

3 December 2019

ULS Technology plc
(The "Group" or the "Company")

Half Yearly Report
"Robust financial performance in a challenging housing market"

ULS Technology plc (AIM: ULS), the provider of online B2B platforms for the UK conveyancing and financial intermediary markets, announces its half yearly results for the six months to 30 September 2019. During the period the Company continued to generate significant profits and remained highly cash generative whilst further developing its DigitalMove platform and positioning the business to scale up rapidly as and when market conditions improve.

Financial Highlights

- Revenue declined by 8% to £14.55m (H1 2018: £15.79m) as expected
- Gross margin improved to 43.9% (H1 2018: 41.8%)
- Underlying Profit before Tax¹ declined by 4% to £2.78m (H1 2018: £2.89m)
- IFRS Profit before Tax increased by 3% to £2.37m (H1 2018: £2.30m)
- Adjusted basic EPS¹ declined by 3% to 3.60p (H1 2018: 3.73p)
- Net debt of £3.8m as at 30 September 2019 (FY 2018: £3.4m)
 - Final payment of contingent consideration for CAL of £2.3m in the period
- Cash from operating activities unchanged at £2.85m
- Interim dividend of 1.25p per share, an increase of 4% on the same period last year

¹. Before exceptional costs and amortisation of acquisition intangibles.

Operating Highlights

- Increase in brokers actively using our platforms to 3,231, an increase of 6% over the 6-month period
- Number of new introducers won including Principality Building Society
- Continued investment in DigitalMove with successful initial roll out
- 46 solicitor or conveyancing firms now actively using DigitalMove on a regular basis

Steve Goodall, Chief Executive of ULS Technology plc, commented:

"We are pleased with our performance in the first half of the year in a difficult market. Over the past 12 months, and in line with the Company's growth strategy, our customer base has evolved towards higher margin introducers. As such the loss of certain high-volume low-margin accounts has been partially offset by winning, retaining and growing more medium sized accounts which are already delivering results and will help drive near-term growth.

"Looking further ahead, we expect to generate significant growth opportunities via DigitalMove and are delighted by the early progress and potentially transformational nature of this product. It has been designed to benefit existing and new customers and to open up new high margin revenue streams for the Company.

"DigitalMove is currently already available for sale, purchase and remortgage transactions through 'eConveyancer' and is available to a wide range of our introducers. Initial feedback has been extremely positive and early statistics point to significant reductions in time in the conveyancing process. We are now entering the next phase where DigitalMove is due to be made available to conveyancing transactions generated outside of 'eConveyancer' with the potential for all conveyancers in the country to use it. We believe that this is the right time to increase the rate at which we are investing in this product and to accelerate its development and rollout. While this will initially impact profitability, we are targeting doubling profitability within three years of the investment."

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Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014) prior to its release as part of this announcement.

Chief Executive's Report

The Group continues to make good profits, generate significant cash and grow its dividend. Importantly, given the nature of our strong and growing product base, an increasing number of new introducers using us for the first time helped us to offset the effect of client losses. Overall this has driven increased margins and laid strong foundations for future growth. We have also been pleased with the significant number of new wins we have achieved.

Furthermore, we are delighted by the initial success of DigitalMove which is now available to most advisers using eConveyancer with over 4,000 instructions having been processed by the platform. We have received a lot of extremely positive feedback and statistics from these transactions going through the platform and can see that the conveyancing process is being shortened by a significant number of days. For example, we have found that house purchase cases instructed through DigitalMove are reaching the point of exchange 20 days quicker than usual.

The next phase of DigitalMove's development will enable conveyancers to use it for all their cases, not just ones that have come through eConveyancer. For many that will mean that they will be able to integrate it into their case management systems, which will maximise efficiency. We already have a number of sizeable conveyancers expressing firm interest in integrating with DigitalMove and we expect to start the first integrations in the first half of 2020.

Strategy

The Group's mission is to make the home-moving process better for everyone. To date this has been mainly achieved by presenting the consumer, primarily via introducers, with a range of quality conveyancers to choose from at competitive prices via easy-to-use technology. We are now going a step further with the launch of DigitalMove. Our technology is now directly involved in the conveyancing process after the conveyancer has been chosen right up to completion making that process easier, quicker, safer and digital.

In the short-term, the Group's revenue and profit will largely derive from the process of choosing the conveyancer through our technology. We are continuing to invest in this process and focus on increasing the number of advisers who use our platforms to help their customers choose a conveyancer. We are also concentrating on enhancing the range of products that are available through our platforms and ensuring that they are price competitive so that advisers have the full range of products that they need to offer. We believe that this will encourage more advisers to use our platforms and in doing so, recognise the value it provides to their customers.

Accelerated Investment to monetise DigitalMove

While DigitalMove firmly helps enhance our existing platforms, we also believe that it has huge potential as a standalone product and that there is significant opportunity for it to become the leading player in the conveyancing digital client-interface market. Initial feedback and case statistics have been very positive and as a result of expressions of interest from a number of conveyancers to integrate their case management systems with DigitalMove, we believe that now is the time to capitalise on this opportunity.

Therefore, we plan to utilise existing cash facilities to accelerate the development of DigitalMove as we significantly increase the resource devoted to this new product. In the short term this investment is expected to impact Group profitability by circa £1 million in the next financial year before the product starts to generate significant revenue and margin later in the development plan. However, we believe that this is a unique opportunity for the Group and that time to market will be a decisive factor in determining the extent of the success of the product. The accelerated investment is a key driver in the Group's new ambition to double profitability within three years of the investment, a target which we expect to be able to achieve from internally generated cashflow.

Finance Director's Report

The Group has continued to generate strong profits and cashflow over the period despite an unhelpful housing market. Over the last two years or so, we have been developing and, more recently rolling out, DigitalMove. We have now capitalised £1 million against this product. Increasingly, resource is being devoted to DigitalMove across the organisation over and above the amount capitalised. We have been able to do this due to the strength of the core business despite not yet being at a point where DigitalMove is generating incremental revenue.

Having made the final payment for the CAL acquisition, we are now able to accelerate the investment in DigitalMove from internal cash resources. We expect this to have no material impact on our leverage or dividend policy. The increased investment planned is largely in extra headcount across the business to accelerate the development and the distribution of DigitalMove while making sure we are still fully focused on our successful core business. We also plan to increase our marketing spend in support of this activity. We do not expect to capitalise significant amounts of this additional spend and we will start to amortise that which we have already capitalised. With the revenue generation point of the product not expected until sometime in H2 FY21 this will therefore reduce profits initially.

Non-IFRS Profit Measures

In the Financial Highlights above we show the movement in Underlying Profit before Tax. This is a non-IFRS profit measure and the table below shows how that measure is arrived at from IFRS profit.

Underlying Profit before Tax

	6 months to 30 Sep 2019 £'000	6 months to 30 Sep 2018 £'000	Year to 31 Mar 2019 £'000
Reported PBT	2,371	2,296	4,110
Amortisation of intangible assets arising on acquisition	270	270	540
<u>Exceptional costs</u>			
M&A activity costs	27	-	268
Adjustment of contingent consideration	113	323	484
	<u>2,781</u>	<u>2,889</u>	<u>5,402</u>

Underlying Profit after Tax

	6 months to 30 Sep 2019 £'000	6 months to 30 Sep 2018 £'000	Year to 31 Mar 2019 £'000
Underlying Profit before tax	2,781	2,889	5,402
Tax on profit on ordinary activities	(414)	(434)	(827)
Tax relating to amortisation of intangibles arising on acquisition	(48)	(48)	(96)
	<u>2,319</u>	<u>2,407</u>	<u>4,479</u>

We believe that providing details of how these non-IFRS profit measures are calculated by reference to the IFRS profit number helps aid the understanding of the movement in the IFRS number as well as giving an indication to the long-term profitability and cash generating ability of the Group.

IFRS 16

IFRS16 has been applied for the first time in these interim financial statements. The Group has opted to use the modified retrospective approach. The application of IFRS 16 to the Group's three property leases has created right of use assets of £1.6 million prior to depreciation and corresponding lease liabilities split between current and non-current liabilities. The right of use assets are recognised within property, plant and equipment. The impact of applying IFRS16 on profit before tax is negligible.

Borrowing Facilities

In May 2019, the Company increased its revolving cash flow facility by £2 million to £4 million. The facility is now in place until December 2021 and the terms remain the same as the existing facility. The facility was increased to enable the final contingent consideration payment for CAL to be made without placing any strain on the Group.

Interim Dividend

The Company is pleased to announce that it will pay an interim dividend of 1.25 pence per share; this is a four per cent increase on the dividend paid for the six months to 30 September 2018. The dividend record date is 13 December 2019, and the dividend is expected to be paid on 3 January 2020.

Outlook

The UK housing market remains subdued and there is the possibility that this will remain the case until the Brexit process is concluded. However, there does appear to be a good degree of confidence in medium-term prospects for the market

The aim, however, is to grow regardless of the market backdrop. We continue to grow amongst the smaller brokers and work is underway to return to growth within larger introducers.

Importantly, DigitalMove presents a substantial new revenue opportunity. We aim to have an annual run rate of over 50,000 incremental transactions going through DigitalMove by the end of FY21 and to be starting to earn revenue from some of those transactions by that point. The Group is determined to take advantage of this unique product and looks forward to updating shareholders on the acceleration of investment over the coming months.

Steve Goodall
Chief Executive Officer

UNAUDITED INCOME STATEMENT
Six months to 30 September 2019

	Note	6 months to 30 Sep 2019 Unaudited £'000s	6 months to 30 Sep 2018 Unaudited £'000s	Year ended 31 Mar 2019 Audited £'000s
Revenue		14,546	15,795	29,963
Cost of sales		<u>(8,154)</u>	<u>(9,189)</u>	<u>(17,450)</u>
Gross profit		6,392	6,606	12,513
Administrative expenses		<u>(3,798)</u>	<u>(3,928)</u>	<u>(7,531)</u>
Operating profit before exceptional expenses		2,594	2,678	4,982
Exceptional administrative expenses	3	<u>(140)</u>	<u>(323)</u>	<u>(752)</u>
Operating profit		2,454	2,355	4,230
Finance income		7	5	12
Finance costs		<u>(90)</u>	<u>(64)</u>	<u>(132)</u>
Profit on ordinary activities before taxation		2,371	2,296	4,110
Tax on profit on ordinary activities		<u>(414)</u>	<u>(434)</u>	<u>(827)</u>
Profit for the financial period		<u>1,957</u>	<u>1,862</u>	<u>3,283</u>
Basic earnings per share (£)	4	0.0303	0.0289	0.0509
Diluted earnings per share (£)	4	0.0289	0.0274	0.0483

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
Six months to 30 September 2019

	6 months to 30 Sep 2019 Unaudited £'000s	6 months to 30 Sep 2018 Unaudited £'000s	Year ended 31 Mar 2019 Audited £'000s
Profit for the period	1,957	1,862	3,283
Total comprehensive income for the period	<u>1,957</u>	<u>1,862</u>	<u>3,283</u>

UNAUDITED BALANCE SHEET
At 30 September 2019

	Note	30 Sep 2019 Unaudited £'000s	30 Sep 2018 Unaudited £'000s	31 Mar 2019 Audited £'000s
NON-CURRENT ASSETS				
Intangible assets		6,333	6,510	6,442
Goodwill		11,008	11,008	11,008
AFS financial assets		100	100	100
Investment in Associates		528	566	551
Property, plant and equipment		2,016	380	437
Long-term receivables		200	200	200
Prepayments		152	182	151
		<u>20,337</u>	<u>18,946</u>	<u>18,889</u>
CURRENT ASSETS				
Inventory		49	46	48
Trade and other receivables		2,151	2,160	1,874
Cash and cash equivalents		2,455	1,828	1,852
		<u>4,655</u>	<u>4,034</u>	<u>3,774</u>
TOTAL ASSETS		<u>24,992</u>	<u>22,980</u>	<u>22,663</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY				
Share capital	5	259	259	259
EBT reserve		(484)	(484)	(484)
Share premium account		4,609	4,585	4,585
Capital redemption reserve		113	113	113
Share based payment reserve		367	223	293
Retained earnings		7,161	5,603	5,973
TOTAL EQUITY		<u>12,025</u>	<u>10,299</u>	<u>10,739</u>
NON-CURRENT LIABILITIES				
Borrowings	6	1,250	2,250	1,750
Lease liabilities		1,389	-	-
Deferred taxation		983	695	1,031
		<u>3,622</u>	<u>2,945</u>	<u>2,781</u>
CURRENT LIABILITIES				
Trade and other payables		3,706	6,422	5,813
Borrowings	6	5,000	3,000	3,000
Lease liabilities		172	-	-
Current tax payable		467	314	330
		<u>9,345</u>	<u>9,736</u>	<u>9,143</u>
TOTAL LIABILITIES		<u>12,967</u>	<u>12,681</u>	<u>11,924</u>
TOTAL EQUITY AND LIABILITIES		<u>24,992</u>	<u>22,980</u>	<u>22,663</u>

UNAUDITED STATEMENT OF CHANGES IN EQUITY
Six months to 30 September 2018

	Share capital £'000s	EBT reserve £'000s	Share premium £'000s	Capital redemption reserve £'000s	Share- based payment reserve £'000s	Retained earnings £'000s	Total equity £'000s
For the period ended 30 September 2019							
At 1 April 2019	259	(484)	4,585	113	293	5,973	10,739
Profit for the period	-	-	-	-	-	1,957	1,957
Total comprehensive income	-	-	-	-	-	1,957	1,957
Issue of shares	-	-	24	-	-	-	24
Exercise of options	-	-	-	-	(5)	5	-
Share-based payments	-	-	-	-	79	-	79
Dividends paid	-	-	-	-	-	(774)	(774)
Total transactions with owners	-	-	24	-	74	(769)	(671)
At 30 September 2019	259	(484)	4,609	113	367	7,161	12,025
For the period ended 30 September 2018							
At 1 April 2018	259	(527)	4,585	113	267	4,643	9,340
Profit for the period	-	-	-	-	-	1,862	1,862
Total comprehensive income	-	-	-	-	-	1,862	1,862
Purchase of shares by EBT	-	(207)	-	-	-	-	(207)
Exercise of options	-	250	-	-	(16)	(161)	73
Share-based payments	-	-	-	-	(28)	-	(28)
Dividends paid	-	-	-	-	-	(741)	(741)
Total transactions with owners	-	43	-	-	(44)	(902)	(903)
At 30 September 2018	259	(484)	4,585	113	223	5,603	10,299

**For the year ended 31
March 2019**

At 1 April 2018	259	(527)	4,585	113	267	4,643	9,340
Profit for the year	-	-	-	-	-	3,283	3,283
Total comprehensive income	-	-	-	-	-	3,283	3,283
Purchase of shares by EBT	-	(207)	-	-	-	-	(207)
Exercise of options	-	250	-	-	(16)	(161)	73
Share-based payments	-	-	-	-	42	-	42
Deferred tax share options	-	-	-	-	-	(277)	(277)
Payment of dividends	-	-	-	-	-	(1,515)	(1,515)
Total transactions with owners	-	43	-	-	26	(1,953)	(1,884)
At 31 March 2019	259	(484)	4,585	113	293	5,973	10,739

UNAUDITED STATEMENT OF CASH FLOWS
Six months to 30 September 2019

	6 months to 30 Sep 2019	6 months to 30 Sep 2018	Year ended 31 Mar 2019
	Unaudited £'000s	Unaudited £'000s	Audited £'000s
Cash flows from operating activities			
Profit before taxation	2,371	2,296	4,110
Finance income	(7)	(3)	(12)
Finance costs	90	64	132
Loss on disposal of plant and equipment	-	-	1
Share of loss / (profit) of associate	23	(19)	(4)
Amortisation	557	531	1,076
Depreciation	128	110	204
Share-based payments	79	(28)	42
Tax paid	(325)	(506)	(824)
	<u>2,916</u>	<u>2,445</u>	<u>4,725</u>
Changes in working capital			
(Increase) / decrease in inventories	(1)	9	7
(Increase) / decrease in trade and other receivables	(278)	(678)	(361)
Increase in trade and other payables	211	1,073	463
	<u>2,848</u>	<u>2,849</u>	<u>4,834</u>
Net cash generated from operating activities			
Cash flows from investing activities			
Purchase of intangible software assets	(447)	(319)	(798)
Purchase of property, plant and equipment	(86)	(219)	(371)
Disposal of property, plant and equipment	-	-	1
Payment of deferred and contingent consideration	(2,337)	(2,935)	(2,934)
Interest received	7	3	12
	<u>(2,863)</u>	<u>(3,470)</u>	<u>(4,090)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Share issue proceeds	24	-	-
Dividends paid	(774)	(741)	(1,515)
Interest paid	(90)	(64)	(132)
Lease payments	(42)	-	-
Repayment of term loan	(500)	(500)	(1,000)
Movement on rolling cash flow facility	2,000	1,000	1,000
Share transactions by EBT	-	(135)	(134)
	<u>618</u>	<u>(440)</u>	<u>(1,781)</u>
Net cash generated from / (used in) financing activities			
Net increase / (decrease) in cash and cash equivalents	<u>603</u>	<u>(1,061)</u>	<u>(1,037)</u>
Cash and cash equivalents at beginning of period	<u>1,852</u>	<u>2,889</u>	<u>2,889</u>
Cash and cash equivalents at end of period	<u><u>2,455</u></u>	<u><u>1,828</u></u>	<u><u>1,852</u></u>

Notes to the financial information
Six months to 30 September 2019

1. GENERAL

The interim financial information for the six months to 30 September 2019 is unaudited and was approved by the Directors of the Company on 26 November 2019. The condensed financial information set out above does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006.

The Company's operations is subject to some seasonality and also some cyclicity both in line with the housing market.

A dividend of £774,110 has been paid in the six months ended 30 September 2019 (six months to 30 September 2018: £741,273).

2. ACCOUNTING POLICIES

The interim financial information in this report has been prepared on the basis of the accounting policies set out in the Group's most recent annual financial statements for the year ended 31 March 2019.

The Company adopted IFRS 16 'Leases' in the six-month period, following the standard becoming effective for periods commencing on or after 1 January 2019.

IFRS 16 'Leases' provides a new model for lessee accounting in which all leases, other than short-term and small-ticket-item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortisation of the right-to-use asset over the lease term.

IFRS is subject to amendment and interpretation by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee and there is an on-going process of review and endorsement by the European Commission.

The financial information has been prepared using accounting policies that the Directors expect to be applicable as at 31 March 2020, with the exception of IAS 34.

The Directors have adopted the going concern basis in preparing the financial information. In assessing whether the going concern assumption is appropriate, the Directors have taken into account all relevant available information about the foreseeable future.

The condensed financial information for the period ended 31 March 2019 set out in this interim report does not comprise the Group's statutory accounts as defined in section 434 of the Companies Act 2006.

3. EXCEPTIONAL EXPENSES

Exceptional Administrative Expenses

	6 months to 30 Sep 2019 £'000	6 months to 30 Sep 2018 £'000	Year to 31 Mar 2019 £'000
Acquisition related expenses	27	-	269
Adjustment to expected contingent consideration	113	323	483
	<u>140</u>	<u>323</u>	<u>752</u>

4. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Basic and diluted earnings per share

	6 months to 30 Sep 2019 £	6 months to 30 Sep 2018 £	Year to 31 Mar 2019 £
Total basic earnings per share	<u>0.0303</u>	<u>0.0289</u>	<u>0.0509</u>
Total diluted earnings per share	<u>0.0289</u>	<u>0.0274</u>	<u>0.0483</u>

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	6 months to 30 Sep 2019 £'000s	6 months to 30 Sep 2018 £'000s	Year to 31 Mar 2019 £'000s
Earnings used in the calculation of total basic and diluted earnings per share	<u>1,957</u>	<u>1,862</u>	<u>3,283</u>

Number of shares	6 months to 30 Sep 2019 Number	6 months to 30 Sep 2018 Number	Year to 31 Mar 2019 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>64,496,307</u>	<u>64,459,290</u>	<u>64,462,605</u>

Taking the Group's dilutive potential ordinary shares into consideration in respect of the Group's weighted average number of ordinary shares for the purposes of diluted earnings per share, is as follows:

Number of shares	6 months to 30 Sep 2019	6 months to 30 Sep 2018	Year to 31 Mar 2019
Potential dilutive effect of share options and warrants	<u>3,273,128</u>	<u>3,550,829</u>	<u>3,475,267</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>67,769,435</u>	<u>68,010,119</u>	<u>67,937,872</u>

5. SHARE CAPITAL

a) Share Capital

The Company has one class of Ordinary share with 0.4p nominal value per share which carries no right to fixed income nor has any preferences or restrictions attached.

On the 24 April 2019, the Company issued 43,219 new ordinary shares of 0.4p with a share premium of £24,030. The issue of shares was in connection with an exercise of share options.

Issued and fully paid:

	30 Sep 2019 £'000s	30 Sep 2018 £'000s	31 Mar 2019 £'000s
Ordinary shares of 0.40p each	<u>259</u>	<u>259</u>	<u>259</u>

	30 Sep 2019 Number	30 Sep 2018 Number	31 Mar 2019 Number
At the beginning of the period	64,828,057	64,828,057	64,828,057
Shares issued in the period	43,219	-	-
At the end of the period	<u>64,871,276</u>	<u>64,828,057</u>	<u>64,828,057</u>

b) Share based payments

During the period the Group granted no new options.

All options in issue vest in 3 equal tranches, three, four, and five years after date of grant. The options are settled in equity once exercised. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

	Number of options	Weighted average exercise price £
Outstanding at 1 April 2019	3,329,055	0.93
Granted	-	-
Forfeited prior to vesting	(33,630)	1.13
Exercised	(43,219)	0.56
Outstanding at 30 September 2019	<u>3,252,206</u>	<u>0.93</u>

6. BORROWINGS

	Bank loans £'000	Total debt £'000
Balance at 1 April 2019	4,750	4,750
Loan repayments	(500)	(500)
Movement in revolving cash flow facility	2,000	2,000
Balance at 30 September 2019	<u>6,250</u>	<u>6,250</u>
Balance at 1 April 2018	4,750	4,750
Loan repayments	(1,000)	(1,000)
Movement in revolving cash flow facility	1,000	1,000
Balance at 31 March 2019	<u>4,750</u>	<u>4,750</u>

In December 2016, the Group took out a 5-year term loan for £5 million and a £2 million revolving cash flow facility. Both had an initial interest rate of 1.90% above LIBOR but this has reduced to 1.55% above LIBOR during the period as certain financial criteria were met. The term loan is subject to repayments of £250,000 plus accrued interest quarterly. In May 2019, the revolving cash flow facility was increased to £4 million with the interest rate remaining unchanged.

Loans are secured by way of fixed and floating charges over all assets of the Group.

7. CONTINGENT CONSIDERATION

In December 2016, the Group acquired 100% of the issued ordinary share capital of Conveyancing Alliance Holdings Limited and its 100% subsidiary Conveyancing Alliance Limited (together referred to as "CAL"), companies incorporated in England and Wales. Part of the consideration is contingent based on a range of between 0.5 and 1.75 times annualised PBT of CAL for the period between completion to 31 March 2018 and also for the 12 months ending 31 March 2019. A first payment of £2,935,000 relating to this contingent consideration was paid in July 2018. The second and final amount was £2,337,000 and was paid in July 2019.

The amounts shown in the balance sheet are at net present value and the movement arising on this is shown below

	30 Sep 2019 £'000s
At 1 April 2019:	
Current (included in trade and other payables)	2,224
Non-current	-
	<hr/> 4,675
Movements during the period:	
Payments of contingent consideration	(2,337)
Change in NPV due to movement in time	113
	<hr/>
At 30 September 2019:	
Current (included in trade and other payables)	<hr/> -