

29 September 2017

**Digital Barriers plc**

**(“Digital Barriers” or the “Group”)**

**Audited Results for the year ended 31 March 2017**

Digital Barriers (AIM: DGB) the specialist provider of visually intelligent technologies to the global surveillance, security and safety markets, announces its audited results for the year ended 31 March 2017.

**Financial Highlights**

- Revenues from continuing operations grew 25% to £26.5 million (2016: £21.1 million)
  - International revenues grew 34% to £24.1 million or 91% of total revenues (2016: £18.0 million, 85%)
- Adjusted loss before tax increased to £9.8 million (2016: £4.7 million)
  - This follows several key sales failing to close in the final quarter
- Loss for the year £16.7 million (2016: £12.6 million)
- Far-reaching internal review of the Group subsequently undertaken

**Internal Review and Outcomes**

- The review concluded that the Group is in practice operating as two distinct businesses:
  - A ‘Video Business,’ built around EdgeVis and SmartVis technology and incorporating Brimtek in the US, and a ‘Thruvision Business’, built around the Group’s Thruvision people-screening technology.
  - The two businesses share very few end customers and have different business and financial characteristics.
- The review confirmed that the unpredictable nature of sales cycles was unlikely to change in the near to medium term and, while the Group has class-leading technologies, procurements are often part of larger programmes with complex budgets and delivery schedules.
- The review further concluded that these challenges were especially relevant to the Video Business and less relevant to the Thruvision business. Thruvision, although still modest in revenue terms, benefits from protected technology that is unique in its field and an emerging customer base that includes the US Transportation Security Administration (“TSA”).
- The Board concluded that to continue under the Group’s current structure would stretch the resources available to the Group against a backdrop of forecast uncertainty. A sale process for the Video Business was therefore undertaken.
- The Board received a number of indicative offers from interested parties and is currently in advanced discussions with two parties to sell the Video Business (the “ Potential Transaction”) which are expected to conclude in the near future:

- The Potential Transaction remains subject to further due diligence and the agreement of binding legal documentation. As such, there can be no certainty that discussions will lead to a transaction being completed.
  - The cash consideration being offered under both proposals is expected to be in excess of the current market capitalisation of the entire Group at close of business on 28 September 2017.
  - The Potential Transaction would be conditional upon the Group obtaining approval from its Shareholders and the Board will provide an update for Shareholders in due course.
- Conditional on completion of the Potential Transaction, the Group would be renamed "Thruvision Group PLC," reflecting its sole focus on the people-screening market. This would create a leaner, focused business based upon patented and proven technology, targeting a clear growth market.
    - Tom Black would assume role of Executive Chairman, Colin Evans Managing Director of the new Group.

## Current Trading

Trading in the first half of the current financial year has been good with unaudited revenues to the end of August 13% ahead of the same period last year. Backlog has grown even more strongly with Brimtek performing particularly well in the first half although the lower margin nature of these sales will reduce the profit impact in H2. Asia, with sales at 50% ahead of last year, has also recovered well although EMEA is slightly behind its comparable sales on last year. Despite this healthy momentum, sales cycles remain unpredictable and some slippage of expected opportunities into H2 has occurred. The business has continued to incur losses albeit these are reduced from last year.

## Commenting on the results, Tom Black, Executive Chairman of Digital Barriers, said:

*"Following the disappointing FY17 performance, we have undertaken a detailed review of our operations. This review has confirmed to us the unmatched strength of the technologies under our ownership, but also made clear the reality that their true potential cannot be realised under one banner with the resources we have available. Acting on these findings, we are well-advanced with discussions to sell the Video Business and our energies are focused on securing a successful outcome to this process. In due course we will update Shareholders on our progress and seek their approval on any transaction that we believe would maximise shareholder value."*

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**About Digital Barriers:**

Digital Barriers provides visually intelligent solutions to the global surveillance, security and safety markets. We deliver zero-latency streaming and analysis of secure video and related intelligence over wireless networks, including cellular, satellite, IP mesh and cloud, utilising significantly less bandwidth than standard technologies.

Our rapidly-installed fixed and mobile solutions for covert, remote and wide-area deployments, as well as vehicle and body-worn applications, have been sold into more than fifty countries, and have been proven in some of the world's most demanding operational environments. We also provide advanced video content analysis and body scanning to identify safety concerns and threats in real-time.

[www.digitalbarriers.com](http://www.digitalbarriers.com)

## Chairman's Statement

In previous updates, we have highlighted the unpredictable and extended sales cycles that we face as a business that sells predominantly to government customers overseas. This leads to challenges in accurately forecasting the timing of sales and revenues, which in turn creates risk in meeting our annual financial expectations for the business. This was the case during the period, where, despite headline revenue growth of 25% to £26.5 million (2016: £21.1 million) and a strong performance in the US following the Brimtek acquisition, several expected key sales failed to close in the final quarter of the year ended 31 March 2017. This contributed in an adjusted loss before tax of £9.8 million (2016 loss: £4.7 million) which was clearly a disappointing result for the Group

It has become clear that, despite the class-leading nature of our technologies and the flagship nature of our customers, the business is not well-suited to operating on the public markets with these material challenges as outlined above. Therefore, we decided to undertake a far-reaching internal review of the Group.

### *The review and our findings*

The headline conclusion of the review was that the Group was in practice operating as two distinct businesses: a Video Business and the Thruvision people-screening business, details of which are set out below. Whilst they shared some geographical overlaps it was clear that, they shared very few end customers and have different business and financial characteristics.

The review confirmed that the unpredictable nature of the sales cycles we face was unlikely to change in the near to medium term, and, just as importantly, that larger sales would likely exacerbate the lumpy nature of our revenue streams. The Group has class-leading technologies, which are now being acquired by flagship customers around the world, but these procurements are often part of larger programmes with complex budgets and delivery schedules. Our conclusion was that to continue as we are would stretch the financial resources available to the Group within its current structure and that we would be doing so against this backdrop of forecast uncertainty and its consequent risk to period-end reporting.

The review further concluded that the above challenges were especially relevant to the Video Business, and are less relevant to our Thruvision business. Although Thruvision is still modest in revenue terms, it benefits from protected technology that is unique in its field, and an emerging customer base that includes the US Transportation Security Administration. Since Thruvision and the Video Business are different in nature, the Group naturally divides into two business units with different operating models.

The Video Business, which is based around EdgeVis live video streaming technology, SmartVis video analytics and incorporates Brimtek in the US (the "Video Business"), has the following characteristics:

- **Operationally proven technology:** a proven set of product offerings, strong penetration into a number of regional markets (notably the US) and an exciting roadmap, including facial recognition and body-worn video technology;
- **Complex solutions:** our solutions generally form part of broader, more complex systems which has adverse consequences for the level of control the Group can exert over procurements and sales cycle durations; and,
- **Two distinct markets:** core revenues are generated from direct sales into high barrier-to-entry government agencies, with penetration into the more competitive network-video market through global technology partners.

The Group's Thruvision people-screening business (the "Thruvision Business") has the following characteristics:

- **Operationally proven technology:** a solution to current counter-terrorism challenges which has been successfully used operationally by both the Transportation Security Administration and G4S;
- **Limited competition and simplicity of deployment:** although there are many people-screening systems deployed globally, Thruvision has the great advantage of reliable stand-off operation (i.e. with a detection range over 5m) and simple, standalone deployment, avoiding the need for any complex integration into existing infrastructure; and
- **Multiple potential markets at an early stage of development:** Thruvision was originally developed for the counter-terrorism market but has now also demonstrated applicability in other markets, namely customs applications (to prevent cash and narcotics smuggling) and loss-prevention (to prevent theft from warehouses). The entire people security screening market has been estimated at \$34Bn over 2015 – 2020 by analysts.<sup>1</sup>

Given these findings, the Board concluded that alternative corporate and funding structures would be in the best interests of the Group, its shareholders and stakeholders.

Working with its advisers, the Board initially considered a sale of the entire Group, but, following a discreet marketing exercise, it found that given the fundamental differences between the two businesses, particularly in their respective levels of maturity and financial profiles, it would be highly unlikely that any single buyer for the Group would be found.

This conclusion resulted in a Video Business sale process, managed by Investec Bank plc, which involved approaching a full range of potential trade and financial buyers. Following a multi-staged and competitive process, the Board received a number of indicative offers from interested parties and is currently in advanced discussions with two parties to sell the Video Business (the "Potential Transaction") which are expected to conclude in the near future. However, the Potential Transaction remains subject to further due diligence and the agreement of binding legal documentation and, as such, there can be no certainty that the discussions will lead to a transaction being completed. The cash consideration being offered under both proposals is expected to be in excess of the current market capitalisation of the entire Group. Such proceeds, after repayment of existing indebtedness and transaction costs, would provide a robust balance sheet for the ongoing Thruvision business, with a likely return of excess funds to shareholders in due course. The Potential Transaction would be conditional upon the Group obtaining approval from its Shareholders. The Board will provide an update for shareholders in due course.

As a consequence of these ongoing discussions, the Board has decided that, as Thruvision already has strong brand recognition in its own right, the Video Business would take with it the Digital Barriers name. Thus, it is the Board's intention that, conditional on completion of the Potential Transaction, the remaining Group would be renamed "Thruvision Group PLC", reflecting its sole focus on the people-screening market.

#### *Implementing and managing change*

As we are now entering a period of significant change for the business, the Board has decided that it is appropriate for me to become more "hands-on" and it is intended that I will assume the role of Executive Chairman effective on the completion of the Potential Transaction. Colin Evans, as

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<sup>1</sup> "People Security Screening Market, Technology and Industry 2015 – 2020", Homeland Security Research

Managing Director, will run the business day-to-day and we will continue to co-operate closely as we have done in our previous roles at Digital Barriers and previously at Detica Group plc. It is intended that Zak Doffman, CEO, and the employees of the Video Business would leave the Company on completion and work with its new owners to develop and implement a new, standalone strategy.

Reflecting the smaller size of the Thruvision Business, it has also been decided to reduce Colin Evans' and my annual remuneration, by 25% conditional on the successful completion of the Potential Transaction. Contingent on completion, many other aspects of the business, such as our office space, would also be greatly reduced. However, we do not envisage any material reduction in headcount as the business seeks to capitalise on its exciting growth potential for Thruvision.

Two other colleagues have taken this opportunity to make their own changes. Bernie Waldron has decided to step down from the Board at the AGM as he is increasingly focused on private company directorships and Sharon Cooper has decided that she would also step down after effecting a smooth transition following a successful conclusion of the Potential Transaction and seek a new role elsewhere. I am immensely grateful to them both for assisting us through this recent period of intense activity and change and I wish them both well for the future. We have recently appointed an interim finance director, to report to the Board and a search for a permanent replacement for Sharon is underway.

#### *Looking to the future*

The Group has not achieved the original goals set for it at the time of its formation. The technology and intellectual property that the Group acquired is undoubtedly proven, but the competitiveness of the global video market, combined with the complexity of often-protracted sales cycles, prevented us from driving the revenue growth required to deliver against our plans. That said, with a focus solely on the video market, and an alternative corporate structure and funding provisions, I am confident the Video Business will deliver a successful outcome under appropriate new ownership.

Thruvision is undoubtedly a class-leading and innovative technology, and one that has now been adopted by some of the most aspirational customers for this type of capability anywhere in the world. The solution is straightforward to operate and is usually purchased as a standalone solution. As such it is not dependent on integration into larger programmes with inherently uncertain deployment schedules. With our entire focus now on building and converting the robust sales pipeline for Thruvision already in place, I have real confidence in what can be achieved. The Board believes that the resulting Thruvision Business is in a strong position to capitalise on these future opportunities.

The successful completion of the Potential Transaction would leave a leaner, focused business, based upon patented and operationally proven technology, and we are targeting a clear growth market. In the following sections we lay out our strategy and the market opportunity which, in combination, make me very optimistic about Thruvision's future.

## Business Review

### OVERVIEW

Through the course of the year, the Group was run as a single, integrated business across our three regions: EMEA, from regional offices in London, Nice and Dubai; Asia-Pacific, from regional offices in Kuala Lumpur and Singapore; and the Americas from an office in the Washington DC Metropolitan area. Our regional teams sold and supported both the full range of Video Business solutions and Thruvision.

The Group reported headline revenue growth of 26% to £26.5 million (2016: £21.1 million), which included £24.5 million (2016: £18.5 million) contributed by the Video Business, and £2.0 million (2016: £2.6 million) contributed by Thruvision. Despite this headline revenue growth and a strong performance from the US, several expected key sales failed to close in the final quarter of the year ended 31 March 2017.

In the light of decisions taken by the Board since the end of the reporting period, this section separately reviews performance of the Video and Thruvision businesses in turn.

### VIDEO BUSINESS

#### Business Performance

The Video Business reported revenues of £24.5m (FY16, £18.5m), with gross margin decreasing to 53% (FY16, 58%), due to the incorporation of Brimtek, which is naturally a lower margin business. Despite this growth, the unpredictable nature of the sales cycles and the fact that procurements are often part of larger programmes with complex budgets and delivery schedules, a number of contracts expected to be awarded during the period slipped past the financial year end and into the current financial year, negatively impacting performance relative to both our and the market's expectations.

#### *Americas*

Our strategic objective of becoming a key technology partner for a range of US Government agencies with critical surveillance requirements continued in the period and we succeeded in establishing EdgeVis Live as a leading video surveillance platform for cellular telecommunications-based operations. This generated several high-profile sales in the region with Government customers. We also continued to make good progress with commercial customers for EdgeVis with a series of smaller orders in the period from a leading US-based provider of managed communications services into the energy and maritime sectors.

We continued our Brimtek strategy of working with only a handful of technology partners whose products provide synergy with our EdgeVis platform. This yielded a number of orders from the Department of Justice (totalling £8.1m), the Department of Homeland Security (£1.5m) and the Department of Defense (£0.8m).

#### *Asia Pacific*

Performance in Asia Pacific was disappointing in the period and whilst the Video Business remains well positioned on a number of significant government defence and border control programmes, delays in the timing of their award saw weak performance from this region. We continued to benefit from repeat purchases of EdgeVis-based solutions by a national police force (£0.7m follow-on), continued transport infrastructure CCTV spend (£1.0m follow-on) and a new body-worn video solution win with a major regional police force (£1.0m).

## EMEA

As reported at the interim results, the extra management focus on EMEA had a positive impact on FY16's poor performance. We saw the extension of BT Redcare's multi-year EdgeVis Live contract (worth £1.9m), two separate sales into a major European Ministry of Defence for our new SmartVis Face software and for EdgeVis (totalling £0.9m), repeat orders from a major European railway operator for EdgeVis (£0.4m) and an order from a North African national police force for EdgeVis (£0.4m). Towards the end of the period we also signed our first SmartVis Face software licencing deal with Careem, a ride-hailing app firm based out of Dubai.

### Solutions and products update

Our video-based solutions and products are built around proven proprietary intellectual property that fall into two categories: EdgeVis, our platform for very efficiently streaming live video over wireless networks; and SmartVis, our suite of video analytics applications including face recognition.

In the reporting period, several new EdgeVis capabilities were introduced:

- Streaming from body-worn devices based on new platforms from Far East OEM manufacturers;
- A next generation hardware platform to form the basis of future EdgeVis hardware products;
- A new EdgeVis encoder incorporating a strategic partner's IP Mesh Radio technology; and,
- Deep integration with market-leading Video Management Software product, Milestone.

In the reporting period, our SmartVis platform was expanded as follows:

- Face recognition specialising in non-consensual, real-time performance;
- Embedding our SafeZone software on our EdgeVis encoders; and,
- Embedding SafeZone into several more commercial video alarm management platforms.

### Operations and people

We continued to refine our operations to provide timely and cost-effective support to sales. In particular, we invested in our US operation and Kuala Lumpur office to support their growth. We also took the opportunity to reduce costs in areas performing less well and as a result closed our office in Seoul, South Korea and significantly downsized our Singapore operation.

## THRUVISION BUSINESS

### Business performance

Thruvision reported revenues of £2.0m (FY16, £2.6m), with gross margin increased to 43% (FY16, 37%). Unit sales during the period were inhibited by the fact that our main Asian customer took longer than expected to deploy the units they acquired at the end of FY16 and by the TSA's decision to fund enhancements to the product before operationally testing it for use in the US market. Encouragingly, both of these have now been achieved, with our Asian customer recently requesting quotations for new units and the TSA accepting the new product which was launched in the US over Summer 2017. Outside of these main activities we saw repeat purchases by customers in Asia and the UK, and new orders from customers in the Middle East / North Africa and Central American regions.



As we have progressed from very early adopters of Thruvision to the more mainstream customer base today, we have found that the sales cycle for new customers is between 12 and 18 months, while repeat customers tend to order more units on an annual budget cycle basis. As such, we started a number of important strategic business development initiatives in the second half of the period which we expect to see yielding order flow from autumn 2017 onwards. These initiatives include:

- **US government** – in addition to TSA support we have been actively demonstrating Thruvision to a number of federal government agencies in the areas of border control mass-transit and public area security and defence;
- **Asia customs** – capitalising on the traction we have already achieved with customs agencies in region, we have been targeting other national customs organisations given the clear operational benefits provided by Thruvision;
- **Asia mass transit** – based on pilots running as a result of the large FY16 order, we have been targeting the significant mass transit sector in China and expect further progress resulting from these pilot programmes given the success achieved to date; and,
- **UK high profile targets and events** – given UK Government concerns over further terrorist attacks, we have been actively piloting Thruvision at high profile government and commercial locations, and through G4S, at a series of high profile conferences and public concerts / festivals.

We also expect existing customers to buy further tranches of units as Thruvision continues to prove its worth operationally.

#### Technology update

Significant technological progress was made as a result of TSA funding. This led to the delivery of initial prototype units at the end of the reporting period and these have since successfully passed further comprehensive field trials. The second phase of this contract is planned for delivery later in this current financial year and this will extend functionality to improve outdoor performance and add initial functionality to help categorise what concealed items are made from (e.g. metal versus organic matter). Together with key suppliers, design improvements were made and should enable further reductions in build cost and manufacturing efficiency during FY18 and beyond as unit manufacturing throughput increases. Finally, progress was made with foreign language support, particularly Mandarin, which should support ongoing sales efforts in Asia.

#### Operations and people

Given the TSA award, we decided to increase the amount of time members of our US team spend on Thruvision through the final quarter of the period and we expect this to continue throughout the current financial year. We have also continued to review our Thruvision team in the light of the opportunities available to us and we will be strengthening the engineering team during the current financial year to make the business more resilient in this regard. Finally, the new production facility we completed in our Didcot office came fully on stream during the period and this, together with the work on supply chain, means we are confident that we can manage rapid growth within our existing manufacturing footprint.

## UPDATE ON STRATEGY

As set out in the Chairman's Statement and given the proposed divestment of the Video Business, the strategy section which follows relates solely to the Thruvision Business.

### OVERVIEW

Thruvision is a proven people-screening technology for "stand-off" detection of weapons, explosives and contraband under clothing. It is a specialist thermal camera, operating in the far infrared range of the electromagnetic spectrum, which sees concealed objects as relatively cold against warm bodies.

We acquired Thruvision in 2012, and since then, significant effort has been invested in taking what was a very early stage, pioneering technology to the point where it can be positioned as a solution to two major global challenges, namely:

- **Counter-terrorism** - the rapid increase in "marauding-type" terrorist attacks requires new, safe and flexible people-screening solutions to protect high profile buildings and events, transport infrastructure, and public areas.
- **Contraband detection** - the smuggling of contraband concealed in clothing across national borders and in and out of high security facilities remains a major problem, and security solutions that provide a fast, safe and effective method of screening people are needed.

Taken together, these form part of a global people security screening market that is estimated to be worth \$34Bn over 2015 – 2020<sup>1</sup>, and Thruvision is uniquely placed to meet these challenges because of a number of key differentiators, as follows:

1. **Unique patented technology:** Thruvision has secure, exclusive rights to exploit patented TeraHertz imaging research work completed by the Rutherford Appleton Laboratory and the European Space Agency. Thruvision uniquely operates at a specific frequency giving excellent screening characteristics and providing manufacturing barriers to entry for competitors.
2. **"Stand-off" capability:** people-screening technology in current service can only operate at very short-range (less than 1 metre) which greatly limits its usability. Thruvision uniquely sees objects concealed on people at distances greater than 5 metres, opening up a wide range of new operational uses.
3. **Operationally proven:** in the last two years Thruvision has seen an accelerating rate of deployment and is now operational in 12 countries. The publicised adoption of the product by G4S in spring 2017 has given the security technology market confidence that Thruvision is now ready for widescale deployment.
4. **New US product platform now available:** a new generation of the Thruvision product was launched for the US market, following development funded by TSA. The new product meets TSA's exacting counter-terrorism requirements for mass transit and public area people-screening.

1 . People Security Screening Market Technology & Industry 2015-2020, Homeland Security Research

## PEOPLE-SCREENING MARKET AND COMPETITION

The threat posed by marauding terrorist attacks in particular has led to a fundamental re-evaluation of the type of technology needed to screen people effectively today. Unlike existing airport scanners, new people screening technology must offer a number of key capabilities to be useful for the broader range of applications that the market now needs.

- **“Stand-off”** - defined by TSA as at least 5 metres for explosives and guns, stand-off detection is vital as it gives security staff time to take pre-emptive action in the event that explosives or a weapon are seen. It also allows covert screening if required.
- **Safe and respectful of personal privacy** – the rollout of existing airport scanners encountered public resistance given they actively irradiate the body and reveal high levels of anatomical detail. Any new people-screening technology must be “passive” (i.e. require no active irradiating of the body to work) and ensure no anatomical detail is shown.
- **Intuitively simple to operate** – any new people-screening technology should provide the operator with a real-time video view of the person being screened so that the operator can quickly interpret the size, shape and likely threat posed by concealed items. Most competing products simply provide alarms to the presence of objects but do not allow the operator to see what they are.
- **No operational disruption** – in many applications (e.g. metro stations), airport-style security checkpoints are infeasible as the environment is uncontrolled and the volume of people is too great, so any new people-screening technology must be able to screen people without the need for removing clothing or personal effects, and preferably while they are moving.

In 2015, ongoing market evaluation work by the British and US governments recognised that Thruvision was one of a handful of candidate technologies that fully filled this capability gap. This led to the award of the TSA contract in September 2016 to accelerate product development to fully meet its exacting counter-terrorism requirements for mass transit and public area people-screening

Other competitors have also attempted to meet this need. A similar type of sensor operated at a lower frequency than Thruvision but its inferior performance led to it failing to reach critical mass in the market and this company ceased manufacturing in 2014.

A British-based passive stand-off sensor exists and it too has received TSA funding. Unlike Thruvision, it does not produce real-time video for operators and, while technically with merit, market feedback on price and usability is not favourable. Given the technology remains at the prototype stage, it is not clear that this competitor product will ever move into volume production.

Finally, newer types of higher-throughput active scanners are emerging, and are seeking to address the size and disruption shortcomings of existing airport scanners. However, they do not adequately close the gap in capability that the market is looking for as they lack stand-off capability and a real-time video display for operators. Most importantly, they still use active irradiation as their detection methodology.

## GROWTH OPPORTUNITY FOR THRUVISION

In the last 18 months, Thruvision’s technology advantages have been increasingly clear to our market, particularly in key geographies. Release of the new product in the US and the very public adoption of Thruvision at major UK events by G4S in spring 2017 has led to significant levels of sales interest. We are confident that Thruvision now has the potential for mass market adoption in counter-terrorism and contraband detection.

In counter-terrorism, TSA and G4S support has conclusively shown that it is ready for operational use. Our opportunity is for Thruvision to provide additional security assurance at major international conferences, exhibitions and entertainment events, rail and subway transport hubs, airport entrances, and entrances to public and government buildings. Sadly, recent terrorist attacks have forced wide-ranging reviews of security and this has driven a significant uplift in new inbound sales enquiries for Thruvision.

Contraband detection is more amenable to direct measurement of return on investment. Thruvision customs agency users in Asia are routinely detecting and confiscating drugs, cash or other controlled items at airports, seaports and at land border crossings. We see this as a highly attractive sector due to strong international collaboration and clear return on investment. Thruvision is also being used by commercial organisations to screen staff leaving high value goods warehouses for stolen items. Given the huge growth in home delivery, we see this as another potential high growth area. Finally, high-security government facilities like prisons have a requirement to control the inflow of illicit items and we are currently in discussions with and tendering to several such agencies.

In summary, we believe a substantial new international market, measured in tens of thousands of units over the next five years, is becoming available and that, with our key differentiators now in place, we have the opportunity and focus to drive rapid, organic and profitable growth of Thruvision.

## **ROUTES TO MARKET**

Our primary route to market for Thruvision is through local partners, supplemented by the involvement of our own sales force where appropriate. Partners create sales opportunities and take the lead in their pursuit and also provide ongoing support and maintenance.

Increased international market awareness of Thruvision, supported by G4S adoption, has allowed us to migrate from smaller-scale sales agents, to larger country- or region-wide security system integrators as our primary route to market. We select partners on a non-exclusive basis, and on the strength of their regional presence. We also select on their technical pre- and post-sales support capabilities.

We are seeing growing interest from other global security and system integration prime contractors. These companies are seeking competitive differentiation by being the first to adopt new capabilities as part of their managed service offerings. One consequence of adoption by this type of partner is a potential move towards operational budgets rather than capex budgets as this is how such contracts tend to operate. We are actively exploring how this can be exploited to further speed adoption.

We continue to work directly with TSA and other agencies in the US Government. Our established US business and permanent sales presence in Washington, DC, is essential and ensures Thruvision's US credentials. Once we have achieved critical mass of sales to US government we intend opening up further integration partner relationships.

## **PRODUCT STRATEGY**

Thruvision's superior sensing performance is achievable because it uniquely operates at the 250GHz, far infrared frequency, whereas most competitors operate at lower frequencies (effectively in the microwave band) which are less effective but technically easier to manufacture. Thruvision's high frequency requires very specialist components and high-precision manufacturing techniques which we have mastered with our trusted supply-chain partners drawn from the aerospace sector in

the UK and US. Today we have a proven manufacturing capability that is able to meet forecast demand for the next 12 months, and we are well advanced in our plans to add further US-based production capacity within this timescale.

Development funding from TSA over the last 18 months has resulted in several further key product innovations being incorporated into a new and more capable product that meets TSA's exacting requirements for the US transportation market. These include improved sensor sensitivity, more adaptable sensor field of view and greater ease of use for security staff. Looking forward, we expect to maintain close working relationships with key government technologists in this field in both the UK and US and expect further customer-funded developments based on this new platform.

Overall, given the progress made in the last 18 months and the strength of customer input to our roadmap, we are very confident that we can maintain our technical market leadership for the foreseeable future.

## **BUSINESS SCALABILITY**

Awareness of Thruvision, and the fact that it is now operationally proven gives us the opportunity for greater sales force leverage. This means that our sales focus will gradually shift from today's relatively direct end-customer engagement to a greater focus on finding and training increasingly capable integration partners to give us access to the broader international market that we believe exists for Thruvision.

We will continue to invest in our R&D programme, with the intention of securing further funding from our primary government customers wherever possible. Our efforts to outsource significant elements of manufacturing are well advanced and we expect to see continued product design effort with economies of scale allowing us to steadily reduce unit production costs. A major investment in our principal facility in Didcot was completed in early-2016 giving us significant headroom for further growth.

Overall, we do not believe further major cost base investment is needed to drive the anticipated revenue growth. This, combined with the opportunity to either widen product gross margin through more efficient sourcing and manufacture or reduce product pricing to expand demand, should ensure Thruvision can be healthily and sustainably profitable.

## **FINANCIAL REVIEW**

For the year ended 31 March 2017, Digital Barriers delivered revenues from continuing operations of £26.5 million (2016: £21.1 million) generating an adjusted loss before tax of £9.8 million (2016 loss: £4.7 million) and an adjusted loss per share of 6.04 pence (2016 loss: 3.82 pence). On an unadjusted basis, the loss for the year was £16.7 million (2016 loss: £12.6 million) and loss per share was 9.98 pence (2016 loss: 7.42 pence).

## **REVENUE**

£26.5 million of continuing revenue in the year, includes £24.5 million (2016: £18.5 million) in relation to the Video business, and £2.0 million (2016: £2.6 million) contributed by the Thruvision segment. The 32% increase in Video business revenues over the prior year reflects the continued expansion of our US business following the acquisition of Brimtek in March 2016. In total US revenues for the Group increased to £18.2 million (2016: £5.3 million) with organic revenues up 227%. International revenues for the year totalled £24.1 million, compared to £18.0 million in the prior year. This equates to growth of 34%, with international revenues now accounting for 91% (2016: 85%) of total revenues.

Results by region of continuing operations are detailed below:

	<b>2017</b>	2016
	<b>£'000</b>	£'000
Revenue		
Solutions:		
Video business	<b>24,480</b>	18,487
Thruvision	<b>2,024</b>	2,649
Solutions total	<b>26,504</b>	21,136
Of which:		
International	<b>24,126</b>	18,028
UK	<b>2,378</b>	3,108
Video business		
Organic	<b>14,143</b>	15,563
Acquisition	<b>10,337</b>	2,924
Video business total	<b>24,480</b>	18,487

## GROSS MARGIN

Gross margin for continuing operations reduced to 37% in the year (2016: 50%). This reduction reflects a full year of contribution from the Brimtek business acquired in March 2016. Revenues generated by the legacy Brimtek business attract a lower gross margin than for wider Solution sales predicated on Digital Barriers intellectual property. The gross margin attributable to organic revenues reduced to 51% (2016: 55%), compared to 15% (2016: 20%) for legacy Brimtek sales.

Within Solutions organic gross margin of 51% (2016: 55%) the Video business earned gross margins of 53% (2016: 58%) with Thruvision contributing 43% (2016: 37%).

	<b>2017</b>	2016
	<b>£'000</b>	£'000
<b>Continuing operations: Revenue</b>	<b>26,504</b>	21,136
<b>Gross margin</b>	<b>9,855</b>	10,517
<b>Gross margin %</b>	<b>37%</b>	50%

## OVERHEADS

Administration costs are broken down as follows:

Overheads	2017 £'000	2016 £'000
Video business administration costs	16,313	10,713
Thruvision administration costs	984	1,081
Solutions administration costs	17,297	11,794
Amortisation of intangibles initially recognised on acquisition	1,509	1,320
Central costs		
Board, operations, finance and facilities	3,587	3,594
Share based payment charge	424	792
	4,012	4,386
<b>Total administration costs</b>	<b>22,817</b>	<b>17,500</b>

Administration costs within the Solutions division largely consist of sales & marketing costs, together with research & development spend.

In total Solutions administration costs in the year have increased 47% to £17.3 million (2016: £11.8 million). This increase is driven by the Video business where administration costs increased 52% to £16.3 million (2016: £10.7 million). This increase reflects the cost base acquired with the acquisition of Brimtek in March 2016, with a full year of cost base included in FY17 compared to 1 month in the prior year. In addition, the Group has an extended debtor in Asia Pacific, where a delayed project implementation has resulted in the likely replacement of the local partner by the contracting government agency, albeit the government agency has also confirmed their intent to continue the project and implement the Group's technology. Notwithstanding this, given the timing for the project remains uncertain, the Group has elected to write down the overdue debtor, with the net £1.9 million expense recorded within administration costs in the year. Thruvision administration costs have decreased in the period from £1.1 million to £1.0 million as a result of a small reduction in headcount.

Central costs, excluding share based payment charges, have remained flat on the prior year.

Overall administration costs have grown year on year at £22.8 million (2016: £17.5 million).

## LOSS FOR THE YEAR

Overall the loss for the year was £16.7 million compared to £12.6 million in the prior year. The prior year result includes a £4.8 million loss in relation to discontinued operations, which has reduced to £0.2 million in FY17.

An adjusted loss before tax figure is presented as the Directors believe that this is a more relevant measure of the Group's underlying performance. For the year ended 31 March 2017 the adjusted loss from continuing operations was £9.8 million compared to a prior year loss of £4.7 million. The increase in the adjusted loss year on year has been primarily driven by two key factors:

- reduction in gross margin across the Group with gross margin percentage reduced to 37% (2016: 50%), and organic gross margin at 51% (2016: 55%) and;

- increase in administration costs following the acquisition of Brimtek and bad debt expense incurred in the period

The unadjusted loss before tax from continuing operations for the year amounts to £16.7 million (2016 loss: £8.5 million). In addition to the two key factors detailed above, the increase in the unadjusted loss is also attributable to an impairment charge of £7.5 million (2016: £nil) in relation to the carrying value of the goodwill attributable to the Video business, offset by a release of deferred consideration of £2.3 million (2016: £nil) recorded in the year, and £1.9 million (2016: £0.2 million) of finance income, attributable largely to foreign currency gains on intercompany balances.

Loss details are provided in the table below for continuing operations:

	<b>2017</b> <b>£'000</b>	2016 £'000
Loss before tax	<b>(16,715)</b>	(8,506)
Add back:		
Amortisation of intangibles initially recognised on acquisition	<b>1,509</b>	1,320
Share based payment (i)	<b>424</b>	792
Financing set up costs (ii)	<b>421</b>	-
Acquisition related (income)/costs and exceptional write off of bad debt (iii)	<b>(627)</b>	1,718
Release of deferred consideration (iv)	<b>(2,329)</b>	-
Impairment of goodwill	<b>7,500</b>	-
<b>Adjusted loss before tax</b>	<b>(9,817)</b>	(4,676)

- (i) The performance condition associated with LTIP awards made from July 2015 are subject to a non-market based performance measure. Accordingly, should these LTIP awards fail to vest, the share based payment charge will be added back to the income statement. Historic LTIP awards have been made with a market based performance measure which in the event that LTIPs fail to vest the share based payment charge is not added back to the income statement. To date the majority of historic LTIP awards have failed to vest. The inclusion provides consistency over time allowing a better understanding of the financial position of the Group.
- (ii) During the year ended 31 March 2017 the Group obtained a new facility, incurring legal and set up fees.
- (iii) During the year ended 31 March 2016 the Group acquired 100% of the share capital of Brimtek Inc. Costs in relation to the acquisition totalled £1.7 million. Included within these costs is £0.5 million in relation to an amount due from Brimtek to Digital Barriers which was fully provided for immediately prior to the acquisition of Brimtek. Acquisition costs remained largely unpaid as at 31 March 2016. During the year ended 31 March 2017 £0.6million of these acquisition costs were released to the income statement as they were no longer due. This release was recorded within other income.
- (iv) During the year the deferred consideration held in relation to the Brimtek Inc. acquisition was released. The release is recorded within other income. The carrying value of the deferred consideration is now £nil, and is disclosed in note 10.
- (v) During the year ended 31 March 2017 a £7.5 million non-cash impairment charge has been recorded against the carrying value of goodwill within the Video Business segment and has been separately disclosed within Other Costs in the Consolidated Income Statement. This impairment reflects the reduction in the forecasted recoverable amounts of the cash-generating units as a result of the unpredictable and extended sales cycles. Further detail is given in note 5.

## TAXATION

As a result of losses acquired through acquisitions and central overheads we do not expect to pay the full rate of UK corporation tax for a number of years. The Income Statement tax credit for the year of £0.2 million (2016: £0.7 million) principally relates to R&D tax credit, offset by a deferred tax liability arising on the acquisition of Brimtek. At 31 March 2017, the Group had unutilised tax losses carried forward of approximately £56.6 million (2016: £55.5 million). Given the varying degrees of uncertainty as to the timescale of utilisation of these losses, the Group has not recognised £9.3 million (2016: £11.0 million) of potential deferred tax assets associated with £56.2 million (2016: £55.3 million) of these losses.

At 31 March 2017, the Group's net deferred tax liability stood at £0.6 million (2016: £0 million).



## LOSS PER SHARE

The reported loss per share on continuing operations is 9.98 pence (2016 loss: 7.42 pence). The adjusted loss per share on continuing operations is 6.04 pence (2016 loss: 3.82 pence).

## POST BALANCE SHEET EVENTS

On 28 September 2017, Digital Barriers PLC agreed a 15 month £5.25 million loan facility with Herald Investment Trust ("Herald"). The funds available through the facility are in addition to the Group's existing revolving credit facility and will be used to meet the working capital requirements of the Group.

In June 2017, Digital Barriers reached early finalisation terms with the vendors of Brimtek Inc. The terms of the finalisation involved a release of \$1.45 million from the escrow account back to Digital Barriers and no deferred consideration to be paid. The performance conditions for the deferred consideration were set at a level significantly above forecast, and consequently deferred consideration balance at 31 March 2017 had been reduced to £nil against an expectation of a significant shortfall to the performance conditions set. (2016: £2,018,000).

## CASH AND TREASURY

The Group ended the year with a net cash balance of £1.0 million (2016: £10.8 million).

The £9.8 million year on year decrease in net cash consists of £8.4 million (2016: £7.1 million) outflow from operating activities, £0.5 million (2016: £17.9 million) investing spend, £0.5 million (2016: £27.1 million inflow) in spend on financing activities and £0.4 million (£0.0 million) in currency movements.

The £8.4 million (2016: £7.1 million) outflow from operating activities included a £1.2 million net working capital outflow (2016: £1.4 million outflow), largely the result of increased inventory holding compared to the prior year, along with a £0.5 million (2016: £1.1 million) tax refund received. The balance of the £8.4 million outflow from operating activities (2016: £7.1 million outflow) relates principally to the "cash" operating loss (operating loss excluding non-cash items).

Investing spend included £0.8 million (2016: £0.4 million) of capital expenditure, mainly related to demonstration stock to support sales activities, and leasehold improvements. A further £0.3 million was received in the period in connection with the Brimtek acquisition (2016: £17.5 million outflow).

On 17th October 2016, the Group replaced an existing £5.0 million secured working capital facility for export activities with a new two-year £10.0 million secured revolving credit facility with Investec Bank plc. The funds available through this facility will be used to meet the increasing working capital requirements of the Group's organic growth. The facility is secured by a fixed and floating charge over the Group's assets and includes covenants which are tested quarterly. The facility was not being utilised at 31 March 2017, but at time of approval of the financial statements is drawn to the extent of £6,094,000, with a net debt position of £4,167,000. No banking covenants have been breached at the time of approval of the Annual Report and waivers to covenants tests have been agreed with Investec during the testing period to date. In addition to this secured facility, on 28 September 2017 the Group has arranged an unsecured £5.25 million loan facility with Herald Investment Trust to supplement the above facility for a period of 15 months, which has not been drawn on.

## DIVIDENDS

The Board is not recommending the payment of a dividend (2016: £nil).

**Consolidated income statement**  
for the year ended 31 March 2017

	Note	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
<b>Continuing operations</b>			
<b>Revenue</b>	2	26,504	21,136
Cost of sales		(16,649)	(10,619)
<b>Gross profit</b>		9,855	10,517
Administration costs		(22,817)	(17,500)
Other income		2,956	-
Other costs		(7,500)	(1,718)
<b>Operating loss</b>		(17,506)	(8,701)
Finance income		1,872	227
Finance costs		(1,081)	(32)
<b>Loss before tax from continuing operations</b>		(16,715)	(8,506)
Income tax		242	716
<b>Loss after tax from continuing operations attributable to owners of the parent</b>		(16,473)	(7,790)
<b>Discontinued operations</b>			
Loss from discontinued operation (net of tax)		(207)	(4,832)
<b>Loss for the year</b>		(16,680)	(12,622)
<b>Adjusted loss:</b>	3		
<b>Loss before tax from continuing operations</b>		(16,715)	(8,506)
Amortisation of intangibles initially recognised on acquisition		1,509	1,320
Share based payment charge		424	792
Financing set up fees		421	-
Release of deferred consideration		(2,329)	-
Acquisition related (income)/costs and exceptional write off of bad debt		(627)	1,718
Impairment of goodwill		7,500	-
<b>Adjusted loss before tax for the year from continuing operations</b>		(9,817)	(4,676)
<b>Loss per share – continuing operations</b>			
Loss per share – basic	4	(9.98p)	(7.42p)
Loss per share – diluted	4	(9.98p)	(7.42p)
Loss per share – adjusted	4	(6.04p)	(3.82p)
Loss per share – adjusted diluted	4	(6.04p)	(3.82p)
<b>Loss per share – continuing and discontinued operations</b>			
Loss per share – basic	4	(10.10p)	(12.01p)
Loss per share – diluted	4	(10.10p)	(12.01p)

**Consolidated statement of comprehensive income**  
for the year ended 31 March 2017

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
<b>Loss for the year from continuing operations</b>	<b>(16,473)</b>	<b>(7,790)</b>
Loss for the year from discontinued operations	(207)	(4,832)
<b>Loss for the year attributable to owners of the parent</b>	<b>(16,680)</b>	<b>(12,622)</b>
<b>Other comprehensive income from continuing operations</b>		
Other comprehensive income that may be subsequently reclassified to profit and loss:		
Exchange differences on retranslation of foreign operations	746	123
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent years</b>	<b>746</b>	<b>123</b>
<b>Total comprehensive loss attributable to owners of the parent</b>	<b>(15,934)</b>	<b>(12,499)</b>

**Consolidated statement of financial position**  
at 31 March 2017

	Note	31 March 2017 £'000	31 March 2016 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		1,132	828
Goodwill	5	17,076	23,323
Other intangible assets		11,380	11,397
		29,588	35,548
<b>Current assets</b>			
Inventories		8,018	4,906
Trade and other receivables	6	7,656	13,239
Other financial asset		-	193
Current tax recoverable		1,304	1,022
Cash and cash equivalents*		1,002	25,599
		17,980	44,959
Non-current assets classified as held for sale		-	35
<b>Total assets</b>		47,568	80,542
<b>Equity and liabilities</b>			
Attributable to owners of the parent			
Equity share capital	8	1,814	1,760
Share premium		109,078	109,078
Capital redemption reserve		4,786	4,786
Merger reserve		454	454
Translation reserve		1	(745)
Other reserves		(307)	(307)
Retained earnings		(76,912)	(60,656)
<b>Total equity</b>		38,914	54,370
<b>Non-current liabilities</b>			
Deferred tax liabilities		620	57
Financial liabilities		-	975
Provisions		90	119
		710	1,151
<b>Current liabilities</b>			
Trade and other payables	7	7,908	9,126
Financial liabilities		-	1,097
Bank overdraft*		-	14,763
Provisions		36	35
		7,944	25,021
Liabilities directly associated with non-current assets classified as held for sale		-	-
<b>Total liabilities</b>		8,654	26,172
<b>Total equity and liabilities</b>		47,568	80,542
* - Net cash and cash equivalents (grossed up above in accordance with IAS 32)		1,002	10,836

**Consolidated statement of changes in equity**  
for the year ended 31 March 2017

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Translation reserve £'000	Other reserves £'000	Retained Earnings £'000	Total equity £'000
<b>At 31 March 2015</b>	<b>845</b>	<b>82,757</b>	<b>4,786</b>	<b>454</b>	<b>(868)</b>	<b>(307)</b>	<b>(48,826)</b>	<b>38,841</b>
Loss for the year	-	-	-	-	-	-	(12,622)	(12,622)
Other comprehensive income	-	-	-	-	123	-	-	123
Total comprehensive loss	-	-	-	-	123	-	(12,622)	(12,499)
Share placement	806	27,394	-	-	-	-	-	28,200
Share issue costs	-	(1,073)	-	-	-	-	-	(1,073)
Incentive share conversion	109	-	-	-	-	-	-	109
Share based payment credit	-	-	-	-	-	-	792	792
<b>At 31 March 2016</b>	<b>1,760</b>	<b>109,078</b>	<b>4,786</b>	<b>454</b>	<b>(745)</b>	<b>(307)</b>	<b>(60,656)</b>	<b>54,370</b>
Loss for the year	-	-	-	-	-	-	(16,680)	(16,680)
Other comprehensive income	-	-	-	-	746	-	-	746
Total comprehensive loss	-	-	-	-	746	-	(16,680)	(15,934)
Incentive share conversion	54	-	-	-	-	-	-	54
Share based payment credit	-	-	-	-	-	-	424	424
<b>At 31 March 2017</b>	<b>1,814</b>	<b>109,078</b>	<b>4,786</b>	<b>454</b>	<b>1</b>	<b>(307)</b>	<b>(76,912)</b>	<b>38,914</b>

**Consolidated statement of cash flows**  
for the year ended 31 March 2017

	Note	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
<b>Operating activities</b>			
Loss before tax from continuing operations		(16,715)	(8,506)
Loss before tax from discontinued operations		(207)	(4,832)
Loss before tax		(16,922)	(13,338)
Non-cash adjustment to reconcile loss before tax to net cash flows			
Depreciation of property, plant and equipment		481	415
Amortisation of intangible assets		1,588	1,530
Impairment of goodwill		7,500	3,582
Impairment of intangible assets		-	37
Share-based payment transaction expense		424	792
Unrealised (gains)/loss on foreign exchange		(119)	42
Release of deferred consideration		(2,329)	-
Disposal of fixed assets		5	15
Finance income		(1,872)	(227)
Finance costs		1,081	32
Working capital adjustments:			
Decrease/(increase) in trade and other receivables		5,582	(2,452)
(Increase)/decrease in inventories		(3,077)	2,088
Decrease in trade and other payables		(840)	(1,047)
(Decrease)/increase in deferred revenue		(425)	300
Decrease in provisions		(29)	(8)
Cash utilised in operations		(8,952)	(8,239)
Interest paid		(8)	(32)
Tax received		523	1,146
<b>Net cash flow from operating activities</b>		<b>(8,437)</b>	<b>(7,125)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(760)	(375)
Expenditure on intangible assets		(32)	(12)
Interest received		19	27
Acquisition of subsidiary, net of debt acquired		288	(17,511)
<b>Net cash flow utilised in investing activities</b>		<b>(485)</b>	<b>(17,871)</b>
<b>Financing activities</b>			
Proceeds from issue of shares		-	28,200
Share issue costs		-	(1,073)
Finance costs		(549)	-
<b>Net cash flow (utilised)/from financing activities</b>		<b>(549)</b>	<b>27,127</b>
Net (decrease)/increase in cash and cash equivalents		(9,471)	2,131
Net cash and cash equivalents at beginning of year		10,836	8,701
Effect of foreign exchange rate changes on cash and cash equivalents		(363)	4
<b>Net cash and cash equivalents at end of year</b>		<b>1,002</b>	<b>10,836</b>
<b>Reconciliation of net cash and cash equivalents</b>			
Cash and cash equivalents (disclosed within current assets)		1,002	25,599
Bank overdraft (disclosed within current liabilities)		-	(14,763)
<b>Net cash and cash equivalents at end of year</b>		<b>1,002</b>	<b>10,836</b>

## Notes to the financial information

### 1. Accounting policies

#### Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 March 2017 and applied in accordance with the Companies Act 2006.

The Financial Statements were authorised for issue by the Board of Directors on 29 September 2017 and the Statement of Financial Position was signed on the Board's behalf by Tom Black and Sharon Cooper.

All values are rounded to £'000 except where otherwise stated.

The Company is a public limited company incorporated and domiciled in England and Wales and whose shares are quoted on AIM, a market operated by the London Stock Exchange.

The consolidated financial statements have been prepared on a historical cost basis, except:

- Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.
- Derivative financial instruments which are classified as at fair value through profit or loss.

#### Accounting policies

The accounting policies which apply in preparing the financial statements for the period are set out below. These policies have been consistently applied to all periods presented in these consolidated financial statements. The comparative statement of comprehensive income has been re-presented as if an operation discontinued during the current year had been discontinued from the start of the comparative year.

#### Basis of measurement

##### *Going concern*

As has been previously highlighted in market updates, the Group faces unpredictable and extended sales cycles associated with a business that sells predominantly to government customers overseas. This was the case during the year ended 31 March 2017, where despite headline revenue growth of 25% to £26.5 million (2016: £21.1 million), several key sales failed to close in the final quarter of the year and this, together with an impairment charge of £7.5 million, resulted in an loss before tax for continuing operations for the Group for the year of £16.7 million (2016: £8.5 million). This was clearly a disappointing result for the Group.

It has become clear that, despite the class-leading nature of our technologies and the flagship nature of our customers, we cannot successfully operate a business on the public markets with these material challenges. Therefore, the Board decided to undertake a far-reaching internal review of the Group was undertaken.

Full details of this review can be found in the Chairman's Statement. This review concluded that an alternative corporate and funding structure would be in the best interests of the Group, its shareholders and stakeholders. It further concluded, following a discreet marketing exercise that it would be highly unlikely that a single buyer for the whole Group would be found and therefore a sales process for the Video Business is currently being undertaken, managed by Investec Bank plc.

Following a multi-staged and competitive process, the Board received a number of indicative offers from interested parties and is currently in advanced discussions with two parties to sell the Video Business (the "Potential Transaction") which is expected to conclude with one of those parties in the near future. The quantum of the consideration being proposed in cash under either proposal is expected to be in excess of the equity market capitalisation of the Group at the time of approval of the Annual Report. However, the Potential Transaction remains subject to further due diligence, the signing of binding legal documentation and shareholder approval. As such, there can be no certainty that the discussions will lead to a transaction being completed. As a result, to ensure the Group has adequate funding, the directors put in place a further £5.25 million unsecured facility with Herald Investment Trust.

Should the divestment of the Video business proceed, the secured revolving 2 year £10 million credit facility provided to the Group by Investec Bank plc (which is secured by a fixed and floating charge over the Group's assets and includes covenants which are tested quarterly) will be repaid in full. The facility was not being utilised at 31 March 2017, but at the time of approval of the financial statements is drawn to the extent of £6,094,000 with a net debt position of £4,167,000. No banking covenants have been breached at the time of approval of the financial statements and waivers to covenant tests have been agreed with Investec during the testing period to date. At the time of approval of the financial statements nothing has been drawn down under the additional £5.25 million 15 month loan facility with Herald Investment Trust but any drawn amount will also be repaid in full following a successful divestment.

Should the proposed divestment of the Video Business proceed as expected, the cash requirements of the retained Thruvision Group for the period up to and including 30 September 2018 will be comfortably accommodated within the Group's enlarged cash resources and a return of surplus cash to investors is anticipated. Should the divestment not proceed as expected, the Board has reviewed cash flow projections for the Group, including the Video Business, for the period up to and including 30 September 2018. These forecasts and projections take into account reasonably possible changes in trading performance and show that the Group will be able to operate within the level of current funding resource, including applicable financial covenants. However, in the event that the Group trades outside of this reasonably foreseeable scenario, the Board believes it can take appropriate cost reduction measures which will allow the Group to trade within its financial resources.

Given the above the Board confirms that it has a reasonable expectation that the Group will continue as a going concern. Therefore, these financial statements have been prepared on this basis and do not contain any adjustments that would result if the Group was unable to continue as a going concern.

### **Basis of consolidation**

The consolidated financial statements for the year include those of Digital Barriers plc and all of its subsidiary undertakings (together 'the Group') drawn up at 31 March 2017.



Subsidiary undertakings are those entities controlled directly or indirectly by the Company. Control is achieved when the Group is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Subsidiaries are consolidated using the Group's accounting policies. Business combinations are accounted for using the acquisition method of accounting except for the acquisition of Digital Barriers Services Limited by Digital Barriers plc which has been accounted for using the pooling of interests method. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income is re-presented as if the operation had been discontinued from the start of the comparative year.

### **Critical accounting estimates and judgements**

In preparing the consolidated financial statements, management has to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. The critical judgements and estimates made in preparing the consolidated financial statements are detailed below. These judgements and estimates involve assumptions in respect of future events which can vary from what is anticipated.

#### *Revenue and profit recognition*

Fixed price contracts are accounted for in accordance with IAS 11 'Construction Contracts'. Revenue and profits are recognised on a percentage-of-completion basis, when the outcome of a contract can be estimated reliably. Determining whether a contract's outcome can be estimated reliably requires management to exercise judgement, whilst the calculation of the contract's profit requires estimates of the total contract costs to completion. Cost estimates and judgements are continually reviewed and updated as determined by events or circumstances.

#### *Intangible assets*

In accordance with IFRS 3 'Business Combinations' goodwill arising on the acquisition of subsidiaries is capitalised and included in intangible assets. IFRS 3 also requires the identification of other intangible assets acquired. The method used to value intangible assets is the 'Income Approach' which requires the use of a number of estimates. These might include revenue and margin projections and assessments of likelihood of contract renewal and these estimates may differ from actual outcomes. The useful economic life of other intangibles also requires the use of estimates which may differ from actual outcomes.

### *Impairment of assets*

The Group assess annually whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. The recoverable amount is the higher of the cash-generating units (CGUs) fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets of groups of assets. Where the carrying amount of an asset, or group of assets, exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The calculation of value in use of the aggregate cash-generating units to which goodwill has been allocated, includes an estimate of the short-term (up to year three) and long-term (beyond year three up to five years) growth rate of the cash-generating units, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The carrying amount of goodwill and the key assumptions used in the calculation of value in use of the cash-generating units are disclosed in note 5, together with details on the impairment of goodwill in the year ended 31 March 2017.

### *Impairment of goodwill*

The determination of whether or not goodwill has been impaired requires an estimate to be made of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation includes estimates about the future financial performance of the cash-generating units, including management's estimates of long-term operating margins and long-term growth rates. This calculation is performed annually each year and compared with the recoverable amount to determine impairment. The testing is only re-performed if an impairment triggering event occurs in the intervening period.

### *Deferred consideration*

In recognising the fair value of deferred consideration in respect of business combinations, contingent on future events such as revenue and profit, management make estimates as to the extent to which the maximum deferred consideration will be paid, based on weighted probability models in accordance with IFRS 3. These estimates may differ from actual outcomes.

### *Income taxes*

In recognising deferred tax assets, management make estimates of the forecast future profitability of entities within the Group and the likely certainty that these forecasts will be achieved. Where the final outcome of such matters is different, or expected to be different, from previous assessments made by management, a change to the carrying value of income tax assets and liabilities will be recorded in the period in which such determination is made.

### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Payments made that are contingent on the vendors continuing to be employed by the Group are treated as remuneration and recognised within the administration cost line in the income statement. For each business

combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in the income statement. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### **Intangible assets**

In accordance with IFRS 3 'Business Combinations', goodwill arising on the acquisition of subsidiaries is capitalised and included in intangible assets. IFRS 3 also requires the identification of other intangible assets acquired. The method used to value intangible assets is the 'Income Approach'. The Income Approach indicates the fair value of an asset based on the value of the cash flows that the asset might reasonably be expected to generate.

### **Other intangible assets**

Intangible assets acquired from a business combination are capitalised at fair value as at the date of acquisition and amortised over their estimated useful economic life. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights. The estimated useful lives of the intangible assets are as follows:

Customer relationships – three to twelve years;

Order backlog – one to three years;

Intellectual property and Software – one to seven years;

Patents – eight years; and

Trademarks – ten years.

Amortisation is charged to administration expenses in the Consolidated Income Statement on a straight-line basis. Intangible assets, other than development costs, created within the business are not capitalised and expenditure thereon is charged to the income statement in the period in which the expenditure is incurred.

The carrying value of other intangible assets is reviewed for impairment when events or changes in circumstance indicate that it may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is estimated to be the higher of the other intangible assets fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which it belongs.

### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes.

Revenue from the sale of products is recognised when the risks and rewards of ownership are transferred to the customer, which is usually at the point at which goods are delivered to the customer.

Licence income is recognised in accordance with the substance of the agreement. Revenue from licence agreements which have no significant remaining performance obligations is recognised where there is persuasive evidence that an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is probable.

Revenue arrangements may include the sale of products together with installation and/or on-going support services. Where the commercial substance of such a combination is that the individual components operate independently of each other and fair values can be attributed to each of the components, each are then recognised in accordance with their respective policies.

Revenue from support contracts is spread evenly over the period of the support contract.

Revenue derived from services billed to customers on a time and materials or fixed-price basis represents the value of work completed, including attributable profit, based on the stage of completion achieved on each project. For time and materials projects, revenue is recognised as services are performed. For fixed-price projects, revenue is recognised according to the stage of completion which is determined using the percentage-of-completion method based on the Directors' assessment of progress against key project milestones and risks, and the ratio of costs incurred to total estimated project costs. The cumulative impact of any revisions to the estimate of percentage-of-completion of any fixed-price contracts is reflected in the period in which such impact becomes known.

Revenue is presented as the gross amount billed to a customer where it is earned from revenue from the sale of goods or services as principal. Revenue is presented as the net amount retained where it is earned through a commission or fee.

### **Accrued income**

Accrued income represents revenue recognised to date less amounts invoiced to customers. Full provision is made for known or anticipated project losses.

## **Trade and other receivables**

Trade receivables are recognised and measured at their original invoiced amount less provision for any uncollectible amounts. An estimate for doubtful debts is made when the collection of the full amount is no longer probable. Bad debts are written off to the income statement when they are identified. Financial assets are initially measured at fair value and subsequently at amortised cost.

## **Provisions**

Provisions are recognised in the statement of financial position when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation; discounting at a pre-tax discount rate when the time value of money is material. Onerous contract provisions are recognised for unavoidable costs of meeting the obligations under a contract that exceed the economic benefits expected to be received under it.

## **Income taxes**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the statement of financial position's date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the statement of financial position date.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position's date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

## Equity

Equity comprises the following: Share capital represents the nominal value of equity shares. Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue. The Capital redemption reserve represents the difference between the proceeds received and the par value of the shares bought back by the Company. The Merger reserve represents the difference between the fair value and the nominal value of shares issued on the acquisition of Digital Barriers SAS (formerly known as Keeneo SAS), as merger relief was applicable to this business combination. The Translation reserve represents the impact of currency translation on the foreign currency net investment in Digital Barriers SAS, Digital Barriers Inc, Brimtek Inc and other foreign subsidiaries. Other reserves represents the difference between the carrying value of the net assets acquired and shares issued in consideration on the pooling of interests transaction. The Profit and loss reserve represents the cumulative total profit or loss attributable to shareholders, excluding those items recognised in other reserves.

## Research and development costs

Research expenditure is charged to the income statement in the year in which it is incurred.

Expenditure incurred in the development of software and hardware products for use or sale by the business, and their related intellectual property rights, is capitalised as an intangible asset only when:

- technical feasibility has been demonstrated;
- adequate technical, financial and other resources exist to complete the development, which the Group intends to complete and use;
- future economic benefits expected to arise are deemed probable; and
- the costs can be reliably measured.

Development costs not meeting these criteria are expensed in the income statement as incurred. When capitalised, development costs are amortised on a straight-line basis over their useful economic lives once the related software and hardware products are available to use. During the period of development the asset is tested for impairment annually. Development costs with a value of £nil (2016: £nil) have been capitalised in the period.

## Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for any long-term construction projects if the recognition criteria are met. Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. All other repair and maintenance costs are recognised in profit or loss as incurred. Depreciation is charged on the following bases to reduce the cost of the Company's property, plant, and equipment to their residual values over their expected useful lives at the following rates:

Leasehold improvements – 20% to 33% straight line;

Office furniture and equipment – 20% straight line;

Computer equipment – 33% straight line;

Vehicles – 25% straight line; and

Demonstration stock – 20% to 50% straight line.

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income statement when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

### **Inventories**

Inventories are valued at the lower of cost and net realisable value on a first-in first-out basis. In the case of finished goods, cost includes all direct expenditure and production overheads based on the normal level of activity. Where necessary, an appropriate allowance is made for obsolete, slow-moving and defective inventories. In certain instances stock items are used for demonstration purposes, in this case the stock item is classified as a fixed asset and depreciated in line with the Group depreciation policy.

### **Trade and other payables**

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, they are measured at amortised cost.

### **Cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

Up to September 2016, a cash pooling arrangement existed across most HSBC Bank Plc bank accounts, cash and overdraft balances held within individual subsidiary companies were reported gross on the statement of financial position in accordance with IAS 32. This is because it is not deemed that these arrangements qualify for net presentation. Net cash reserves is defined as the net of these cash and overdraft balances.

### **Financial instruments**

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

#### ***Non-derivative financial assets***

Non-derivative financial instruments comprise cash at bank, trade and other receivables and trade and other payables. The Group initially records the financial assets on the date they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on trade date, which is the date that the Group becomes a party to the contractual provision of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

#### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of loans to related parties and trade and other receivables.

Cash and cash equivalents comprise cash balances with original maturities of three months or less.

#### ***Non-derivative financial liabilities***

The Group initially recognises financial liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. The Group classifies non-derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

#### **Foreign currency translation**

The Group's consolidated financial statements are presented in Sterling, which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position's date. All differences are taken to the income statement, except when hedge accounting is applied and for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken to other comprehensive income until the disposal of the net investment, at which time they are reclassified from equity to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The assets and liabilities of foreign operations are translated into Sterling at the rate of exchange ruling at the statement of financial position's date. Income and expenses are translated at weighted average exchange rates for the period where this is a reasonable approximation of the actual rates. Where weighted average exchange rates are not a reasonable approximation of the actual rates, the actual exchange rates at the date of the transaction are used. The resulting exchange differences are recognised in other comprehensive income. On disposal of a foreign entity, the



deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

### **Retirement benefits**

The Group operates a Group defined contribution personal pension plan for certain employees. Pension costs are calculated annually and charged to the income statement as they arise.

### **Share-based payments**

Certain employees of the Company receive remuneration in the form of awards under a Long Term Incentive Plan ('LTIP') in the form of nil-cost options and HMRC Approved Options. The Group combines Parallel Options at nil-cost with HMRC Approved Options so that the value awarded to employees is not more than a Top-Up Award.

All awards made under the LTIP after 31 March 2015 are subject service conditions and performance conditions that relate to revenue (with a profit related underpin) in the future. The total amount to be expensed over the vesting period of the awards is determined by reference to the fair value at the date at which the awards or options are granted and the number of awards that are expected to vest. The fair value is determined using the Black-Scholes model. Expected volatility was determined taking into account historic volatility of the Group's share price and the volatility of similar companies' share price. The number of awards expected to vest are adjusted to reflect the extent to which non-market performance and service conditions are expected to be satisfied, based on conditions prevailing at each statement of financial position's date and up to the date of vesting. At the vesting date, the cumulative expense recognised in the income statement is adjusted to take account of the number of awards and options that actually vest on the above basis. Parallel Options are valued at the difference between the value of a Top-Up Award and an HMRC Approved Option. At the date of grant, it was assumed that the non-market performance conditions would be met. Adjustments are made subsequently, where necessary, to reflect updated assessments of whether non-market performance conditions will be met.

It is the intention of the Group that shares needed to satisfy awards will be purchased in the market to the extent that they are not already held by the Group's employee share trust, unless it is in the interests of the Group to issue new shares.

Certain of the Executive Directors have been issued an aggregate of 217,500 Incentive Shares. The Incentive Shares only reward participants if shareholder value is created, thereby aligning the interests of the Executive Directors with those of shareholders. The Incentive Shares carry the right to 12.5% of any increase in the value of the Company in excess of the retail prices index after 1 February 2010. The Incentive Shares do not carry any voting or dividend rights and are not transferable except in limited circumstances. The holders of Incentive Shares can realise value from the shares either by converting them into Ordinary Shares or by the Company, at its election, responding to a request to so convert the shares by choosing to redeem them. They are treated as equity-settled awards with a market vesting condition. The fair value at the date at which the Incentive Shares were acquired was determined using a Stochastic model. This original fair value (£217,500) was recognised as a current liability on the statement of financial position as it becomes repayable if the Executive Directors leave office.

At a General Meeting held on 27 December 2012, the terms relating to the Incentive Shares were changed, triggering a revaluation. The total amount to be expensed over the vesting period of the modified Incentive Shares has been calculated in the year by reference to the incremental fair value on 27 December 2012 of the modified Incentive Shares compared to the fair value on 27 December

2012 of the original Incentive Shares. This resulted in a charge to the Consolidated Income Statement in the year of £5,000 (2016: £35,000).

### **Employee Benefit Trust**

The Digital Barriers plc Employee Benefit Trust (the 'Trust'), which purchases and holds Ordinary Shares of the Company in connection with employee share schemes, is included in the Group financial statements. Any consideration paid or received by the Trust for the purchase or sale of the Company's own shares is shown as a movement in shareholders' equity.

### **Operating Leases**

Leases in which a significant proportion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease rentals payable or receivable are charged or credited to the income statement on a straight-line basis over the lease term.

### **Adoption of new and revised International Financial Reporting Standards**

The Group's accounting policies have been prepared in accordance with IFRS effective as for its reporting date of 31 March 2017.

The IASB issued amendments to four standards under Annual improvement 2012-2014 cycle together with amendments to IAS 1. These amendments had an effective date after the date of 1 January 2016 and have been applied by the Group. These did not have a material impact on the Company's financial statements in the period of initial application.

#### *Standards Issued by not yet effective*

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

#### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2017, the Group will perform a preliminary assessment of IFRS 15 using the clarifications issued by the IASB in April 2016 and will monitor any further developments.

#### **IFRS 16 Leases**

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12

months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

## **2. Segmental information**

Historically the Group has been organised into Services and Solutions. In light of the potential transaction of the Video business the directors believe that providing segment analysis that shows the Video Business as a separate segment to the Thruvision business would aid readers of the Annual Report. Combined, the Video Business and Thruvision make up the previously reported Solutions segment.

Until the disposal of the segment, the Group's Services Division was predominantly focused on the UK market and integrated third party technology and own product into UK Services customers. The Services Division was no longer strategic to the Group, and therefore signed an agreement for the disposal of the business on 1 April 2016..

The Group's 'Video Business' Division is focused on the advanced surveillance market. This covers image and data capture (for example, unattended ground sensors), a range of processing and enhancement techniques (for example, thermal image processing, image stabilisation, and enhancing low light performance), image transmission (both wired and wireless technologies) and a range of analytics algorithms.

The Group's Thruvision Division is focused on the stand-off passive body scanning technology.

In accordance with IFRS 8, the Group has derived the information for its operating segments using the information used by the Chief Operating Decision Maker and supplemented this with additional analysis to assist readers of the Annual Report better understand the impact of the proposed divestment. The Group has identified the Board of Directors as the Chief Operating Decision Maker as it is responsible for the allocation of resources to operating segments and assessing their performance.

Central overheads, which primarily relate to operations of the Group function, are not allocated to the business units. Group financing (including finance costs and finance income) and income taxes are managed centrally and are not allocated to an operating segment. No operating segments have been aggregated to form the above reportable segments.

	Services	Solutions			Central	Total 2017 £'000
	Services (discontinued) 2017 £'000	Video Business (continuing) 2017 £'000	Thruvision (continuing) 2017 £'000	Total Solutions (continuing)	Central (continuing) 2017 £'000	
Total segment revenue	243	24,480	2,025	26,505	-	26,748
Inter-segment revenue	-	-	(1)	(1)	-	(1)
<b>Revenue</b>	<b>243</b>	<b>24,480</b>	<b>2,024</b>	<b>26,504</b>	<b>-</b>	<b>26,747</b>
<b>Depreciation</b>	<b>-</b>	<b>385</b>	<b>96</b>	<b>481</b>	<b>-</b>	<b>481</b>
<b>Segment adjusted operating loss</b>	<b>(207)</b>	<b>(7,333)</b>	<b>(106)</b>	<b>(7,439)</b>	<b>(3,590)</b>	<b>(11,236)</b>
Amortisation of intangibles initially recognised on acquisition	-	(1,411)	(98)	(1,509)	-	(1,509)
Share based payment charge	-	-	-	-	(424)	(424)
Acquisition related income/(costs) and exceptional write off of bad debt	-	-	-	-	627	627
Impairment of goodwill and intangibles	-	(7,500)	-	(7,500)	-	(7,500)
Release of deferred consideration	-	-	-	-	2,329	2,329
<b>Segment operating loss</b>	<b>(207)</b>	<b>(16,244)</b>	<b>(204)</b>	<b>(16,448)</b>	<b>(1,058)</b>	<b>(17,713)</b>
Loss attributable to discontinued operations						207
<b>Segment operating loss from continuing operations</b>						<b>(17,506)</b>
Finance income						1,872
Finance costs						(1,081)
<b>Loss before tax from continuing operations</b>						<b>(16,715)</b>
Income tax credit						242
<b>Loss for the year from continuing operations</b>						<b>(16,473)</b>

	Services	Solutions			Central	
	Services (discontinued) 2016 £'000	Video Business (continuing) 2016 £'000	Thruvision (continuing) 2016 £'000	Total Solutions (continuing)	Central (continuing) 2016 £'000	Total 2016 £'000
Total segment revenue	3,777	18,778	2,649	21,427	-	25,204
Inter-segment revenue	-	(291)	-	(291)	-	(291)
<b>Revenue</b>	3,777	18,487	2,649	21,136		24,913
<b>Depreciation</b>	66	256	93	349	-	415
<b>Segment adjusted operating loss</b>	(565)	(1,152)	(98)	(1,250)	(3,621)	(5,436)
Amortisation of intangibles initially recognised on acquisition	(120)	(1,215)	(105)	(1,320)	-	(1,440)
Acquisition related costs and exceptional write off of bad debt	-	-	-	-	(792)	(792)
Share based payment charge	-	-	-	-	(1,718)	(1,718)
Loss on disposal of businesses	(528)	-	-	-	-	(528)
Impairment of goodwill	(3,619)	-	-	-	-	(3,619)
<b>Segment operating loss</b>	(4,832)	(2,367)	(203)	(2,570)	(6,131)	(13,533)
Loss attributable to discontinued operations						4,832
<b>Operating loss attributable to continuing operations</b>						(8,701)
Finance income						227
Finance costs						(32)
<b>Loss before tax from continuing operations</b>						(8,506)
Income tax credit						716
<b>Loss for the year from continuing operations</b>						(7,790)

### Analysis of revenue by customer

There have been two (2016: three) individually material customers in the Video Business operating segment during the year. These customers individually represented £6,481,000 and £3,638,000 of Group turnover for the year (2016: £2,763,000, £2,628,000 and £2,200,000).

There has been one (2016: none) individually material customers in the ThruVSION operating segment during the year representing £1,000,646.

There were no (2016: no) material customers in the Services operating segment during the year.

### Other segment information

The following table provides disclosure of the Group's continuing revenue analysed by geographical market based on the location of the customer.

	2017 £'000	2016 £'000
United Kingdom	2,378	3,108
United States of America	18,232	5,340
Indonesia	1,210	3,996
Malaysia	19	2,962
Rest of World	4,665	5,730
	26,504	21,136

The Group's non-current assets by geography are detailed below:

	2017 £'000	2016 £'000
United Kingdom	8,945	16,126
United States of America	20,643	19,422
	29,588	35,548

### 3. Adjusted loss before tax

An adjusted loss before tax measure has been presented as the Directors believe that this is a better measure of the Group's underlying performance. Adjusted loss is not defined under IFRS and has been shown as the Directors consider this to be helpful for a better understanding of the performance of the Group's underlying business. It may not be comparable with similarly titled measurements reported by other companies and is not intended to be a substitute for, or superior to, IFRS measures of profit. The net adjustments to loss before tax are summarised below:

	2017 £'000	2016 £'000
Amortisation of intangibles initially recognised on acquisition	1,509	1,320
Share based payment (i)	424	792
Financing set up costs (ii)	421	-
Acquisition related (income)/costs and exceptional write off of bad debt (iii)	(627)	1,718
Release of deferred consideration (iv)	(2,329)	-
Impairment of goodwill (note 5) (v)	7,500	-
<b>Total adjustments</b>	<b>(6,898)</b>	<b>3,830</b>

- (i) The performance condition associated with LTIP awards made from July 2015 are subject to a non-market based performance measure. Accordingly, should these LTIP awards fail to vest, the share based payment charge will be added back to the income statement. Historic LTIP awards have been made with a market based performance measure which in the event that LTIPs fail to vest the share based payment charge is not added back to the income statement. To date the majority of historic LTIP awards have failed to vest. The inclusion provides consistency over time allowing a better understanding of the financial position of the Group.
- (ii) During the year end 31 March 2017 the Group obtained a new facility, incurring legal and set up fees.
- (iii) During the year ended 31 March 2016 the Group acquired 100% of the share capital of Brimtek Inc. Costs in relation to the acquisition totalled £1.7 million. Included within these costs is £0.5 million in relation to an amount due from Brimtek to Digital Barriers which was fully provided for immediately prior to the acquisition of Brimtek. Acquisition costs remained largely unpaid as at 31 March 2016. During the year ended 31 March 2017 £0.6 million of these acquisition costs were released to the income statement as they were no longer due. This release was recorded within other income.
- (iv) During the year the deferred consideration held in relation to the Brimtek Inc. acquisition was released. The release is recorded within other income. The carrying value of the deferred consideration is now £nil, and is disclosed in note 10.
- (v) During the year ended 31 March 2017 a £7.5 million non-cash impairment charge has been recorded against the carrying value of goodwill within the Video Business segment and has been separately disclosed within Other Costs in the Consolidated Income Statement. This impairment reflects the reduction in the forecasted recoverable amounts of the cash-generating units as a result of the unpredictable and extended sales cycles. Further detail is given in note 5.

### 4. Loss per share

#### Unadjusted loss per share

	Loss after taxation 2017 £'000	Weighted average number of shares 2017 No.	Loss per share 2017 Pence	Loss after taxation 2016 £'000	Weighted average number of shares 2016 No.	Loss per share 2016 Pence
Basic loss per share – continuing operations	(16,473)	165,120,640	(9.98)	(7,790)	105,052,916	(7.42)
Diluted loss per share – continuing operations	(16,473)	165,120,640	(9.98)	(7,790)	105,052,916	(7.42)
Basic loss per share – continuing and discontinued operations	(16,680)	165,120,640	(10.10)	(12,622)	105,052,916	(12.01)
Diluted loss per share – continuing and discontinued operations	(16,680)	165,120,640	(10.10)	(12,622)	105,052,916	(12.01)

## Adjusted loss per share

	Loss after taxation 2017 £'000	Weighted average number of shares 2017 No.	Loss per share 2017 Pence	Loss after taxation 2016 £'000	Weighted average number of shares 2016 No.	Loss per share 2016 Pence
Loss from continuing operations attributable to ordinary shareholders	(16,473)	165,120,640	(9.98)	(7,790)	105,052,916	(7.42)
Add back:						
Amortisation of acquired intangible assets, net of tax	1,107	-	0.67	1,264	-	1.20
Share based payment charge*	424	-	0.26	792	-	0.75
Acquisition related (income)/costs and exceptional write off of bad debt	(627)	-	(0.38)	1,718	-	1.64
Release of deferred consideration	(2,329)	-	(1.41)	-	-	-
Financing set up fees	421	-	0.25	-	-	-
Impairment of goodwill	7,500	-	4.54	-	-	-
<b>Basic adjusted loss per share</b>	<b>(9,977)</b>	<b>165,120,640</b>	<b>(6.04)</b>	<b>(4,016)</b>	<b>105,052,916</b>	<b>(3.82)</b>
<b>Diluted adjusted loss per share</b>	<b>(9,977)</b>	<b>165,120,640</b>	<b>(6.04)</b>	<b>(4,016)</b>	<b>105,052,916</b>	<b>(3.82)</b>

The inclusion of potential Ordinary Shares arising from LTIPs and Incentive Shares would be anti-dilutive. Basic and diluted loss per share has therefore been calculated using the same weighted number of shares. Ordinary Shares would have been issued in respect of the Incentive Share conversion. Full details of the basis of calculation is given in the Admission Document available on the Company's website. The Incentive Shares will immediately vest on change of control of the Company.

## 5. Goodwill

	Goodwill £'000
At 31 March 2015	18,186
Acquisition of Brimtek	8,309
Impairment of goodwill associated with Services division	(3,582)
Exchange movements	410
At 31 March 2016	23,323
Adjustment to acquisition of Brimtek value	(288)
Impairment of goodwill associated with Video Business division	(7,500)
Exchange movements	1,541
<b>At 31 March 2017</b>	<b>17,076</b>

## Carrying amount of goodwill allocated to operating segments

	2017 £'000	2016 £'000
Video Business	17,076	23,323
Thruvision	-	-
	<b>17,076</b>	<b>23,323</b>



Historically the Group has been organised into Services and Solutions. In light of the proposed divestment of the Video business the directors believe that providing segment analysis that shows the Video Business as a separate segment to the Thruvision business would aid readers of the Annual Report. Combined, the Video Business and Thruvision make up the previously reported Solutions segment. Consequently goodwill acquired through business combinations has been allocated for impairment testing purposes. These segments are deemed to be the two cash-generating units ('CGUs') for impairment testing. The Group conducts annual impairment tests on the carrying value of the CGUs in the statement of financial position. Although required to perform annual impairment tests, these do not have to take place at 31 March but the test should be consistently carried out at the same time annually.

The Group carries out its annual impairment testing as at 28 February each year. Impairment testing is only re-performed if an impairment triggering event occurs in the intervening period. As a result of the proposed divestment the impairment review conducted at the annual testing date has been revisited to ensure the outcome remains appropriate.

Value in use calculations are used to determine the recoverable amount of the cash-generating units. The key assumptions for the value in use calculations include the forecast revenue growth of the CGU, cost allocations, the discount rate applied and the long-term growth rate of the net operating cash flows, along with the gross margin for sales. In determining the key assumptions, management have taken into consideration the nature of the markets in which it operates, expected growth of the markets in which it operates, the ability of the CGU to exploit those opportunities and the current economic climate, the resulting impact on expected growth and pre-tax discount rates, and the pressure this places on impairment calculations.

The Group prepares cash flow forecasts for the cash-generating unit based on the most recent three-year detailed financial forecasts. The table below sets out the key assumptions included in these forecasts:

	Video Business	
	2017	2016
Revenue growth compound from FY17 to FY20 (years one to three) <sup>(1)</sup>	25%	40%
Revenue growth from FY20 onwards (year four onwards) <sup>(2)</sup>	2.0%	2.5%
Gross margin improvement compound from FY17 to FY20 (years one to three) <sup>(3)</sup>	6%	1%
Discount rate <sup>(4)</sup>	11.1%	10.6%

<sup>(1)</sup> Forecasts are based on an internal assessment of the strength of the CGU in the markets in which it operates with the expected growth reflecting the opportunities in its core strategic markets, sales pipeline and relationships being developed.

<sup>(2)</sup> Revenue growth of 2.0% (2006: 2.5%) is an external estimate of the UK's long-term growth rate .

<sup>(3)</sup> Gross margin is forecast to improve against FY17 as the product mix continues to evolve through the next three years to include a greater proportion of software sales together with revenues generated by the legacy Brimtek business (which attract a lower gross margin) forming a decreasing percentage of total revenues.

<sup>(4)</sup> Discount rate is based on the weighted cost of capital applying to businesses in the same sector, and reflects the current market assessments of the time value of money and of the risks specific to the cash generating units.

An impairment loss of £7.5 million (2016: £nil) arises in the year ended 31 March 2017 for the Video Business based on these base assumptions.

The Directors consider that an absolute change in the key assumptions set out below is reasonably possible.

	Video Business	
	2017	2016
Reduction in forecast revenue growth compound from FY17 to FY20 (years one to three)	-10%	-9%
Reduction in forecast revenue growth FY20 onwards (year four onwards)	-2.5%	-2.5%
Increase in discount rate (4)	2.5%	2.5%

If these assumptions were to change in isolation, they would result in an increase in the impairment charge of goodwill of between full impairment of goodwill (reduction in revenue forecast) to a £0.2 million impairment (reduction in long term growth rate). In the prior year, if these assumptions were to change in isolation, they would not have resulted in an impairment charge of goodwill. The value in use calculations are most sensitive to changes in assumptions around forecast revenue growth and gross margin improvement. An absolute reduction in the forecast revenue growth of 10% (compound over years one to three) would result in full impairment of goodwill. In the prior year an absolute reduction in the forecast revenue growth of 10% (compound over years one to three) would have resulted in the recoverable amount of Solutions goodwill being equal to the carrying amount (a reduction in the headroom from £17.5 million to £nil). A rise in the discount rate to 13.6% (i.e. +2.5%) would result in a further impairment of £10 millions

As indicated in the interim results announcement on 11 December 2015, the Board believed that the Services division was no longer strategic to the Group. As a consequence the Board initiated a plan for the potential disposal of the business, and on 1 April 2016 the Board signed an agreement for the proposed disposal of the business for nominal consideration. Consequently the recoverable amount of the Services CGU in year ended 31 March 2016 was based on fair value less costs of disposal, being the sales price of £1. As a result the carrying value of the goodwill attributable to the Services segment was reduced to £nil in the year ended 31 March 2016 and an impairment charge £3,582,000 was included in the loss attributable to discontinued operations for the year then ended.

## 6. Trade and other receivables

	Gross carrying amounts	Provision for impairment	Net carrying amounts	Gross carrying amounts	Provision for impairment	Net carrying amounts
	2017 £'000	2017 £'000	2017 £'000	2016 £'000	2016 £'000	2016 £'000
Trade receivables	6,388	(376)	6,012	11,814	(431)	11,383
Prepayments	616	-	616	780	-	780
Accrued income	168	-	168	339	-	339
Social security and other taxes	718	-	718	581	-	581
Other receivables	142	-	142	156	-	156
	8,032	(376)	7,656	13,670	(431)	13,239

The Group's credit risk on trade and other receivables is primarily attributable to trade receivables and amounts recoverable on contracts. Two customer represents £2,382,000 (2016: one customer £2,648,000) of the Group's trade receivables at 31 March 2017. There is no other significant concentration of credit risk.

The Group believes that the carrying amounts of the Group's trade receivables by the type of customer gives a fair presentation of the credit quality of the assets:

	2017 £'000	2016 £'000
Government customers	2,491	3,745
Commercial customers	3,521	7,638
	6,012	11,383

Trade receivables of £2,704,000 (2016: £2,410,000) were past due but not impaired; trade receivables of £2,560,000 (2016: £64,000) are past due and stated after reflecting a partial impairment. These relate to a number of independent customers and are considered to be fully recoverable.

The movement in the provision for doubtful debts is as follows:

	£'000
At 31 March 2015	1,208
Provided in period	128
Utilised	(767)
Released	(178)
Foreign exchange	40
At 31 March 2016	431
Provided in period	150
Utilised	(51)
Released	(158)
Foreign exchange	4
<b>At 31 March 2017</b>	<b>376</b>

Trade receivables, net of an allowance of £376,000 (2016: £431,000) for doubtful debts, are aged as follows:

	2017 £'000	2016 £'000
Not due	3,308	8,909
Not more than three months past due	617	693
More than three months but not more than six months past due	-	150
More than six months past due	2,087	1,631
	6,012	11,383

The Group experiences credit risk which reflects its early stage of development into international markets with challenging political landscapes and sometimes protracted payment cycles. This is reflected in the provision for doubtful debts and ageing analysis and the fact that the Group had an extended debtor in Asia Pacific, where a delayed project implementation has resulted in the likely replacement of the local partner by the contracting government agency. Whilst legally contracted, fulfilled and invoiced, and government agency confirmation of their intent to continue the project and implement the Group's technology the Group has elected to write down the overdue debtor. The net impact on the income statement was £1.9 million in the year ended 31 March 2017.

## 7. Trade and other payables

	2017 £'000	2016 £'000
<b>Current</b>		
Trade payables	5,115	4,833
Accruals	1,735	2,737
Deferred income	349	774
Social security and other taxes	359	441
Other payables	350	341
	<b>7,908</b>	<b>9,126</b>

On 17th October 2016 the Group replaced an existing £5.0 million secured working capital facility for export activities with a new two year £10.0 million secured revolving credit facility with Investec Bank plc. The funds available through this facility will be used to meet the increasing working capital requirements of the Group's organic growth. The facility is secured by a fixed and floating charge over the Group's assets and includes covenants which are tested quarterly. The facility was not being utilised at 31 March 2017, but at time of approval of the financial statements is drawn to the extent of £6,094,000 with a net debt position of £4,167,000. No banking covenants have been breached at the time of approval of the Annual Report and waivers to covenants tests have been agreed with Investec during the testing period to date. In addition to this secured facility, on 28 September 2017 the Group has arranged an unsecured £5.25 million loan facility with Herald Investment Trust to supplement the above facility for a period of 15 months, which has not been drawn on.

## 8. Share capital

	Number	£'000
<b>Authorised, allotted, called-up and fully paid</b>		
<b>Ordinary Shares of 1 pence each</b>		
At 31 March 2015	84,489,481	845
Shares issued in the year	80,616,758	806
At 31 March 2016	165,106,239	1,651
Shares issued in the year	23,785	-
<b>At 31 March 2017</b>	<b>165,130,024</b>	<b>1,651</b>

	Number	£'000
<b>Authorised, allotted, called-up and fully paid</b>		
<b>Incentive Shares of £1 each</b>		
At 31 March 2016	54,375	54
<b>At 31 March 2017</b>	<b>-</b>	<b>-</b>
<b>Authorised, allotted, called-up and fully paid</b>		
<b>Deferred Shares of £1 each</b>		
At 31 March 2016	108,749	109
<b>At 31 March 2017</b>	<b>163,124</b>	<b>163</b>

On 5 January 2015 19,864,865 Ordinary Shares were issued at 37 pence per share for a total cash consideration of £7,350,000. On 30 December 2015 80,571,429 Ordinary Shares were issued at 35 pence per share for a total consideration of £28,200,000, primarily funds to be used by the group to purchase the share capital of Brimtek Inc.

In July 2016, 23,785 shares were issued in the year (2015: 45,329 Ordinary Shares) for nil consideration to certain employees as a bonus payment.

Of the 163,124 incentive shares outstanding as at 31 March 2015, none converted into Ordinary Shares. Initial provision had not been made in the Articles for the circumstance whereby Incentive Shares were valued at nil and did not convert into Ordinary Shares on the conversion date. On 21 September 2015, a new class of Deferred share in lieu of Incentive shares was created so that Incentive Shares which did not convert to Ordinary Shares on the relevant conversion date converted into Deferred Shares with very limited rights and value. Accordingly, 108,749 shares were converted into deferred shares of £1 each on 21 September 2015, with a further 54,375 shares on 15 February 2017.

## **9. Related party transactions**

### **Loan facility**

Herald Investment Trust have provided the Group with a £5.25 million working capital facility as detailed in note 1. This facility is unsecured with no covenants attached to it, but otherwise is on principally the same financial terms as the Investec facility as detailed in note 7, with interest payable at 10% over 3 month Libor.

Tom Black is a member of the Herald Investment Trust Board and is also a director of Digital Barriers plc.

Herald Investment Trust holds 15,329,712 ordinary shares in Digital Barriers plc equating to 9.28% of the issued share capital of the Group.

## **10. Post balance sheet event**

### **Loan facility with Herald Investment Trust**

On 28 September 2017, Digital Barriers PLC agreed a 15 month £5.25 million unsecured loan facility with Herald Investment Trust. The funds available through the facility are in addition to the Group's existing revolving credit facility and will be used to meet the working capital requirements of the Group.

### **Release of deferred consideration**

In June 2017 Digital Barriers reached early finalisation terms with the vendors of Brimtek Inc. The terms of the finalisation involved a release of \$1.45 million from the escrow account back to Digital Barriers and no deferred consideration to be paid. The performance conditions for the deferred consideration were set at a level significantly above forecast, and consequently deferred consideration balance at 31 March 2017 had been reduced to £nil against an expectation of a significant shortfall to the performance conditions set. (2016: £2,018,000).