21st Century
Technology plc


# Connected systems for connected journeys

Interim Report
for the six months ended 30 June 2018

# CONNECTED SYSTEMS FOR CONNECTED JOURNEYS

21st Century Technology plc is the specialist provider of tailored solutions to the transport community, solving complex operational requirements both on and off the vehicle.

With over 20 years' experience in the transport industry, 21st Century specialises in providing innovative technology solutions that improve the passenger experience and provide operational benefits to fleet and network operators.



**EXPERTS IN MULTIPLE TRANSPORT TECHNOLOGIES**

**A GREAT TEAM OF PEOPLE WHO UNDERSTAND TRANSPORT**

**DELIVERING EFFICIENCIES FOR OUR CUSTOMERS**



# HEADLINES

## FINANCIAL HEADLINES

- Underlying profit before depreciation and amortisation £0.2m (2017: underlying profit £0.04m)*
- Operating profit £0.4m (2017: loss of £0.2m)
- Revenue £6.4m (2017: £5.6m): 18% growth in Fleet Systems; 9% growth in Passenger Systems
- Gross profit £2.4m (2017: £2.3m)
- Cash £0.2m (2017: £0.1m)
- Basic and diluted earnings per share 0.37p (2017: loss of 0.28p)

* Underlying profit represents profit before interest, tax and share-based payment credits/(charges).

**Revenue**

**£6.4m**

2017: £5.6m

**Gross profit**

**£2.4m**

2017: £2.3m

**Underlying profit before tax**

**£0.2m**

2017: £0.04m

## OPERATIONAL HEADLINES

- Asset client update
  - Abellio, secured in 2017, now has one of the highest CCTV availability levels for London bus operators
  - Arriva Sweden contract extended by twelve months to June 2019
  - Translink £0.4m contract with additional revenue for upgrade services
  - Further overseas sales to Keolis (Holland) £0.3m and New Zealand £0.8m
- Adoption of new technologies and software
  - Fleet Systems – First Bus deployment of 1,350 Journeo RCM units
  - Passenger Systems – first tranche of six NHS public messaging solutions including real-time analytics
- R&D capabilities increased
  - Development team expanded to 15
  - Innovations developed in house nominated for industry awards
  - Part-funded programmes underway in rail and environmental applications
- ISO certifications and approvals now retained under common accreditation body

## CONTENTS


# CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW



## SUMMARY

- Increased sales, gross profit and operating profit
- Expanded R&D team
- Focusing on regulation-driven opportunities

### Summary

The Group continues to make significant progress towards becoming a technically agile and customer-centric business, providing connected systems, software and support services on vehicles and for the Smart Cities of today and tomorrow.

The results for the first six months of 2018 are encouraging. The business has performed well despite new vehicle registrations for many large UK fleet operators and fare-paying passenger numbers being down on last year. The Group has generated increased sales, gross profit and operating profit. This demonstrates that our strategy of developing core technologies and applying these into existing and new business areas is yielding positive results.

Revenue overall has increased by 15% compared to the same period last year, with further asset client wins such as Translink announced earlier this year, adding to our contracted revenues. The diversification of the customer base into overseas markets is further shielding the Group from UK market conditions and we are becoming more resilient to our historic dependency on a small number of very large clients.

The passenger transport market in many major towns and cities worldwide, is undergoing a period of transition. Increasing congestion, online shopping and low interest rates enabling a growth in car ownership, along with the rise of Demand Responsive Transport (DRT) such as Uber, are beginning to change how public transport is operated and administered. This is creating many new opportunities for creative, technically capable businesses such as ours to introduce innovative, operationally beneficial and cost-efficient solutions into what was previously a mature marketplace.

"The Group has generated increased sales, gross profit and operating profit. This demonstrates that our strategy of developing core technologies and applying these into existing and new business areas is yielding positive results."

# CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW continued



## Summary continued

In the UK, for example, approximately 80% of all UK public transport journeys are completed by bus and new regulatory powers are expected, which will enhance the information provided on, and accessibility to, bus services in line with the Equality Act 2010.

It is with this in mind that the Group is increasing investment in its R&D programme, expanding the team and working on a number of business-critical, regulation-driven opportunities as we build scalable core technologies that can be sold into a number of UK and international market channels where we see attractive growth opportunities. A number of our new products are being evaluated by customers, including some in 'paid-for trials'. Following the launch last year of our first IoT-connected solution, one customer has already deployed it on over 1,350 vehicles and discussions with a number of other operators are underway.

Trading in the first six months of 2018 has delivered an underlying profit before depreciation and amortisation of £0.2m (2017: £0.04m) with increased revenues from both the Fleet and Passenger Systems businesses. The H1 results are a significant improvement on the same period last year and current indications are that this will be maintained and continue to improve.

The new invoice discounting facility with Close Brothers provided additional working capital on significantly improved terms for the business at the end of 2017 and as at 30 June 2018 £0.9m of the £1.25m facility was drawn down.

## Trading results

In the first six months' trading in 2018 the performance of the Group was significantly stronger than the same period in 2017 with turnover increasing by £0.8m to £6.4m, gross profit increasing by £0.1m to £2.4m and an operating profit of £0.4m, compared with a loss of £0.2m in H1 2017. Our expenditure on R&D resulted in a tax credit claim of £0.3m, with payment being received after the period end.

Revenue for H1 2018 of £6.4m (H1 2017: £5.6m) increased by £0.8m due to an increase in Fleet Systems revenue to £4.1m (H1 2017: £3.5m) and Passenger Systems revenue to £2.3m (H1 2017: £2.1m).

Fleet Systems gross profit of £1.2m (H1 2017: £1.1m) increased by £0.1m with a reduction in overall margin to 29% (H1 2017: 32%). Passenger Systems gross profit of £1.2m (H1 2017: £1.2m) increased only slightly with a reduction in margins to 52% (H1 2017: 56%). Gross margin reduced in both Fleet and Passenger Systems due to the business mix. New installation sales increased by proportionally more than maintenance sales, which typically have a higher margin and lag twelve months behind.

The underlying profit before depreciation was £205k (H1 2017: £42k). The operating result includes £0.4m of share-based payment credit (due to the lapsing of share options) giving a profit of £0.4m (H1 2017: loss of £0.2m) and the basic undiluted profit per share was 0.37p (H1 2017: loss of 0.28p). Cash increased to £0.2m as at 30 June 2018 (2017: £0.1m).

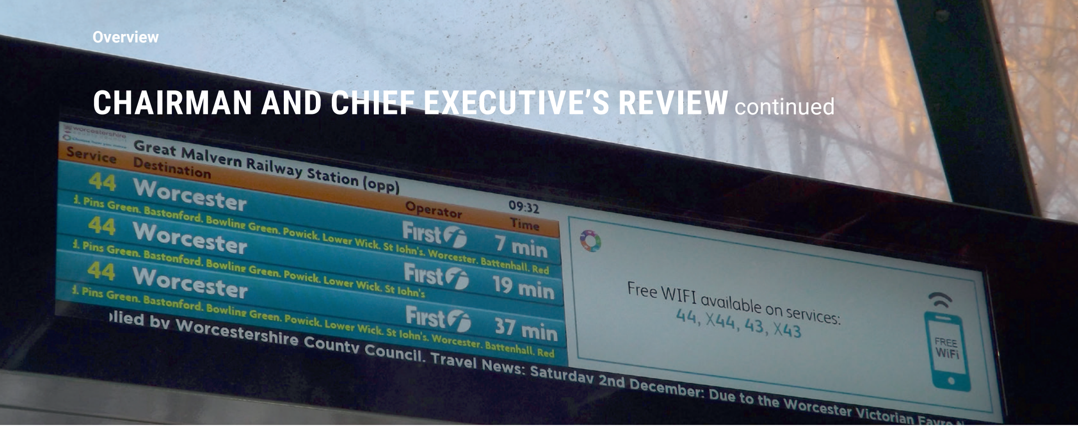
## Operating review

### Fleet Systems

Our Fleet Systems business continues to support a range of technologies on some of the largest and most demanding bus fleets in the UK, Continental Europe and further afield, providing new systems, on-site support and specialist project engineering services under a variety of commercial models.

Following the success in securing a three-year technical services partnership with Tier 1 London bus operator Abellio towards the end of last year, we were delighted to announce a contract award from Translink in H1 this year.

# CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW continued






**Operating review** continued

**Fleet Systems** continued

Our presence in Northern Ireland has seen a steady increase since welcoming Translink as a customer in H2 2016. Early in H1, we extended our services to Northern Ireland's largest operator by securing a contract to refresh DVR technology throughout the fleet on a supply-only basis worth c.£0.4m. Revenues are expected to increase as installation works are to be completed under a separate, pre-existing framework agreement.

Targeting customers such as Translink and, more recently, pleasing developments with our overseas customers, such as those in New Zealand, Continental Europe and Scandinavia have been a key factor in the overall performance of the Fleet Systems business.

Following a roll-out of the Journeo Remote Condition Monitoring (RCM) platform to over 1,350 vehicles, First Bus has been shortlisted for a coveted 'Route One – Best Use of Technology Award' after achieving an increase of over 10% in availability of CCTV downloads. First Bus carries over 1.6 million passengers daily and the ability to know, in real time, the health of its on-board technology, which protects the public, passengers, staff and operations, is a vital element in a Safety-First approach.

The Journeo RCM platform is being viewed with interest by other operators and the Group's ability to deliver added value to services through the application of intelligent, open-platform and connected technology will serve as a clear differentiator in the market place.

**Passenger Systems**

Our Passenger Systems business provides a complete package of services from conceptual design, manufacture, installation and software development for public information estates; including screens, totems and kiosks along with the support capabilities to maintain the systems in the demanding environments of towns, cities, local authorities Passenger Transport Executives (PTEs) throughout the UK.

Year-on-year H1 revenue increased 9% and whilst we have not quite yet reached a break-even result (underlying loss of £36k), we are pleased with this progress, which is in line with management expectations.

We have identified a number of attractive niches emerging within the Smart Cities theme which we can access as a result of our Passenger Systems capabilities. We remain mindful of the funding challenges faced by many of our local authority customers and are focusing on developing solutions that deliver the capability and systems they are required to have in place, whilst driving down up-front cost and continuing operational expenditure. With this approach we have established a growing pipeline of bids and tender opportunities where funding is already assured.

New partnership powers extended to local authorities and PTEs will increase funding available for infrastructure over the coming years. We already have many of the elements of the technology required and the strong relationships with our customers will see greater opportunities arise as we further align our R&D strategy with their developing needs.

# CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW continued




## Central services

The focus and impetus that we have placed on targeted R&D and future innovation is key to our ability to grow the Company beyond its current size and reduces our reliance on OEM suppliers as the market evolves through the current transition.

The investment made at the latter end of H2 2017 has already delivered benefits with new, innovative and, importantly, customer-funded developments underway. To support the developmental focus, we are ensuring the R&D function has the resource and the space to thrive whilst also enhancing operations to continue improving customer service levels.

## Outlook

We are pleased with the results for the first half of 2018 which were in line with management expectations. Increasing regulation from the Bus Services Act 2017 is beginning to present opportunities that we are well placed to take advantage of with our innovative solutions, based on our own software and technologies.

The Group's activities are not confined to the UK as our expertise is being more widely recognised overseas, where we have a developing pipeline of enquiries, including for our own products and software.

Whilst it is still relatively early days in taking our software and technology solutions to market we are encouraged by the interest and take-up shown by customers. This assists us in broadening our customer base and revenue streams, thus reducing the historic customer concentration risk to the business. This strategic diversification is ongoing, but we are pleased with the progress made to date and will continue to work to further improve our position.

The team at 21st Century has been exceptional in driving the development of the business and we are currently exploring the implementation of a share-based long-term incentive plan, subject to financial performance, to assist in incentivising and securing these skills for the future.

We have maintained the significantly stronger order book with which we started the year and have grown the pipeline of opportunities across all areas of the business. We expect the improvements reported in our first half results to continue.

**Mark Elliott**
**Non-executive Chairman**
31 August 2018

**Russ Singleton**
**Chief Executive**
31 August 2018

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2018

| | **Unaudited six months ended 30 June 2018 £'000** | Unaudited six months ended 30 June 2017 £'000 | Year ended 31 December 2017 £'000 |
|---|---|---|---|
| Revenue (notes 4,5) | **6,404** | 5,586 | 11,761 |
| Cost of sales | **(4,004)** | (3,279) | (6,765) |
| **Gross profit** | **2,400** | 2,307 | 4,996 |
| Other income | **325** | – | 89 |
| Underlying administrative expenses before depreciation and amortisation | **(2,520)** | (2,265) | (4,676) |
| **Underlying profit before depreciation and amortisation** | **205** | 42 | 409 |
| Depreciation and amortisation | **(193)** | (179) | (398) |
| Share-based payments | **399** | (111) | (224) |
| Reorganisation costs | **–** | – | (88) |
| Administrative expenses | **(1,989)** | (2,555) | (5,297) |
| **Operating profit/(loss)** | **411** | (248) | (301) |
| Finance expense | **(57)** | (18) | (63) |
| **Profit/(loss) before taxation from continuing operations** | **354** | (266) | (364) |
| Taxation (charge)/credit | **(5)** | 7 | 13 |
| **Profit/(loss) for the period being total comprehensive income attributable to owners of parent** | **349** | (259) | (351) |
| **Profit/(loss) per share (note 6)** | | | |
| Basic and diluted | **0.37p** | (0.28p) | (0.38p) |

All results derive from continuing operations.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY SHAREHOLDERS' FUNDS

for the six months ended 30 June 2018

| | Share capital £'000 | Share premium £'000 | Retained earnings £'000 | Total equity shareholders' funds £'000 |
|---|---|---|---|---|
| **Balance at 1 January 2017** | 6,061 | 8 | (5,675) | 394 |
| Loss and total comprehensive income for the period | — | — | (259) | (259) |
| Share-based payments | — | — | 111 | 111 |
| **Balance at 30 June 2017** | 6,061 | 8 | (5,823) | 246 |
| **Balance at 1 January 2017** | 6,061 | 8 | (5,675) | 394 |
| Loss and total comprehensive income for the year | — | — | (351) | (351) |
| Share-based payments | — | — | 224 | 224 |
| **Balance at 31 December 2017** | 6,061 | 8 | (5,802) | 267 |
| Profit and total comprehensive income for the period | — | — | 349 | 349 |
| Share-based payments | — | — | (399) | (399) |
| **Balance at 30 June 2018** | **6,061** | **8** | **(5,852)** | **217** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018

| | Unaudited 30 June 2018 £'000 | Unaudited 30 June 2017 £'000 | 31 December 2017 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill (note 7) | **1,345** | 1,345 | 1,345 |
| Other intangible assets | **837** | 820 | 829 |
| Property, plant and equipment | **148** | 129 | 128 |
| Trade and other receivables | **49** | 39 | 44 |
| | **2,379** | 2,333 | 2,346 |
| **Current assets** | | | |
| Inventories | **1,558** | 1,604 | 1,355 |
| Trade and other receivables | **3,671** | 3,377 | 3,827 |
| Cash and cash equivalents | **187** | 128 | 302 |
| | **5,416** | 5,109 | 5,484 |
| **Total assets** | **7,795** | 7,442 | 7,830 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | **(2,970)** | (2,916) | (2,788) |
| Tax liabilities | **(456)** | (344) | (394) |
| Loans and borrowings | **(1,212)** | (210) | (933) |
| Deferred revenue | **(1,716)** | (1,863) | (1,926) |
| Provisions | **(237)** | (432) | (228) |
| | **(6,591)** | (5,765) | (6,269) |
| **Net current liabilities** | **(1,175)** | (656) | (785) |
| **Non-current liabilities** | | | |
| Loans and borrowings | **(28)** | (311) | (300) |
| Deferred revenue | **(655)** | (596) | (569) |
| Deferred tax liability | **(35)** | (39) | (35) |
| Provisions | **(269)** | (485) | (390) |
| **Total liabilities** | **(7,578)** | (7,196) | (7,563) |
| **Net assets** | **217** | 246 | 267 |
| **Shareholders' equity** | | | |
| Share capital | **6,061** | 6,061 | 6,061 |
| Share premium account | **8** | 8 | 8 |
| Retained earnings | **(5,852)** | (5,823) | (5,802) |
| **Total equity shareholders' funds** | **217** | 246 | 267 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2018



| | Unaudited six months ended 30 June 2018 £'000 | Unaudited six months ended 30 June 2017 £'000 | Year ended 31 December 2017 £'000 |
|---|---|---|---|
| **Net cash from operating activities (note 8)** | **101** | (398) | (729) |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | **(61)** | (10) | (42) |
| Purchases of intangible fixed assets | **(160)** | (142) | (316) |
| **Net cash from investing activities** | **(221)** | (152) | (358) |
| **Financing activities** | | | |
| Cash flow from financing activities | **26** | 188 | 948 |
| Repayment of loans | **(19)** | (21) | (70) |
| **Net cash from financing activities** | **7** | 167 | (878) |
| **Net decrease in cash and cash equivalents** | **(113)** | (383) | (209) |
| Cash and cash equivalents at beginning of period | **302** | 511 | 511 |
| Effect of foreign exchange rate changes | **(2)** | — | — |
| **Cash and cash equivalents at end of period** | **187** | 128 | 302 |

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2018



### 1. Basis of preparation and approval of interim statement

The financial information for the six months ended 30 June 2018 and for the six months ended 30 June 2017 is unaudited.

The interim financial statement for the six months to 30 June 2018 does not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2017.

The financial information has been prepared on the basis of IFRSs that the Directors expect to be applicable as at 31 December 2018.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those set out in the Group's Annual Report and Financial Statements 2017, which were prepared in accordance with IFRSs.

This interim financial statement does not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2017 were approved by the Board on 28 March 2018 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498(2) or Section 498(3) of the Companies Act 2006.

AIM-listed companies are not required to comply with IAS 34 'Interim Financial Reporting' and accordingly the Company has not applied this standard in preparing this report.

The interim financial statement was approved by the Board of Directors on 31 August 2018.

### 2. International Financial Reporting Standards

The Group follows the standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee of the IASB and endorsed by the EU that are relevant to its operations.

### 3. Going concern

The Group's business activities together with factors likely to affect its future development, performance and position were set out in the Strategic Report and Chairman's Statement of the 2017 Annual Report and the principal risks and uncertainties were set out in the Strategic Report. The Directors have reviewed the cash flow forecasts for the period up to and including 31 December 2019.

Based on the above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for at least twelve months from the date of the report. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

### 4. Revenue

The revenue split between goods and services is:

| | **Unaudited six months ended 30 June 2018 £'000** | Unaudited six months ended 30 June 2017 £'000 | Year ended 31 December 2017 £'000 |
|---|---|---|---|
| **Revenue** | | | |
| Goods | **4,356** | 3,800 | 7,745 |
| Services | **2,048** | 1,786 | 4,016 |
| | **6,404** | 5,586 | 11,761 |
| Construction contracts included in goods | **1,489** | 1,430 | 2,701 |

# NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

for the six months ended 30 June 2018



## 5. Segmental reporting

IFRS 8 requires operating segments to be determined on the basis of those segments whose operating results are regularly reviewed by the Board of Directors (the Chief Operating Decision Maker as defined by IFRS 8) to make strategic decisions.

As the Board of Directors reviews revenue, gross profit and operating loss on the same basis as set out in the consolidated statement of comprehensive income, no further reconciliation is considered to be necessary.

| | **Unaudited six months ended 30 June 2018 £'000** | Unaudited six months ended 30 June 2017 £'000 | Year ended 31 December 2017 £'000 |
|---|---|---|---|
| **Revenue** | | | |
| Fleet Systems | **4,121** | 3,487 | 7,502 |
| Passenger Systems | **2,283** | 2,099 | 4,259 |
| | **6,404** | 5,586 | 11,761 |
| **Gross profit** | | | |
| Fleet Systems | **1,210** | 1,123 | 2,617 |
| Passenger Systems | **1,190** | 1,184 | 2,379 |
| | **2,400** | 2,307 | 4,996 |
| **Underlying profit/(loss)** | | | |
| Fleet Systems | **142** | 140 | 449 |
| Passenger Systems | **(36)** | (197) | (267) |
| | **106** | (57) | 182 |
| Central | **(94)** | (80) | (171) |
| **Underlying profit/(loss)** | **12** | (137) | 11 |

**Reconciling to loss before interest and tax**

| | **Underlying profit/(loss) £'000** | **Share-based payments £'000** | **Operating profit/(loss) £'000** |
|---|---|---|---|
| Fleet Systems | **142** | **399** | **541** |
| Passenger Systems | **(36)** | **–** | **(36)** |
| | **106** | **399** | **505** |
| Central | **(94)** | **–** | **(94)** |
| **Total** | **12** | **399** | **411** |

# NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

for the six months ended 30 June 2018



## 5. Segmental reporting continued

**Net assets**

Net assets attributed to each business segment represent the net external operating assets of that segment, excluding goodwill, bank balances and borrowings, which are shown as unallocated amounts, together with central assets and liabilities.

| | Unaudited six months ended 30 June 2018 £'000 | Unaudited six months ended 30 June 2017 £'000 | Year ended 31 December 2017 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Fleet Systems | 3,201 | 3,002 | 3,638 |
| Passenger Systems | 3,011 | 2,901 | 2,500 |
| | 6,212 | 5,903 | 6,138 |
| Goodwill | 1,345 | 1,345 | 1,345 |
| Cash and borrowings | 187 | 128 | 302 |
| Unallocated | 51 | 66 | 45 |
| | 7,795 | 7,442 | 7,830 |
| **Liabilities** | | | |
| Fleet Systems | (2,314) | (3,144) | (3,183) |
| Passenger Systems | (4,007) | (3,514) | (3,176) |
| | (6,321) | (6,658) | (6,359) |
| Cash and borrowings | (1,240) | (521) | (1,233) |
| Unallocated | (17) | (17) | 29 |
| | (7,578) | (7,196) | (7,563) |
| **Net assets** | | | |
| Fleet Systems | 887 | (142) | 455 |
| Passenger Systems | (996) | (613) | (676) |
| | (109) | (755) | (221) |
| Goodwill | 1,345 | 1,345 | 1,345 |
| Cash and borrowings | (1,053) | (393) | (931) |
| Unallocated | 34 | 49 | 74 |
| | 217 | 246 | 267 |

# NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

for the six months ended 30 June 2018



### 6. Profit/(loss) per Ordinary Share

Details of the weighted average number of Ordinary Shares used as the denominator in calculating the basic and diluted earnings per Ordinary Share are given below:

| | **Unaudited six months ended 30 June 2018 '000** | Unaudited six months ended 30 June 2017 '000 | Year ended 31 December 2017 '000 |
|---|---|---|---|
| Basic weighted average number of shares | **93,240** | 93,240 | 93,240 |
| Dilutive potential Ordinary Shares | **—** | — | — |
| | **93,240** | 93,240 | 93,240 |

### 7. Goodwill

Goodwill acquired in a business combination is allocated at acquisition to the cash-generating unit (CGU) that is expected to benefit from that business combination. The Group has two CGUs which are its two operating segments, Fleet Systems and Passenger Systems. The carrying amount of goodwill has been allocated to the CGUs as follows:

| | 21st Century Passenger Systems Limited £'000 | Total £'000 |
|---|---|---|
| Deemed cost: | | |
| At 1 January 2017 | 1,345 | 1,345 |
| At 30 June 2017 | 1,345 | 1,345 |
| At 1 January 2017 | 1,345 | 1,345 |
| **At 31 December 2017 and 30 June 2018** | **1,345** | **1,345** |

The Group tests goodwill annually for impairment as at 31 December, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined based on a value-in-use calculation which uses cash flow projections based on financial budgets and business plans approved by the Directors covering a five-year period. Cash flows beyond that period have been extrapolated in perpetuity assuming no growth, which the Directors consider to be a conservative approach.

The key assumptions for the value-in-use calculations are those regarding discount rates and sales forecasts.

The discount rates needed to equate the net present value from these cash flows to the carrying value of goodwill are compared to the required rate of return from the CGU based upon an assessment of the time value of money, prevailing interest rates and the risks specific to the CGU. If this discount rate is in excess of the required rate of return then it is assumed that no impairment has occurred to the carrying value of goodwill.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

for the six months ended 30 June 2018



## 7. Goodwill continued

The discount rates are as follows:

| | Unaudited six months ended 30 June 2018 % | Unaudited six months ended 30 June 2017 % | Year ended 31 December 2017 % |
|---|---|---|---|
| Passenger Systems | **14** | 14 | 14 |

The discount rates used are based on the Board's judgement considering macroeconomic factors and reflecting specific risks in each segment such as the nature of the market served, the concentration of customers, cost profiles and barriers to entry.

Passenger Systems also has intangible assets, which are considered in the same value-in-use calculations as goodwill.

The Passenger Systems cash flow projections used to determine value in use are based upon assumptions of sales, margins and cost bases. Of these assumptions the value in use is most sensitive to the level of sales. Margins are fixed in the forecast based upon past experience; the cost base is similarly based upon past experience but also takes into account savings from restructuring and will vary depending upon the level of sales. In accordance with the requirements of IAS 36 our value-in-use calculations do not include cash flows from restructurings to which the Group is not yet committed.

The level of sales is the key assumption used in the cash flow forecast. Sales have been determined by management using estimates based upon past experience and future performance with reference to market position and the sales pipeline. Due to the difficult macroeconomic environment there has been a reduction in the availability of contracts, which has in turn resulted in pressure on margins. In 2017 a major restructuring took place, followed by a reinvestment in key staff at the end of the year.

The value-in-use calculation supports the carrying value of the CGU with headroom of £344k. A sensitivity analysis has been performed on the impairment test. The Directors consider that an absolute change in the key sales assumption is possible and a reduction of 5% points in the growth rate in 2018 would result in an impairment charge being recognised for the current carrying value of goodwill in relation to Passenger Systems of £541k. If sales forecasts were down 10% across the whole period and overheads were partially scaled back by 5% then the impairment charge would be £979k.

Based on the review the discount rate applied to equate the net present value of the forecast cash flows to the carrying value of goodwill and the intangible assets was 16.7%, whereas the required rate of return of the CGU is 14%.

In view of this, the Directors consider that no impairment of goodwill or intangible assets is required.

# NOTES TO THE INTERIM FINANCIAL STATEMENTS continued

for the six months ended 30 June 2018



## 8. Cash generated from operations

| | **Unaudited six months ended 30 June 2018 £'000** | Unaudited six months ended 30 June 2017 £'000 | Year ended 31 December 2017 £'000 |
|---|---|---|---|
| Profit/(loss) for the period | **349** | (259) | (351) |
| Adjustments for: | | | |
| – Finance expense | **57** | 18 | 63 |
| – Deferred tax credit | **–** | (5) | (9) |
| – Depreciation of property, plant and equipment | **41** | 28 | 63 |
| – Amortisation of intangible fixed assets | **152** | 171 | 334 |
| – Share-based payment (income)/expense | **(399)** | 111 | 224 |
| – Foreign exchange rate | **24** | (13) | (14) |
| – Increase in provisions | **(112)** | (369) | (668) |
| **Operating cash flows before movement in working capital** | **112** | (318) | (358) |
| (Increase)/decrease in inventories | **(203)** | (94) | 155 |
| Decrease/(increase) in receivables | **222** | 212 | (271) |
| Increase/(decrease) in payables | **32** | (187) | (196) |
| **Cash inflow/(outflow) from operations** | **163** | (387) | (670) |
| Income taxes (paid)/received | **(5)** | 7 | 4 |
| Interest paid | **(57)** | (18) | (63) |
| **Net cash inflow/(outflow) from operating activities** | **101** | (398) | (729) |

Produced by
designportfolio

**21st Century Technology plc**
12 Charter Point Way
Ashby-de-la-Zouch
LE65 1NF
United Kingdom

www.21stplc.com

+44 (0)844 871 7990