



## Connected systems for connected journeys

Interim Report  
for the six months ended 30 June 2017

## CONNECTED SYSTEMS FOR CONNECTED JOURNEYS

21<sup>st</sup> 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, 21<sup>st</sup> Century specialises in providing innovative technology solutions that improve the passenger experience and provide operational benefits to fleet and network operators through 21<sup>st</sup> Century Fleet Systems and 21<sup>st</sup> Century Passenger Systems and strives to connect the two in order to create the complete connected journey.



**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 £0.04m (2016: underlying loss £0.05m)\*
- Operating loss £0.2m (2016: £0.5m loss)
- Revenue £5.6m (2016: £6.4m)
- Gross profit £2.3m (2016: £3.0m)
- Cash £0.1m (2016: £1.2m)
- Strong cash performance post period-end (31 July: £0.23m)
- Basic and diluted loss per share 0.28p (2016: 0.51p)

\* Underlying profit/(loss) represents profit/(loss) before interest, tax and non-underlying items (which comprise reorganisation costs, acquisition costs and share-based payment charges).

### OPERATIONAL HEADLINES

- Commenced operations in new Ashby head office on January 1.
- New Chief Financial Officer, Nick Lowe appointed in May 2017.
- Continuing consolidation programme during H1 has resulted in:
  - Annualised £1.4m reduction in cost base.
  - Positive EBITDA – significant improvement over H2 2016.
- Fleet Systems profitable despite lower rail volumes. Bus and International up 27%, overall sales maintained at £3.5m.
- Passenger Systems progressing well with a 15% increase in sales over H2 2016; but still below breakeven.
- Secured passenger displays systems support and upgrade £0.4m contract, supporting TfWM's MaaS (Mobility as a Service) implementation; a first in the UK.
- Innovative new technologies and software developed:
  - Journeo - remote condition monitoring systems and software.
  - Ultra-low energy display controllers for LED, E-ink and TFT.
- Retained all ISO accreditations 9001, 14001, 18001 and RISQS.
- Initiated unification programme under common accreditation body to streamline and reduce future costs.

## OVERVIEW

- 1 Headlines
- 2 Chairman and Chief Executive's review

## FINANCIAL STATEMENTS

- 6 Consolidated statement of comprehensive income
- 7 Consolidated statement of changes in equity shareholders' funds
- 8 Consolidated statement of financial position
- 9 Consolidated statement of cash flows
- 10 Notes to the interim financial statements

# CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW



## SUMMARY

- Strong recovery from H2 2016 with turnover increasing by £0.4m to £5.6m, delivering an increase in gross profit of £0.7m to £2.3m and an operating profit of £0.04m
- Significant growth in Bus and International sales maintained revenue in Fleet Systems at £3.5m (H1 2016: £3.5m) despite a £0.7m reduction in Rail revenue
- Order intake in Passenger Systems is progressing well, but still below breakeven

“Our customer base is growing and diversifying as we introduce a range of innovative solutions based on our own software and technologies.”

**Mark Elliot**  
Non-executive Chairman



## Summary

The Company continues to make significant progress toward becoming a technically agile and customer-centric business, providing connected systems and services on vehicles and into the smart cities of today and tomorrow.

The programme of consolidating operations started last year is now largely complete and, following the launch of 21<sup>st</sup> Century's new head office at Ashby-de-la-Zouch in January, annualised savings of £1.4m are being generated. Concentrating research and development, sales, finance and customer service teams into a single location has facilitated greater innovation and teamworking to enhance the customer service experience.

The collaboration between Fleet Systems and Passenger Systems teams is growing, as the first joint project, the Gatwick Airport car park guidance system, nears completion. Similar applications at other airports, coupled with the recent government announcements for a series of Department for Transport (DfT) backed initiatives for Integrated or Intelligent Transport Systems (ITS),

which will involve a combination of both disciplines, provide attractive further opportunities.

Trading in the first six months of 2017 has delivered an underlying profit before depreciation and amortisation of £0.04m (2016: underlying loss of £0.05m), despite lower sales revenues from the Passenger Systems business. The H1 results are a significant improvement on the second half of 2016. Projects in both Fleet Systems and Passenger Systems crossed over into H2, with over £0.5m of additional working capital tied up in the work in progress and stock balance of £1.6m (H1 2016: £1.1m) at 30 June. This position has begun to unwind since the period end with the cash balance improving to £0.23m by the end of July. Our new Chief Finance Officer, Nick Lowe, who joined the Board in May this year, has implemented strong working capital controls which have and will continue to assist in this regard, whilst our £0.4m invoice discounting facility, partially drawn at the period end (£0.2m), remains available to support further working capital requirements.

## CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW continued



### Trading results

In the first six months' trading in 2017 the performance of the Group recovered strongly from the H2 2016 performance with turnover increasing by £0.4m to £5.6m, gross profit increasing by £0.7m to £2.3m and an operating profit of £0.04m turned around from a loss of £1.8m from a much reduced cost base.

Revenue for H1 2017 of £5.6m (H1 2016: £6.4m) decreased by £0.8m solely due to a reduction in Passenger Systems revenue to £2.1m (H1 2016: £2.9m), with Fleet Systems revenue being maintained at £3.5m (H1 2016: £3.5m) despite there being a £0.7m reduction in Rail revenues masking an improvement in Bus revenues.

Passenger Systems' gross profit decreased by £0.3m mainly due to the reduced revenue, but was helped by software and service margins improving to 56% (H1 2016: 52%). Gross profit for H1 in Fleet Systems of £1.1m (H1 2016: £1.5m) decreased by £0.4m due to high margin sales in H1 2016. Overall margins of 32% in Fleet Systems for H1 2017 were in line with margins for the full year in 2016.

The underlying profit before depreciation was £42k (2016: loss of £52k). The operating result, including £0.1m of share-based payment charge, was a loss of £0.2m (2016: £0.5m) and the basic and diluted loss per share was 0.28p (2016: 0.51p). Cash decreased to £0.1m at 30 June 2017 (2016: £1.2m).

### 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 and Continental Europe, providing new systems, on-site support and specialist project engineering services under a variety of commercial models.

Following on from the two important contract renewals in H2 2016, First Bus UK and Arriva UK Bus, our bus and international sales increased a significant 27%, despite a £0.7m shortfall in rail volumes. Revenues for the Fleet Systems business as a whole were therefore maintained at a level £3.5m. These successes have been built on during 2017 and,

whilst just outside H1, securing a contract for a three-year technical services partnership with Abellio is a further endorsement of the differentiated services we are able to provide large fleet customers.

Securing the Abellio contract highlights the dedication, hard work, technical expertise and deep market knowledge within the Company. Sales into large fleet operators are not quick wins and require significant investment in meticulous pre-sales activity, even when there are strong pre-existing relationships.

Our innovative technologies and enhanced service capabilities are opening up dialogue with existing and new, future customers allowing us to build upon our already valuable relationships with a greater range of services delivered at improved margins.

#### Passenger Systems

Order intake through our Passenger Systems business across H1 is significantly improved in comparison to H2 of last year and broadly back to the levels of H1 last year.

## CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW continued

The first installations of the Journeo remote condition monitoring system commenced during H1 and both the system's capability and the development road-map were pivotal elements in the contract negotiation success with Abellio.

### Operating review continued

**Passenger Systems** continued Typically there is a 16-week lead time in the factory and sales in H1 at £2.1m were below break-even, with increased work in progress held in stock at the end of June.

Whilst we are pleased with the turnaround in orders we are mindful of the funding challenges faced by many of our local authority customers, which can result in delays or reduced scale of their major projects. However,

we have established a growing pipeline of bids and tender opportunities and funding for a number of these is assured under Section 106 of the Town and Country Planning act.

Our aim is to form deep and lasting relationships with new and existing customers and build our software and service capabilities around their needs. This has seen significant performance improvements in the capabilities of our Content Management System (CMS) and software. An example of this is the £0.4m award in May from Transport for the West Midlands (TfWM), the transport arm of West Midlands Combined Authority (WMCA), which is pioneering a MaaS strategy.

development roadmap were pivotal elements in the contract negotiation success with Abellio.

We continue to target research and development resource in areas that differentiate us and have the potential for broadening the scale and range of services to drive future growth within the transportation and movement of goods and people industries.

We have identified some clear gaps in the market and are convinced that by moving into these spaces we can take leadership positions. Whilst these developments may take some time to come to fruition, we believe the rewards for delivering the right solution at the right time will lead to significant growth and improved trading margins.

"We have identified some clear gaps in the market and are convinced that by moving into these spaces we can take leadership positions."

**Russ Singleton**  
Chief Executive



### Central services

One of the most pleasing elements of the integration of our businesses has been increased collaboration, teamworking and pace of technical innovation. The first installations of the Journeo remote condition monitoring system commenced during H1 and both the system's capability and the

### Outlook

We are well on our way to completing the transformation of 21<sup>st</sup> Century from a business that provided standalone, on-vehicle CCTV and IT sub-systems integration towards one that provides fully connected systems on and off vehicles in towns and cities.

## CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW continued

### Outlook continued

Our customer base is growing and diversifying as we introduce a range of innovative solutions based on our own software and technologies into the passenger, fleet and integrated transport systems markets.

It has taken us some time to get the platform and capabilities we need in place, but we are now succeeding, as evidenced by the recent three-year Abellio contract award. Performance in the first half of 2017 was in line with management expectations.

Our latest forecasts for 2017/18 are encouraging, despite the current working capital challenges, and show the Group returning to profit with a growing pipeline of opportunities and more certainty in orders on our lower cost base.

### Mark Elliott

Non-executive Chairman

30 August 2017

### Russ Singleton

Chief Executive

30 August 2017

We are well on our way to completing the transformation of 21<sup>st</sup> Century from a business that provided standalone, on-vehicle CCTV and IT sub-systems integration towards one that provides fully connected systems on and off vehicles in towns and cities.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

for the six months ended 30 June 2017

	Unaudited six months ended 30 June 2017 £'000	Unaudited six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Revenue (notes 4,5)	5,586	6,401	11,555
Cost of sales	(3,279)	(3,375)	(6,868)
<b>Gross profit</b>	<b>2,307</b>	3,026	4,687
Other income	—	—	119
Underlying administrative expenses before depreciation and amortization	(2,265)	(3,078)	(5,801)
<b>Underlying profit/(loss) before depreciation and amortisation</b>	<b>42</b>	(52)	(995)
Depreciation and amortisation	(179)	(202)	(402)
Share-based payments	(111)	(175)	(323)
One-off legal costs	—	—	(44)
Reorganisation costs	—	(53)	(534)
Administrative expenses	(2,555)	(3,508)	(6,985)
<b>Operating loss before impairment</b>	<b>(248)</b>	(482)	(2,298)
Goodwill impairment	—	—	—
<b>Operating loss</b>	<b>(248)</b>	(482)	(2,298)
Finance (expense)/income	(18)	6	(11)
<b>Loss before taxation from continuing operations</b>	<b>(266)</b>	(476)	(2,309)
Taxation	7	3	6
<b>Loss for the period being total comprehensive income attributable to owners of parent</b>	<b>(259)</b>	(473)	(2,303)
<b>Loss per share (note 6)</b>			
Basic and diluted	<b>(0.28p)</b>	(0.51p)	(2.47p)

All results derive from continuing operations.



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY SHAREHOLDERS' FUNDS**

for the six months ended 30 June 2017

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity shareholders' funds £'000
<b>Balance at 1 January 2016</b>	6,061	8	(3,695)	2,374
Loss and total comprehensive income for the period	—	—	(473)	(473)
Share-based payments	—	—	175	175
<b>Balance at 30 June 2016</b>	6,061	8	(3,993)	2,076
<b>Balance at 1 January 2016</b>	6,061	8	(3,695)	2,374
Loss and total comprehensive income for the year	—	—	(2,303)	(2,303)
Share-based payments	—	—	323	323
<b>Balance at 31 December 2016</b>	6,061	8	(5,675)	394
Loss and total comprehensive income for the period	—	—	(259)	(259)
Share-based payments	—	—	111	111
<b>Balance at 30 June 2017</b>	<b>6,061</b>	<b>8</b>	<b>(5,823)</b>	<b>246</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

at 30 June 2017

	Unaudited 30 June 2017 £'000	Unaudited 30 June 2016 £'000	31 December 2016 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill (note 7)	1,345	1,345	1,345
Other intangible assets	820	854	847
Property, plant and equipment	129	189	149
Trade and other receivables	39	81	39
	<b>2,333</b>	2,469	2,380
<b>Current assets</b>			
Inventories	1,604	1,059	1,510
Trade and other receivables	3,377	4,436	3,549
Cash and cash equivalents	128	1,158	511
	<b>5,109</b>	6,653	5,570
<b>Total assets</b>	<b>7,442</b>	9,122	7,950
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	(2,916)	(3,064)	(2,813)
Tax liabilities	(344)	(57)	(358)
Loans and borrowings	(210)	(299)	(54)
Deferred revenue	(1,863)	(1,661)	(2,132)
Provisions	(432)	(454)	(605)
	<b>(5,765)</b>	(5,535)	(5,962)
<b>Net current (liabilities)/assets</b>	<b>(656)</b>	1,118	(392)
<b>Non-current liabilities</b>			
Loans and borrowings	(311)	(7)	(300)
Deferred revenue	(596)	(772)	(569)
Deferred tax liability	(39)	(50)	(44)
Provisions	(485)	(682)	(681)
<b>Total liabilities</b>	<b>(7,196)</b>	(7,046)	(7,556)
<b>Net assets</b>	<b>246</b>	2,076	394
<b>Shareholders' equity</b>			
Share capital	6,061	6,061	6,061
Share premium account	8	8	8
Retained earnings	(5,823)	(3,993)	(5,675)
<b>Total equity shareholders' funds</b>	<b>246</b>	2,076	394

**CONSOLIDATED STATEMENT OF CASH FLOWS**

for the six months ended 30 June 2017

	Unaudited six months ended 30 June 2017 £'000	Unaudited six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
<b>Net cash from operating activities (note 8)</b>	<b>(398)</b>	358	(435)
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	(10)	(32)	(85)
Disposal of property, plant and equipment	—	—	40
Purchases of intangible fixed assets	(142)	(84)	(229)
<b>Net cash from investing activities</b>	<b>(152)</b>	(116)	(274)
<b>Financing activities</b>			
Issue of loan note	—	—	300
Issue of other loans	188	—	—
Repayment of loans	(21)	(94)	(104)
<b>Net cash from financing activities</b>	<b>167</b>	(94)	196
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(383)</b>	148	(513)
Cash and cash equivalents at beginning of period	511	1,010	1,010
Effect of foreign exchange rate changes	—	—	14
<b>Cash and cash equivalents at end of period</b>	<b>128</b>	1,158	511

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2017

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

The financial information for the six months ended 30 June 2017 and for the six months ended 30 June 2016 is unaudited.

The interim financial statement for the six months to 30 June 2017 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 2016.

The financial information has been prepared on the basis of IFRSs that the Directors expect to be applicable as at 31 December 2017.

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 2016, 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 2016 were approved by the Board on 25 May 2017 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 30 August 2017.

### 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 2016 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 2018.

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 2017 £'000	Unaudited six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
<b>Revenue</b>			
Goods	3,800	4,977	8,435
Services	1,786	1,424	3,120
	<b>5,586</b>	6,401	11,555
Construction contracts included in goods	1,430	3,132	3,384

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** continued

for the six months ended 30 June 2017

**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. The Group has two strategic operating segments: Fleet Systems and Passenger Systems. In addition, there are central functions that provide services to the two strategic operating segments, making three reportable segments.

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 2017 £'000	Unaudited six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
<b>Revenue</b>			
Fleet Systems	3,487	3,473	6,923
Passenger Systems	2,099	2,928	4,715
Intersegment sales	–	–	(83)
	<b>5,586</b>	<b>6,401</b>	<b>11,555</b>
<b>Gross profit</b>			
Fleet Systems	1,123	1,516	2,268
Passenger Systems	1,184	1,510	2,419
	<b>2,307</b>	<b>3,026</b>	<b>4,687</b>
<b>Underlying (loss)/profit</b>			
Fleet Systems	140	(96)	(748)
Passenger Systems	(197)	(41)	(460)
	<b>(57)</b>	<b>(137)</b>	<b>(1,208)</b>
Central	<b>(80)</b>	<b>(117)</b>	<b>(189)</b>
<b>Underlying (loss)/profit</b>	<b>(137)</b>	<b>(254)</b>	<b>(1,397)</b>

**Reconciling to loss before interest and tax**

	Underlying loss profit £'000	Share-based payments £'000	Operating loss £'000
Fleet Systems	140	(111)	29
Passenger Systems	(197)	–	(197)
	<b>(57)</b>	<b>(111)</b>	<b>(168)</b>
Central	<b>(80)</b>	<b>–</b>	<b>(80)</b>
<b>Total</b>	<b>(137)</b>	<b>(111)</b>	<b>(248)</b>

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** continued

for the six months ended 30 June 2017

**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.

	<b>Unaudited six months ended 30 June 2017 £'000</b>	Unaudited six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
<b>Assets</b>			
Fleet Systems	<b>3,002</b>	3,151	3,814
Passenger Systems	<b>2,901</b>	3,468	2,246
	<b>5,903</b>	6,619	6,060
Goodwill	<b>1,345</b>	1,345	1,345
Cash and borrowings	<b>128</b>	1,158	511
Unallocated	<b>66</b>	—	34
	<b>7,442</b>	9,122	7,950
<b>Liabilities</b>			
Fleet Systems	<b>(3,144)</b>	(2,948)	(4,042)
Passenger Systems	<b>(3,514)</b>	(3,984)	(3,148)
	<b>(6,658)</b>	(6,932)	(7,190)
Cash and borrowings	<b>(521)</b>	(64)	(354)
Unallocated	<b>(17)</b>	(50)	(12)
	<b>(7,196)</b>	(7,046)	(7,556)
<b>Net assets</b>			
Fleet Systems	<b>(142)</b>	203	(228)
Passenger Systems	<b>(613)</b>	(516)	(902)
	<b>(755)</b>	(313)	(1,130)
Goodwill	<b>1,345</b>	1,345	1,345
Cash and borrowings	<b>(393)</b>	1,094	157
Unallocated	<b>49</b>	(50)	22
	<b>246</b>	2,076	394

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** continued

for the six months ended 30 June 2017

**6. 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:

	<b>Unaudited six months ended 30 June 2017 '000</b>	Unaudited six months ended 30 June 2016 '000	Year ended 31 December 2016 '000
Basic weighted average number of shares	93,240	93,240	93,240
Dilutive potential Ordinary Shares	–	–	–
	<b>93,240</b>	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:

	<b>21<sup>st</sup> Century Fleet Systems Limited £'000</b>	21 <sup>st</sup> Century Passenger Systems Limited £'000	Total £'000
Deemed cost:			
At 1 January 2016	–	1,345	1,345
At 30 June 2016	–	1,345	1,345
At 1 January 2016	–	1,345	1,345
<b>At 31 December 2016 and 30 June 2017</b>	<b>–</b>	<b>1,345</b>	<b>1,345</b>

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 goodwill in relation to the Fleet Systems CGU became fully impaired in the year to 31 December 2015, based on forecasts that suggested a broadly neutral cash flow.

**NOTES TO THE INTERIM FINANCIAL STATEMENTS** continued

for the six months ended 30 June 2017

**7. Goodwill** continued

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.

The discount rates are as follows:

	<b>Unaudited six months ended 30 June 2017</b>	Unaudited six months ended 30 June 2016	Year ended 31 December 2016
	%	%	%
Fleet Systems	N/A	N/A	N/A
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. This has been reflected in the sales forecasts. Furthermore, the 2017 forecast reflects a major restructuring to a level reflecting current order intake and the near-term sales pipeline. The 2018 forecast predicts growth of 22%. The remaining three years are based upon compound sales growth of 5%.

The value-in-use calculation supports the carrying value of the CGU with headroom of £116k. 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 to 17% would result in an impairment charge being recognised for the current carrying value of goodwill in relation to Passenger Systems of £713k. If sales forecasts were down 10% across the whole period and overheads were partially scaled back by 5% then the impairment charge would be £1,072k.

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 14.9%, 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 2017

### 8. Cash generated from operations

	Unaudited six months ended 30 June 2017 £'000	Unaudited six months ended 30 June 2016 £'000	Year ended 31 December 2016 £'000
Loss for the period	(259)	(473)	(2,303)
Adjustments for:			
– Finance expense/(income)	18	(6)	11
– Income tax expense/(credit)	–	4	–
– Profit on disposal of fixed asset	–	–	4
– Deferred tax (credit)/charge	(5)	(7)	(13)
– Depreciation of property, plant and equipment	28	59	107
– Amortisation of intangible fixed assets	171	143	295
– Share-based payment expense	111	175	323
– Foreign exchange rate	(13)	–	(32)
– Increase in provisions	(369)	(108)	42
<b>Operating cash flows before movement in working capital</b>	<b>(318)</b>	<b>(213)</b>	<b>(1,566)</b>
(Increase)/decrease in inventories	(94)	23	(428)
Decrease/(increase) in receivables	212	(6)	1,026
(Increase)/decrease in payables	(187)	479	551
<b>Cash inflow/(outflow) from operations</b>	<b>(387)</b>	<b>283</b>	<b>(417)</b>
Income taxes received/(paid)	7	69	(7)
Interest (paid)/received	(18)	6	(11)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(398)</b>	<b>358</b>	<b>(435)</b>





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