Checkit plc

Half-Year Report 2019

Checkit's real-time operations management software makes organisations smart, safe and efficient. Our products use Internet of Things ("IoT"), mobile and cloud technologies to ensure our customers get the best out of their mobile teams, processes and buildings. Checkit users operate in many sectors including Retail, Hospitality, Healthcare, Real Estate Management and Manufacturing. Checkit is headquartered in Cambridge, UK with its Operations Centre in Fleet, UK and a Sales and Service office in California, USA.

CONTENTS

HIGHLIGHTS

In the six months to 31 July 2019 the Group experienced by far its most significant change since flotation in 1948. It sold Bulgin, the original bedrock of the Group, to concentrate on the business of digital transformation through its real-time operations management platform. We are excited by the opportunities that we have identified.

Corporate

- Group re-positioned to focus on Software as a Service ("SaaS") business opportunity of Checkit
- Following the disposal of Bulgin, Elektron Technology Plc changed its name to Checkit plc on 24 September 2019
- Next Control Systems Limited acquired on 14 May 2019 for £8.8m net of cash in the business and renamed Checkit UK Limited ("CUK")
- Contracts for the disposal of Elektron Technology UK Limited (owner of the Bulgin business – "Bulgin") exchanged on 31 July 2019 for gross proceeds of £105m (£94m net of adjustments and expenses). Completion took place on 24 September 2019, after the period end
- Elektron Eye Technology ("EET"), the ophthalmic instruments business is non core and remains available for sale
- The Board has announced that it expects to return up to £81m cash to shareholders by way of a tender offer for two ordinary shares for every three ordinary shares held at 65p per share. A circular is expected to be issued shortly
- Capital Markets Day planned for 5 December 2019

Board, management and headcount

- Existing board members continue as directors: John Wilson steps down as CEO but remains on the board as a non-executive director. Keith Daley and Andy Weatherstone remain as Executive Chair and CFO respectively
- Board composition will be reviewed after the distribution of cash to shareholders in light of the reshaped business
- Active recruitment campaign to strengthen Checkit senior management team completed with a number of important new hires
- The Group currently has approximately 190 staff on a full time equivalent (FTE) basis. As a result it is in a position to respond to demand that arises and scale its business significantly

Product roadmap

- Roll-out of a fully mobile, next generation Work Management app
- Now generating commercial and operational insights to provide recommendations for retail application from mobile workflow sales data analysed by the Checkit Data Pipeline/ Business Intelligence platform
- Currently in development are capabilities to enable collaborative checklist working and automated analysis of sensor and building data

Trading

- Following the disposal of Bulgin, we now have complete focus on Checkit (as enlarged by CUK) which continues to make good progress
- Refocus on larger customers
- A number of important contract wins

Financial

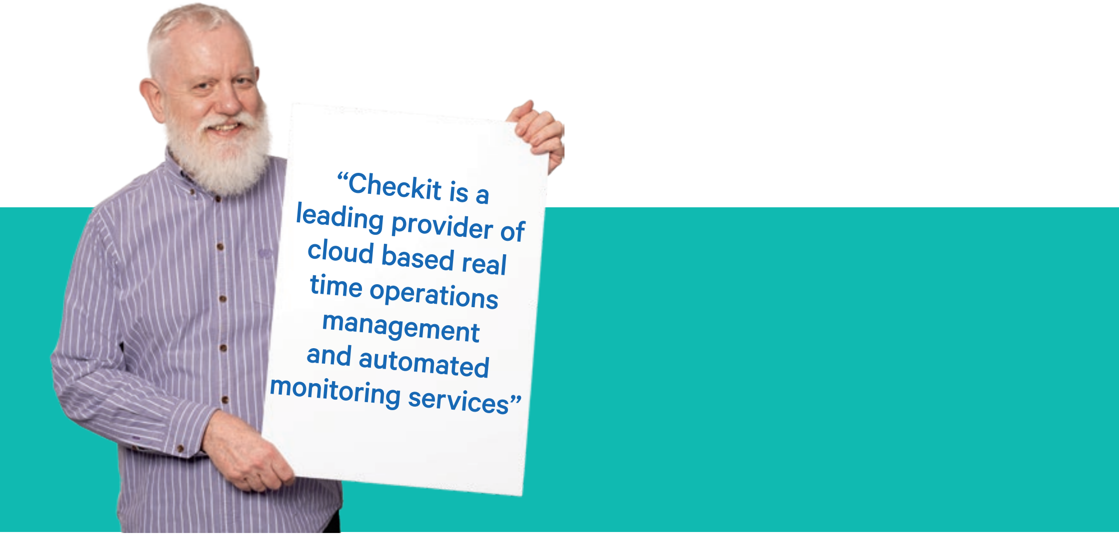
- Results for the period, as expected, characterised by a number of exceptional items and changes in the composition of the Group
- Bulgin's results are classified as discontinued operations in the interim results. Its profit is shown as net of certain disposal expenses. The profit on disposal will be shown in the full year accounts as the transaction completed post the period end
- Group revenue of £4.4m with £3.2m generated from Checkit and £1.2m from EET (H1 FY19: £0.4m from Checkit and: £1.2m from EET) (FY19: £1.0m and £2.6m respectively)
- Operating loss of £3.0m (H1 FY19: £2.2m) after charging £0.2m CUK acquisition costs and increases in investment in sales and marketing, product development and other costs
- LBITDA of £1.6m (H1 FY19 £1.2m). Cash burn (excluding acquisition) of £3.0m (HY19 £1.8m) as planned not least as a result of heavy expenditure on New Product Development, (NPD), Sales and Marketing

Outlook

- Current focus is on integrating CUK and a successful separation of Bulgin during the period of its Transitional Services Agreement
- Full year accounts will show a number of significant exceptional items (not least the profit on the sale of Bulgin) relating to the changes in the Group during the year and consequent reorganisation costs
- Several opportunities identified to accelerate move towards profitability
- Many opportunities identified for cross selling and growing the business
- Management can see a clear route to a strong and profitable business in the medium term

* Figures for continuing operations, except where otherwise stated and exclude Bulgin which has been reclassified as a discontinued operation.

THE GROUP IS NOW FOCUSSED AS A SAAS BUSINESS, HAVING SOLD BULGIN AND ACQUIRED CHECKIT UK



Introduction

Checkit aims to be the leading provider of a new generation of cloud based real-time operations management services, supporting human work and automated monitoring (Work Management and IoT for people/infrastructure/data) and is able to deliver products and services tailored to our target markets worldwide.

With this in mind, transformation is at the heart of our future vision. The transformation programme encompasses the oversight of several tectonic plates – the separation of Bulgin, the integration of CUK and Checkit, the transition to a new and improved operating model and ways of working and the transformation of the business to be a global growth focused powerhouse in real-time operations management services.

The transformation agenda is at the centre of Checkit's future vision, in transitioning Checkit to a dynamic software as a service (SaaS) global business model: A client focused, lean, dynamic, market driven, service provider, with a suite of globally accessible work management, IoT, and operational insight based products and services.

The programme is already aligning all parts of the organisation towards a single unified agile business operating model. The transformation plan is primarily focused on the 'separation', 'integration' and 'transition to our new ways of working' during the next 12 months (aligned to the Transitional Services Agreement with the buyer of Bulgin) by which time it is expected that our end-state future model for Checkit will be fully operational. This transition agenda is underpinned by strategic imperatives for FY 2019–20 and FY 2020–21 focusing on; transforming the business whilst importantly maintaining existing business as usual and establishing a single operating platform to act as a springboard for an aggressive global growth plan.

The Checkit transformation strategy will be realised through the focus on our strategic imperatives, all of which are designed to integrate the merged organisations into a new business designed with scalability and global growth in mind. The strategic imperatives include: Repositioning the entire business to a SaaS model, accelerating growth, assuming financial control, maintaining a suite of quality products and services, ensuring safety and compliance and aiming for a higher corporate purpose, all of which are underpinned by a largely new management team, working together to drive the business forward and to apply effective governance and control across the business. Our transformation strategy is live and delivering some early quick wins.

Corporate

In May 2019 Checkit acquired CUK, for a cash consideration of £10.5m, inclusive of £1.7m of cash in CUK as at the date of completion. The price represented a multiple of 6.6X 2018 EBITDA. CUK is an excellent strategic fit for Checkit, providing technology and software that enables management teams to monitor, control and optimise business processes. This was a transformational deal for Checkit, immediately adding scale and one which the Board believes will accelerate the path to profitability.

As a result of the acquisition Checkit is now a leader in high-end service based temperature monitoring for healthcare and life sciences within the UK under its Tutela brand. In addition, through its Next and Axon brands it provides data related Building Energy Management System ("BEMS") services. The acquisition provides opportunities for further sales growth and improvements to operational capabilities by:

- Cross-selling Checkit's Work Management product to CUK's customer base
- Diversifying that customer base and extend the offering across additional sectors alongside the food service sector (which was previously predominant in Checkit)
- Enhancing Checkit's existing range of sensors
- Improving operational capability
- Bringing domain knowledge of the BEMS market

CUK has performed in line with expectations since acquisition and we are pleased with the progress made in integrating the business and in the opportunities for cross selling.

In July 2019 we announced the disposal of Bulgin, our then largest business, for the sum of £105 million (£94 million net of expenses). As a result of the development of both Bulgin and Checkit, the Board had concluded that it was no longer appropriate to maintain a Group consisting of two businesses with different activities namely manufacturing and SaaS. It had already received an approach from a third party, as announced in February 2019, which valued Bulgin at a substantial premium to the then market capitalisation for the whole Group. This transaction leaves EET as the last asset for disposal.

Following the period end, the Group changed its name from Elektron Technology Plc to Checkit plc and shortly expects to issue a circular in connection with a General Meeting at which shareholders will be asked to approve the return of £81 million cash via a tender offer for two out of every three shares currently held. This is expected to leave the Group with approximately £14 million cash to enable it to develop the Checkit business.

Board, management and headcount

The board members all remained in place during the period.

Following the disposal of Bulgin in September 2019 John Wilson stepped down from the board as CEO but remains as a non-executive director in order to allow the Group to benefit from his commercial and engineering expertise. It has been an absolute pleasure to work with John over the past 11 years. During that time the Group has been transformed into an engine for the creation of shareholder value. The achievements are in no small way due to him.

The remaining board members continue in their positions and roles. Andy Weatherstone and I continue to be responsible for running Checkit along with the Checkit Executive Leadership Team ("ELT"). Following the return of cash to shareholders it is intended that the composition of the board will be reviewed with a view to increasing the level of software expertise and capabilities.

As a result of the disposal and the consequent departure of a number of senior managers with Bulgin, it has been necessary to engage in an intense period of recruitment to ensure that the ELT is of sufficient calibre to ensure that the Group is able to take advantage of the many opportunities facing it. That recruitment process is complete and we now have high quality leaders specialising in Operations, Sales, Product Management and Marketing, Product Development, HR, Finance and Organisational Transformation.

Special thanks go to Andy Bridger, former Managing Director ('MD') of CUK and our new Chief Operating Officer for the enlarged business. Andy has held the organisation together whilst the Checkit main board has been occupied with the Bulgin transaction. It is often not easy for an MD to be on the receiving end of an acquisition and accept the inevitable changes that need to be made but Andy has managed that transition with good grace and enthusiasm.

At the time of writing there are around 190 employees in the Group (including EET) of which around 100 are involved in providing the Checkit service to customers from our Operations Centre in Fleet, Hampshire, 30 are involved in Checkit software and new product development and 26 are in Checkit sales and marketing. The business is well equipped to scale up.

Product roadmap

Checkit's products make organisations smart, safe and efficient. We use Internet of Things (IoT), mobile and cloud technologies to ensure our customers get the best out of their mobile teams, processes and buildings. We continue to invest in product development, innovating to solve our customers' challenges while improving customer service and efficiency. Key developments in the period include:

People/processes – we have begun rolling out our new Work Management app for Android to key customers. This expands the potential use of Checkit from its starting point within buildings to mobile and distributed workforces. The new app gives access to an increasing range of functions. It has made it possible for users to capture additional data needed to automate and simplify their work such as bar codes and photographs, and introduces the concept of delivering work to users based on physical location. We have also introduced the ability to distribute work instructions and documentation to workers through the app to provide easy access to relevant information as work is done. We are now testing a further step change in functionality, allowing users to work collaboratively in real time on checklists and processes.

With the acquisition of CUK, we now have increased access to knowledge and customers in a wider range of industries, and we are building checklists and applications for use in healthcare, scientific and building management applications as part of a broader cross-selling initiative. We have developed functionality that allows these new checklists to be treated as reusable libraries and templates to speed up the build of future solutions.

Monitoring and controlling real world "things" – we have significantly increased the scope of our ability to monitor convenience retail and food service operations through the creation of what we believe to be a market leading, self-contained wireless temperature sensor able to be used in the hot shelves used to keep ready to go food warm and safe. This is an example of collaborating with major multinational organisations to develop and prove functionality unavailable elsewhere. In addition we have added a new layer of system monitoring and alarming to our cloud platform to allow customers and Checkit service teams to view and analyse network or service issues, improving visibility and service quality assurance.

Analysing and exploiting data – We have worked with market leaders to turn data from routine worker operations into valuable commercial insights. We have created analysis and dashboards to give insights into capacity planning and product availability in retail operations, delivered through a new release of business intelligence that is now to be embedded in our web application. This will mean Checkit is not only enforcing and guiding routine compliance processes to reduce risk and cost, it is also providing direct information to support revenue generation. Elsewhere we are developing rules based analytics to apply to sensor and building energy/operational information designed to help managers find and act on problems quickly and automatically.

Trading

Checkit segments the market by sector and size of participating businesses. It views the market as being divided into four tiers by size (T1, T2, T3 and T4). During the period it made adjustments to its approach to the targeted customer base by:

» Increasing the focus on the largest national and multinational customers (T1). It is clear from our engagement with this category of customer that the Checkit offering is attractive to this market segment which we estimate will account for approximately 50% of the eventual market

» Targeting only those T2 customers that are willing and able to pay for the solution. This has inevitably led to a reduction in activity amongst the distressed casual dining sector in the UK, our initial market entry point selected as a result of previous experience in this sector significantly lowering the barrier to entry

» Ceasing to market actively to "hard-to-reach" T3 and T4 customers (generally single site SMEs)

Although senior management was preoccupied with the sale of Bulgin during the period there were a number of notable contract wins including those involving:

» A multi-branch leisure business using work management for front and back of house activities

» A major project to save energy at the UK's leading department store as part of a carbon footprint reduction project

» A building management system on a university campus again as part of a carbon footprint reduction project

Checkit is now operational in some shape or form at 165 UK hospitals where there is potential to greatly expand its use.

Discussions continue with T1 US customers although progress has been slow we continue to believe that the US will provide good growth opportunities in the medium term. To date there has been total focus on the food service sector which has some of the undesirable economic characteristics found in the UK. The task now is to broaden the sales and marketing effort to other market sectors as has happened in the UK.

Checkit has multi-language capability widening its geographical reach and as a result we hope to sign a multi-branch contract with a customer based in mainland Europe shortly.

Financial

The results for the six months to 31 July reflect approximately two and half months of trading of CUK. Bulgin has been treated as a discontinued item. Comparatives have been restated where appropriate. The movement in results in the first half compared to those of the prior year is set out below:

Checkit total revenues include a £2.6m contribution from CUK, in line with expectations and £0.6m from existing Checkit business, a growth of 50% over the same period last year.

Losses increased following plans to intensify investment in both developing the market and the product roadmap. In addition the Group reappraised its allocation of the shared service cost of the Group resulting in an increased share of Executive human resources and information technology support costs. In the short term we expect costs to rise as a new management structure is implemented across the combined business to allow integration and growth plans to be accelerated, both of which should lead to improved efficiency and reduced operating costs in the longer term.

EET profitability improved marginally on static sales. However sales in the second half are expected to be lower than the prior year.

During the period the Group implemented IFRS 16 which introduced right of use and lease liabilities on its balance sheet, this did not have a material impact on either reported results or net assets of the Group.

The Group also has conducted an initial review of the fair values of assets of CUK acquired and this has resulted in goodwill of £5.3m being recognised.

	£m	£m
Operating profit half year to 31 July 2018 – as previously stated		1.4
Bulgin profits – reclassified as discontinued		(3.6)
Restated		(2.2)
Add:		
CUK profits from 14 May 2018	0.2	
Impact of increased sales in existing Checkit business	0.2	
EET increase in profits	0.1	
		0.5
Deduct:		
Increased allocation of central shared services	(0.3)	
Increased spend on sales and marketing	(0.4)	
Increase in product development expensed	(0.2)	
Deferred costs of equipment in Checkit expensed	(0.2)	
		(1.1)
Operating profits before non-recurring or special items		(2.8)
Acquisition costs of CUL		(0.2)
Operating loss half year to 31 July 2019		(3.0)

Financial continued

Net cash balances at 31 July were £1.5m compared to £10.1m at the end of January 2019, the main outflows being the acquisition of CUK (£9m), part payment of fees in connection with the sale of Bulgin (£0.4m) and the settlement of legal disputes and property dilapidations (£0.4m), Based on current plans the Board believes it has sufficient resources, post the return of cash to shareholders to be able to deliver its plans for growth. Post return of cash the Group expects to have approximately £14m of cash.

Outlook

There will be a Capital Markets Day in London on Thursday 5 December 2019 focussing on the Checkit products, customers and operations. Please contact kate@yellowstoneadvisory.com for further information.

The current focus is on integrating CUK and a successful separation of Bulgin during the 12 months transitional services period. Whilst this is a complex task we have made a good start. The full year accounts will show a large number of exceptional items relating to the changes in the Group during the year and consequential reorganisation costs.

We have already identified several opportunities for improvement of profitability. Our focus is on the tremendous opportunity we are working to realise in the medium to long term and so it is important here to ensure that any measures taken in the short term do not stifle growth. We therefore intend to continue our investment in new product development and sales and marketing with a view to increasing our competitive advantage and growing revenue. Management is targeting EBITDA profitability in the medium term.

Many opportunities have been identified for cross selling and growing the business leveraging CUK capabilities and customer base.

In short we believe that the future is bright.

Keith Daley
Chairman
22 October 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited interim results to 31 July 2019

	Unaudited Half year to 31 July 2019 £m	Restated* Unaudited Half year to 31 July 2018 £m	Audited Year to 31 January 2019 £m
Revenue (Note 2)	**4.4**	1.6	3.6
Cost of sales	**(3.0)**	(0.9)	(1.9)
Gross profit	**1.4**	0.7	1.7
Operating expenses			
Net operating expenses (excluding non-recurring or special items)	**(4.2)**	(2.9)	(6.1)
Operating loss before non-recurring or special items (Note 2)	**(2.8)**	(2.2)	(4.4)
Non-recurring or special items (Note 3)	**(0.2)**	—	—
Total operating expenses	**(4.4)**	(2.9)	(6.1)
Operating loss (Note 2)	**(3.0)**	(2.2)	(4.4)
Finance expense	**—**	—	—
Loss before taxation	**(3.0)**	(2.2)	(4.4)
Taxation (Note 4)	**—**	—	(0.1)
Loss from continuing operations	**(3.0)**	(2.2)	(4.5)
Profit from discontinued operations (Note 5)	**1.3**	3.2	8.6
(Loss)/profit for the period attributable to equity shareholders	**(1.7)**	1.0	4.1
Other comprehensive expense			
Currency translation differences on foreign currency net investments	**0.5**	—	(0.7)
Total other comprehensive income	**0.5**	—	3.4
Total comprehensive income/(expense) for the period attributable to equity shareholders	**(1.2)**	1.0	3.4
Earnings/(loss) per share (Note 6)			
Basic and diluted EPS			
Continuing	**(1.7)p**	(1.3)p	(2.5)p
Discontinued	**0.7p**	1.9p	4.8p
Total	**(1.0)p**	0.6p	2.3p

The accompanying notes form an integral part of this consolidated interim financial information.

* See Note 5.

CONSOLIDATED BALANCE SHEET

unaudited at 31 July 2019

	Unaudited 31 July 2019 £m	Unaudited 31 July 2018 £m	Audited 31 January 2019 £m
Assets			
Non-current assets			
Capitalised development costs	**2.5**	2.5	2.6
Goodwill arising on acquisition	**5.3**	—	—
Other intangible assets	**2.8**	0.3	0.3
Property, plant and equipment	**1.3**	1.5	1.7
Deferred tax asset	**—**	0.6	0.4
Total non-current assets	**11.9**	4.9	5.0
Current assets			
Inventories	**2.0**	4.0	4.3
Trade and other receivables	**3.1**	5.1	5.1
Asset held for sale	**4.8**	—	—
Cash and cash equivalents	**1.5**	6.8	10.1
Total current assets	**11.4**	15.9	19.5
Total assets	**23.3**	20.8	24.5
Current liabilities			
Trade and other payables	**6.5**	5.9	6.6
Lease liabilities	**0.5**	—	—
Provisions	**—**	0.2	1.0
Current tax payable	**0.1**	0.5	0.3
Total current liabilities	**7.1**	6.6	7.9
Non-current liabilities			
Long-term provisions	**0.2**	0.3	0.3
Lease liabilities	**0.5**	—	—
Deferred tax	**0.4**	—	—
Total non-current liabilities	**1.1**	0.3	0.3
Total liabilities	**8.2**	6.9	8.2
Net assets	**15.1**	13.9	16.3
Equity attributable to equity holders of the parent			
Called-up share capital	**9.3**	9.3	9.3
Share premium	**5.4**	5.4	5.4
Merger reserve	**1.1**	1.1	1.1
Capital redemption reserve	**0.2**	0.2	0.2
Own shares	**(1.8)**	(1.9)	(1.9)
Other reserves	**0.8**	0.8	0.8
Translation reserve	**(1.7)**	(1.5)	(2.2)
Retained earnings	**1.8**	0.5	3.6
Total equity	**15.1**	13.9	16.3

The accompanying notes form an integral part of this consolidated interim financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

unaudited interim results to 31 July 2019

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Own shares £m	Other reserves £m	Translation reserve £m	Retained earnings £m	Total £m
At 1 February 2018	9.3	5.4	1.1	0.2	(1.9)	0.8	(1.5)	(0.5)	12.9
Profit for the period	—	—	—	—	—	—	—	1.0	1.0
Currency translation differences on foreign currency net investments	—	—	—	—	—	—	—	—	—
Total comprehensive income for the period	—	—	—	—	—	—	—	1.0	1.0
At 31 July 2018	9.3	5.4	1.1	0.2	(1.9)	0.8	(1.5)	0.5	13.9
Profit for the period	—	—	—	—	—	—	—	3.1	3.1
Currency translation differences on foreign currency net investments	—	—	—	—	—	—	(0.7)	—	(0.7)
Total comprehensive income/(expense) for the period	—	—	—	—	—	—	(0.7)	3.1	2.4
At 1 February 2019	9.3	5.4	1.1	0.2	(1.9)	0.8	(2.2)	3.6	16.3
Effect of initial adoption of IFRS 16	—	—	—	—	—	—	—	(0.1)	(0.1)
Restated balances as at 1 February 2019	9.3	5.4	1.1	0.2	(1.9)	0.8	(2.2)	3.5	16.2
Loss for the period	—	—	—	—	—	—	—	(1.7)	(1.7)
Share based payments	—	—	—	—	0.1	—	—	—	0.1
Currency translation differences on foreign currency net investments	—	—	—	—	—	—	0.5	—	0.5
Total comprehensive income/(expense) for the period	—	—	—	—	0.1	—	0.5	(1.7)	(1.1)
At 31 July 2019	**9.3**	**5.4**	**1.1**	**0.2**	**(1.8)**	**0.8**	**(1.7)**	**1.8**	**15.1**

The own shares are held by the Elektron Technology 2012 Employee Benefit Trust.

The accompanying notes form an integral part of this consolidated interim financial information.

CONSOLIDATED STATEMENT OF CASH FLOWS

unaudited interim results to 31 July 2019

	Unaudited Half year to 31 July 2019 £m	Unaudited Half year to 31 July 2018 £m	Audited Year to 31 January 2019 £m
Net cash flows from operating activities			
(Loss)/profit before taxation			
– From continuing operations	**(3.0)**	(2.2)	(4.4)
– From discontinued operations	**1.8**	3.5	9.4
Adjustments for:			
Non-recurring items – continuing	**0.2**	—	—
Depreciation charge	**0.9**	0.2	0.4
Amortisation of capitalised development costs and other intangibles	**0.8**	1.0	1.8
Interest payable – discontinued operations	**0.1**	—	—
Loss/(gain) on disposal of discontinued operations	**—**	0.1	(0.4)
Operating cash flows before working capital changes and non-recurring or special items	**0.8**	2.6	6.8
Decrease in trade and other receivables	**(0.5)**	(0.6)	(0.2)
Increase in inventories	**(0.1)**	—	(0.6)
Increase/(decrease) in trade payables	**2.5**	(0.3)	—
Operating cash flow after working capital changes	**2.7**	1.7	6.0
(Decrease)/increase in provisions	**(0.4)**	—	0.3
Cash generated by operations	**2.3**	1.7	6.3
Acquisition costs	**(0.2)**	—	—
Tax paid	**(0.3)**	—	(0.5)
Net cash flows generated from operating activities	**1.8**	1.7	5.8
Investing activities			
Purchase of property, plant and equipment	**(0.2)**	(0.2)	(0.7)
Purchase of business	**(8.8)**	—	—
Capitalisation of development costs	**(0.7)**	(0.7)	(1.5)
Disposal of business	**—**	0.8	1.3
Net cash used in investing activities	**(9.7)**	(0.1)	(0.9)
Cash flows from financing activities			
Interest paid on contract lease liabilities	**(0.1)**	—	—
Decrease in contract lease liabilities	**(0.6)**	—	—
Net cash used in financing activities	**(0.7)**	—	—
Net (decrease)/increase in cash and cash equivalents	**(8.6)**	1.6	4.9
Cash and cash equivalents at the beginning of the period	**10.1**	5.2	5.2
Cash and cash equivalents at the end of the period	**1.5**	6.8	10.1

The accompanying notes form an integral part of this consolidated interim financial information.

NOTES TO THE UNAUDITED INTERIM RESULTS

to 31 July 2019

1. Accounting policies

The interim financial information has been prepared on the basis of International Financial Reporting Standards (IFRS) as adopted by the European Union. Full details of accounting policies are included in the Annual Report for the year ended 31 January 2019. Fixed annual charges are apportioned to the interim period on the basis of time elapsed. Other expenses unless disclosed otherwise are accrued in accordance with the same principles used in the preparation of the annual accounts.

The Group has not applied IAS 34 "Interim Financial Reporting", which is not mandatory for UK groups, in the preparation of these interim financial statements.

2. Changes in accounting policies – IFRS 16

In the current year, the Group, for the first time, has applied IFRS 16. The date of initial application of IFRS 16 for the Group is 1 February 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets.

The Group is not party to any material leases where it acts as a lessor, but the Group does have a large number of material property and equipment leases.

Details of the Group's accounting policies under IFRS 16 are set out below, followed by a description of the impact of adopting IFRS 16. Significant judgements applied in the adoption of IFRS 16 included determining the lease term for those leases with termination or extension options and determining an incremental borrowing rate where the rate implicit in a lease could not be readily determined.

Accounting policies under IFRS 16 Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

2. Changes in accounting policies – IFRS 16 continued

Accounting policies under IFRS 16 Leases continued

In addition the Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The Group does not have any leases that transfer ownership of the underlying asset. The Group does not have any leases with a purchase option where there is a reasonable expectation that the option will be exercised.

The right-of-use assets are presented within the same line item as that within which the corresponding underlying assets would be presented if they were owned – for the Group this is property, plant and equipment.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within the consolidated income statement.

Approach to transition

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. In respect of those leases the Group previously treated as operating leases, the Group has elected to measure its right of use assets arising from property leases using the approach set out in IFRS 16.C8(b)(i). Under IFRS 16.C8(b)(i) right of use assets are calculated as if the Standard applied at lease commencement, but discounted using the borrowing rate at the date of initial application.

The Group's weighted average incremental borrowing rate applied to lease liabilities as at 1 February 2019 is 3%.

Practical expedients adopted on transition

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered into or modified before 1 January 2019.

As part of the Group's adoption of IFRS 16 and application of the modified retrospective approach to transition, the Group also elected to use the following practical expedients:

- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics;
- right-of-use assets have been adjusted by the carrying amount of onerous lease provisions at 31 December 2018 instead of performing impairment reviews under IAS 36;
- exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- non-lease components have not been separated from lease components, and instead both components have been treated as a single component for the purpose of accounting under IFRS 16; and
- hindsight has been used in determining the lease term.

The impact of adopting IFRS 16 is set out in note 8.

3. Segmental reporting – continuing operations

Revenues

Geographic	**Half year to 31 July 2019 £m**	Half year to 31 July 2018 £m	Year to 31 January 2019 £m
United Kingdom	**3.8**	1.1	2.8
Rest of world	**0.6**	0.5	0.8
Total	**4.4**	1.6	3.6

Product segment	**Half year to 31 July 2019 £m**	Half year to 31 July 2018 £m	Year to 31 January 2019 £m
Checkit	**3.2**	0.4	1.0
EET	**1.2**	1.2	2.6
Total	**4.4**	1.6	3.6

Operating (loss)/profit before non-recurring or special items

Product segment	**Half year to 31 July 2019 £m**	Half year to 31 July 2018 £m	Year to 31 January 2019 £m
Checkit	**(2.9)**	(2.2)	(4.5)
EET	**0.1**	—	0.1
Total	**(2.8)**	(2.2)	(4.4)

Operating (loss)/profit

Product segment	**Half year to 31 July 2019 £m**	Half year to 31 July 2018 £m	Year to 31 January 2019 £m
Checkit	**(3.1)**	(2.2)	(4.5)
EET	**0.1**	—	0.1
Total	**(3.0)**	(2.2)	(4.4)

4. Non-recurring or special items

Non-recurring or special items are disclosed separately to improve visibility of the underlying business performance.

Management has defined such items as costs associated with acquisition of businesses restructuring, site closure costs, acquisition costs and other non-recurring items incurred outside the normal course of business.

	Half year to 31 July 2019 £m	Half year to 31 July 2018 £m	Year to 31 January 2019 £m
Non-cash items			
Costs of acquisition	**(0.2)**	—	—

5. Taxation

The tax charge on profit from continuing operations before taxation has been estimated at £Nil (July 2018: £Nil; January 2019: £0.1m).

6. Discontinued operations

Discontinued operations in the prior full and half-year results comprised Queensgate Nano which was sold subsequent to 31 January 2018 on 15 February 2018. In the current period Bulgin, whose sale was completed on 24 September 2019 (see note 9 for further information) is classified as discontinued. The prior year balances have been restated where required.

	Half year to 31 July 2019 £m	Half year to 31 July 2018 £m	Year to 31 January 2019 £m
Profit before tax	**4.1**	3.6	9.0
Attributable tax	**(0.5)**	(0.3)	(0.7)
Profit after tax	**3.6**	3.3	8.3
Committed costs of disposal incurred prior to completion – Bulgin	**(2.3)**	—	—
(Loss)/profit on disposal – Queensgate Nano	**—**	(0.1)	0.4
Attributable tax on disposal – Queensgate Nano	**—**	—	(0.1)
Total	**1.3**	3.2	8.6

Bulgin

The results of the Bulgin discontinued operation, which have been included in the consolidated statement of comprehensive income, were as follows:

	Half year to 31 July 2019 £m	Half year to 31 July 2018 £m	Year to 31 January 2019 £m
Revenue	**15.2**	14.3	30.1
Expenses	**(11.0)**	(10.7)	(21.1)
Interest paid on lease liabilities	**(0.1)**	—	—
Profit before tax	**4.1**	3.6	9.0
Attributable tax	**(0.5)**	(0.3)	(0.7)
Profit from discontinued operation	**3.6**	3.3	8.3

During the period, Bulgin generated £4.1m (H1 FY19: £2.9m FY19 £8.6m) of the Group's net operating cash flows, paid less than £0.1m (H1 FY19: £0.3m; FY19 £0.8m) in respect of investing activities and paid £0.1m (H1 FY19: less than £0.1m; FY19 less than £0.1m) in respect of financing activities.

6. Discontinued operations continued

Bulgin continued

At 31 July the following assets relating to the Bulgin business were reclassified as assets held for sale:

	£m
Tangible fixed assets	5.1
Intangible fixed assets	0.2
Deferred tax asset	0.3
Fixed assets	5.6
Inventory	3.3
Trade and other receivables	4.8
Trade and other payables	(4.2)
Current tax payable	(0.3)
Contract lease liabilities	(3.7)
Provisions	(0.7)
Assets held for sale	4.8

7. Earnings per share

Earnings per share (EPS) is the amount of post-tax profit attributable to each share (excluding those held in the Employee Benefit Trust or by the Company). Basic EPS measures are calculated as the Group profit for the period attributable to equity shareholders divided by the weighted average number of shares in issue during the period. Diluted EPS takes into account the dilutive effect of all outstanding share options priced below the market price, in arriving at the number of shares used in its calculation. However, in this case as set out in IAS33, the potential ordinary shares cannot be treated as dilutive as their conversion to ordinary shares would decrease loss per share from continuing operations, resulting in basic and diluted measures being the same.

An adjusted measure to remove the effects of non-recurring or special items is also shown below.

	Key	**31 July 2019 Million**	31 July 2018 Million	31 January 2019 Million
Weighted average number of ordinary shares for the purposes of basic earnings per share	A	**178.3**	178.0	177.7

(Loss)/earnings for the period	Key	**31 July 2019 £m**	31 July 2018 £m	31 January 2019 £m
(Loss)/earnings for the period	B	**(1.7)**	1.0	4.1
Profit from discontinued operations, net of tax	C	**(1.3)**	(3.2)	(8.6)
Continuing loss for the period	D	**(3.0)**	(2.2)	(4.5)
Total non-recurring or special items included in profit before tax		**0.2**	—	—
Total non-recurring or special items in taxation		**—**	—	—
Continuing loss adjusted for EPS	E	**(2.8)**	(2.2)	(4.5)

7. Earnings per share continued

	Key	**31 July 2019**	31 July 2018	31 January 2019
EPS measures				
Basic and diluted continuing	D/A	**(1.7)p**	(1.3)p	(2.5)p
Basic and diluted discontinued	(C)/A	**0.7p**	1.9p	4.8p
Basic total	B/A	**(1.0)p**	0.6p	2.3p
Adjusted EPS measures				
Adjusted basic and diluted continuing	E/A	**(1.6)p**	(1.3)p	(2.5)p

8. Acquisition

Acquisition of Next Control Systems Limited

On 14 May 2019 the Group acquired 100% of the equity of Next Control Systems Limited (renamed Checkit UK Limited "CUK") a UK based business.

The acquisition was made to enhance the Group's position as a SaaS provider of work management and monitoring solutions expanding into the building energy management and healthcare sectors.

The details of the business combination are as follows:

Fair value of consideration transferred	£m
Amount settled in cash	10.5
Recognised amounts of identifiable net assets	
Property, plant and equipment	0.4
Development costs capitalised	0.2
Other intangibles	2.5
Total non-current assets	3.1
Inventories	0.9
Trade and other receivables	2.1
Cash and cash equivalents	1.7
Total current assets	4.7
Lease liabilities	(0.1)
Trade and other payables	(1.9)
Total current liabilities	(2.0)
Lease liabilities	(0.2)
Deferred tax liabilities	(0.4)
Total non-current liabilities	(0.6)
Identifiable net assets	5.2
Goodwill on acquisition	5.3
Consideration transferred settled in cash	10.5
Cash and cash equivalents acquired	(1.7)
Net cash outflow on acquisition	8.8

8. Acquisition continued

Consideration transferred

The acquisition of CUK was settled in cash amounting to £10.5m. Acquisition-related costs amounting to £0.2m were expensed and treated as a non-recurring item.

Identifiable net assets

The provisional fair value of the trade and other receivables acquired as part of the business combination amounted to £2.1m, with a gross contractual amount of £2.1m. As of the acquisition date, the Group's best estimate of the contractual cash flow not expected to be collected amounted to less than £0.1m.

Goodwill and separable intangible assets

Goodwill is primarily related to the core growth expectations, expected future profitability and expected cost synergies. Goodwill has been allocated to the Checkit segment and is not expected to be deductible for tax purposes. Provisional fair values have been assigned to the value of key customer relationships.

Provisional fair values

The fair values of the assets acquired reflect the Board's best estimates of their value at the date of this statement. The Board has yet to complete its full valuation work in this regard and these provisional values are subject to amendment in the Group's audited results for the year ended 31 January 2020.

CUK's contribution to the Group results

CUK generated a profit of £0.2m for the period from 14 May 2019 to the reporting date. Revenue for the period to 31 July 2019 was £2.6m. If CUK had been acquired on 1 February 2019, revenue of the Group for the six months ended 31 July 2019 would have been £5.8m higher, and loss for the period would have reduced by £0.5m.

9. Impact on adopting IFRS 16

Impact on lessee accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

Applying IFRS 16, for all leases (except as noted above), the Group now recognises right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments as described above.

Lease incentives (e.g. rent free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

Under IFRS 16 the Group recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement, whereas under IAS 17 operating leases previously gave rise to a straight-line expense in other operating expenses.

Under IFRS 16 the Group separates the total amount of cash paid for leases that are on balance sheet into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement. Under IAS 17 operating lease payments were presented as operating cash outflows.

Former finance leases

The Group had no finance leases as at 31 January 2019.

9. Impact on adopting IFRS 16 continued

Financial impact

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. Provisions for onerous lease contracts have been derecognised and operating lease incentives previously recognised as liabilities have been derecognised and factored into the measurement of the right-of-use assets and lease liabilities.

The Group has chosen to use the table below to set out the adjustments recognised at the date of initial application of IFRS 16.

	As previously reported at 31 January 2019 £m	Impact of IFRS 16 £m	As restated at 1 February 2019 £m
Non-current assets	3.3	—	3.3
Property, plant and equipment	1.7	5.0	6.7
Current assets	19.5	(0.1)	19.4
Impact on assets	24.5	4.9	29.4
Current liabilities	(7.9)	—	(7.9)
Lease liabilities	—	(1.0)	(1.0)
Non-current liabilities	(0.3)	—	(0.3)
Lease liabilities	—	(4.0)	(4.0)
Impact on liabilities	(8.2)	(5.0)	(13.2)
Impact on net assets	16.3	(0.1)	16.2
Equity and other reserves	12.7	—	12.7
Retained earnings	3.6	(0.1)	3.5
Impact on net assets	16.3	(0.1)	16.2

Of the total right-of-use assets of £5.0 million recognised at 1 February 2019, £4.8 million related to leases of property and £0.2 million to leases of vehicles and office equipment and in total £3.9m related to discontinued items and the related balances at 31 July have been reclassified as assets held for sale.

The table below presents a reconciliation from operating lease commitments disclosed at 31January 2019 to lease liabilities recognised at 1 February 2019.

	£m
Operating lease commitments disclosed under IAS 17 at 31 January 2019	5.4
Effect of discounting	(0.4)
Lease liabilities recognised at 1 February 2019	5.0

9. Impact on adopting IFRS 16 continued

Financial impact continued

In terms of the income statement impact, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to IAS 17. During the six months ended 30 June 2019, in relation to leases under IFRS 16 the Group recognised the following amounts in the consolidated income statement (including the impact of new right of use assets recognised on acquisition of CUK):

	£m
Depreciation	0.6
Interest expense	0.1

Of the above £0.4m of depreciation and less than £0.1m interest expense related to discontinued operations.

10. Post balance sheet event

The Board announced that it had completed the sale of Bulgin on 24th September for a total consideration received of £104.7 million. After deducting the expenses incurred in connection with the sale and the settlement of the LTIP liability, the net proceeds receivable by the Group were approximately £94 million.

As previously announced, the Board expects to return approximately £81 million to shareholders by way of a tender offer for two ordinary shares for every three ordinary shares held at a price of 65 pence per ordinary share (the "Tender Offer"). A further circular and notice of general meeting in relation to the Tender Offer are expected to be issued shortly.

As a result of the sale of the Bulgin business the Company has changed its name to Checkit plc.

11. Cautionary statement

This interim financial information has been prepared only for the shareholders of Checkit plc as a whole and its sole purpose and use is to assist shareholders to exercise their governance rights. Checkit plc and its Directors and employees are not responsible for any other purpose or use or to any other person in relation to this report.

The report contains indications of likely future developments and other forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and business segments in which the Group operates. Key risks and their mitigation have not changed materially in the period from those disclosed on pages 24 to 27 of the annual financial statements for the year ended 31 January 2019.

These and other factors could adversely affect the Group's results, strategy and prospects. Forward-looking statements involve risks, uncertainties and assumptions. They relate to events and/or depend on circumstances in the future which could cause actual results and outcomes to differ materially from those currently anticipated. No obligation is assumed to update any forward-looking statements, whether as a result of new information, future events or otherwise.

12. Other information

The financial information in this statement does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The financial information in respect of the year ended 31 January 2019 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The Independent auditor's report on those accounts was unqualified and did not contain a statement under Sections 498(2) or 498(3) of the Companies Act 2006.

DIRECTORS AND MANAGEMENT

Keith Daley
Executive Chairman

Andy Weatherstone
Chief Financial Officer and Company Secretary

Peter Welch
Non-executive Director

Giovanni Ciuccio
Non-executive Director

John Wilson
Non-executive Director

WEB PROPERTY

Checkit
www.checkit.net

Elektron Eye Technology
www.elektron-eye-technology.com

ADVISERS

Company Secretary
Andy Weatherstone

Registered office
Broers Building
JJ Thomson Avenue
Cambridge CB3 0FA

Registered in England
No. 448274

Investor Relations
Yellowstone Advisory Limited
1 Poultry
London
EC2R 8EJ

Registrars
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Nominated adviser and broker
N+1 Singer
1 Bartholomew Lane
London EC2N 2AX

Auditor
Grant Thornton
231 Milton Road
Milton
Cambridge CB4 0FY

Bankers
HSBC Bank plc
70 Pall Mall
London SW1Y 5EZ

MIX
Paper from
responsible sources
FSC® C005739
www.fsc.org

Checkit plc's commitment to environmental issues is reflected in this Interim Report, which has been printed on GalerieArt Silk, an FSC® certified material.

This document was printed by DG3 using its environmental print technology, which minimises the impact of printing on the environment, with 99% of dry waste diverted from landfill. Both the printer and the paper mill are registered to ISO 14001.

Produced by
designportfolio

Checkit plc
Broers Building
JJ Thomson Avenue
Cambridge CB3 0FA

info@checkit.net
www.checkit.net