Building a better working world

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Tel: +44 20 7951 2000
Fax: +44 20 7951 1345
ey.com

The Directors
Bytes Technology Group plc
Bytes House,
Randalls Way,
Leatherhead,
Surrey, KT22 7TW

1 December 2020

Dear Sirs

**Bytes Technology Limited**

We report on the financial information set out in section B of Part 11 for the years ended 28 February 2018, 28 February 2019 and 29 February 2020 and the six months ended 31 August 2020 (the “Financial Information”). This Financial Information has been prepared for inclusion in the prospectus dated 1 December 2020 (the "Prospectus") of Bytes Technology Group plc (the “Company”) on the basis of the accounting policies set out in note 1 of the Financial Information.

This report is required by item 18.3.1 of Annex 1 to the Commission Delegated Regulation (EU) 2019/980 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Regulation Rule 5.3.2R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 1.3 of Annex 1 to Commission Delegated Regulation (EU) 2019/980, consenting to its inclusion in the Prospectus.

We have not audited or reviewed the financial information for the six month period ended 31 August 2019 and accordingly do not express an opinion thereon.

**Responsibilities**

The Directors of the Company are responsible for preparing the Financial Information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the Financial Information and to report our opinion to you.

**Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Financial Information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the Financial Information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion, the Financial Information gives, for the purposes of the Prospectus dated 1 December 2020, a true and fair view of the state of affairs of Bytes Technology Limited as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Declaration**

For the purposes of Prospectus Regulation Rule 5.3.2R (2)(f), we are responsible for this report as part of the prospectus and declare that, to the best of our knowledge, the information contained in this report is in accordance with the facts and that the report contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex 1 to Commission Delegated Regulation (EU) 2019/980 supplementing Regulation (EU) 2017/1129.

Yours faithfully

Ernst & Young LLP

Ernst & Young LLP

**Bytes Technology Limited's historical financial information for the years ended 28 February 2018, 2019 and 29 February 2020 and the six-month periods ended 31 August 2019 and 2020**

**Consolidated Statement of profit or loss**

| | | Year ended | | | 6-month period ended | |
|---|---|---|---|---|---|---|
| | **Note** | **28 February 2018 £'000** | **28 February 2019 £'000** | **29 February 2020 £'000** | **Unaudited 31 August 2019 £'000** | **31 August 2020 £'000** |
| **Revenue** | **3** | 321,892 | 349,658 | 373,103 | 205,045 | 221,222 |
| Cost of sales | | (278,347) | (286,045) | (293,886) | (165,111) | (174,843) |
| **Gross profit** | | **43,545** | **63,613** | **79,217** | **39,934** | **46,379** |
| Administrative expenses | **4** | (33,307) | (44,918) | (49,373) | (24,172) | (26,849) |
| **Operating profit** | | **10,238** | **18,695** | **29,844** | **15,762** | **19,530** |
| Finance income | | 20 | 85 | 158 | 85 | 24 |
| Finance costs | | (58) | (1) | (82) | (41) | (40) |
| Finance income/(costs) - net | **7** | (38) | 84 | 76 | 44 | (16) |
| **Profit before taxation** | | **10,200** | **18,779** | **29,920** | **15,806** | **19,514** |
| Income tax expense | **8** | (2,111) | (3,643) | (5,762) | (3,074) | (3,757) |
| **Profit after taxation** | | **8,089** | **15,136** | **24,158** | **12,732** | **15,757** |
| **Profit for the period attributable to owners of the Company** | | **8,089** | **15,136** | **24,158** | **12,732** | **15,757** |
| | | **£** | **£** | **£** | **£** | **£** |
| Basic earnings per Ordinary Share | **29(a)** | 809 | 1,514 | 2,416 | 1,273 | 1,576 |
| Diluted earnings per Ordinary Share | **29(b)** | 728 | 1,362 | 2,174 | 1,146 | 1,418 |

The statement of profit or loss and other comprehensive income has been prepared on the basis that all operations are continuing operations.

There are no items to be recognised in other comprehensive income and hence, the group has not presented a statement of other comprehensive income.

**Bytes Technology Limited's historical financial information for the years ended 28 February 2018, 2019 and 29 February 2020 and six-month period ended 31 August 2020**

**Consolidated balance sheet**

| | Note | As at 28 February 2018 £'000 | As at 28 February 2019 £'000 | As at 29 February 2020 £'000 | As at 31 August 2020 £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | **9** | 7,072 | 7,470 | 8,521 | 8,420 |
| Right-of-use assets | **10** | - | - | 1,332 | 1,202 |
| Intangible assets | **11** | 49,273 | 47,663 | 46,053 | 45,248 |
| Contract assets | **3(d)** | 294 | - | 1,056 | 459 |
| **Total non-current assets** | | **56,639** | **55,133** | **56,962** | **55,329** |
| **Current assets** | | | | | |
| Inventories | **12** | 1,661 | 94 | 688 | 746 |
| Contract assets | **3(d)** | 4,068 | 9,112 | 5,085 | 8,009 |
| Trade and other receivables | **14** | 46,753 | 54,598 | 77,094 | 99,268 |
| Cash and cash equivalents | **15** | 6,706 | 26,038 | 47,357 | 31,928 |
| **Total current assets** | | **59,188** | **89,842** | **130,224** | **139,951** |
| **Total assets** | | **115,827** | **144,975** | **187,186** | **195,280** |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Lease liabilities | **10** | - | - | (1,295) | (1,252) |
| Contract liabilities | **3(d)** | - | - | (1,001) | (1,475) |
| Deferred tax liabilities | **17** | (2,285) | (2,038) | (1,895) | (1,754) |
| **Total non-current liabilities** | | **(2,285)** | **(2,038)** | **(4,191)** | **(4,481)** |
| **Current liabilities** | | | | | |
| Trade and other payables | **16** | (72,774) | (89,031) | (116,510) | (130,619) |
| Contract liabilities | **3(d)** | (5,882) | (9,683) | (10,205) | (9,186) |
| Current tax liabilities | | (1,261) | (2,070) | (3,191) | (645) |
| Lease liabilities | **10** | - | - | (307) | (256) |
| **Total current liabilities** | | **(79,917)** | **(100,784)** | **(130,213)** | **(140,706)** |
| **Total liabilities** | | **(82,202)** | **(102,822)** | **(134,404)** | **(145,187)** |
| **Net assets** | | **33,625** | **42,153** | **52,782** | **50,093** |
| **Equity** | | | | | |
| Issued share capital | **18** | - | - | - | - |
| Other reserves | **29** | 561 | 899 | 1,170 | 1,324 |
| Retained earnings | **19** | 33,064 | 41,254 | 51,612 | 48,769 |
| **Total equity** | | **33,625** | **42,153** | **52,782** | **50,093** |

**Bytes Technology Limited's historical financial information for the years ended 28 February 2018, 2019 and 29 February 2020 and six-month period ended 31 August 2020**

**Consolidated statement of changes in equity**

| | Attributable to owners of the Company | | | | |
|---|---|---|---|---|---|
| | **Share capital £'000** | **Share premium £'000** | **Other reserves £'000** | **Retained earnings £'000** | **Total equity £'000** |
| **For the years ended 28 February 2018, 2019 and 29 February 2020:** | | | | | |
| **Balance at 1 March 2017** | - | - | 417 | 24,975 | 25,392 |
| Total comprehensive income for the year | - | - | - | 8,089 | 8,089 |
| Share-based payment transactions | - | - | 144 | - | 144 |
| **Balance at 28 February 2018** | - | - | **561** | **33,064** | **33,625** |
| Adjustment on initial application of IFRS 9 and IFRS 15 (note 14) | - | - | - | (446) | (446) |
| **Restated total equity at the beginning of the financial year** | - | - | **561** | **32,618** | **33,179** |
| Total comprehensive income for the year | - | - | - | 15,136 | 15,136 |
| Dividends paid | - | - | - | (6,500) | (6,500) |
| Share-based payment transactions | - | - | 338 | - | 338 |
| **Balance at 28 February 2019** | - | - | **899** | **41,254** | **42,153** |
| Total comprehensive income for the year | - | - | - | 24,158 | 24,158 |
| Dividends paid | - | - | - | (13,800) | (13,800) |
| Share-based payment transactions | - | - | 271 | - | 271 |
| **Balance at 29 February 2020** | - | - | **1,170** | **51,612** | **52,782** |

| | Attributable to owners of the Company | | | | |
|---|---|---|---|---|---|
| | **Share capital £'000** | **Share premium £'000** | **Other reserves £'000** | **Retained earnings £'000** | **Total equity £'000** |
| **For the six months ended 31 August 2019 (Unaudited):** | | | | | |
| **Balance at 28 February 2019** | - | - | **899** | **41,254** | **42,153** |
| Total comprehensive income for the period | - | - | - | 12,732 | 12,732 |
| Dividends paid | - | - | - | (4,800) | (4,800) |
| Share-based payment transactions | - | - | 120 | - | 120 |
| **Balance at 31 August 2019** | - | - | **1,019** | **49,186** | **50,205** |
| | | | | | |
| **For the six months ended 31 August 2020:** | | | | | |
| **Balance at 29 February 2020** | - | - | **1,170** | **51,612** | **52,782** |
| Total comprehensive income for the period | - | - | - | 15,757 | 15,757 |
| Dividends paid | - | - | - | (18,600) | (18,600) |
| Share-based payment transactions | - | - | 154 | - | 154 |
| **Balance at 31 August 2020** | - | - | **1,324** | **48,769** | **50,093** |

**Bytes Technology Limited's historical financial information for the years ended 28 February 2018, 2019 and 29 February 2020 and six-month periods ended 31 August 2019 and 2020**

**Consolidated statement of cash flows**

| | | Year ended | | | 6-month period ended | |
|---|---|---|---|---|---|---|
| | **Note** | **Year ended 28 February 2018 £'000** | **Year ended 28 February 2019 £'000** | **Year ended 29 February 2020 £'000** | **Unaudited Period ended 31 August 2019 £'000** | **Period ended 31 August 2020 £'000** |
| **Cash flows from operating activities** | | | | | | |
| Cash generated from operations | **20** | 12,784 | 29,892 | 41,699 | 1,251 | 10,047 |
| Interest received | **7** | 20 | 85 | 158 | 85 | 24 |
| Interest paid | **7** | (58) | (1) | (2) | (1) | (2) |
| Income taxes paid | **8** | (1,934) | (3,081) | (4,784) | (2,099) | (6,444) |
| **Net cash inflow/(outflow) from operating activities** | | **10,812** | **26,895** | **37,071** | **(764)** | **3,625** |
| **Cash flows from investing activities** | | | | | | |
| Payments for acquisition of subsidiary, net of cash acquired | **23** | (31,938) | - | - | - | - |
| Payments for property, plant and equipment | **9** | (227) | (1,063) | (1,745) | (521) | (322) |
| **Net cash outflow from investing activities** | | **(32,165)** | **(1,063)** | **(1,745)** | **(521)** | **(322)** |
| **Cash flows from financing activities** | | | | | | |
| Principal elements of lease payments | **10** | - | - | (207) | (70) | (132) |
| Dividends paid to shareholders | **22(b)** | - | (6,500) | (13,800) | (4,800) | (18,600) |
| **Net cash outflow from financing activities** | | **-** | **(6,500)** | **(14,007)** | **(4,870)** | **(18,732)** |
| **Net increase in cash and cash equivalents** | | **(21,353)** | **19,332** | **21,319** | **(6,155)** | **(15,429)** |
| Cash and cash equivalents at the beginning of the financial year | | 28,059 | 6,706 | 26,038 | 26,038 | 47,357 |
| **Cash and cash equivalents at end of year** | **15** | **6,706** | **26,038** | **47,357** | **19,883** | **31,928** |

# 1. Accounting policies

### 1.1 General information

Bytes Technology Limited (formerly known as Bytes Technology Group Limited) and together with its subsidiaries ("the group" or "the Bytes business") is an IT solutions provider, and a wholly owned subsidiary of Allied Electronics Corporation Limited ("Altron" and together with its subsidiaries "Altron Group") a South African, Johannesburg Stock Exchange (JSE) listed technology company. In April 2020, the board of Altron announced its intention to de-merge the Bytes business and pursue a potential London Stock Exchange (LSE) listing with a secondary JSE listing.
An IPO is expected to allow the Bytes business to:

- Execute on its growth strategy independently
- Enhance its market profile and brand recognition
- Increase employee ownership and incentivisation

Prior to the demerger, the results of Bytes Technology Limited have been consolidated into the Altron Group and no separate group financial statements have been prepared by the group previously.

The entities included in the consolidated financial statements of the Bytes business are as follows:

Bytes Software Services Limited
Bytes Security Partnerships Limited
Blenheim Group Limited (acquired 29 September 2017)
Phoenix Software Limited (acquired 29 September 2017)
License Dashboard Limited (acquired 29 September 2017)

All of these entities are wholly owned and are all incorporated in England and Wales.

### 1.2 Basis of preparation

The consolidated financial statements of the group for the years ended 29 February 2020, 28 February 2019 and 2018 and the 6-month period ended 31 August 2020 and 2019 (the "Historical Financial Information") has been prepared specifically for the purposes of this Prospectus and in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS interpretations Committee (IFRS IC) as adopted by the European Union. The Historical Financial Information has been prepared under the historical cost convention, except where otherwise stated and is presented in the group's presentational and functional currency of pounds sterling (''£'').

This historical financial information does not constitute statutory accounts within the meaning of section 434(3) of the UK Companies Act 2006.

The accounting policies set out below have been applied consistently to the periods presented in these consolidated financial statements, apart from the changes to accounting policies, resulting from the implementation of new accounting standards detailed below in note 1.7.

The group's accounting policies have been applied consistently by all group entities.

### 1.3 First-time adoption of IFRS

This historical financial information, for the years ended 29 February 2020, 28 February 2019 and 2018 and 6 month period ended 31 August 2020 and 2019, is the first the group has prepared in accordance with IFRS, with its transition date being 1 March 2017.

As previously mentioned under note 1.1, Bytes Technology Limited is a wholly owned subsidiary of Altron. The Altron group's consolidated financial statements are prepared under IFRS and the Altron group adopted IFRS prior to the periods included in the historical financial information. The results for all periods included in the historical financial information have been included in the consolidated financial statements of Altron and so on first-time adoption of IFRS under the provisions of IFRS 1 and specifically appendix D16(a), the group has elected to measure its own assets and liabilities at the carrying amounts that would be included in Altron's consolidated financial statements based on their date of transition, if no adjustments were made for consolidation procedures and for the effects of the business combination in which Altron acquired the group. The group does not therefore elect to apply any of the other voluntary exemptions offered by IFRS 1, since Altron has already made the choices for the group at its date of transition.

Since no financial statements of the group have previously been prepared, the historical financial information presented in this report does not include any IFRS 1 first-time adoption reconciliations. Further details and a 1 March 2017 opening balance sheet are presented in note 30.

### 1.4 Impact of Covid-19

The global pandemic triggered by the spread of the Covid-19 infection has created uncertainty and poses a higher risk to the business, due to the potential impact it is having on the group's operations and its customers. The impact of Covid-19 was a non-adjusting post balance sheet event for the year ended 29 February 2020 but has become an adjusting event for the period ended 31 August 2020. The group has categorised the impact of the risks as follows:

*Market risk*
There is a risk that an adverse impact to the world economy will potentially impact the group's customers and its ability to earn revenue. The group has a diversified customer base across both the corporate and public sectors, which helps mitigate this risk to some extent.

*Operational risk*
The group makes significant use of technology to deliver services to its customers throughout periods of uncertainty, including where limitations are imposed on the ability to travel and meet customers face to face. The group has agility built into its operational model to be able to operate its sales and customer support functions remotely through the use of emails, video conferencing and telephone advice and expects only a small degree of business disruption.

*Liquidity risk*
The group is aware of the potential impact Covid-19 presents on its liquidity. The group monitors cash flow forecasts on a regular basis to ensure it can continue to manage its working capital requirements. The directors have considered liquidity risk as one of several key dependencies when forming their going concern assessment in note 1.5. For further information on the group's approach to mitigating its liquidity risks, see note 21.

*Credit risk*
In the six-month period to 31 August 2020, the group has continued to outperform expectations and there have been no major customer defaults during the period. Whilst this has been a very positive period for the group, the directors are still aware of the macroeconomic uncertainty that continues to cause wider disruption to economic activity and it is at present unknown what the longer-term impact on the business will be. The directors have placed a greater emphasis on the group's exposure to credit risk, increasing the group's expected credit loss provision on its gross trade receivables by £322k and will continue to monitor this going forward.

*Impairment risk associated with goodwill carrying values*
In the group's most recent annual impairment test performed for the year ended 29 February 2020, the group has used various down side scenarios in its sensitivity analysis to factor in the potential future impacts of Covid-19 on the future cash flows of the business. The group adjusted the discount rate applied to these cash flows upwards by a further 1% to simulate a down case scenario and adequate headroom was maintained, see note 11. An impairment test was not performed at 31 August 2020. However, management did consider the value in use of its cash generating units (CGU's) when reviewing the group's cash flow forecasts and was satisfied there was no impairment risk to the associated goodwill carrying values.

### 1.5 Going concern

The going concern of the group is dependent on maintaining adequate levels of resources to continue to operate for the foreseeable future. The directors have considered a number of key dependencies which are set out in the group's risk management section, specifically the group's exposure to credit risk as described in note 14 and liquidity risk, currency risk and foreign exchange risk as described in note 21.

The directors continue to monitor the effects of the Covid-19 pandemic on the business and will react accordingly to the associated risks presented in note 1.4.

When assessing the going concern of the group, the directors have reviewed the year to date financial actuals, as well as detailed financial forecasts for the period up to 31 December 2021. The assumptions used in the financial forecasts are based on the group's historical performance and management's extensive experience of the industry. Taking into consideration the impact of Covid-19 on the wider economic environment, the forecasts have been assessed and stress tested to ensure that a robust assessment of the group's working capital and cash requirements has been performed.

Further details, including the analysis performed and conclusion reached, are set out below.

***Operational and business impact of Covid-19***

Covid-19's impact on the business is described in note 1.4 of this historical financial information. In preparing its going concern assessment, management have considered the potential future impact of Covid-19 on the business, taking into account the limited impact it had during the period from 1 March 2020 to the date of this document. Over this period many customers were transitioning to home working and responding to the impact of Covid-19 on their own businesses. Despite this, the group achieved strong double-digit growth in gross profit in the six months ended 31 August 2020 compared to the six months ended 31 August 2019, albeit falling to approximately 10% growth in the second quarter of this period.

The directors believe that the group operates in a resilient industry and that the group has demonstrated profitable growth, despite the pandemic, since 1 March 2020. The group's customer base incorporates a large volume of non-discretionary spend from UK corporates as IT has become vital to establish competitive advantage in an increasingly digital age. Public sector organisations, a large and fast-growing area of the business, have shown minimal negative sensitivity to Covid-19 to date. The group will continue to focus on increasing its customer base and spend per customer during the going concern period.

***Liquidity and financing position***

At 31 August 2020, the group held instantly accessible cash and cash equivalents of £31.9 million. Since 31 August the group has paid a pre-IPO dividend of £30 million to its shareholder, Bytes Technology Group Proprietary Limited, a subsidiary of Altron and following Admission will pay £14.3 million as part of the consideration paid to acquire the B ordinary shares in Bytes UK held by management.

On Admission the group will have access to a committed revolving credit facility of £50 million with HSBC, reducing to £40 million after 12 months and to £30 million thereafter.

There is a sufficient level of liquidity/financing headroom post stress testing across the going concern forecast period to 31 December 2021, as outlined in more detail below.

***Approach to stress testing***

The going concern analysis, which was approved by the Board in November 2020 reflects the actual trading experience through the financial year to date, as well as detailed financial forecasts for the period up to 31 December 2021. The group has taken a measured approach to its forecasting and has balanced the expected trading conditions with available opportunities in a resilient area of customer spend.

Given the uncertainty around the impact of Covid-19, and the continuing uncertainty around the impact of the UK leaving the EU, the Board has also in its assessment of going concern considered the potential impact of a generalised economic downturn leading to a greater impact on the spending patterns of the group's customers than has been experienced to date, and the extent to which this could adversely affect the group's future gross invoiced income, adjusted operating profit and debtor days, as well as the extent to which this might be offset by savings in commissions and bonuses and discretionary areas of spend.

***Going concern conclusion***

Based on the analysis described above, the group has sufficient liquidity headroom through the forecast period.

The directors therefore have reasonable expectation that the group has the financial resources to enable it to continue in operational existence for the period to 31 December 2021. Accordingly, the directors conclude it is appropriate that the Historical Financial Information be prepared on a going concern basis.

## 1.6 Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the group's accounting policies.

This note provides an overview of the areas that involved significant judgement or complexity. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Detailed information about each of these estimates and judgements is included in other notes, together with information about the basis of calculation for each affected line item in the financial statements.

***Significant estimates and judgements***

The areas involving significant estimates and judgements are:

- Estimation uncertainties and judgements made in relation to lease accounting following the group's adoption of IFRS 16 'Leases' on 1 March 2019, in particular the incremental borrowing rate applied to the lease liabilities and determining lease of low-value assets not to be recognised as part of the lease liability, see note 31(c).
- Estimated useful lives of intangible assets. The group acquired Blenheim Group Limited on 29 September 2017 and in doing so recognised customer relationships and brand intangible assets with estimated useful lives of 10 years and 5 years, respectively, see note 1.24. In estimating the useful lives of these assets, the group has to consider the time period over which it expects to receive economic benefit from the future cash flows generated from these assets and this requires significant judgement and the use of estimates.
- Estimation of recoverable amount of goodwill. The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1.18. The recoverable amounts of cash-generating units (CGUs) have been determined based on value-in-use calculations. These calculations are based on discounted cash flow forecasts using estimated long-term growth rates, see note 11.
- Revenue recognition - *Principal versus agent,* see note 1.12.2

  When recognising revenue, the group is required to assess whether its role in satisfying its various performance obligations is to provide the goods or services itself (in which case it is considered to be acting as principal) or arrange for a third party to provide the goods or services (in which case it is considered to be acting as agent). Where it is considered to be acting as principal, the group recognises revenue at the gross amount of consideration to which it expects to be entitled. Where it is considered to be acting as agent, the group recognises revenue at the amount of any fee or commission to which it expects to be entitled or the net amount of consideration that it retains after paying the other party.

  For those revenue streams that involve the resale of software licences and software assurance, there is often considerable judgment in determining whether the group is principal or agent. The group's assessment is based primarily upon whether it controls the goods or services prior to their transfer to the customer. However, the nature of these products and services means that a purely control based assessment does not always lead to a clear conclusion. Consequently, the group additionally considers the other characteristics of principal set out in IFRS 15. These include whether the group has primary responsibility for fulfilling the contractual promises made to the customer, whether the group assumes inventory risk and whether the group has discretion in establishing the selling price.

  For direct licence sales the group is considered to be acting as agent. This is because the group does not control the goods or services prior to their delivery to the customer. The group's role is to facilitate the sale on behalf of the software vendor that controls the goods or services. It is the software vendor that contracts with and subsequently invoices the customer. The group does not set the prices paid by the customer and it is remunerated in the form of a usage or sales-based commission.

  For licence sales related to cloud services and licences with critical updates the group is considered to be acting as agent. This is because cloud services and licences with critical updates require the significant on-going involvement of the software vendor. The group does not control the service prior to passing it to the customer as it is provided as a future service delivered by the vendor. Any technical and administrative services provided by the group are critically dependent on, and so inseparable from, the service to be provided by the vendor. The group's role is to arrange for the cloud service/updates to be provided by another party.

  For licence sales without critical upgrades or cloud services for the related perpetual licences, with or without software assurance, the group is considered to be acting as principal. This is because the group's performance obligation results in it obtaining control of the licence key and/or right to software assurance benefits from the software vendor and then transferring them to the customer. With regard to software assurance, the non-critical nature of the software updates means that the customer's ability to derive benefit from the software is not dependent on the continued involvement of the software vendor. This results in the balance of control resting more with the group than is the case with critical updates. The group is primarily responsible for fulfilling the promise to provide the specified good or service to the customer, as the group obtains control of the license before it is delivered to the customer and also typically has responsibility for acceptability of the specified good or service. The group has primary responsibility for fulfilling the contractual promises to the customer, assumes inventory risk in the event of cancellation of the sale for any reason and has discretion in establishing the prices of the goods and services.

**1.7 Changes in accounting policy and disclosures**

*(a) New and amended standards adopted by the group*

The group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 March 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue and Contracts with Customers

The group also applied the following standard for the first time for the annual reporting period commencing 1 March 2019:

- IFRS 16 Leases

Adoption of IFRS 9 'Financial Instruments' did not have a material impact on the amounts recognised in the financial information. However, the group did recognise an expected credit loss provision of £446k in respect of its trade receivables as at 1 March 2018, see notes 14 and 31(a).

The transition method to IFRS 15 and the impact on the group as a result of the transition is disclosed in note 31(b).

From 1 March 2019, the group had to change its accounting policies as a result of adopting IFRS 16 'Leases'. The group elected to adopt the new rules using the modified retrospective approach recognising the cumulative effect of initially applying the new standard on 1 March 2019. This is disclosed in note 31(c).

**1.8 Principles of consolidation**

***Subsidiaries***

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity where the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group, see note 1.17.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

**1.9 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The group has therefore determined that it has only one reportable segment under IFRS 8, which is that of 'IT solutions provider'.

**1.10 Finance income and costs**

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprises interest expense on borrowings and the unwinding of the discount on lease liabilities, that are recognised in profit or loss as it accrues using the effective interest method.

### 1.11 Foreign currency translation

***(i) Functional and presentation currency***

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

***(ii) Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

All foreign exchange gains and losses are presented in the statement of profit or loss on a net basis, within 'other gains/(losses)'.

### 1.12 Revenue recognition

#### 1.12.1 For the periods prior to 1 March 2018

Revenue is recognised to the extent that it is probable that economic benefits will flow to the group and the amount of revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

The group generates revenue from both the sale of goods and the rendering of services.

The rendering of services typically involves the performance by the group of a contractually agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period.

#### 1.12.2 For the periods from 1 March 2018 onwards

The group has applied the relevant principles of IFRS 15 *Revenue from Contracts with Customers* to each of its key revenue streams as follows:

***Resale of software licences and subscriptions***

As a software reseller the group acts as an advisor, analysing customer requirements and designing an appropriate mix of licences and technology. The group's resale of software licences takes place in three principal forms:

- ***Direct licence sales -*** Under direct licence sale arrangements the group is not a party to the contract between the software vendor and the customer. Activation of the licences, invoicing and payment all take place directly between the software vendor and the customer.
- ***Licence sales – resell of software licenses and subscriptions -***The group operates as reseller of a variety of cloud-based licence products and security software, the functionality of which is critically dependent on future updates provided by the software vendor.
- ***Licence sales - perpetual licences and software assurance -*** The group operates as reseller of a variety of perpetual non-cloud-based products that are not critically dependent on future updates provided by the software vendor. Alongside or separately to such licences, the group also acts as a reseller of software assurance – a package of benefits provided by the software vendor that includes access to future (non-critical) updates at no extra cost.

*Identifying the performance obligations*

As a reseller, the group's performance obligation is to deliver solutions to customers through the procurement of software licences, software assurance and provision of value-added consulting services in connection with those licences. The services the group provides include the design of customer-specific solutions, licence and software assurance procurement and assistance with the negotiation and interpretation of software vendor agreements. In the context of the group's contract with the customer, the consulting services are highly interrelated with the software licences and software assurance. The customer's ability to derive benefit from the licences and software assurance is therefore dependent on those services. The consulting services, licence products and software assurance sold cannot be distinguished from each other in the context of the contract and so are considered to represent a single performance obligation.

For direct licence sales, licence sales related to cloud services and licences with critical updates the group acts as agent. As such, the group recognises revenue at the amount of commission earned, the amount retained after paying the software vendor for the licences and services provided or, for cloud based services, the usage fee received from the software vendor. The judgements made in arriving at this conclusion are set out at note 1.6.

For licence sales related to perpetual licences, subscription licences and software assurance the group acts as principal. As such, the group recognises revenue at the gross amount receivable from the customer for the goods and services provided. The judgements made in arriving at this conclusion are set out at note 1.6.

*Determining the transaction price*

The transaction price for resell of software licenses and subscriptions is based upon fixed commission rates set by the software vendor applied to customer usage.

The transaction price for non-cloud-based licence sales and software assurance is fixed at the amount specified in the contract and has no variable element.

*Allocating the transaction price*

When reselling software licences and/or software assurance, which together represent one performance obligation, together with other goods and services that represent additional separate performance obligations, such as hardware, the group allocates the total transaction by reference to the prices it charges for those goods and services when sold separately, i.e. their stand-alone selling prices.

*Recognising revenue*

With the exception of revenue arising from cloud-based licence sales and services, the group recognises all licence sale revenue on a point in time basis. This is because the group's activities in satisfying its performance obligations do not satisfy any of the criteria for over time revenue recognition set out in IFRS 15. As a reseller, the group's performance obligations are fully satisfied at the point the licences are delivered and control of the software passes to the customer. Thereafter, the group has no on-going performance obligations.

Revenue arising from cloud-based licence sales is recognised on an over time basis, using the right-to-invoice practical expedient available under the output method. This is because the responsibilities of the group to monitor, review and undertake certain other on-going activities in relation to customer usage means that its performance obligation is not satisfied at the point the licence is delivered. Rather, the customer receives and consumes the benefits of the group's post-sale activities as those post-sale activities are performed. The group is rewarded for its performance as the usage occurs and revenue is recognised accordingly. Revenue is recognised in the month the usage takes place based on an estimate of the amount due. Any adjustment that may be required is made in the following month when the amount receivable is confirmed by the software vendor.

For licence sales other than those made on a direct basis, the group's customer offering includes multi-year deals of typically three years in duration. The contractual arrangements for such deals take two alternative forms - the customer may elect to make a single up-front payment or may elect to pay through annual instalments. For up-front payment contracts, the group recognises the total contract price when the contract is executed and invoiced because its performance obligation is fully satisfied at that point. For annual instalment contracts, the group recognises revenue for the amount of each instalment when it is billed. This is because, in contrast to up-front payment contracts, the group's performance obligation is not fully satisfied when the contract is executed. Under annual instalment plans the group is required to undertake various contract review activities at each anniversary date and at that point the customer also has the option of moving to a different reseller should they wish to do so. The contract term is therefore considered to be one year as this is the period during the parties to the contract have present enforceable rights and obligations.

The rendering of services typically involves the performance by the group of a contractually agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period.

***Externally provided training and consulting services***

The group's activities under this revenue stream comprise the sale of training and consulting services through third-party contractors.

*Identifying the performance obligations*

The group's sale of externally provided training and consulting services is generally distinct from other goods and services that the group might provide to the same customer under the same or separate contracts. This is because the customer can benefit from the services on their own or from other resources (as is evidenced by the fact that the services are provided by another party). Additionally, the services are not generally integrated with or dependent on other services that might be provided to the customer.

When selling externally provided training and consulting services the group acts as agent and so recognises revenue at the amount retained after paying the service provider for the services delivered to the customer, i.e. the gross margin earned.

*Determining the transaction price*

The transaction price for training and consulting services is fixed at the amount specified in the contract and has no variable element.

*Allocating the transaction price*

When selling training and consulting services provided through third-party contractors together with other goods and services under the same or linked contracts and those goods and services represent more than one performance obligation, the group allocates the total transaction by reference to the prices it charges for those goods and services when sold separately, i.e. their stand-alone selling prices.

*Recognising revenue*

The group recognises all revenue from externally provided training and consulting services on a point in time basis. This is because the group's activities in satisfying its performance obligation do not satisfy any of the criteria for over time revenue recognition set out in IFRS 15. The group's performance obligations are fully satisfied at the point the contract is signed. Thereafter, the group has no on-going performance obligations as these rest with the services provider.

***Internally provided consulting services***

The group's activities under this revenue stream comprise the provision of consulting services using its own internal resources. The services provided include helpdesk support, cloud migration, implementation of security solutions, infrastructure and software asset management services.

*Identifying the performance obligations*

The group's sale of internally provided consulting services is generally distinct from other goods and services that the group might provide to the same customer under the same or separate contracts. This is because the customer can benefit from the services on their own or from other resources. Additionally, the services are not generally integrated with or dependent on other services that might be provided to the customer. When selling internally provided consulting services the group acts as principal and so recognises revenue at the gross amount receivable from the customer for the services provided.

*Determining the transaction price*

The transaction price for consulting services is fixed by the day rates specified in the contract and has no variable element.

*Allocating the transaction price*

When selling internally provided consulting services together with other goods and services under the same or linked contracts and those goods and services represent more than one performance obligation, the group allocates the total transaction by reference to the prices it charges for those goods and services when sold separately, i.e. their stand-alone selling prices.

*Recognising revenue*

The group recognises all revenue from internally provided consulting services on an over time basis. This is because the customer simultaneously consumes and benefits from group's activities as the group performs. In measuring its performance and the amount of revenue to be recognised, the group applies an inputs basis by reference to the hours expended to the measurement date and the day rates specified in the contract.

***Hardware sales***

The group's activities under this revenue stream comprise the sale of hardware items such as servers, laptops, and devices.

*Identifying the performance obligations*

The group's sale of hardware, which is made in the capacity of principal, is generally distinct from other goods and services that the group might provide to the same customer under the same or separate contracts. This is because the customer can usually benefit from the hardware either on its own or with other resources. Occasionally, the hardware may be integrated with software licences resold by the group in such a way that the customer's ability to benefit from the software and hardware products is interdependent. In such instances, the sale of the hardware and related licence together represent a single performance obligation. When selling hardware, the group acts as principal and so recognises revenue at the gross amount receivable from the customer for the hardware provided.

*Determining the transaction price*

The transaction price for sales of hardware is fixed at the amount specified in the contract and has no variable element.

*Allocating the transaction price*

When selling hardware together with other goods and services under the same or linked contracts and those goods and services represent more than one performance obligation, the group allocates the total transaction by reference to the prices it charges for those goods and services when sold separately, i.e. their stand-alone selling prices.

*Recognising revenue*

The group recognises all revenue from sales of hardware on a point in time basis. This is because the group's activities in satisfying its performance obligation do not satisfy any of the criteria for over time revenue recognition set out in IFRS 15. Revenue is recognised on delivery when control of the hardware passes to the customer.

***Contract costs***

*Incremental costs of obtaining a contract*

The group recognises the incremental costs of obtaining a contract when those costs are incurred. For revenue recognised on a point in time basis, this is consistent with the transfer of the goods or services to which those costs relate. For revenue recognised on an over time basis, the group applies the practical expedient available in IFRS 15 and recognises the costs as an expense when incurred because the amortisation period of the asset that would otherwise be recognised is less than one year.

*Costs to fulfil a contract*

The group recognises the costs of fulfilling a contract when those costs are incurred. This is because the nature those costs does not generate or enhance the group's resources in a way that enables it to satisfy its performance obligations in the future and those costs do not otherwise qualify for recognition as an asset.

***Contract assets***

The group recognises a contract asset for revenue recognised from performance obligations satisfied in the period that has not yet been invoiced to the customer.

***Contract liabilities***

The group recognises a contract liability when the customer is invoiced, or when payment is due, before the related performance obligations of the contract are satisfied.

### 1.13 Rebates

Rebates from suppliers are accounted for in the period in which they are earned and are based on commercial agreements with suppliers. Rebates earned are mainly purchase volume related and are generally short term in nature, with rebates earned but not yet received typically relating to the preceding quarter's trading. Rebate income is recognised in cost of sales in the Statement of Profit or Loss and Other Comprehensive Income and rebates earned but not yet received are included within accrued income in the Statement of Financial Position.

### 1.14 Non-underlying items

Non-underlying items are those items that, by virtue of their nature, size or expected frequency, warrant separate additional disclosure in the historical financial information in order to fully understand the underlying performance of group. In the period ended 28 February 2018, the group incurred acquisition related costs in respect of its acquisition of Blenheim Group Limited. These costs were only incurred in 2018 and have been included within administrative expenses but have also been disclosed separately in note 5 in the notes to the historical financial information.

### 1.15 Income tax

#### 1.15.1 Income tax for the years ended 28 February 2018, 2019 and 29 February 2020

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### 1.15.2 Income tax for the periods ended 31 August 2019 and 2020

The group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings.

### 1.16 Leases

#### 1.16.1 For the periods prior to 1 March 2019

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the group as lessee were classified as operating leases. 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. The group did not have any finance leases.

#### 1.16.2 For the periods from 1 March 2019 onwards

***Lessee***

The group leases a property and various motor vehicles. Lease agreements are typically made for fixed periods but may have extension options included. Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

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 finance cost. The finance cost is charged to profit or loss over the lease period 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 is depreciating the right-of-use assets over the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured at the net present value of the minimum lease payments. The net present value of the minimum lease payments is calculated as follows:
- fixed payments, less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, where this rate cannot be determined, the group's incremental borrowing rate is used.

Right-of-use assets are measured at cost comprising the following:
- the net present value of the minimum lease payments;
- any lease payments made at or before the commencement date less any lease incentives received; and
- any initial direct costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

***Depreciation***
Depreciation is recognised in profit or loss for each category of assets on a straight-line basis over the lease term.

The estimated useful lives for the current and comparative periods are as follows:
- Buildings 8 years;
- Motor vehicles 2 to 3 years.

The depreciation methods, useful lives and residual values are reassessed annually and adjusted if appropriate. Gains and losses arising on the disposal of leased assets are included as capital items in profit or loss.

### 1.17 Business combinations
The acquisition method of accounting is used to account for all business combinations. The consideration transferred for the acquisition of a subsidiary comprises the:
- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity, on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity, over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or as a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.
If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

### 1.18 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 1.19 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

### 1.20 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services rendered in the ordinary course of business. Trade receivables are recognised initially at the amount of consideration that is unconditional i.e. fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. Prepayments and other receivables are stated at their nominal values.

### 1.21 Inventories

Inventories are measured at the lower of cost and net realisable value taking into account market conditions and technological changes. Cost is determined on the first-in first-out and weighted average cost methods. Work and contracts in progress and finished goods include direct costs and an appropriate portion of attributable overhead expenditure based on normal production capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### 1.22 Financial instruments

#### 1.22.1 Financial instruments under IFRS 9 (from 1 March 2018)

Financial instruments comprise investments in equity, loans receivable, trade and other receivables (excluding prepayments), investments, cash and cash equivalents, restricted cash, non-current loans, current loans, bank overdrafts, derivatives and trade and other payables.

***Recognition***

Financial assets and liabilities are recognised in the group's statement of financial position when the group becomes a party to the contractual provisions of the instruments. Financial assets are recognised on the date the group commits to purchase the instruments (trade date accounting).

Financial assets are classified as current if expected to be realised or settled within 12 months from the reporting date; if not; they are classified as non-current. Financial liabilities are classified as non-current if the group has an unconditional right to defer payment for more than 12 months from the reporting date.

***Classification***

The group classifies financial assets on initial recognition as measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL) based on the group's business model for managing the financial asset and the cash flow characteristics of the financial asset.

Financial assets are classified as follows:

- Financial assets to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss); and
- Financial assets to be measured at amortised cost

Financial assets are not reclassified unless the group changes its business model. In rare circumstances where the group does change its business model, reclassifications are done prospectively from the date that the group changes its business model.
Financial liabilities are classified and measured at amortised cost except for those derivative liabilities and contingent consideration that are measured at FVTPL.

***Measurement on initial recognition***

All financial assets and financial liabilities are initially measured at fair value, including transaction costs, except for those classified as FVTPL which are initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

***Subsequent measurement: Financial assets***

Subsequent to initial recognition, financial assets are measured as described below:

- FVTPL – These financial assets are subsequently measured at fair value and changes therein (including any interest or dividend income) are recognised in profit or loss.
- Amortised cost – these financial assets are subsequently measured at amortised cost using the effective interest method, less impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
- Equity instruments at FVOCI – these financial assets are subsequently measured at fair value. Dividends are recognised in profit or loss when the right to receive payment is established. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are not reclassified to profit or loss.

***Subsequent measurement: Financial liabilities***

All financial liabilities, excluding derivative liabilities and contingent consideration, are subsequently measured at amortised cost using the effective interest method. Derivative liabilities are subsequently measured at fair value with changes therein recognised in profit or loss.

***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire. On derecognition of a financial asset or liability, any difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

***Offsetting financial instruments***

Offsetting of financial assets and liabilities is applied when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The net amount is reported in the statement of financial position.

***Impairment***

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on credit risk characteristics and the days past due.

The expected credit loss (ECL) rates are based on the payment profiles of sales over a 12-month period before 31 August 2020, 29 February 2020 and 1 March 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are reviewed and adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

***Derivatives***
Derivatives are initially recognised at fair value on the date that a derivative contract is entered into as either a financial asset or financial liability if they are considered material. Derivatives are subsequently remeasured to their fair value at the end of each reporting period, with the change in fair value being recognised in profit or loss.

**1.22.2 Accounting policies applied until 28 February 2018**
The group has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

***Classification***
IAS 39 required financial assets to be classified in one of the following categories:
- Financial assets at fair value through profit or loss
- Available-for-sale financial assets
- Loans and receivables
- Held-to-maturity investments

Until 28 February 2018, the group classified its financial assets as loans and receivables.

***Initial and subsequent measurement***
The measurement at initial recognition did not change on adoption of IFRS 9.

Subsequent to the initial recognition, loans and receivables were carried at amortised cost using the effective interest method.

***Impairment***
The group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated.

***Assets carried at amortised cost***
For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

### 1.23 Property, plant and equipment

***Owned assets***

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. When components of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

***Subsequent costs***

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred, if it is probable that future economic benefits embodied within the item will flow to the group and the cost of such item can be measured reliably. The carrying amount of the replaced item of property, plant and equipment is derecognised. All other costs are recognised in profit or loss as an expense when incurred.

***Depreciation***

Depreciation is recognised in profit or loss for each category of assets on a straight-line basis over their expected useful lives up to their respective estimated residual values. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings 20 to 50 years;
- Leasehold improvements (included in land and buildings) shorter of lease period or useful life of asset;
- Plant and machinery 3 to 20 years;
- Motor vehicles 4 to 8 years;
- Furniture and equipment 5 to 20 years; and
- IT equipment and software 2 to 8 years.

The depreciation methods, useful lives and residual values are reassessed annually and adjusted if appropriate. Gains and losses arising on the disposal of property, plant and equipment are included as capital items in profit or loss.

### 1.24 Intangible assets

***Goodwill***

Goodwill is measured as described in note 1.17. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised, but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

***Brands and customer relationships***

Brands and customer relationships acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.
The useful lives for the brands and customer relationships are as follows:

- Customer relationships 10 years; and
- Brands 5 years.

***Software***
Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets where the following criteria are met:
- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

***Research and development***
Research expenditure and development expenditure that do not meet the criteria above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

**1.25 Trade and other payables**
Trade payables, sundry creditors and accrued expenses are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are accounted for in accordance with the accounting policy for financial liabilities as included above. Other payables are stated at their nominal values.

**1.26 Provisions**
Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**1.27 Employee benefits**
***Short-term obligations***
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave, that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

***Post-employment obligations***
The group operates various defined contribution plans for its employees. Once the contributions have been paid the group has no further payment obligations. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

***Termination benefits***
Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

***Share-based payments***
***Equity settled share-based payment incentive scheme***
Share-based compensation benefits are provided to particular employees of the group via the Bytes Technology Limited equity settled share-based payment incentive scheme and the Blenheim Group Limited equity settled share-based payment incentive scheme. Information relating to both of these schemes is provided in note 28.

***Employee shares***

The fair values of shares issued under both the Bytes Technology Limited equity settled share-based payment incentive scheme and the Blenheim Group Limited equity settled share-based payment incentive scheme are recognised as employee benefit expenses, with corresponding increases in equity. The total amount to be expensed is determined by reference to the fair values of the shares issued. The fair values of the shares issued are measured using generally accepted valuation techniques.

The total expenses are recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each period, the group revises its estimates of the number of shares issued that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

### 1.28 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

### 1.29 Dividends

Dividends paid on A ordinary shares are classified as equity and are recognised as distributions in equity.

### 1.30 Earnings per share

***(i) Basic earnings per share***

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares;
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares

***(ii) Diluted earnings per share***

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding, assuming the conversion of all dilutive potential ordinary shares.

### 1.31 Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand, unless otherwise stated.

## 2. Segmental information

### 2(a) Description of segment

The information reported to the group's Chief Executive, who is considered to be the chief operating decision maker for the purposes of resource allocation and assessment of performance, is based wholly on the overall activities of the group. The group has therefore determined that it has only one reportable segment under IFRS 8, which is that of 'IT solutions provider'. The group's revenue, results, assets and liabilities for this one reportable segment can be determined by reference to the Statement of Profit or Loss and the Balance Sheet. An analysis of revenues by product lines and geographical regions, which form one reportable segment, is set out in note 3.

### 2(b) Adjusted operating profit

Adjusted operating profit excludes the effects of significant items of income and expenditure which have an impact on the quality of earnings, such as acquisition costs, which are because of an isolated, non-recurring event. Intangible assets amortisation specifically related to the acquisition have also been excluded. The effects of share-based payment charges have also been excluded.

Adjusted operating profit reconciles to operating profit as follows:

| | Notes | Year ended 28 February 2018 £'000 | Year ended 28 February 2019 £'000 | Year ended 29 February 2020 £'000 | 6-month period ended 31 August 2019 Unaudited £'000 | 6-month period ended 31 August 2020 £'000 |
|---|---|---|---|---|---|---|
| Adjusted operating profit | | 11,480 | 20,643 | 31,725 | 16,687 | 20,489 |
| Share-based payment charges | 28 | (144) | (338) | (271) | (120) | (154) |
| Acquired intangible amortisation | 4 | (671) | (1,610) | (1,610) | (805) | (805) |
| Acquisition costs | 5 | (427) | - | - | - | - |
| **Operating profit** | | **10,238** | **18,695** | **29,844** | **15,762** | **19,530** |

## 3. Revenue from contracts with customers

### 3(a) Disaggregation of revenue from contracts with customers:

The group derives revenue from the transfer of goods and services in the following major product lines and geographical regions:

| **Revenue by product** | Year ended 28 February 2018 £'000 | Year ended 28 February 2019 £'000 | Year ended 29 February 2020 £'000 | 6-month period ended 31 August 2019 Unaudited £'000 | 6-month period ended 31 August 2020 £'000 |
|---|---|---|---|---|---|
| Hardware | 11,231 | 25,272 | 29,576 | 14,048 | 15,251 |
| Software | 300,728 | 310,235 | 326,439 | 182,588 | 197,211 |
| Services | 9,933 | 14,151 | 17,088 | 8,409 | 8,760 |
| **Total revenue from contracts with customers** | **321,892** | **349,658** | **373,103** | **205,045** | **221,222** |

*Hardware*
The group's hardware revenue comprises the sale of items such as servers, laptops and other devices.

Software
The group's software revenue comprises the sale of various types of software licenses (including both cloud-based and non-cloud-based licenses), subscriptions and software assurance products.

*Services*
The group's services revenue comprises the sale of externally provided training and consulting services through third-party contractors and internally provided consulting services through its own internal resources.

| | **Year ended 28 February 2018** | **Year ended 28 February 2019** | **Year ended 29 February 2020** | **6-month period ended 31 August 2019** | **6-month period ended 31 August 2020** |
|---|---|---|---|---|---|
| **Revenue by geographical regions:** | | | | | |
| United Kingdom | 299,332 | 329,059 | 352,458 | 195,405 | 212,810 |
| Europe | 19,455 | 17,798 | 17,720 | 8,694 | 7,083 |
| Rest of world | 3,105 | 2,801 | 2,925 | 946 | 1,329 |
| | **321,892** | **349,658** | **373,103** | **205,045** | **221,222** |

| | **Year ended 28 February 2018** | **Year ended 28 February 2019** | **Year ended 29 February 2020** | **6-month period ended 31 August 2019 Unaudited** | **6-month period ended 31 August 2020** |
|---|---|---|---|---|---|
| **3(b) Gross invoiced income by type:** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Hardware | 11,231 | 25,272 | 29,576 | 14,048 | 15,251 |
| Software | 315,121 | 500,925 | 665,147 | 343,386 | 474,668 |
| Services | 17,076 | 23,173 | 27,431 | 12,894 | 15,461 |
| | **343,428** | **549,370** | **722,154** | **370,328** | **505,380** |
| Gross invoiced income | 343,428 | 549,370 | 722,154 | 370,328 | 505,380 |
| Revenue recognised as agent | (21,536) | (199,712) | (349,051) | (165,283) | (284,158) |
| **Revenue** | **321,892** | **349,658** | **373,103** | **205,045** | **221,222** |

Gross invoiced income reflects gross income billed to customers adjusted for deferred and accrued revenue items. The group will continue to report gross invoiced income as an alternative financial KPI as management believes this measure allows a better understanding of business performance and position.

| | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|---|---|
| **3(c) Revenue derived from a single external customer:** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Software | - | 27,729 | 42,605 | 32,692 | 45,791 |
| | **-** | **27,729** | **42,605** | **32,692** | **45,791** |

**3(d) Presentation of accrued revenue and deferred revenue**
Accrued revenue amounts both non-current and current for all periods have been presented separately in the balance sheet as contract assets.

Deferred revenue amounts both non-current and current for all periods have been presented separately in the balance sheet as contract liabilities.

## 4. Material profit or loss items

The group has identified a number of items included within administrative expenses which are material due to the significance of their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the group:

| | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Depreciation of property, plant and equipment | 492 | 662 | 684 | 323 | 405 |
| Depreciation of right-of-use assets | - | - | 290 | 146 | 130 |
| Loss on disposal of property, plant and equipment | 4 | 3 | 10 | - | 18 |
| Amortisation of acquired intangible assets | 671 | 1,610 | 1,610 | 805 | 805 |
| Consulting fees | 1,075 | 537 | 946 | 346 | 989 |
| Operating lease charges: | 381 | 684 | 78 | 54 | 122 |
| Property | 379 | 491 | 75 | 53 | 122 |
| Plant, equipment and vehicles | 2 | 193 | 3 | 1 | - |
| Foreign exchange (gains)/losses: | (24) | (135) | (24) | (32) | 6 |
| Gains | (24) | (145) | (28) | (32) | - |
| Losses | - | 10 | 4 | - | 6 |

## 5. Non-underlying items

| | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Acquisition related costs | 427 | - | - | - | - |
| | 427 | - | - | - | - |

Items included in administrative expenses that are material, either because of size or their nature and that are non-recurring are considered as non-underlying items. The group incurred acquisition related costs of £427,000 in 2018 in respect of its acquisition of Blenheim Group Limited. Further details relating to this acquisition are provided in note 23.

## 6. Employees

| | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|---|---|
| **Employee benefit expense:** | £'000 | £'000 | £'000 | £'000 | £'000 |
| Employee remuneration (including directors' remuneration) | 17,486 | 24,088 | 26,960 | 13,054 | 14,256 |
| Commissions and bonuses | 9,762 | 13,224 | 15,023 | 7,800 | 8,396 |
| Social security costs | 3,230 | 4,291 | 4,694 | 2,344 | 2,582 |
| Pension costs | 469 | 632 | 918 | 444 | 508 |
| Share-based payments expense | 144 | 338 | 271 | 120 | 154 |
| | 31,091 | 42,573 | 47,866 | 23,762 | 25,896 |
| Classified as follows: | | | | | |
| Cost of sales | 3,999 | 6,033 | 6,981 | 3,359 | 3,646 |
| Administrative expenses | 27,092 | 36,540 | 40,885 | 20,403 | 22,250 |
| | 31,091 | 42,573 | 47,866 | 23,762 | 25,896 |

**Key management personnel compensation:**

| | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Short-term employee benefits (including bonuses) | 1,961 | 2,160 | 2,460 | 1,009 | 981 |
| Pension costs | 51 | 91 | 96 | 51 | 43 |
| | 2,012 | 2,251 | 2,556 | 1,060 | 1,024 |

The group considers the directors to be key management personnel. During the 6-month period to 31 August 2020 retirement benefits were accruing to 7 directors (29 February 2020, 28 February 2019 and 2018: 7) in respect of defined contribution pension schemes.

During the 6-month period to 31 August 2020, no directors have exercised their B ordinary shares in respect of either of the Bytes Group Limited Employee Share Scheme or the Blenheim Group Employee Share Scheme (29 February 2020, 28 February 2019 and 2018: Nil).

M Nyati is a director of Bytes Technology Limited and a director of other subsidiaries within the group. M Nyati has an employment contract with Allied Electronics Limited. M Nyati's emoluments are paid by Allied Electronics Limited which makes no recharge to the group, since it is not possible to make an accurate apportionment of his emoluments. Accordingly, the above details do not include emoluments in respect of M Nyati. His total emoluments are included in the aggregate of directors' emoluments disclosed in the financial statements of Allied Electronics Limited.

## 7. Finance income and costs

| | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|---|---|
| Finance income | £'000 | £'000 | £'000 | £'000 | £'000 |
| Bank interest received | 20 | 85 | 158 | 85 | 24 |
| **Finance income** | 20 | 85 | 158 | 85 | 24 |
| Finance costs | | | | | |
| Interest expense on financial liabilities measured at amortised cost | (58) | (1) | (2) | (1) | (2) |
| Interest expense on lease liability | - | - | (80) | (40) | (38) |
| **Finance costs expensed** | (58) | (1) | (82) | (41) | (40) |
| **Net finance (costs)/income** | (38) | 84 | 76 | 44 | (16) |

## 8. Income tax expense

The major components of the group's income tax expense for all periods are:

| | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|---|---|
| **Current tax expense** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Current income tax charge in the year | 2,213 | 3,886 | 5,912 | 3,215 | 3,898 |
| Adjustment in respect of current income tax of previous years | (8) | 4 | (7) | - | - |
| **Total current income tax charge** | 2,205 | 3,890 | 5,905 | 3,215 | 3,898 |
| **Deferred tax expense/(credit)** | | | | | |
| Origination and reversal of timing differences | (100) | (249) | (149) | (141) | (141) |
| Adjustments in respect of prior years | 6 | 2 | 6 | - | - |
| **Deferred tax credit** | (94) | (247) | (143) | (141) | (141) |
| **Total tax charge** | 2,111 | 3,643 | 5,762 | 3,074 | 3,757 |

**Reconciliation of total tax charge**
The tax assessed for the year differs from the standard rate of corporation tax in the UK applied to profit before tax.

| | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Profit before income tax | 10,200 | 18,779 | 29,920 | 15,806 | 19,514 |
| Profit before income tax at the standard rate of corporation tax in the UK of 19% for all periods | 1,947 | 3,568 | 5,685 | 3,004 | 3,708 |
| Effects of: | | | | | |
| Non-deductible expenses | 174 | 76 | 166 | 115 | 106 |
| Tax credit in respect of qualifying R&D expenditure | (16) | (46) | (67) | (34) | (43) |
| Adjustment to previous periods | (2) | 6 | (18) | - | - |
| Other differences | 8 | 39 | (4) | (11) | (14) |
| **Income tax charge reported in profit or loss** | 2,111 | 3,643 | 5,762 | 3,074 | 3,757 |

**Changes affecting the future tax charge:**
At Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate (for all profits except ring fence profits) at 19% for the years starting 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. A further reduction to 17% for the year starting 1 April 2020 was announced at Budget 2016. Deferred taxes for the years ended 28 February 2018, 2019 and 29 February 2020 and for the 6-month period ended 31 August 2019 have been measured using these enacted tax rates and are reflected in these financial statements. On 11 March 2020, the main rate was reinstated to 19% and this was substantively enacted on 17 March 2020. Deferred taxes for the 6-month period ended 31 August 2020 have been measured using the reinstated main rate of 19%.

## 9. Property, plant and equipment

| | Freehold land and buildings £'000 | Computer equipment £'000 | Furniture, fittings and equipment £'000 | Computer software £'000 | Motor vehicles £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 March 2017 | 5,220 | 817 | 387 | 510 | 36 | 6,970 |
| Acquisition of subsidiary | 1,765 | 340 | 20 | - | - | 2,125 |
| Additions | - | 143 | 84 | - | - | 227 |
| Disposals | - | (170) | (3) | - | - | (173) |
| At 28 February 2018 | 6,985 | 1,130 | 488 | 510 | 36 | 9,149 |
| Additions | 120 | 339 | 471 | 101 | 32 | 1,063 |
| Disposals | - | (152) | - | - | (4) | (156) |
| At 28 February 2019 | 7,105 | 1,317 | 959 | 611 | 64 | 10,056 |
| Additions | 896 | 454 | 353 | 13 | 29 | 1,745 |
| Disposals | (5) | (347) | (45) | - | (10) | (407) |
| Reclassification | 294 | - | (294) | - | - | - |
| At 29 February 2020 | 8,290 | 1,424 | 973 | 624 | 83 | 11,394 |
| Additions | 62 | 90 | 27 | - | 143 | 322 |
| Disposals | - | - | (30) | - | (10) | (40) |
| At 31 August 2020 | 8,352 | 1,514 | 970 | 624 | 216 | 11,676 |
| **Depreciation** | | | | | | |
| At 1 March 2017 | 481 | 660 | 147 | 444 | 22 | 1,754 |
| On disposals | - | (167) | (2) | - | - | (169) |
| Charge for the year | 71 | 150 | 235 | 36 | - | 492 |
| At 28 February 2018 | 552 | 643 | 380 | 480 | 22 | 2,077 |
| On disposals | - | (149) | - | - | (4) | (153) |
| Charge for the year | 192 | 306 | 114 | 39 | 11 | 662 |
| At 28 February 2019 | 744 | 800 | 494 | 519 | 29 | 2,586 |
| On disposals | (2) | (347) | (38) | - | (10) | (397) |
| Charge for the year | 261 | 305 | 58 | 44 | 16 | 684 |
| At 29 February 2020 | 1,003 | 758 | 514 | 563 | 35 | 2,873 |
| On disposals | - | - | (19) | - | (3) | (22) |
| Charge for the period | 172 | 84 | 53 | 19 | 77 | 405 |
| At 31 August 2020 | 1,175 | 842 | 548 | 582 | 109 | 3,256 |
| **Net book value** | | | | | | |
| At 28 February 2018 | 6,433 | 487 | 108 | 30 | 14 | 7,072 |
| At 28 February 2019 | 6,361 | 517 | 465 | 92 | 35 | 7,470 |
| At 29 February 2020 | 6,993 | 666 | 753 | 61 | 48 | 8,521 |
| At 31 August 2020 | 7,177 | 672 | 422 | 42 | 107 | 8,420 |

## 10. Leases

***(i) Amounts recognised in the balance sheet***

| **Right-of-use assets** | **Buildings £'000** | **Motor vehicles £'000** | **Total £'000** |
|---|---|---|---|
| **Cost** | | | |
| At 1 March 2019 | 1,377 | 245 | 1,622 |
| At 29 February 2020 and 31 August 2020 | 1,377 | 245 | 1,622 |
| **Depreciation** | | | |
| At 1 March 2019 | - | - | - |
| Charge for the year | 162 | 128 | 290 |
| At 29 February 2020 | 162 | 128 | 290 |
| Charge for the period | 83 | 47 | 130 |
| At 31 August 2020 | 245 | 175 | 420 |
| **Net book value** | | | |
| At 1 March 2019 | 1,377 | 245 | 1,622 |
| At 29 February 2020 | 1,215 | 117 | 1,332 |
| At 31 August 2020 | 1,132 | 70 | 1,202 |

| **Lease liabilities** | **1 March 2019 £'000** | **29 February 2020 £'000** | **31 August 2020 £'000** |
|---|---|---|---|
| Current | 307 | 307 | 256 |
| Non-current | 1,315 | 1,295 | 1,252 |
| | 1,622 | 1,602 | 1,508 |

There were no additions to the right-of-use assets during the 6-month period to 31 August 2020 (financial year ended 29 February 2020: £Nil).

***(ii) Amounts recognised in the statement of profit or loss***

The statement of profit or loss shows the following amounts relating to leases:

| | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|
| **Depreciation charge of right-of-use assets** | **£'000** | **£'000** | **£'000** |
| Buildings | 162 | 79 | 83 |
| Motor vehicles | 128 | 67 | 47 |
| | 290 | 146 | 130 |
| Interest expense (included in finance cost) | 80 | 40 | 38 |
| Expense relating to short-term leases (included in administrative expenses) | 54 | 27 | 27 |
| Expense relating to leases of low-value assets (included in administrative expenses) | 24 | 27 | 95 |

The total cash outflow for leases was £207,000 for the year ended 29 February 2020 and £132,000 for the 6-month period ended 31 August 2020 (£70,000 for the 6-month period ended 31 August 2019).

## 11. Intangible assets

| | Goodwill £'000 | Customer relationships £'000 | Brand £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 March 2017 | 14,775 | - | - | 14,775 |
| Acquisition of subsidiary | 22,718 | 8,798 | 3,653 | 35,169 |
| At 28 February 2018, 2019, 2020 and 31 August 2020 | 37,493 | 8,798 | 3,653 | 49,944 |
| **Amortisation** | | | | |
| At 1 March 2017 | - | - | - | - |
| Charge for the year | - | 367 | 304 | 671 |
| At 28 February 2018 | - | 367 | 304 | 671 |
| Charge for the year | - | 880 | 730 | 1,610 |
| At 28 February 2019 | - | 1,247 | 1,034 | 2,281 |
| Charge for the year | - | 880 | 730 | 1,610 |
| At 29 February 2020 | - | 2,127 | 1,764 | 3,891 |
| Charge for the period | | 440 | 365 | 805 |
| At 31 August 2020 | - | 2,567 | 2,129 | 4,696 |
| **Net book value** | | | | |
| At 28 February 2018 | 37,493 | 8,431 | 3,349 | 49,273 |
| At 28 February 2019 | 37,493 | 7,551 | 2,619 | 47,663 |
| At 29 February 2020 | 37,493 | 6,671 | 1,889 | 46,053 |
| At 31 August 2020 | 37,493 | 6,231 | 1,524 | 45,248 |

### Determination of recoverable amount:

The carrying value of indefinite useful life intangible assets and goodwill are tested annually for impairment. The recoverable amount of each cash generating unit (CGU) is the higher of the CGU's fair value less costs of disposal and its value in use. For each CGU and for all periods presented, the group has assessed that the value in use represents the recoverable amount. The future expected cash flows used in the value in use models are based on management forecasts, typically over a five-year period, and thereafter a reasonable rate of growth is applied based on current market conditions. For the purpose of impairment assessments of goodwill, the goodwill balance is allocated to the operating units which represent the lowest level within the group at which the goodwill is monitored for internal management purposes.

A summary of the goodwill per CGU as well as assumptions applied for impairment assessment purposes is presented below:

**6-month period ended 31 August 2020**
During the 6-month period to 31 August 2020, the group successfully integrated the Bytes Security Partnership into the Bytes Software Services business. The £6,934,000 carrying value of goodwill previously allocated to Bytes Security Partnership has been re-allocated to the Bytes Software Services CGU. The goodwill per CGU as at 31 August 2020 is as follows:

| | **Goodwill carrying amount £'000** |
|---|---|
| Bytes Software Services | 14,775 |
| Phoenix Software | 22,718 |
| | 37,493 |

**Years ended 29 February 2020 and 28 February 2019 and 2018**
For the years ended 29 February 2020 and 28 February 2019 and 2018, goodwill was monitored in the three CGUs described below:

| **29 February 2020** | **Long term growth rate %** | **Discount rate %** | **Goodwill carrying amount £'000** |
|---|---|---|---|
| Bytes Software Services | 2 | 8.13 | 7,841 |
| Bytes Security Partnership | 2 | 8.13 | 6,934 |
| Phoenix Software | 2 | 8.13 | 22,718 |
| | | | 37,493 |

| **28 February 2019** | **Long term growth rate %** | **Discount rate %** | **Goodwill carrying amount £'000** |
|---|---|---|---|
| Bytes Software Services | 2 | 11.70 | 7,841 |
| Bytes Security Partnership | 2 | 11.70 | 6,934 |
| Phoenix Software | 2 | 11.70 | 22,718 |
| | | | 37,493 |

| **28 February 2018** | **Long term growth rate %** | **Discount rate %** | **Goodwill carrying amount £'000** |
|---|---|---|---|
| Bytes Software Services | 2 | 7.55 – 12.73 | 7,841 |
| Bytes Security Partnership | 2 | 7.55 – 12.73 | 6,934 |
| Phoenix Software | 2 | 7.55 – 12.73 | 22,718 |
| | | | 37,493 |

***Growth rates***
Steady growth rates were applied beyond the approved budget periods. The growth rates were consistent with publicly available information relating to long-term average growth rates for each of the markets in which the respective CGU operated. The average growth rates ranged from 2% to 5% (2019: 2% – 7%).

***Discount rates***
Discount rates used reflect both time value of money and other specific risks relating to the relevant CGU. Pre-tax discount rates have been applied.

***Sensitivities***
The impacts of variations in the calculation of value-in-use of assumed growth rate and pre-tax discount rates applied to the estimated future cash flows of the CGUs have been estimated as follows:

| **28 February 2018** | **Bytes Software Services £'000** | **Bytes Security Partnership £'000** | **Phoenix Software £'000** |
|---|---|---|---|
| Headroom | 138,510 | 28,623 | 7,933 |
| 1% increase in the pre-tax discount rate applied to the estimated future cash flows | (23,648) | (5,934) | (2,917) |
| 1% decrease in the pre-tax discount rate applied to the estimated future cash flows | 33,210 | 8,919 | 3,446 |
| 0.5% increase in the terminal growth rate from 2019 to 2023 | 5,008 | 638 | 347 |
| 0.5% decrease in the terminal growth rate from 2019 to 2023 | (4,916) | (629) | (344) |

| **28 February 2019** | **Bytes Software Services £'000** | **Bytes Security Partnership £'000** | **Phoenix Software £'000** |
|---|---|---|---|
| Headroom | 116,440 | 16,981 | 45,413 |
| 1% increase in the pre-tax discount rate applied to the estimated future cash flows | (20,381) | (1,500) | (11,370) |
| 1% decrease in the pre-tax discount rate applied to the estimated future cash flows | 28,619 | 1,801 | 15,970 |
| 0.5% increase in the terminal growth rate from 2020 to 2024 | 5,445 | 488 | 1,626 |
| 0.5% decrease in the terminal growth rate from 2020 to 2024 | (5,314) | (479) | (1,602) |

| **29 February 2020** | **Bytes Software Services £'000** | **Bytes Security Partnership £'000** | **Phoenix Software £'000** |
|---|---|---|---|
| Headroom | 333,967 | 44,215 | 52,253 |
| 1% increase in the pre-tax discount rate applied to the estimated future cash flows | (43,296) | (7,463) | (10,891) |
| 1% decrease in the pre-tax discount rate applied to the estimated future cash flows | 60,156 | 10,369 | 15,132 |
| 0.5% increase in the terminal growth rate from 2021 to 2025 | 7,475 | 1,363 | 1,969 |
| 0.5% decrease in the terminal growth rate from 2021 to 2025 | (7,344) | (1,339) | (1,933) |

None of the above sensitivities taken either in isolation or aggregated, require any additional impairment charge to be made.

## 12. Inventories

| | As at 28 February 2018 £'000 | As at 28 February 2019 £'000 | As at 29 February 2020 £'000 | As at 31 August 2020 £'000 |
|---|---|---|---|---|
| Inventories | 1,661 | 94 | 688 | 746 |
| | 1,661 | 94 | 688 | 746 |

Inventories include asset management subscription licences purchased in advance for a specific customer that as yet haven't been consumed.

Inventories recognised as an expense in cost of sales during the period ended 31 August 2020 amounted to £439,000 (29 February 2020: £94,000, 28 February 2019: £1,861,000 and 28 February 2018: £98,000).

## 13. Financial assets and financial liabilities

This note provides information about the group's financial instruments, including:

- an overview of all financial instruments held by the group;
- specific information about each type of financial instrument;
- accounting policies; and
- information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

The group holds the following financial instruments:

| **Financial assets** | **Notes** | **As at 28 February 2018 £'000** | **As at 28 February 2019 £'000** | **As at 29 February 2020 £'000** | **As at 31 August 2020 £'000** |
|---|---|---|---|---|---|
| Financial assets classified as loans and receivables: | | | | | |
| Trade receivables | **14** | 43,195 | - | - | - |
| Other financial assets | **14** | 3,103 | - | - | - |
| | | 46,298 | - | - | - |
| Financial assets at amortised cost: | | | | | |
| Trade receivables | **14** | - | 52,168 | 73,365 | 95,808 |
| Other financial assets | **14** | - | 1,987 | 1,808 | 3,094 |
| | | - | 54,155 | 75,173 | 98,902 |

| **Financial liabilities** | **Notes** | **As at 28 February 2018 £'000** | **As at 28 February 2019 £'000** | **As at 29 February 2020 £'000** | **As at 31 August 2020 £'000** |
|---|---|---|---|---|---|
| Financial liabilities at amortised cost: | | | | | |
| Trade and other payables – current, excluding Payroll tax and other statutory liabilities | **16** | 68,211 | 84,592 | 111,129 | 128,069 |
| Lease liabilities | **10** | - | - | 1,602 | 1,508 |
| | | 68,211 | 84,592 | 112,731 | 129,577 |

The group's exposure to various risks associated with the financial instruments is discussed in note 21. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

## 14. Trade and other receivables

| | As at 28 February 2018 | As at 28 February 2019 | As at 29 February 2020 | As at 31 August 2020 |
|---|---|---|---|---|
| **Financial assets** | **£'000** | **£'000** | **£'000** | **£'000** |
| Gross trade receivables | 43,195 | 52,644 | 73,767 | 96,532 |
| Less: impairment allowance | - | (476) | (402) | (724) |
| Net trade receivables | 43,195 | 52,168 | 73,365 | 95,808 |
| Other receivables | 3,103 | 1,987 | 1,808 | 3,094 |
| | 46,298 | 54,155 | 75,173 | 98,902 |
| **Non-financial assets** | | | | |
| Prepayments | 455 | 443 | 1,921 | 366 |
| | 455 | 443 | 1,921 | 366 |
| **Trade and other receivables** | 46,753 | 54,598 | 77,094 | 99,268 |

***(i) Classification of trade receivables***

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, in which case they are recognised at fair value. The group holds the trade receivables with the objective of collecting the contractual cash flows, and so it measures them subsequently at amortised cost using the effective interest method. Details about the group's impairment policies are provided in note 1.18.

***(ii) Fair values of trade receivables***

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

***(iii) Credit risk***

**Ageing and impairment analysis (excluding finance lease assets)**

***Initial application of IFRS 9***

On adoption of IFRS 9 'Financial Instruments', the group recognised an expected credit loss provision of £446k on 1 March 2018, the details of which are presented below:

| **1 March 2018** | Current | Past due 0 to 30 days | Past due 31 to 120 days | Past due 121 to 365 days | Total |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Expected loss rate | 0.03% | 0.50% | 14.86% | - | |
| Gross carrying amount – trade receivables | 36,827 | 4,462 | 1,745 | 161 | 43,195 |
| **Loss allowance on initial application of IFRS 9 charged to equity** | 10 | 22 | 259 | 155 | 446 |

| **28 February 2019** | **Current** | **Past due 0 to 30 days** | **Past due 31 to 120 days** | **Past due 121 to 365 days** | **Total** |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Expected loss rate | 0.03% | 0.33% | 15.51% | - | |
| Gross carrying amount – trade receivables | 43,040 | 6,756 | 2,843 | 5 | 52,644 |
| **Loss allowance** | 13 | 22 | 441 | - | 476 |

| **28 February 2020** | **Current** | **Past due 0 to 30 days** | **Past due 31 to 120 days** | **Past due 121 to 365 days** | **Total** |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Expected loss rate | 0.02% | 0.28% | 13.41% | 95.61% | |
| Gross carrying amount – trade receivables | 59,410 | 12,445 | 1,792 | 120 | 73,767 |
| **Loss allowance** | 12 | 35 | 240 | 115 | 402 |

| **31 August 2020** | **Current** | **Past due 0 to 30 days** | **Past due 31 to 60 days** | **Past due 61 to 120 days** | **Past due 121 to 365 days** | **Total** |
|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Expected loss rate | 0.04% | 0.54% | 1.29% | 15.46% | 100% | |
| Gross carrying amount – trade receivables | 57,067 | 24,056 | 13,937 | 1,281 | 191 | 96,532 |
| **Loss allowance** | 25 | 130 | 180 | 198 | 191 | 724 |

***Impact of Covid-19***

During the period to 31 August 2020, the group has revised the expected credit loss rates for the impact of Covid-19 and altered the payment profiles of balances associated with certain customers. To represent the effects of this, the group has split the past due 31 to 120 days ageing profile into two separate ageing profiles, being past due 31 to 60 days and past due 61 to 120 days. The loss allowances applied to both ageing profiles are based on the historical loss rates adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The closing loss allowances for trade receivables reconcile to the opening loss allowances as follows:

| | **Trade receivables** | | | |
|---|---|---|---|---|
| | **As at 28 February 2018** | **As at 28 February 2019** | **As at 29 February 2020** | **As at 31 August 2020** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Adjustment on initial application of IFRS 9 | - | 446 | - | - |
| Opening loss allowance at 1 March | - | - | 476 | 402 |
| Increase in loss allowance recognised in profit or loss during the period | - | 30 | - | 347 |
| Receivables written off during the year as uncollectible | - | - | (74) | (25) |
| Closing loss allowance | - | 476 | 402 | 724 |

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

## 15. Cash and cash equivalents

| | As at 28 February 2018 £'000 | As at 28 February 2019 £'000 | As at 29 February 2020 £'000 | As at 31 August 2020 £'000 |
|---|---|---|---|---|
| Cash at bank and in hand | 6,706 | 26,038 | 47,357 | 31,928 |
| | 6,706 | 26,038 | 47,357 | 31,928 |

## 16. Trade and other payables

| | As at 28 February 2018 £'000 | As at 28 February 2019 £'000 | As at 29 February 2020 £'000 | As at 31 August 2020 £'000 |
|---|---|---|---|---|
| Trade and other payables | 51,520 | 62,903 | 90,141 | 109,503 |
| Accrued expenses | 16,691 | 21,689 | 20,988 | 18,566 |
| Payroll tax and other statutory liabilities | 4,563 | 4,439 | 5,381 | 2,550 |
| | 72,774 | 89,031 | 116,510 | 130,619 |

Trade payables are unsecured and are usually paid between 30 and 45 days of recognition.

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

## 17. Deferred tax balances

The analysis of the deferred tax assets and liabilities is as follows:

| **Deferred tax assets** | As at 28 February 2018 £'000 | As at 28 February 2019 £'000 | As at 29 February 2020 £'000 | As at 31 August 2020 £'000 |
|---|---|---|---|---|
| At 1 March | 9 | - | - | - |
| Credited/(charged) to profit or loss | - | - | - | - |
| Set-off of deferred tax liabilities | (9) | - | - | - |
| Carrying amount at end of year | - | - | - | - |

| **Deferred tax liabilities** | As at 28 February 2018 £'000 | As at 28 February 2019 £'000 | As at 29 February 2020 £'000 | As at 31 August 2020 £'000 |
|---|---|---|---|---|
| At 1 March | 139 | 2,285 | 2,038 | 1,895 |
| Acquisition of subsidiary | 2,249 | - | - | - |
| (Credited)/charged to profit or loss | (94) | (247) | (143) | (141) |
| Set-off of deferred tax liabilities | (9) | - | - | - |
| Carrying amount at end of year | 2,285 | 2,038 | 1,895 | 1,754 |

Deferred tax assets and liabilities are attributed to temporary differences relating to the following:

| | As at 28 February 2018 £'000 | As at 28 February 2019 £'000 | As at 29 February 2020 £'000 | As at 31 August 2020 £'000 |
|---|---|---|---|---|
| Intangible assets | 2,040 | 1,769 | 1,488 | 1,347 |
| Property, plant and equipment | 245 | 269 | 407 | 407 |
| Carrying amount at end of year | 2,285 | 2,038 | 1,895 | 1,754 |

## 18. Share capital

| | As at 28 February 2018 | As at 28 February 2019 | As at 29 February 2020 | As at 31 August 2020 |
|---|---|---|---|---|
| **Authorised, allotted, called up and fully paid** | **£** | **£** | **£** | **£** |
| 1 (2019 and 2018: 1) – A ordinary share of £1 | 1 | 1 | 1 | 1 |
| 1,000 (2019 and 2018: 1,000) – B ordinary shares of £0.001 each | 1 | 1 | 1 | 1 |
| | 2 | 2 | 2 | 2 |

**(1) Voting rights**
Each holder of A ordinary and B ordinary shares shall be entitled to receive notice of, attend, vote and speak at any general meetings of the company.

No business shall be transacted at any general meeting of the company save by way of a poll, and, on a poll, each holder of B ordinary shares who holds in excess of 200 B ordinary shares, shall hold, in aggregate and total, 5% of the total number of votes held by all of the holders of A ordinary shares and B ordinary shares, whether or not they are present at the meeting, provided always that if there are more than 5 holders of B ordinary shares who hold in excess of 200 B ordinary shares, then those holders of in excess of 200 B ordinary shares shall be entitled, in aggregate, to a maximum of 25% of the total votes, divided equally between the holders of in excess of 200 B ordinary shares.

The balance of the votes not allocated to the holders of B ordinary shares shall be held by the holders of the A ordinary shares, such that the votes held by the holders of the A ordinary shares will, in aggregate and total, be equal to or not less than 75 per cent of the total votes capable of being cast by the shareholders at that meeting

**(2) Dividend rights**
The A ordinary shareholders are entitled to receive dividends. The B ordinary shareholders are not entitled to receive dividends.

**(3) Distribution rights**
On a return of capital (including but not limited to a winding up of the company or an asset sale of the company), the proceeds or surplus assets of the company remaining after the payment of its liabilities shall be distributed in the following order of priority:

First, if there are any preference shares at a fixed rate of £0.001 in issue, in paying (on a pro rata basis if applicable) to the holders of fixed rate preference shares:

- Any outstanding fixed rate preference dividends to the holder to whom it is due (including interest); and
- The converted price for each fixed rate preference share.

Second, if there are any B ordinary shares in issue, in paying to the holders of the B ordinary shares, the B ordinary share entitlement for each B ordinary share held by them; and

Third, in paying the balance of such assets, by way of distribution, amongst holders of the A ordinary shares.

**(4) Redemption rights**
The A ordinary shares are not redeemable.

The company shall upon a written request made by a holder of B ordinary shares within the period of 6 months from the date of the issue of the relevant B ordinary shares, either redeem, repurchase or procure the acquisition of, from the holder of one or more B ordinary shares, all of the B ordinary shares held by such person for the aggregate price of £2,000.

## 19. Retained earnings

| Movements in retained earnings were as follows: | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | Period ended 31 August 2020 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Balance 1 March/1 September | 24,975 | 33,064 | 41,254 | 51,612 |
| Adjustment on initial application of IFRS 9 and IFRS 15 | - | (446) | | |
| Restated at the beginning of the financial year | 24,975 | 32,618 | 41,254 | 51,612 |
| Net profit for the period | 8,089 | 15,136 | 24,158 | 15,757 |
| Dividends | - | (6,500) | (13,800) | (18,600) |
| | **33,064** | **41,254** | **51,612** | **48,769** |

## 20. Cash generated from operations

| | Note | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 |
| Profit before taxation | | 10,200 | 18,779 | 29,920 | 15,806 | 19,514 |
| Adjustments for: | | | | | | |
| Depreciation and amortisation | 4 | 1,163 | 2,272 | 2,584 | 1,274 | 1,340 |
| Loss on disposal of property, plant and equipment | 4 | 4 | 3 | 10 | - | 18 |
| Non-cash employee benefits expense – share based payments | 4 | 144 | 338 | 271 | 120 | 154 |
| Finance (income)/costs - net | 7 | 38 | (84) | (76) | (44) | 16 |
| (Increase)/decrease in contract assets | | (1,202) | (4,750) | 2,971 | 882 | (2,327) |
| Increase in trade and other receivables | | (13,808) | (8,291) | (22,496) | (6,358) | (22,174) |
| (Increase)/decrease in inventories | | (1,031) | 1,567 | (594) | (631) | (58) |
| Increase/(decrease) in trade and other payables | | 17,363 | 16,257 | 27,586 | (15,463) | 14,109 |
| Increase/(decrease) in contract liabilities | | (87) | 3,801 | 1,523 | 5,665 | (545) |
| **Cash generated from operations** | | **12,784** | **29,892** | **41,699** | **1,251** | **10,047** |

## 21. Financial risk management

This note explains the group's exposure to financial risks and how these risks could affect the group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

A significant portion of the group's revenues are from the sale of Microsoft software and associated services and it, therefore, remains strongly dependent thereon. The group intends to continue to develop this relationship, as well as seek additional opportunities with other suppliers, in order to mitigate the risk and exposure going forward.
Management monitors the liquidity and cash flow risk of the group carefully. Cash flow is monitored by management on a regular basis and any working capital requirement is funded by cash resources.
The main financial risks arising from the group's activities are credit, liquidity and currency risks. The group's policy in respect of credit risk is to require appropriate credit checks on potential customers before sales are made.

The group's policy in respect of liquidity risk is to maintain readily accessible bank deposit accounts to ensure that the company has sufficient funds for its operations. The cash deposits are held in a mixture of short-term deposits and current accounts which earn interest at a floating rate.
The group's policy in respect of currency risk, which primarily exists as a result of foreign currency purchases, is to either sell in the currency of purchase, maintain sufficient cash reserves in the appropriate foreign currencies which can be used to meet foreign currency liabilities or take out forward currency contracts to cover the exposure.

### 21(a) Derivatives

Derivatives are only used for economic hedging purposes and not speculative investments.

The group has taken out forward currency contracts during the periods presented, but has not recognised either a forward currency asset or liability at each period end as the fair value of the foreign currency forwards is considered to be immaterial to the financial statements. Similarly, the amounts recognised in profit or loss in relation to derivatives were considered immaterial to disclose separately.

***(i) Foreign exchange risk***
The group's exposure to foreign currency risk at the end of the reporting period, was as follows:

| | As at 28 February 2018 | | As at 28 February 2019 | | As at 29 February 2020 | | As at 31 August 2020 | |
|---|---|---|---|---|---|---|---|---|
| | USD | EUR | USD | EUR | USD | EUR | USD | EUR |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Trade receivables | 5,681 | 21 | 5,790 | 11 | 8,057 | 397 | 11,649 | 11,786 |
| Cash and cash equivalents | 714 | 487 | 2,279 | 218 | 4,627 | 283 | 978 | 653 |
| Trade payables | (5,970) | (5,986) | (10,006) | (6,176) | (14,873) | (6,323) | (8,990) | (16,850) |
| | 425 | (5,478) | (1,937) | (5,947) | (2,189) | (5,643) | 3,637 | (4,411) |

The aggregate net foreign exchange gains/losses recognised in profit or loss were:

| | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Total net foreign exchange gains/(losses) in profit or loss | 24 | 135 | 24 | 32 | (6) |
| | 24 | 135 | 24 | 32 | (6) |

## 21(b) Liquidity risk

*(1) Cash management*
Prudent liquidity risk management implies maintaining sufficient cash to meet obligations when due. The group generates positive cash flows from operating activities and these fund short-term working capital requirements. The group aims to maintain significant cash reserves and none of its cash reserves are subject to restrictions. Access to cash is not restricted and all cash balances could be drawn upon immediately if required. Management carefully monitors the levels of cash deposits and is comfortable that for normal operating requirements, no external borrowings are currently required.

At 31 August 2020, the group had cash and cash equivalents of £31.9m, see note 15. As disclosed in note 26, the group has made a dividend payment of £30m on 28 September 2020. Management monitors rolling forecasts of the group's liquidity position (which comprises its cash and cash equivalents) on the basis of expected cash flows generated from the group's operations. These forecasts are generally carried out at a local level in the operating companies of the group in accordance with practice and limits set by the group and take into account certain down case scenarios. In the period since 31 August 2020, the group has outperformed these forecasts and maintains sufficient cash levels to support its working capital requirements, following the payment of the dividend.

The group also has access to an uncommitted financing facility which at present remains undrawn, which entitles the group to borrow an additional £20m.

As discussed in note 26, in the event of the potential demerger and separate listing of the group taking place, the group has agreed with HSBC the terms of a 3-year committed Revolving Credit Facility (RCF) of £50 million for the first 12 months, reducing to £40 million for the following 12 months and to £30 million thereafter. The RCF is conditional upon the listing occurring by 6 January 2021.

*(2) Contractual maturity of financial liabilities*
The following table details the group's remaining contractual maturity for its financial liabilities based on undiscounted contractual payments:

| | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total contractual cash flows | Carrying amount |
|---|---|---|---|---|---|---|
| **28 February 2018** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Trade and other payables | 51,520 | - | - | - | 51,520 | 51,520 |
| | 51,520 | - | - | - | 51,520 | 51,520 |
| **28 February 2019** | | | | | | |
| Trade and other payables | 62,903 | - | - | - | 62,903 | 62,903 |
| | 62,903 | - | - | - | 62,903 | 62,903 |
| **29 February 2020** | | | | | | |
| Trade and other payables | 90,141 | - | - | - | 90,141 | 90,141 |
| Lease liabilities | 324 | 230 | 690 | 748 | 1,992 | 1,602 |
| | 90,465 | 230 | 690 | 748 | 92,133 | 91,743 |
| **31 August 2020** | | | | | | |
| Trade and other payables | 109,503 | - | - | - | 109,503 | 109,503 |
| Lease liabilities | 302 | 230 | 690 | 633 | 1,855 | 1,508 |
| | 109,805 | 230 | 690 | 633 | 111,358 | 111,011 |

## 22. Capital management

### 22(a) Risk management

For the purpose of the group's capital management, capital includes issued capital, A ordinary shares, B Ordinary shares, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the group's capital management is to maximise the shareholder value.

The group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the shareholders. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. In order to ensure an appropriate return for shareholder's capital invested in the group management thoroughly evaluates all material revenue streams, relationship with key vendors and potential acquisitions and approves them by the Board, where applicable. The group's dividend policy is based on the profitability of the business and underlying growth in earnings of the group, as well as its capital requirements and cash flows.

### 22(b) Dividends

| | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2020 |
|---|---|---|---|
| **A Ordinary shares** | **£'000** | **£'000** | **£'000** |
| Final dividend for the year ended 28 February 2019 of £6,500,000 per share | 6,500 | | |
| Final dividend for the year ended 28 February 2020 of £13,800,000 per share | | 13,800 | |
| Final dividend for the period ended 31 August 2020 of £18,600,000 per share | | | 18,600 |
| | **6,500** | **13,800** | **18,600** |

## 23. Business combinations

On 29 September 2017, the group acquired 100% of the issued share capital of Blenheim Group Limited. Blenheim Group Limited is the holding company of Phoenix Software Limited, a business focused on the resale of software products and associated services. Details of the purchase consideration, the net assets acquired and goodwill are as follows:

| | **£'000** |
|---|---|
| Cash paid | 35,900 |
| **Total purchase consideration** | **35,900** |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | Fair value **£'000** |
|---|---|
| Property, plant and equipment | 2,125 |
| Intangible assets – customer relationships | 8,798 |
| Intangible assets – brand | 3,653 |
| Inventories | 532 |
| Trade and other receivables | 13,059 |
| Cash | 3,962 |
| Trade and other payables | (16,766) |
| Deferred tax | (2,249) |
| Corporation tax | 68 |
| Net identifiable assets acquired | 13,182 |
| Goodwill arising on acquisition | 22,718 |
| Net assets acquired | 35,900 |
| Less: cash acquired | (3,962) |
| **Net cash outflow on acquisition** | **31,938** |

The goodwill is attributable to the future revenues and economies of scale expected from combining the operations of the group and Blenheim Group Limited. None of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition related costs of £427k have been included in administrative expenses and separately disclosed as non-underlying items, see note 5.

The acquired business contributed revenues of £44.5m and profit after taxation of £1.1m to the group for the period from 29 September 2017 to 28 February 2018. If the acquisition had occurred on 1 March 2017, consolidated pro-forma revenue and profit after taxation for the year ended 28 February 2018 would have been £410.4m and £10.7m, respectively.

There were no acquisitions in the years ended 28 February 2019 and 29 February 2020.

## 24. Contingent liabilities

In 2019 the Altron group renegotiated its long-term debt financing with the banks at more favourable terms. A long-term facility of R2 billion (£107.0m, converted at the 28 February 2019 closing rate of R18.69:£1) was granted to the Altron group of which R1.6 billion (£70.6m, converted at the 31 August 2020 closing rate of R22.67:£1) was drawn at 31 August 2020 (R1.733 billion (£86.2m, converted at the 29 February 2020 closing rate of R20.10:£1) was drawn at 29 February 2020 (2019: R1.3 billion (£69.6m, converted at the 28 February 2019 closing rate of R18.69:£1)). The contracting party with the banks is Alfin (Altron Treasury), and as part of the common terms agreement, Bytes Software Services Limited (a wholly owned subsidiary included in the group consolidated historical financial information), along with other fellow Altron group companies, was included as a guarantor in the event that Alfin is unable to meet its financial obligations. No payment is expected to be made by the group under the guarantee and there is no evidence to suggest that Alfin is unable to meet its financial obligations as they fall due under the terms of the facility. The group is jointly and severally liable along with other fellow Altron group companies and its maximum potential exposure is to the total amount due. As discussed in note 26 below, there is the potential for a demerger and separate listing of the group. In the event of the demerger and separate listing taking place, Bytes Software Services Limited will be released from its commitment to act as a guarantor for this facility.

## 25. Commitments

### 25(a) Capital commitments

At 31 August 2020, the group had £Nil capital commitments (29 February 2020, 28 February 2019 and 2018: £Nil).

### 25(b) Non-cancellable operating leases

The group leases one office and various motor vehicles and equipment. Rental contracts are typically made for fixed periods of 6 months to 8 years but may have extension options.

From 1 March 2019, the group recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 10 for further information.

| | **As at 28 February 2018 £'000** | **As at 28 February 2019 £'000** |
|---|---|---|
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | 357 | 517 |
| Later than one year but not later than five years | 275 | 1,518 |
| | 632 | 2,035 |

## 26. Events occurring after the reporting period

***Potential demerger and separate listing of the group from Allied Electronics Corporation Limited***

As part of its strategic review, the Board of Allied Electronics Corporation Limited ("the Altron Board") assessed each of the business units within its group, to identify opportunities which have the potential to unlock further value for its shareholders and to streamline its operations. The Altron Board concluded that the true value of the group, is not reflected in the Allied Electronics Corporation Limited's share price.

Consequently, the Altron Board has resolved to pursue:

- a potential listing and potential share offering of the group on the London Stock Exchange;
- a secondary listing of the group on the Johannesburg Stock Exchange ("JSE"); and
- a demerger of the remaining Altron shareholding in the group, post the potential share offering to Altron shareholders (collectively referred to as "the Potential Transaction").

The board of Altron has recommended to the shareholders to vote in favour of the Potential Transaction and it is expected that the transaction will conclude by the end of 2020.

***Dividends not recognised at the end of the reporting period***

In addition to the dividends disclosed in note 22(b), since the period end the group has made a further dividend payment of £30,000,000 per fully paid A ordinary share. The aggregate amount of the dividend paid on 28 September 2020 out of retained earnings at 31 August 2020, but not recognised as a liability at the period end, is £30,000,000.

***Shares split***

(i) A ordinary shares

On 19 October 2020 a written resolution was passed to sub-divide the 1 A ordinary share of £1 in the capital of Bytes Technology Limited into 10,000 A ordinary shares of £0.0001 each.

(ii) B ordinary shares

On 19 October 2020 a written resolution was passed to sub-divide the 1,000 B ordinary shares of £0.001 in the capital of Bytes Technology Limited into 1,000 B ordinary shares of £0.0001 each and 1,000 B deferred shares of £0.0009 each.

***Revolving Credit Facility***

In the event of the potential demerger and separate listing of the group taking place, the group has agreed with HSBC the terms of a 3-year committed Revolving Credit Facility (RCF) of £50 million for the first 12 months, reducing to £40 million for the following 12 months and to £30 million thereafter. The RCF is conditional upon the listing occurring by 6 January 2021.

## 27. Related party transactions

**27(a) Parent entities**

The group's immediate parent company is Bytes Technology Group (Pty) Limited, a company incorporated in the Republic of South Africa.

The ultimate parent company and the largest group in which the results of the group are consolidated is that headed by Allied Electronics Corporation Limited, a company incorporated in the Republic of South Africa. The consolidated financial statements are available to the public and may be obtained from 4 Sherbourne Road, Parktown, South Africa.

**27(b) Subsidiaries**

Interests in subsidiaries are set out in note 32.

**27(c) Transactions with other related parties**

The following transactions occurred with related parties:

| | Year ended 28 February 2018 £'000 | Year ended 28 February 2019 £'000 | Year ended 29 February 2020 £'000 | 6-month period ended 31 August 2020 £'000 |
|---|---|---|---|---|
| ***Purchase of services*** | | | | |
| Management services provided by fellow group company | 124 | 50 | 50 | 25 |
| ***Other transactions*** | | | | |
| Dividends paid to parent | - | (6,500) | (13,800) | (18,600) |

**27(d) Outstanding balances arising from sales/purchases of services**

There were no outstanding balances at the end of each reporting period.

## 28. Share-based payments

**28 (a) Employee Share Scheme (ESS) - Equity settled share-based payment incentive schemes**
The group operates two equity settled share-based payment incentive schemes, the Bytes Technology Limited scheme and the Blenheim Group Limited scheme. The Bytes Technology Limited scheme vests on 1 March 2021 and the Blenheim Group Limited scheme vests on 1 March 2023.

*(1) Bytes Technology Limited scheme*
On 15 November 2016, Bytes Technology Limited issued and allotted B ordinary shares to certain members of its management at £0.001. The value of the shares will be determined by taking the average profitability of Bytes Technology Limited in the two years immediately preceding 28 February 2021 multiplied by a market multiple to be determined at the vesting date. The B ordinary shares participate in 20% of the growth above the pre-determined hurdle. These shares carry no dividend rights. Upon vesting of the B ordinary shares, the B ordinary shares are converted into Fixed Rate Preference Shares (FRPS), the FRPS are immediately converted into A ordinary shares or Altron shares, at Altron's election. The A ordinary shares shall rank pari passu in all respects with the existing A ordinary shares, including the right to receive all dividends declared, made or paid after the vesting date. In the event of an initial public offering (IPO) occurring before the vesting date, the B ordinary shareholders shall receive an agreed consideration of £14.3m for the shares and 5% of the issued share capital of the listed Bytes UK company. Any share-based payment expense resulting from accelerating the vesting period of the shares, will be immediately recognised in profit or loss on settlement.

*(2) Blenheim Group Limited scheme*
On 10 February 2020 Blenheim Group Limited issued and allotted B ordinary shares to certain members of its management at £0.001. The value of the shares will be determined by taking the average profitability of the Blenheim Group of companies, including Blenheim Group Limited, Phoenix Software Limited and License Dashboard Limited (all wholly owned subsidiaries of Bytes Technology Limited) in the two years immediately preceding 28 February 2023 multiplied by a market multiple to be determined at the vesting date. The B ordinary shares participate in 15% of the growth above the pre-determined hurdle. These shares carry no dividend rights. Upon vesting of the B ordinary shares, the B ordinary shares are converted into Fixed Rate Preference Shares (FRPS), the FRPS are immediately converted into A ordinary shares in Blenheim Group Limited or Altron shares, at Altron's election. In the event of an initial public offering (IPO) occurring before the vesting date, Bytes Technology Limited will exercise its Drag Along Rights and terminate the scheme on listing. In this situation, the value of the shares will be determined by taking the average profits for the Blenheim Group of companies in the preceding 24 months. Any share-based payment expense resulting from accelerating the vesting period of the shares, will be immediately recognised in profit or loss on termination.

None of the B ordinary shares in either Bytes Technology Limited or Blenheim Group Limited are exercisable at the reporting dates. The details of the Bytes Technology Limited and Blenheim Group Limited B ordinary shares in issue are as follows:

| **Bytes Technology Limited** | **Number of shares** |
|---|---|
| B ordinary shares issued in Bytes Technology Limited as at 28 February 2018, 2019, 29 February 2020 and 31 August 2020 | 1,000 |

| **Blenheim Group Limited** | **Number of shares** |
|---|---|
| B ordinary shares issued in Blenheim Group Limited as at 28 February 2018 and 2019 | - |
| B ordinary shares issued in Blenheim Group Limited on 10 February 2020 | 1,000 |
| B ordinary shares issued in Blenheim Group Limited as at 29 February 2020 and 31 August 2020 | 1,000 |

**28 (b) Fair value and assumptions of B ordinary shares awarded**

(1) Bytes Technology Limited Scheme

| | | 15 November 2016 |
|---|---|---|
| Fair value at grant date | (GBP) | 3.00 |
| Share price | (GBP) | 65.76 |
| Exercise price | (GBP) | 72.33 |
| Expected volatility | (%) | 25.00 |
| Vesting period | (years) | 5 |
| Dividend yield | (%) | 9.3 |
| Risk-free interest rate | (%) | 1.40 |

The fair value of the services received is measured using the Binomial Approach Model.

The expected volatility is based on the average historic volatility of peer group companies (based on the vesting period remaining).

The weighted average remaining period to vesting on the B ordinary shares at the end of the 6-month period to 31 August 2020 was 0.5 years (29 February 2020: 1 year and 28 February 2019: 2 years).

(2) Blenheim Group Limited Scheme

| | | 10 February 2020 |
|---|---|---|
| Fair value at grant date | (GBP) | 3.00 |
| Share price | (GBP) | 41.40 |
| Exercise price | (GBP) | 51.75 |
| Expected volatility | (%) | 30.30 |
| Vesting period | (years) | 3 |
| Dividend yield | (%) | 9.5 |
| Risk-free interest rate | (%) | 0.31 |

The fair value of the services received is measured using the Binomial Approach Model.

The expected volatility is based on the average historic volatility of peer group companies (based on the vesting period remaining).

The weighted average remaining period to vesting on the B ordinary shares at the end of the 6-month period was 2.5 years (29 February 2020: 3 years).

**28(c) Share-based payment employee expenses**

| | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Equity settled share-based payment expenses | 144 | 338 | 271 | 120 | 154 |
| | 144 | 338 | 271 | 120 | 154 |

## 29. Earnings per share

### 29(a) Basic earnings per share

| | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|---|---|
| **Basic earnings per share** | **£** | **£** | **£** | **£** | **£** |
| From profit for the period attributable to owners of the company | 809 | 1,514 | 2,416 | 1,273 | 1,576 |
| Total basic earnings per share attributable to owners of the company | 809 | 1,514 | 2,416 | 1,273 | 1,576 |

### 29(b) Diluted earnings per share

| | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|---|---|
| **Diluted earnings per share** | **£** | **£** | **£** | **£** | **£** |
| From profit for the period attributable to owners of the company | 728 | 1,362 | 2,174 | 1,146 | 1,418 |
| Total diluted earnings per share attributable to owners of the company | 728 | 1,362 | 2,174 | 1,146 | 1,418 |

### 29(c) Headline earnings per share

| | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|---|---|
| **Headline earnings per share** | **£** | **£** | **£** | **£** | **£** |
| From profit for the period attributable to owners of the company | 809 | 1,514 | 2,416 | 1,273 | 1,576 |
| Adjusted for: | | | | | |
| Loss on disposal of property, plant and equipment | - | - | 1 | - | 2 |
| Total headline earnings per share attributable to owners of the company | 809 | 1,514 | 2,417 | 1,273 | 1,578 |

**29(d) Diluted headline earnings per share**

| | Year ended 28 February 2018 | Year ended 28 February 2019 | Year ended 29 February 2020 | 6-month period ended 31 August 2019 Unaudited | 6-month period ended 31 August 2020 |
|---|---|---|---|---|---|
| **Diluted headline earnings per share** | **£** | **£** | **£** | **£** | **£** |
| From profit for the period attributable to owners of the company | 728 | 1,362 | 2,174 | 1,146 | 1,418 |
| Adjusted for: | | | | | |
| Loss on disposal of property, plant and equipment | - | - | 1 | - | 2 |
| Total diluted headline earnings per share attributable to owners of the company | 728 | 1,362 | 2,175 | 1,146 | 1,420 |

**29(e) Weighted average number of shares used as the denominator**

| | Year ended 28 February 2018 Number | Year ended 28 February 2019 Number | Year ended 28 February 2020 Number | 6-month period ended 31 August 2019 Number | 6-month period ended 31 August 2020 Number |
|---|---|---|---|---|---|
| Weighted average number of A ordinary shares used as the denominator in calculating basic earnings per share and headline earnings per share | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Adjustments for calculation of diluted earnings per share and diluted headline earnings per share: | | | | | |
| - B Ordinary shares | 1,111 | 1,111 | 1,111 | 1,111 | 1,111 |
| Weighted average number of A ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share and diluted headline earnings per share | 11,111 | 11,111 | 11,111 | 11,111 | 11,111 |

**29(f) Information concerning the classification of securities**

*(i) Shares split*

As discussed in note 26, On 19 October 2020 a written resolution was passed to sub-divide the 1 A ordinary share of £1 in the capital of Bytes Technology Limited into 10,000 A ordinary shares of £0.0001 each. The calculation of basic and diluted earnings per share for all periods presented have been retrospectively adjusted to reflect this share split.

*(ii) B Ordinary shares*

B ordinary shares issued to certain members of management under the Bytes Technology Limited Employee Share Scheme are considered to be potential ordinary shares since they are convertible to A ordinary shares if certain conditions are met. The B ordinary shares have therefore been included in the determination of diluted earnings per share and diluted headline earnings per share. The maximum total value of additional A ordinary shares resulting from the conversion of the B ordinary shares, will be no more than 10% of the total market value of the group at the date of conversion. The maximum value of 10% has been assumed for the purposes of calculating diluted earnings per share. The B ordinary shares have not been included in the determination of basic earnings per share or headline earnings per share. Details relating to the B ordinary shares are set out in note 28.

## 30. First-time adoption of IFRS

| | **IFRS opening balance sheet 1 March 2017 £'000** |
|---|---|
| **Assets** | |
| **Non-current assets** | |
| Property, plant and equipment | 5,216 |
| Intangible assets | 14,775 |
| Deferred tax assets | 9 |
| **Total non-current assets** | **20,000** |
| **Current assets** | |
| Inventories | 98 |
| Trade and other receivables | 23,046 |
| Cash and cash equivalents | 28,059 |
| **Total current assets** | **51,203** |
| **Total assets** | **71,203** |
| **Liabilities** | |
| **Non-current liabilities** | |
| Lease liabilities | - |
| Deferred tax liabilities | (139) |
| **Total non-current liabilities** | **(139)** |
| **Current liabilities** | |
| Trade and other payables | (44,611) |
| Current tax liabilities | (1,061) |
| Lease liabilities | - |
| **Total current liabilities** | **(45,672)** |
| **Total liabilities** | **(45,811)** |
| **Net assets** | **25,392** |
| **Equity** | |
| Issued share capital | - |
| Share premium | - |
| Other reserves | 417 |
| Retained earnings | 24,975 |
| **Total equity** | **25,392** |

## 31. Changes in accounting policies

**31(a) IFRS 9 'Financial Instruments'**

*(1) Classification and measurement*

On 1 March 2018 the group classified its financial assets into the appropriate IFRS 9 categories. Financial assets previously categorised as loans and receivables were reclassified as financial assets at amortised cost. The carrying values of the financial assets reclassified at 1 March 2018 were the same as at 28 February 2018, see note 13.

*(2) Impairment of trade receivables*

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an increase of the loss allowance on 1 March 2018 of £476k. Note 14 provides further details about the calculation of the allowance.

**31(b) IFRS 15 'Revenue from Contracts with Customers'**

IFRS 15 provides a comprehensive framework for recognising revenue from contracts with customers and replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations.

The adjustments recognised by the group on adoption of IFRS 15 shown below are recognised as equal reductions to both revenue and cost of sales with no impact on gross profit, operating profit or cashflow of the group. The balance sheet also remains unaffected by these adjustments.

In adopting IFRS 15, the group has made changes from principal to agent for the following revenue streams:

(1) Included within software revenue:

- Cloud-hosted software
- Security licensing
- Licenses where updates are critical to the effectiveness of the product

(2) Included within services revenue:

- Public-sector pass-through business
- Third party support and warranty products
- Third party training and consultancy services

Under IFRS 15, based on the concept of "control" and the transfer thereof and the change in the criteria to be considered when assessing whether an arrangement should be accounted for on a principal or agent basis, these arrangements are now accounted for by the group as an agent in terms of IFRS 15. One of the previously relevant risk-based indicators, i.e. credit risk, is no longer included in the guidance under IFRS 15, further supporting the conclusions reached.

Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled for transferring goods or services to a customer when a customer obtains control of the goods or services. For additional information about the group's accounting policy relating to revenue recognition, see note 1.12.

***Transition to IFRS 15***

Changes in accounting policies from the adoption of IFRS 15 have been applied retrospectively. However, the group has elected not to restate comparative information and instead include the cumulative effects of applying the standard at 1 March 2018. Accordingly, information relating to the year ended 28 February 2018 and prior periods does not reflect the requirements of IFRS 15 but rather those of IAS 18.

The group applied the following practical expedients when first applying IFRS 15:

1. The group has elected to apply IFRS 15 only to contracts that were not completed as at the date of initial application.
2. For contracts that were completed that had variable consideration, the transaction price at the date that the contract was completed was used, rather than estimating variable consideration amounts.
3. For contracts that were modified before the adoption date, the contracts were not restated for these contract modifications and instead, the aggregate effect of all modifications that occurred before the adoption date were considered in aggregate when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations.
4. For all reporting periods presented before the date of initial application, the group elected not to disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when it expected to recognise that amount as revenue.
5. When, at contract inception, the period between the transfer of a promised good or service and payment for that good or service was one year or less, the group elected not to account for the effects of the time value of money.

In summary, the following adjustments were made to the amounts recognised in the statement of profit or loss and other comprehensive income:

| **Statement of profit or loss and other comprehensive income (extract) 2019** | **Amounts that would have been recognised under IAS 18 for the year ended 28 February 2019 £'000** | **Effect of IFRS 15 £'000** | **Amounts recognised for the year ended 28 February 2019 £'000** |
|---|---|---|---|
| Hardware | 26,025 | - | 26,025 |
| Software | 488,765 | (187,474) | 301,291 |
| Services | 23,863 | (1,521) | 22,342 |
| Total revenue | 538,653 | (188,995) | 349,658 |
| Cost of sales | (475,040) | 188,995 | (286,045) |
| | 63,613 | - | 63,613 |

**31(c) IFRS 16 'Leases'**
This note explains the impact of the adoption of IFRS 16, 'Leases', on the group's financial statements.

As indicated in note 1.15, the group has adopted IFRS 16, 'Leases' retrospectively from 1 March 2019, but has not restated comparatives for the previous reporting periods, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing standard are therefore recognised in the opening balance sheet on 1 March 2019. The new accounting policies are disclosed in note 1.16. On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17, 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 March 2019. The group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating). The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 March 2019 was 4.75%.

*(i) Practical expedients applied*
In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:
- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 March 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 March 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at 1 March 2019; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has continued to account for leases relating to low-value assets as operating leases and included them in administrative expenses. The group uses judgement in determining what is a low-value lease, but in general these are leases that relate to assets with a value lower than £5,000.

The group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

*(ii) Measurement of lease liabilities*

| | **2019** |
|---|---|
| | **£'000** |
| Operating lease commitments disclosed as at 28 February 2019 | 2,035 |
| Discounted using the lessee's incremental borrowing rate of 4.75% at the date of initial application | 1,700 |
| (Less): short-term leases not recognised as a liability | (54) |
| (Less): leases of low-value assets not recognised as a liability | (24) |
| **Lease liability recognised as at 1 March 2019** | **1,622** |
| Of which are: | |
| Current lease liabilities | 307 |
| Non-current lease liabilities | 1,315 |
| | 1,622 |

*(iii) Measurement of right-of-use assets*
The right-of-use assets were measured at the amount equal to the lease liability at 1 March 2019.

*(iv)Adjustments recognised in the balance sheet on 1 March 2019*

The change in accounting policy affected the following items in the balance sheet on 1 March 2019:

- Right-of-use assets – increase by £1,622k
- Lease liabilities – increase by £1,622k

## 32.Subsidiaries

The group's subsidiaries included in the Historical Financial Information are set out below. The country of incorporation is also their principal place of business.

| Name of entity | Country of incorporation | Ownership interest | Principal activities |
|---|---|---|---|
| Bytes Software Services Limited | UK | 100% | Providing cloud-based licensing and infrastructure and security sales within both the corporate and public sector sectors |
| Bytes Security Partnerships Limited | UK | 100% | Providing cloud-based licensing and infrastructure and security sales within both the corporate and public sector sectors |
| Blenheim Group Limited | UK | 100% | Holding company |
| Phoenix Software limited | UK | 100% | Providing cloud-based licensing and infrastructure and security sales within both the corporate and public sector sectors |
| License Dashboard Limited | UK | 100% | Providing cloud-based licensing and infrastructure and security sales within both the corporate and public sector sectors |
| Bytes Technology Group Holdings Limited | UK | 100% | Dormant for all periods |
| Bytes Technology Training Limited | UK | 100% | Dormant for all periods |
| Elastabytes Limited | UK | 50% | Dormant for all periods |

The registered address of all of the group subsidiaries included above is Bytes House, Randalls Way, Leatherhead, Surrey, KT22 7TW.