-Castleton Technology plc

("Castleton", the "Group" or the "Company")

Unaudited Interim Results for the Six Months Ended 30 September 2019

Castleton Technology plc (AIM: CTP), the software and managed services provider to the public and not-for-profit sectors, today announces its unaudited interim results for the six months ended 30 September 2019.

Financial Highlights

- Recurring revenues of £7.6 million comprise 66% of total revenue (H1 FY18: recurring revenues of £7.0 million comprise 55% of total revenue)
- Revenues decreased 10% to £11.6 million (H1 FY19: £12.9 million). Organic[(i)] revenues decreased by 13%, driven by lower one-off revenues
- Adjusted EBITDA[(ii)] decreased 3% to £2.9 million (H1 FY19: £3.0 million). The adjusted EBITDA of £2.9 million has benefited by £0.2 million due to IFRS 16 with costs now taken in depreciation and finance costs. Organic[(i)] Adjusted EBITDA decreased by 11%
- Cash generated from operations of £2.3 million (H1 FY19: £3.0 million) which is 80% cash conversion[(iii)] (H1 FY19 102%)
- Loss before tax for the period of £0.2 million (H1 FY19: Profit before tax for the period £0.5 million)
- Adjusted net debt[(iv)] as at 30 September 2019 of £4.1 million excluding IFRS 16 lease liabilities (30 September 2018: £5.3 million). As at 31 March 2019, net debt was £5.1 million
- Maiden dividend paid on 18 September 2019 of 1p per share

Operational Highlights

- Significant new Managed Services contract wins with Grand Union, Suffolk Housing and Colne Housing
- Completion of the first version of the Castleton.AI platform, and first standalone sale of this product
- Merging of the Software Solutions and Managed Services businesses on 1 June 2019, to create a truly "one Castleton" structure with the intention of delivering a unified, seamless and enhanced customer experience
- Growth in contracted backlog of 5% since H1 FY19
- Social housing customer base now 595, compared to 591 as at 31 March 2019
- Percentage of customers taking more than one product has increased to 52%, from 50% at 31 March 2019

Post Period Highlights

- Chosen by the National Housing Federation as the preferred supplier for Housing Management Solutions

Outlook

- The Company is confident that revenue, EBITDA and cash generation will show a material improvement in the second half of the year

David Payne, Chairman of Castleton, commented:

"As reported at the Group's trading update on 10 October 2019, the first six months of FY20 has been challenging, particularly compared to the strong comparable period last year. This was primarily due to a decline in one-off revenues and the reorganisation of the business taking longer to embed than first anticipated.

We have focussed our efforts on recurring revenue and building a strong future revenue base, and whilst this reorganisation has created short-term disruption, it will result in the streamlining of our sales and delivery functions. I am confident that this will stand the business in a strong position for the future, and I remain optimistic of the Group's success and continued growth."

(i) Organic growth is stated after adjusting for the full year effect of Deeplake Digital Limited, acquired 10 January 2019
(ii) Earnings for the period from continuing operations before net finance costs, depreciation, amortisation, exceptional items, and share based payment charges.
(iii) Cash conversion is calculated as cash generated from operations divided by Adjusted EBITDA[ii]
(iv) Including deferred consideration and interest accrued on loan notes. For the period ended 30 September 2018 including contingent consideration
(v) EBITDA for six months to September 2019 is accounted for under IFRS 16. EBITDA for six months to September 2018 is pre IFRS 16. For further information, see note 1.

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About Castleton Technology plc

Castleton Technology plc is a leading supplier of complementary software and managed services to the public and not-for-profit sectors. The Group is a 'one stop shop', providing integrated housing systems via the Cloud, working in partnership with its customers and resellers to help drive efficiencies whilst improving controls and customer service. www.castletonplc.com

The information communicated in this announcement is inside information for the purposes of Article 7 of Regulation 596/2014.

Chairman's Statement

Dear Shareholder

I am reporting on the results of the Group for the six months ended 30 September 2019, which, as reported previously, has been a difficult period, especially in the second quarter with both hardware and professional services revenue being behind expectations. Additionally, whilst the merger of our Managed Services and Software Solutions businesses into a single unit will ultimately streamline our sales and delivery functions, the benefits are taking longer to materialise than we anticipated. We have however seen recurring revenues increase by £0.6 million in absolute terms in comparison to the prior period, with total recurring revenues now standing at 66% (H1 FY18: 55% of total revenue) and gross profit margin increase to 59% (Restated H1 FY19: 56%). The underlying quality and metrics of the business remain robust.

Operational Review

The Group completed three significant contract wins during the period in relation to cloud offerings – Grand Union, Suffolk Housing and Colne Housing – with several more tenders in the pipeline. The Grand Union contract, worth £1.0 million over four years, will provide a full end-to-end managed service offering that demonstrates the progress within our stated strategy of growing recurring revenue and building long-term prospects within the core customer base. Suffolk Housing and Colne Housing were additional wins where, although we were the incumbent, we increased the scope and scale of our offering. The contract values are £0.5 million over three years and £0.4 million over two years for Suffolk Housing and Colne Housing respectively.

We were also successful in being chosen as the National Housing Federation's preferred supplier for Housing Management Solutions, post period end. The Federation represents roughly 900 of the UK's smaller housing associations that are struggling to find fit-for purpose, integrated housing solutions. It is envisaged that our Castleton Community solution, which has been specifically developed for housing associations with less than 1,000 properties, will assist the Federation's members in achieving their future growth plans.

The transition to cloud has meant that our customers are performing fewer infrastructure reviews and the associated hardware sales that this brings is one of the reasons why we have amended our outlook for the full year. We are effectively replacing one-off hardware revenues with more recurring revenue from cloud tenders. Our contracted backlog of revenue has grown 5% year-on-year and now stands at £30.1 million, up from £28.6 million at September 2018.

The merger of our Managed Services and Software Solutions businesses at the start of the year was designed to drive greater levels of cross sell and, whilst we have had some initial success, this has taken longer to embed than we expected. At the start of Q2, we rightsized the professional services team, as the level of backlog needed to keep this team fully utilised was lower than we had anticipated. This has led to a decrease in professional services revenue for our full year forecast and an exceptional charge for associated redundancy and reorganisation costs.

Cross selling has continued with 52% of our 595 Housing Association customers now taking more than one product or service from us, up from 50% of 591 customers at the end of March 2019. The majority of this increase has been from the selling of hosting solutions to our financial modelling customers. We expect to see further cross selling as we move into the second half of the year. Despite the increase in customers and cross selling, there was lower customer retention than in previous periods. We do not expect this lower retention to continue in the second half of the year.

We remain focused on product development with the aim of providing our customers with the technology and services they require to operate effectively and are pleased with the skill and efficiency of our recently acquired Indian division.

Trading and Results

IFRS 16 (leases) is effective for the period starting 1 April 2019 and the Group has applied IFRS 16 on a cumulative catch up basis from the date of initial application (1 April 2019), without restatement of comparative amounts. The quantitative impact of IFRS 16 on the interim 2020 financial statements is a £0.2 million reduction in administrative expenses and a £0.2 million increase in depreciation, resulting in no material change to finance costs or operating profit for the period ended 30 September 2019. On initial transition, right of use assets increased by £1.2 million and lease liabilities increased by £1.3 million. At 30 September 2019, right of use assets are £1.0 million and lease liabilities are £1.0 million. The lease liabilities of £1.0 million are included in the net debt of £5.1 million at 30 September 2019.

The Group generated revenue for the six months to 30 September 2019 of £11.6 million (H1 FY19: £12.9 million), the reduction being the result of lower one-off revenues. As a result of the change in mix, as well as an absolute increase in recurring revenue of £0.6 million to £7.6 million (H1 FY19: £7.0 million), recurring revenues now comprise 66% of total revenues (H1 FY19: 55% of total revenues).

Gross profit of £6.9 million (Restated H1 FY19: £7.2 million) represents a gross margin of 59% (Restated H1 FY19: 56%) which corresponds to the increased level of higher margin recurring revenue.

The Group generated an Adjusted EBITDA* of £2.9 million in the period (H1 FY19: £3.0 million).

Administrative expenses of £6.5 million are down from £6.6 million in the restated comparative period. Included within administration expenses is a £0.3 million charge for share based payments (H1 FY19: £0.6 million), which has decreased due to the prior period including an accelerated charge on options that vested in the prior period.

Net finance costs amounted to a P&L charge of £0.2 million (H1 FY19: £0.1 million).

The loss before tax for the period is £0.2 million, (H1 FY19: profit of £0.5 million). This is after exceptional items of £0.3 million (H1 FY19: £nil) due to the merger of the Managed Services and Software businesses, and the redundancy process mentioned above. The loss before tax is also after charging amortisation of intangibles of £1.8 million (H1 FY19: £1.6 million). The tax credit in the year of £0.3 million is based on the estimated R&D tax credit for the period to 30 September 2019, with an adjustment in respect of prior years of £0.5 million due to revised estimates for FY18 and FY19 and receipt of the FY17 claim. These are offset by £0.1 million due to recognising a deferred tax charge on capitalised development costs. The overall tax credit for the period is £0.7 million (H1 FY19: £0.0 million).

On 18 September, we paid our maiden dividend of 1p per share, at a cash cost of £0.8 million in total.

Basic earnings per share ('EPS') from continuing activities was 0.63p (H1 FY19: 0.68p). Diluted EPS from continuing activities was 0.58p (H1 FY19: 0.65p). The basic and diluted EPS as at 31 March 2019 of 5.08p and 4.81p respectively were due to exceptional credits and recognition of deferred tax assets related to unused capital allowances and therefore the EPS as at 30 September 2019 was expected to be lower than at the prior year end.

***** *Before net finance costs, tax, depreciation, amortisation, exceptional items and share based payment charges*

Cash Flow and Net Debt

Cash generated by operations amounted to £2.3 million (H1 FY19: £3.0 million) comprising Adjusted EBITDA* of £2.9 million (H1 FY19: £3.0 million) and operating working capital movements of £(0.6) million (H1 FY19: £0.1 million), predominately from a reduction in trade and other payables and a reduction in deferred income, offset by a decrease in trade receivables. This gave a cash conversion of EBITDA of 80% (H1 FY19: 102%).

Net finance charges paid of £0.2 million (H1 FY19: £0.1 million) reflect the cash cost of the interest on the loan with Barclays. As at the balance sheet date, £3.4 million of the term loan was outstanding.

During the period, a total of £0.8 million was received relating to R&D tax claims for FY16 and FY17 (H1 FY19: £0.1 million relating to FY16). Claims for later years are currently in progress. The final £0.2 million of deferred consideration for the acquisition of Agile was paid in the period (H1 FY19: £0.3 million) and, as a result, no deferred consideration remains on the balance sheet. The total increase in cash and cash equivalents was £0.3 million (H1 FY19: decrease of £0.4 million). Adjusted net debt** at the period end stood at £4.1 million, compared to £5.1 million as at 31 March 2019 and £5.3 million as at 30 September 2018. Net debt at the period end, including £1.0 million of IFRS 16 lease liabilities, stands at £5.1 million.

***** *Before net finance costs, tax, depreciation, amortisation, exceptional items and share based payment charges*
*** Including deferred consideration, interest accrued on loan notes and excluding IFRS 16 lease liabilities*

Summary and Outlook

Whilst it has been disappointing to report reduced revenue and profit in the period, compared to the same period in the prior year, which has resulted in a downgrade to our forecasts for the full year, the underlying business remains strong and profitable. Additionally, we believe the reorganisation of the Group, despite impacting the business in the short term, will make the Group more successful going forward.

The payment of the maiden dividend in the period demonstrates our confidence in the business and we expect to continue with our progressive dividend policy.

The significant cross selling opportunities we have will continue to drive further penetration of our customer base, with 73% of new sales during the period to existing customers.

The market opportunity remains large and given the Group's now established position as a 'one-stop-shop' serving the social housing sector, the Board is optimistic about the Group's continued growth prospects.

David Payne

Non-Executive Chairman

Consolidated Statement of Comprehensive Income

	Note	**Unaudited six months ended 30 September 2019**	Unaudited six months ended 30 September 2018 Restated(1)	Audited year ended 31 March 2019 Restated(1)
		£000	£000	£000
Revenue	4	**11,634**	12,911	26,357
Cost of sales		**(4,760)**	(5,681)	(10,859)
Gross profit		**6,874**	7,230	15,498
Administrative expenses		**(6,537)**	(6,613)	(13,698)
Exceptional charges	5	**(333)**	-	(319)
Exceptional credits	5	**18**	-	11
Operating profit		**22**	617	1,492
Finance income		**3**	8	13
Finance costs		**(224)**	(128)	(313)
(Loss) / profit on ordinary activities before taxation		**(199)**	497	1,192
Income tax credit	6	**711**	47	2,904
Profit for the period attributable to the owners of the parent company		**512**	544	4,096
Items that may be subsequently reclassified to profit or loss				
Foreign operations – foreign currency translation differences		**(19)**	20	25
Total comprehensive income for the period attributable to the owners of the parent company		**493**	564	4,121
Earnings per share	7			
Basic earnings per share		**0.63p**	0.68p	5.08p
Diluted earnings per share		**0.58p**	0.65p	4.81p
Non GAAP measure: Adjusted EBITDA				
Operating profit		**22**	617	1,492
Depreciation and amortisation		**2,326**	1,749	3,691
EBITDA		**2,348**	2,366	5,183
Share-based payments		**274**	603	834
Exceptional credits		**(18)**	-	(11)
Exceptional charges		**333**	-	319
Adjusted EBITDA*		**2,937**	2,969	6,325

(1) Cost of Sales and Administrative expenses has been restated for both comparative periods to standardise treatment of payroll costs between the merged business divisions. There is no effect on operating profit or EBITDA or Adjusted EBITDA*. See note 2 for further details.

*Earnings for the period from continuing operations before net finance costs, depreciation, amortisation, exceptional items, and share based payment charges.

Consolidated Statement of Financial Position

	Note	**Unaudited 30 September 2019**	Unaudited 30 September 2018 Restated(2)	Audited 31 March 2019
		£000	£000	£000
Assets				
Non-current assets				
Intangible assets		**32,715**	32,501	34,010
Property, plant and equipment		**1,230**	847	1,427
Right of use asset		**992**	-	-
Trade and other receivables	8	**211**	451	288
Deferred tax asset		**3,016**	1,510	3,116
		38,164	35,309	38,841
Current assets				
Inventories		**70**	87	70
Trade and other receivables	8	**6,375**	6,456	8,408
Current income tax receivable		**1,208**	154	1,189
Cash and cash equivalents		**1,664**	183	1,389
		9,317	6,880	11,056
Total assets		**47,481**	42,189	49,897
Equity and liabilities				
Equity attributable to owners of the parent				
Called up share capital		**1,684**	1,677	1,681
Share premium account		**319**	18,835	191
Equity reserve		**143**	144	143
Translation reserve		**47**	61	66
Merger reserve		**7,966**	7,966	7,966
Other reserve		**-**	-	50
Accumulated profit/(loss)		**15,146**	(7,554)	15,209
Total equity attributable to owners of the parent		**25,305**	21,129	25,306

Consolidated Statement of Financial Position (cont.)

	Note	**Unaudited 30 September 2019**	Unaudited 30 September 2018 Restated[(2)]	Audited 31 March 2019
		£000	£000	£000
Liabilities				
Current liabilities				
Trade and other payables	9	**11,222**	11,382	13,929
Lease liabilities		**453**	-	-
Borrowings		**1,342**	1,086	1,342
Deferred consideration		**-**	435	150
Provisions		**70**	81	156
		13,087	12,984	15,577
Non-current liabilities				
Trade and other payables	9	**1,393**	1,520	1,304
Borrowings		**2,104**	1,838	2,751
Convertible loan notes		**1,902**	1,896	1,883
Lease liabilities		**572**	-	-
Deferred taxation liability		**2,941**	2,782	2,952
Provisions		**177**	40	124
		9,089	8,076	9,014
Total liabilities		**22,176**	21,060	24,591
Total equity and liabilities		**47,481**	42,189	49,897

(2) Restated from prior year following the amendment of the Group's opening IFRS 15 transition adjustment and H1 2019 results as described in the Castleton Technology Plc consolidated financial statements for year ended 31 March 2019 (see note 2).

Consolidated Statement of Changes in Equity

	Attributable to the owners of the Parent Company							
	Called up share capital	Share premium account	Equity Reserve (a)	Merger reserve (b)	Translation reserve (c)	Other reserves (h)	Accumulated profit/(loss) Restated (2)	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2018	**1,628**	**17,006**	**251**	**7,966**	**41**	**-**	**(8,383)**	**18,509**
Profit for the period	-	-	-	-	-		544	544
Other comprehensive income	-	-	-	-	20		-	20
Total comprehensive income	-	-	-	-	20	-	544	564
IFRS 15 cumulative adjustment (j)	-	-	-	-	-	-	(426)	(426)
Transactions with owners in their capacity as owners:								
Share based payments	-	-	-	-	-	-	603	603
Shares issued to Brixx International (d)	29	1,157	-	-	-	-	-	1,186
Conversion of MXC loan notes (e)	15	617	(107)	-	-	-	107	632
Exercise of share options (f)	5	55	-	-	-	-	-	60
At 30 September 2018	**1,677**	**18,835**	**144**	**7,966**	**61**	**-**	**(7,555)**	**21,128**
Profit for the period	-	-	-	-	-	-	3,552	3,552
Other comprehensive income	-	-	-	-	5	-	-	5
Total comprehensive income	-	-	-	-	5	-	3,552	3,557
Transactions with owners in their capacity as owners:								
Share based payments	-	-	-	-	-	-	231	231
Conversion of MXC loan notes (e)	-	-	(1)	-	-	-	1	-
Shares issued to CarbonNV (g)	4	191	-	-	-	-	-	195
Capital Reduction (i)	-	(18,835)	-	-	-	-	18,835	-
Tax relating to items in equity	-	-	-	-	-	-	145	145
Obligation to issue shares	-	-	-	-	-	50	-	50
At 31 March 2019	**1,681**	**191**	**143**	**7,966**	**66**	**50**	**15,209**	**25,306**
Profit for the period	-	-	-	-	-	-	512	512
Other comprehensive income	-	-	-	-	(19)	-	-	(19)
Total comprehensive income	-	-	-	-	(19)	-	512	493
IFRS 16 cumulative adjustment (j)	-	-	-	-	-	-	(32)	(32)
Transactions with owners in their capacity as owners:								
Share based payments	-	-	-	-	-	-	274	274
Dividends paid	-	-	-	-	-	-	(817)	(817)
Exercise of share options (f)	3	128	-	-	-	(50)	-	81
At 30 September 2019	**1,684**	**319**	**143**	**7,966**	**47**	**-**	**15,146**	**25,305**

(2) Restated from prior year following the amendment of the Group's opening IFRS 15 transition adjustment and H1 2019 results as described in the Castleton Technology Plc consolidated financial statements for year ended 31 March 2019 (see note 2).

Consolidated Statement of Changes in Equity (cont.)

(a) Equity reserve

The equity reserve consists of the equity component of convertible loan notes that were issued as part of the consideration for past acquisitions less the equity component of instruments converted or settled.

The fair value of the equity component of convertible loan notes issued is the residual value after deduction of the fair value of the debt component of the instrument from the face value of the loan note.

The £143,000 balance at 30 September 2019 relates to the loan notes issued for the purchase of Kypera Holdings Limited.

(b) Merger reserve

The merger reserve arose from the acquisition of Redstone Communications Limited (£216,000) and Maxima Holdings Limited (formerly Maxima Holdings plc) (£7,750,000) and represents the difference between the value of the shares acquired (nominal value plus related share premium) and the nominal value of the shares issued.

(c) Translation reserve

On consolidation, the balance sheets of Castleton Technology Pty Ltd (formerly Kypera Australia Pty Ltd) and Castleton Technology India Pvt Ltd are translated into sterling at the rates of exchange ruling at the balance sheet date. Income statement Items and cash flows are translated into sterling at rates approximating to the foreign exchange rates at the date of the transaction. Exchange gains or losses arising from the consolidation of these two companies are recognised in the translation reserve.

(d) Shares issued to Brixx International

During the period ended 30 September 2018, the Company issued a total of 1,432,706 new ordinary shares of 2 pence each to Brixx International Limited at a price of 82.75 pence per ordinary share, in respect of; the acquisition of the exclusive, perpetual and assignable licence in relation to the Castleton Strategic Modelling (formerly "Brixx") platform ("the Asset Purchase"), further development of the platform and settlement of pre Asset Purchase licence fees payable.

The consideration for the Asset Purchase was £1,686,000, of which £1,186,000 was satisfied by the issue of new ordinary shares of 2 pence each and £500,000 was paid in cash on 2 July 2018. The cash element has been included in "Purchase of intangible assets" in the Consolidated Cash Flow Statement period ended 30 September 2018.

(e) Conversion of MXC Loan notes

On 9 August 2018, MXC Guernsey Limited, a wholly owned subsidiary of MXC Capital Limited ("MXC") served a conversion notice with respect to the remaining convertible loan notes ("CLNs") it held, together with the accrued interest, amounting to £632,000 in total.

The CLNs were converted at 85.6 pence per ordinary share of 2 pence each in the capital of the Company therefore 738,896 new ordinary shares of 2 pence were allotted to MXC on 17 August 2018.

(f) Exercise of share options

On 29 August 2018, Haywood Chapman, Chief Financial Officer, exercised 271,000 options over new ordinary shares of 2 pence each in the capital of the Company, at an exercise price of 22 pence per ordinary share.

On 6 August 2019 one employee exercised 52,980 options and two employees exercised a total of 57,840 options over new ordinary shares of 2 pence each in the capital of the company at an exercise price of 75.5 pence and 71.75 pence per ordinary share respectively.

(g) Shares issued to the owners of CarbonNV InfoLogic India Private Limited

On 20 February 2019 the Company issued 200,331 ordinary shares of 2 pence in the capital of the Company ("ordinary shares") and paid cash of £154,678 (total consideration of £350,000) for the acquisition of Castleton Technology India Pvt Ltd (previously known as CarbonNV InfoLogic India Private Limited).

(h) Other reserves

On 28 March 2019, options in respect of 66,225 shares of 2 pence each were exercised at an exercise price of 75.5 pence per share and application made for admission to trading. The obligation to issue the shares has been recognised in other reserves at 31 March 2019, and on 1 April 2019 the shares were registered and issued.

(i) Capital reduction

On 23 October 2018, the High Court of Justice in England and Wales made an order confirming the cancellation of the amount standing to the credit of the Company's share premium account (the "Capital Reduction") under section 648 of the Companies Act 2006. This transfers the balance into the Profit and loss reserve.

(j) IFRS Cumulative adjustment

Adoption of IFRS 15 from 1 April 2018 and IFRS 16 from 1 April 2019 has required an adjustment to accumulated profit/(loss) to reflect the cumulative effect of the change in policy net of tax. Further details are included in note 1 and note 2 of the accounts.

Consolidated Cash Flow Statement

	Note	**Unaudited six months ended 30 September 2019**	Unaudited six months ended 30 September 2018	Audited year ended 31 March 2019
		£000	£000	£000
Cash flows from operating activities				
Cash generated from operations	10	**2,341**	3,027	6,502
Exceptional items		**(410)**	(160)	(381)
Net finance charges paid		**(111)**	(59)	(147)
Income taxes received/(paid)		**773**	118	198
Net cash flows generated from operating activities		**2,593**	2,926	6,172
Cash flows from investing activities				
Receipt of deferred consideration from sale of businesses		**30**	33	68
Acquisition of businesses, net of cash acquired		**-**	(14)	(1,963)
Purchase of property, plant and equipment		**(131)**	(158)	(972)
Purchase of intangible assets		**(443)**	(806)	(1,042)
Net cash flows used in investing activities		**(544)**	(945)	(3,909)
Cash flows from financing activities				
Issue of share capital		**82**	-	110
Exercise of share options and warrants		**-**	60	-
Settlement of deferred consideration		**(150)**	(300)	(600)
Settlement of MXC Scheme liability		**-**	(1,662)	(1,662)
Lease repayments		**(226)**	-	-
New borrowings		**-**	-	4,000
Repayment of borrowings		**(671)**	(504)	(3,257)
Dividends paid		**(817)**	-	-
Net cash flows used in financing activities		**(1,782)**	(2,406)	(1,409)
Net (decrease)/increase in cash and cash equivalents		**267**	(425)	854
Foreign exchange effects		**8**	20	25
Cash and cash equivalents at beginning of period		**1,389**	510	510
Cash and cash equivalents at end of period		**1,664**	105	1,389
Comprising:				
Cash and cash equivalents		**1,664**	183	1,389
Overdrafts		**-**	(78)	-
		1,664	105	1,389

Notes to the half-yearly financial information

1. Basis of preparation and general information

The interim financial information is unaudited. This condensed consolidated interim financial information was approved by the Directors and authorised for issue on 5 November 2019.

The Company is a public limited liability company incorporated and domiciled in England. The address of its registered office is Castleton Technology plc ("Castleton"), The Walbrook Building, 25 Walbrook, London, England, EC4N 8AF. The Company is listed on the AIM market of the London Stock Exchange.

The principal activity of the Group during the period was the provision of software and managed services to the public and not-for-profit sectors, predominantly the social housing sector.

Castleton and its subsidiaries have not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK AIM listed companies, in the preparation of this half-yearly financial report.

This condensed, consolidated interim financial information for the six months ended 30 September 2019 does not comply, therefore with all the requirements of IAS 34, 'Interim financial reporting' as adopted by the European Union. The consolidated interim financial information should be read in conjunction with the annual financial statements of Castleton for the year ended 31 March 2019, which have been prepared in accordance with IFRS as adopted by the European Union.

This condensed consolidated interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2019 were approved by the Board of directors on 18 July 2019 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under sections 498 (2) or (3) of the Companies Act 2006.

Accounting policies

The accounting policies used in the preparation of the financial information for the six months ended 30 September 2019 are in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as adopted by the European Union. The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those set out in the Group's Annual Report for the year ended 31 March 2019, except for the adoption of IFRS 16 and as described in note 2, and will be applied for the year ending 31 March 2020. This is the first set of financial statements where IFRS 16 has been applied and the Group has adopted IFRS 16 from 1 April 2019.

While the financial information included has been prepared in accordance with the recognition and measurement criteria of IFRS, as adopted by the European Union (EU), these financial statements do not contain sufficient information to comply with IFRSs.

Going concern

The consolidated interim financial information of Castleton has been prepared on the going concern basis.

The Directors have prepared detailed cash flow projections including sensitivity analysis on key assumptions. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance and the timing of key strategic events, show the Group will be able to operate within the level and conditions of available funding. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Accordingly, the Group continues to adopt the going concern basis in preparing the consolidated financial information.

Revenue recognition

The Group generates revenue from the provision of software licences, implementation services, maintenance and support, outsourced hosting managed services and sale of hardware. Products and services are sold in bundled packages and may include ad-hoc consultancy services for example to implement upgrades or to provide for further user licences during the contract period.

Software licences are provided on either a 'hosted' or 'installed' basis and contracts typically include an initial contract term of more than one year and, thereafter renew on an annual basis.

Implementation services comprise ‘go live’ support which can include; design and build, data migration, training, configuration and implementation. Hosted managed services contracts are multi-element contracts which may include hosted IT infrastructure, hosted desktop, data back-up, support services and provision of various software applications.

Revenue is recognised when the performance obligation has been satisfied by transferring the promised good or service to the customer.

At contract inception, the transaction price is determined, being the amount that the Group expects to receive for transferring the promised goods or services. The transaction price is allocated to the performance obligations in the contract based on their relative standalone selling prices.

Standard payment terms are thirty days after the date of the invoice. This does not prevent the customer from withholding payment of any amount of an invoice which is the subject of a genuine and bona fide dispute. Standard warranty terms are 90 days from the delivery date.

Software

Software comprises a licence to use the software, upgrades and support and maintenance. Management have concluded that the upgrades are fundamental to the functionality of the software and that therefore, there is a single performance obligation. Management have also determined that the licence granted to the customer provides them with the right to access the intellectual property as it exists, throughout the licence period, and consequently, where there is an obligation to provide the licence with upgrades over time, revenue from this single performance obligation is recognised on a straight line basis over the contract period. In instances where there are no ongoing obligations, the revenue would be recognised at a point in time.

Implementation services

Determination of whether implementation is a distinct performance obligation is based on the degree of complexity involved in the service, as judged by management. Where the service comprises basic changes and configuration to implement the software, it is regarded as distinct and revenue is recognised as the performance obligation is met. Where the implementation requires significant configuration and modification of the underlying software, it is not considered to be distinct and is combined with other promises in the contract. The treatment of implementation services will be assessed on a contract by contract basis.

Managed services

Excluding implementation, which is assessed separately (see above), all remaining goods and services within managed services contracts are part of a series of goods and services that are substantially the same and have the same pattern of transfer to the customer. The revenue from all these services is recognised on a straight-line basis over the contract period, which is the period over which the customer receives and consumes the benefits of goods and services.

Sales of hardware

Sales of hardware are recognised at the point that control of the hardware is transferred to the customer. This is usually on delivery.

Financing arrangements

Where a financing component exists in customer contracts, because of the payment profile of the implementation fee which is paid upfront but may be recognised over the period of the contract, the financing component of the fee is separated from the monthly revenue and recognised separately as interest.

Contract costs

The incremental costs associated with obtaining a contract are recognised as an asset if the Group expects to recover the costs. Costs that are not incremental to a contract are expensed as incurred. Management determine which costs are incremental and meet the criteria for capitalisation.

Costs to fulfil a contract, which are not in the scope of another standard, are recognised separately as a contract fulfilment asset to the extent that they relate directly to a contract which can be specifically identified and the costs are expected to be recovered. Contract fulfilment assets are amortised over the expected contract period on a systematic basis representing the pattern in which the associated performance obligation is satisfied.

Costs to fulfil a contract, which do not meet the criteria above, are expensed as incurred.

The Group undertakes an assessment, at each reporting date, to determine whether capitalised contract costs and contract fulfilment assets are impaired. An impairment loss is recognised if the carrying amount of the capitalised contract costs or contract fulfilment asset exceeds the remaining consideration expected to be received for the services to which the asset relates, less the costs that directly relate to providing the services under the contract.

Deferred and accrued income

Where the payment schedule within a customer contract does not match the transfer of goods and services, the Group will recognise either accrued or deferred income.

A deferred income contract liability is recognised where payments made exceed the revenue recognised at the period end date. An accrued income contract asset is recognised where payments made are less than the revenue recognised at the period end date.

IFRS 16

Previously leases of property, plant and equipment were classified as either finance or operating leases under IAS 17. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Under IFRS 16 which the Group has adopted effective for the period starting 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Group has applied IFRS 16 on a cumulative catch up basis with practical expedients from the date of initial application (1 April 2019), without restatement of comparative amounts.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The accounting for short term operating leases under IAS 17, for leases with a remaining lease term of less than twelve months as at the initial application date
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease
- The application of IFRS 16 to only those operating leases accounted for under IAS 17 as at the initial application date

Quantitative impact of IFRS 16 adoption

The quantitative impact of IFRS 16 on the interim 2020 financial statements is;

- A reduction in administrative costs of £0.243 million for the period ended 30 September 2019
- An increase in depreciation of £0.227 million, for the period ended 30 September 2019
- An increase in finance costs of £0.017 million, for the period ended 30 September 2019
- On transition right of use assets of £1.217 million recognised. At 30 September 2019 right of use assets of £0.992 million
- On transition lease liabilities of £1.250 million recognised. At September 2019 lease liabilities of £1.025 of which £0.453 million is current and £0.572 million is non-current
- Adjustment to equity at 1 April 2019 of £0.03 million
- No deferred tax asset has been recognised as the transitional effect on opening reserves is immaterial

2. Prior year restatement

Restatement of Consolidated Statement of Comprehensive Income

Following the merger of the Software Solutions and Managed Services divisions in April 2019, the Directors have changed the allocation of costs between administration expenses and cost of sales used in management reporting and the Consolidated Statement of Comprehensive Income now reports in the same way. The prior year (ending 31 March 2019) and the prior six months (ending 30 September 2018) have been restated so they are comparable to the figures for the six months ending 30 September 2019. This restatement has reduced gross profit by £1.2 million in the six months ending 30 September 2018 and by £2.9 million for the year ending 31 March 2019. EBITDA, Adjusted EBITDA* and operating profit remain unchanged for both periods.

	Unaudited six months ended 30 Sept 2018	Restatement	Restated Unaudited six months ended 30 Sept 2018
	£000	£000	£000
Cost of sales	(4,222)	(1,459)	(5,681)
Administrative expenses	(8,072)	1,459	(6,613)

	Audited year ended 31 March 2019	Restatement	Restated Audited year ended 31 March 2019
	£000	£000	£000
Cost of sales	(7,319)	(3,540)	(10,859)
Administrative expenses	(17,238)	3,540	(13,698)

Restatement in respect of IFRS 15 (Revenue from contracts with customers)

The Group adopted IFRS 15 on a cumulative effect basis with practical expedients from the date of initial application (1 April 2018), without restatement of comparative amounts. Subsequent to the Group's 2019 Interim Results for the period ended 30 September 2018, further reviews of customer contacts identified adjustments needed to the opening transition balances as well as a deferred tax asset to be recognised. This resulted in the amendment of the Group's opening transition adjustment within the consolidated financial statements for the year ended 31 March 2019. The impact on the Consolidated Financial Position as at 30 September 2018 is set out in the table below. There was no material impact on the Consolidated Statement of Comprehensive Income and therefore no restatement.

	Unaudited six months ended 30 Sept 2018	Restatement	Restated Unaudited six months ended 30 Sept 2018
	£000	£000	£000
Non-current assets			
Trade and other receivables	539	(88)	451
Deferred tax asset	1,410	100	1,510
Current assets			
Trade and other receivables	6,583	(127)	6,456

Equity and liabilities			
Accumulated loss	(7,386)	(168)	(7,554)
Current liabilities			
Trade and other payables	11,343	39	11,382
Non-current liabilities			
Trade and other payables	1,506	14	1,520

3. Segment reporting

To create a truly 'one Castleton' structure, the decision had been made to merge the Software Solutions and Managed Services divisions, so that the single entity is able to deliver a unified, seamless and enhanced customer experience. Following this integration, the Group no longer has any separable segments to report.

4. Revenue by products and services

Analysis of revenue by category is as follows:

	Unaudited six months ended 30 September 2019	Unaudited six months ended 30 September 2018	Audited year ended 31 March 2019
	£000	£000	£000
Recurring revenue	**7,624**	7,048	15,356
Fees from professional services	**2,561**	2,650	5,631
Hardware and one-off revenue	**1,449**	3,213	5,370
Total revenue	**11,634**	12,911	26,357

5. Exceptional items

	Exceptional Credits	Exceptional Charges	**30 September 2019 Total**	Exceptional Credits	Exceptional Charges	31 March 2019 Total
	£000	£000	**£000**	£000	£000	£000
Integration and strategic costs	—	—	**—**	—	5	5
Acquisition costs	(18)	—	**(18)**	—	314	314
Reorganisation costs	—	333	**333**	—	—	—
Restructuring	—	—	**—**	(11)	—	(11)
	(18)	333	**315**	(11)	319	308

6. Taxation

Tax on profit on ordinary activities

	Unaudited six months ended 30 September 2019	Unaudited six months ended 30 September 2018	Audited year ended 31 March 2019
	£000	£000	£000
Corporation Tax			
Current tax on profit for the period	**(250)**	174	(286)
Adjustment in respect of prior period	**(542)**	-	(636)
Deferred tax			
Origination and reversal of timing differences	**81**	(221)	(1,982)
Total tax credit	**(711)**	(47)	(2,904)

The rate of UK corporation tax for the year beginning 1 April 2019 is 19%. From the year starting 1 April 2020 the UK corporation tax rate drops to 17%. Deferred tax has been measured on the basis of these rates and reflected in the financial statements.

Current tax on the profit for the period represents an estimated R&D tax credit for the period to 30 September 2019. Following the receipt of tax credits from FY16 and FY17 claims, revised estimates for FY18 and FY19 claims have been adjusted for of £0.5 million.

7. Earnings per share

Basic earnings per share and diluted earnings per share are calculated using a weighted average number of shares of 81,582,971 and 88,385,059 respectively (30 September 2018: weighted average number of shares of 79,946,725 and 83,927,452 respectively and at 31 March 2019: weighted average number of shares of 80,659,635 and 88,097,141 respectively).

	Unaudited six months ended 30 September 2019	Unaudited six months ended 30 September 2018	Audited year ended 31 March 2019
Basic earnings per share	**0.63p**	0.68p	5.08p
Fully diluted	**0.58p**	0.65p	4.81p

8. Trade and other receivables

	Unaudited six months ended 30 September 2019	Unaudited six months ended 30 September 2018 restated*	Audited year ended 31 March 2019
	£000	£000	£000
Current			
Trade receivables	**3,733**	4,255	6,054
Less: provision for impairment of trade receivables	**(267)**	(236)	(262)
Trade receivables – net	**3,466**	4,019	5,792
Other receivables	**58**	128	122
Contract assets	**1,526**	1,461	1,440
Prepayments	**1,325**	848	1,054
	6,375	6,456	8,408
Non-current			
Trade receivables	**-**	39	-
Prepayments	**21**	105	29
Contract assets	**190**	307	259
	211	451	288

* restated in respect of IFRS 15 as described in note 2. Current contract assets restated from £1,588,000 to £1,461,000. Non-current contract assets restated from £395,000 to £307,000.

9. Trade and other payables

	Unaudited six months ended 30 September 2019	Unaudited six months ended 30 September 2018 restated*	Audited year ended 31 March 2019
	£000	£000	£000
Current			
Trade payables	**869**	1,409	2,040
Other payables	**400**	282	448
Taxation and social security	**634**	1,057	932
Accruals	**1,898**	1,306	2,173
Income tax payable	**49**	43	54
Contract liabilities	**7,372**	7,285	8,282
	11,222	11,382	13,929
Non-current			
Contract liabilities	**992**	1,261	962
Accrued interest	**401**	259	342
	1,393	1,520	1,304

* restated in respect of IFRS 15 as described in note 2. Current contract liabilities restated from £7,246,000 to £7,285,000. Non-current contract assets restated from £1,247,000 to £1,261,000.

10. Net cash flows from operating activities

	Unaudited six months ended 30 September 2019	Unaudited six months ended 30 September 2018	Audited year ended 31 March 2019
	£000	£000	£000
(Loss)/Profit on ordinary activities before tax	**(199)**	497	1,192
Adjustments for:			
Exceptional items	**315**	-	308
Net finance costs	**221**	120	300
Depreciation of property, plant and equipment	**336**	183	453
Depreciation of right of use assets	**227**	-	-
Amortisation of intangible assets	**1,763**	1,566	3,238
Equity-settled share based payment charge	**274**	603	834
	2,937	2,969	6,325
Movements in working capital:			
Decrease/(increase) in trade and other receivables	**2,074**	457	(1,233)
(Decrease)/increase in trade and other payables	**(2,637)**	(384)	1,256
(Increase)/decrease in provisions	**(33)**	-	160
Decrease)/increase in inventories	**-**	(15)	2
Foreign exchange losses on operating activities	**-**	-	(8)
	(596)	58	177
Cash generated from operations before exceptional items	**2,341**	3,027	6,502

11. Net debt

	Unaudited six months ended 30 September 2019	Unaudited six months ended 30 September 2018	Audited year ended 31 March 2019
	£000	£000	£000
Cash	**1,664**	183	1,389
Overdraft	**-**	(78)	-
Barclays loan	**(3,357)**	(2,750)	(4,000)
Mortgage	**(89)**	(96)	(93)
Lease liabilities	**(1,025)**	-	-
Net debt before loan notes and deferred/contingent consideration	**(2,807)**	(2,741)	(2,704)
Loan notes and accrued interest on loan notes*	**(2,303)**	(2,155)	(2,225)
Net debt before deferred/contingent consideration	**(5,110)**	(4,896)	(4,929)
Deferred consideration	**-**	(435)	(150)
Net debt	**(5,110)**	(5,331)	(5,079)

* Accrued interest on loan notes is presented within “Accrued Interest” in Trade and other payables.

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Further details can be found on the Castleton website at the following address: www.castletonplc.com