the requirements of the AIM Rules for Companies.

Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants
27 June 2018

25 Moorgate
London
EC2R 6AY

CONSOLIDATED INCOME STATEMENT

for the six-month period ended 31 March 2018

| | Note | 6 months to 31 March 2018 £000 | 6 months to 31 March 2017 £000 | Year to 30 September 2017 £000 |
|---|------|---|---|---|
| Revenue | 3 | 5,392 | 5,028 | 10,301 |
| Cost of sales | | (2,323) | (1,914) | (4,137) |
| Gross profit | 3 | 3,069 | 3,114 | 6,164 |
| Other operating expenses excluding plc costs | | (2,616) | (2,479) | (5,005) |
| Trading Group EBITDA | | 453 | 635 | 1,159 |
| Plc costs | | (267) | (288) | (570) |
| Other operating expenses | | (2,883) | (2,767) | (5,575) |
| Profit from continuing operations before amortisation, depreciation, share based payment costs and separately identifiable costs | 3 | 186 | 347 | 589 |
| Amortisation of intangible assets | 7 | (470) | (437) | (880) |
| Depreciation | | (39) | (76) | (162) |
| Separately identifiable costs and expenses | 4 | (137) | (26) | 626 |
| Share based payments | | (60) | (66) | (162) |
| Operating (loss)/profit from continuing operations | | (520) | (258) | 11 |
| Interest receivable | | 1 | - | - |
| Interest payable | | (330) | (531) | (842) |
| Net finance expense | | (329) | (531) | (842) |
| Loss before tax from continuing operations | | (849) | (789) | (831) |
| Taxation | 5 | 84 | 87 | 248 |
| Loss for the period from continuing operations | | (765) | (702) | (583) |
| Discontinued operations | | | | |
| Loss for the period from discontinued operations | | - | (100) | - |
| Loss for the period | | (765) | (802) | (583) |
| Loss per share (pence) | | | | |
| Basic and fully diluted – continuing operations | 6 | (0.34) | (0.31) | (0.26) |
| Basic and fully diluted – discontinued operations | 6 | - | (0.04) | - |
| Basic and fully diluted | 6 | (0.34) | (0.35) | (0.26) |

Notes 1 to 10 form part of the analysis of the interim condensed financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2018

| | Note | At 31 March 2018 £000 | At 31 March 2017 £000 | At 30 September 2017 £000 |
|---------------------------------------|------|-----------------------------|-----------------------------|------------------------------------|
| Non-current assets | | | | |
| Intangible assets | 7 | 11,369 | 12,307 | 11,804 |
| Property, plant and equipment | | 214 | 288 | 228 |
| Total non-current assets | | 11,583 | 12,595 | 12,032 |
| Current assets | | | | |
| Inventories | | 102 | 69 | 66 |
| Trade and other receivables | | 2,822 | 2,284 | 2,349 |
| Cash and cash equivalents | | 2,037 | 3,888 | 2,905 |
| Total current assets | | 4,961 | 6,241 | 5,320 |
| Total assets | | 16,544 | 18,836 | 17,352 |
| Liabilities | | | | |
| Short-term borrowings | 9 | (1,035) | (2,341) | (1,012) |
| Trade and other payables | | (1,137) | (1,448) | (1,203) |
| Other taxes and social security costs | | (554) | (783) | (490) |
| Accruals and other payables | | (1,426) | (1,480) | (1,590) |
| Total current liabilities | | (4,152) | (6,052) | (4,295) |
| Non-current liabilities | | | | |
| Long-term borrowings | 9 | (4,038) | (3,795) | (3,914) |
| Deferred tax liability | 8 | (1,332) | (1,577) | (1,416) |
| Total liabilities | | (9,522) | (11,424) | (9,625) |
| Net assets | | 7,022 | 7,412 | 7,727 |
| Equity | | | | |
| Share capital | | 2,271 | 2,271 | 2,271 |
| Share premium account | | 11,337 | 11,337 | 11,337 |
| Capital redemption reserve | | 6,489 | 6,489 | 6,489 |
| Merger reserve | | 1,997 | 1,997 | 1,997 |
| Other reserve | | 1,661 | 1,505 | 1,601 |
| Retained earnings | | (16,733) | (16,187) | (15,968) |
| Total equity | | 7,022 | 7,412 | 7,727 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six-month period ended 31 March 2018

| | Share capital £000 | Share premium £000 | Capital redemption reserve £000 | Merger reserve £000 | Other reserve £000 | Retained earnings £000 | Total £000 |
|--|--------------------------|--------------------------|--|---------------------------|--------------------------|------------------------------|---------------|
| At 1 October 2016 | 2,271 | 11,337 | 6,489 | 1,997 | 1,439 | (15,385) | 8,148 |
| Loss and total comprehensive loss for the period | - | - | - | - | - | (802) | (802) |
| Transactions with owners | | | | | | | |
| Share-based payments | - | - | - | - | 66 | - | 66 |
| Total transactions with owners | - | - | - | - | 66 | - | 66 |
| Total movements | - | - | - | - | 66 | (802) | (736) |
| Equity at 31 March 2017 | 2,271 | 11,337 | 6,489 | 1,997 | 1,505 | (16,187) | 7,412 |

| | Share capital £000 | Share premium £000 | Capital redemption reserve £000 | Merger reserve £000 | Other reserve £000 | Retained earnings £000 | Total £000 |
|--|--------------------------|--------------------------|--|---------------------------|--------------------------|------------------------------|---------------|
| At 1 April 2017 | 2,271 | 11,337 | 6,489 | 1,997 | 1,505 | (16,187) | 7,412 |
| Loss and total comprehensive loss for the period | - | - | - | - | - | 219 | 219 |
| Transactions with owners | | | | | | | |
| Share-based payments | - | - | - | - | 96 | - | 96 |
| Total transactions with owners | - | - | - | - | 96 | - | 96 |
| Total movements | - | - | - | - | 96 | 219 | 315 |
| Equity at 30 September 2017 | 2,271 | 11,337 | 6,489 | 1,997 | 1,601 | (15,968) | 7,727 |

| | Share capital £000 | Share premium £000 | Capital redemption reserve £000 | Merger reserve £000 | Other reserve £000 | Retained earnings £000 | Total £000 |
|--|--------------------------|--------------------------|--|---------------------------|-----------------------------------|------------------------------|---------------|
| At 1 October 2017 | 2,271 | 11,337 | 6,489 | 1,997 | 1,601 | (15,968) | 7,727 |
| Loss and total comprehensive loss for the period | - | - | - | - | - | (765) | (765) |
| Transactions with owners | | | | | | | |
| Share-based payments | - | - | - | - | 60 | - | 60 |
| Total transactions with owners | - | - | - | - | 60 | - | 60 |
| Total movements | - | - | - | - | 60 | (765) | (705) |
| Equity at 31 March 2018 | 2,271 | 11,337 | 6,489 | 1,997 | 1,661 | (16,733) | 7,022 |

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six-month period ended 31 March 2018

| | | 6 months to 31 March 2018 £000 | 6 months to 31 March 2017 £000 | Year to 30 September 2017 £000 |
|--|----|---|---|---|
| Cash flows from continuing operating activities | | | | |
| Cash (used) / generated by operations | 10 | (514) | 43 | (52) |
| Taxation | | - | (45) | (383) |
| Net cash used in operating activities | | (514) | (2) | (435) |
| Cash flows from investing activities | | | | |
| Purchase of property, plant and equipment | | (75) | (109) | (248) |
| Interest received | | 1 | - | - |
| Net cash used in investing activities | | (74) | (109) | (248) |
| Cash flows from financing activities | | | | |
| Receipt of finance lease | | 56 | - | 16 |
| Payment of finance lease liabilities | | (18) | (27) | (30) |
| Interest paid | | (218) | (202) | (404) |
| Net cash used in financing activities | | (180) | (229) | (418) |
| Cash flow from discontinued operations | | (100) | (38) | (260) |
| Net decrease in cash | | (868) | (378) | (1,361) |
| Cash at bank and in hand at beginning of period | | 2,905 | 4,266 | 4,266 |
| Cash at bank and in hand at end of period | | 2,037 | 3,888 | 2,905 |

NOTES TO THE FINANCIAL INFORMATION

for the six-month period ended 31 March 2018

1. General Information

Adept4 plc is a company incorporated in the United Kingdom under the Companies Act 2006. The principal activity of the group is the provision of IT as a Service (“ITaaS”) to small and medium sized businesses in the United Kingdom. The interim condensed financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which each of the Group’s subsidiaries operates.

The address of its registered office is 5 Fleet Place, London, EC4M 7RD and its principal places of business are Leeds and Warrington. The company is quoted on AIM, the market of that name operated by the London Stock Exchange, under ticker symbol AD4.L

These interim condensed financial statements contain inside information.

2. Basis of preparation

The annual financial statements of the group are prepared in accordance with IFRS as adopted by the European Union. The interim financial information in this report has been prepared using accounting policies consistent with IFRS as adopted by the European Union. IFRS is subject to amendment and interpretation by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee and there is an ongoing process of review and endorsement by the European Commission. The financial information has been prepared on the basis of IFRS that the Directors expect to be adopted by the European Union and applicable at 30 September 2018.

Financial information contained in this document does not constitute statutory accounts within the meaning of section of 434 of the Companies Act 2006 (“the Act”). The statutory accounts for the year ended 30 September 2017 have been filed with the Registrar of Companies. The report of the auditors on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Act. The financial information for the six months ended 31 March 2018 and 31 March 2017 is unaudited.

The accounting policies applied by the Group in these interim condensed financial statements are the same as those applied by the Group in the consolidated financial statements for the year ended 30 September 2017. In accordance with IFRS 3, prior period balances as at 31 March 2017 and 30 September 2017 have been retrospectively adjusted in order to reflect adjustments to provisional fair values noted within the measurement periods arising from pre-acquisition tax charges for the acquired entities.

After reviewing budgets, forecasts and cash projections for the next twelve months and beyond, the Directors believe that the Group have adequate resources to continue operations for the foreseeable future and for this reason they have adopted a going concern basis in preparing the interim condensed financial statements. The interim condensed financial statements were approved by the Board of Directors on 27 June 2018.

There were no new financial reporting standards adopted in the six months ended 31 March 2018. The following standards and interpretations have not been early adopted by the Group and will be adopted in future accounting periods:

- International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers (effective for annual financial statement periods beginning on or after 1 January 2018);
- International Financial Reporting Standard (IFRS) 9 Financial Instruments (effective for annual financial statement periods beginning on or after 1 January 2018); and
- International Financial Reporting Standard (IFRS) 16 Leases (effective for annual financial statement periods beginning on or after 1 January 2019)

We have been assessing the likely impact from adopting the standards as reported in the consolidated financial statements for the year ended 30 September 2017 and will continue to do so.

3. Segment Reporting

Following the re-organisation of the business during early 2016 the operating segments of the business were redefined to reflect the holistic nature of IT as a Service. Three segments were identified which are defined below;

- Product – comprises the resale of solutions (hardware and software) from leading vendors
- Recurring Services – comprises the provision of continuing IT services which have an ongoing billing and support element
- Professional Services – comprises the provision of highly skilled resource to consult, design, install, configure and integrate IT technologies

All revenues for continuing operations relate to the UK.

| 3.1 Analysis of revenue | 6 months to 31 March 2018 £000 | 6 months to 31 March 2017 £000 | Year to 30 September 2017 £000 |
|--------------------------------|---|---|---|
| By operating segment | | | |
| Product | 1,210 | 1,115 | 2,232 |
| Recurring services | 3,741 | 3,594 | 7,316 |
| Professional services | 441 | 319 | 753 |
| Total revenue | 5,392 | 5,028 | 10,301 |

| 3.2 Analysis of gross profit | | | |
|-------------------------------------|--------------|-------|-------|
| By operating segment | | | |
| Product | 551 | 516 | 1,000 |
| Recurring services | 2,082 | 2,288 | 4,414 |
| Professional services | 436 | 310 | 750 |
| Total gross profit | 3,069 | 3,114 | 6,164 |

| 3.3 Analysis of Adjusted Group EBITDA | | | |
|---|----------------|---------|---------|
| Gross profit | 3,069 | 3,114 | 6,164 |
| Other operating expenses, not including plc costs | (2,616) | (2,479) | (5,005) |
| Trading Group EBITDA | 453 | 635 | 1,159 |
| Other operating expenses, plc costs | (267) | (288) | (570) |
| Adjusted Group EBITDA | 186 | 347 | 589 |

4. Separately identifiable costs and expenses

During the period, the Group incurred the following separately identifiable costs and expenses which are material by their size or incidence:

| | 6 months to 31 March 2018 £000 | 6 months to 31 March 2017 £000 | Year to 30 September 2017 £000 |
|--|---|---|---|
| Write back of contingent consideration | - | - | 1,122 |
| Termination payment for former Chairman | - | - | (75) |
| Provision for dispute with Chess ICT Limited | - | - | (100) |
| Impairment of goodwill | - | - | (200) |
| Professional and legal fees relating to acquisitions | (90) | - | - |
| Restructuring costs | (47) | (26) | (121) |
| Separately identifiable (costs) and expenses | (137) | (26) | 626 |

5. Taxation

| | 6 months to 31 March 2018 £000 | 6 months to 31 March 2017 £000 | Year to 30 September 2017 £000 |
|--|---|---|---|
| Current tax | | | |
| UK corporation tax for the period on continuing operations | - | - | - |
| Deferred tax | | | |
| Deferred tax on intangible assets from continuing operations | (84) | (87) | (248) |
| Total taxation credit for the period | (84) | (87) | (248) |

6. Loss per share

| | 6 months to 31 March 2018 p/share | 6 months to 31 March 2017 p/share | Year to 30 September 2017 p/share |
|---|--|--|--|
| Basic and fully diluted – continuing operations | (0.34) | (0.31) | (0.26) |
| Basic and fully diluted – discontinued operations | - | (0.04) | - |
| Basic and fully diluted | (0.34) | (0.35) | (0.26) |
| | £000 | £000 | £000 |
| Loss on continuing operations | (765) | (702) | (583) |
| Loss on discontinued operations | - | (100) | - |
| Loss attributable to ordinary shareholders | (765) | (802) | (583) |
| Weighted average number of shares in issue: | | | |
| Basic and fully diluted | 227,065,100 | 227,065,100 | 227,065,097 |

7. Intangible assets

| | Goodwill £000 | IT, billing and website systems £000 | Brand £000 | Customer lists £000 | Total £000 |
|--|------------------|--|---------------|---------------------------|----------------|
| Cost | | | | | |
| At 1 October 2016 | 4,312 | - | 1,157 | 7,580 | 13,049 |
| Adjustments to provisional fair values | 108 | - | - | - | 108 |
| At 31 March 2017 | 4,420 | - | 1,157 | 7,580 | 13,157 |
| Additions | - | 113 | - | - | 113 |
| Adjustments to provisional fair values | 27 | - | - | - | 27 |
| At 30 September 2017 | 4,447 | 113 | 1,157 | 7,580 | 13,297 |
| Additions | - | 35 | - | - | 35 |
| At 31 March 2018 | 4,447 | 148 | 1,157 | 7,580 | 13,332 |
| Amortisation | | | | | |
| At 1 October 2016 | - | - | (35) | (378) | (413) |
| Charge for the period | - | - | (31) | (406) | (437) |
| At 31 March 2017 | - | - | (66) | (784) | (850) |
| Impairment charge | (200) | - | - | - | (200) |
| Charge for the period | - | (7) | (84) | (352) | (443) |
| At 30 September 2017 | (200) | (7) | (150) | (1,136) | (1,493) |
| Charge for the period | - | (10) | (60) | (400) | (470) |
| At 31 March 2018 | (200) | (17) | (210) | (1,536) | (1,963) |
| Net Book Value | | | | | |
| At 31 March 2017 | 4,420 | - | 1,091 | 6,796 | 12,307 |
| At 30 September 2017 | 4,247 | 106 | 1,007 | 6,444 | 11,804 |
| At 31 March 2018 | 4,247 | 131 | 947 | 6,044 | 11,369 |

* **Note:** In accordance with IFRS 3, prior period balances as at 31 March 2017 and 30 September 2017 have been retrospectively adjusted in order to reflect adjustments to provisional fair values noted within the measurement periods arising from pre-acquisition tax charges for the acquired entities.

| 8. Deferred tax | 6 months to 31 March 2018 £000 | 6 months to 31 March 2017 £000 | Year to 30 September 2017 £000 |
|---|---|---|---|
| Provision brought forward | 1,416 | 1,664 | 1,664 |
| Credits to income statement – on intangibles | (84) | (87) | (166) |
| Credits to income statement - for change in future tax rates | - | - | (82) |
| Provision carried forward | 1,332 | 1,577 | 1,416 |
| 9. Borrowings | 6 months to 31 March 2018 £000 | 6 months to 31 March 2017 £000 | Year to 30 September 2017 £000 |
| Short-term borrowings | | | |
| Finance lease | 43 | 37 | 12 |
| Deferred consideration for Accent Telecom North Limited | - | 223 | - |
| Deferred consideration for Adept4 Managed IT Limited | 992 | 1,000 | 1,000 |
| Contingent consideration for Adept4 Managed IT Limited | - | 1,500 | - |
| Fair Value adjustment relating to deferred and contingent consideration | - | (419) | - |
| Total short-term borrowings | 1,035 | 2,341 | 1,012 |
| Long-term borrowings | | | |
| Finance lease | 61 | 23 | 42 |
| BGF loan notes repayable to BGF between 2021 and 2023 | 5,000 | 5,000 | 5,000 |
| Fair value adjustment relating to BGF loan notes | (1,023) | (1,228) | (1,128) |
| Total long-term borrowings | 4,038 | 3,795 | 3,914 |
| 10. Cashflow from operating activities | 6 months to 31 March 2018 £000 | 6 months to 31 March 2017 £000 | Year to 30 September 2017 £000 |
| Loss before tax from continuing operations | (849) | (789) | (831) |
| <u>Adjustments for:</u> | | | |
| Depreciation | 39 | 76 | 162 |
| Amortisation | 470 | 437 | 880 |
| Share option charge | 60 | 66 | 162 |
| Interest expense | 329 | 531 | 842 |
| Increase in trade and other receivables | (473) | (716) | (781) |
| Increase in inventories | (35) | (47) | (44) |
| (Decrease) / increase in trade payables, accruals and other creditors | (55) | 485 | (442) |
| Net cash (outflow)/inflow from continuing operations | (514) | 43 | (52) |