Pebble Beach Systems Group plc

A global software and technology business, specialising in world leading automation, channel in a box, integrated and virtualised playout technology for the broadcast markets.

ANNUAL REPORT 2017

BUSINESS OVERVIEW

PEBBLE BEACH SYSTEMS GROUP PLC

Pebble Beach Systems Group plc is a global technology business comprising Pebble Beach Systems Limited.

PEBBLE BEACH SYSTEMS

Pebble Beach Systems is a world leader in automation, channel in a box, integrated and virtualised playout technology, with scalable products designed for highly efficient multichannel transmission as well as complex news and sports television. Installed in more than 70 countries and with proven systems ranging from single up to over 150 channels in operation, Pebble Beach Systems offers open, flexible systems, which encompass ingest and playout automation, and complex file–based workflows. The company trades in the US as Pebble Broadcast Systems Inc.

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OPERATIONAL HIGHLIGHTS

- Completion of the sale of the hardware division
- Closure of Hungerford Head Office
- Completion of strategic review resulting in the decision to secure bank support to continue as an independent entity
- Restructuring of Pebble Beach Systems operation, completed in Q1 2018, resulting in centralisation of US operations and overhead reductions to ensure ongoing profitability
- Agreed terms with Santander UK PLC for an amendment to the Revolving Credit and Term Loan Facilities agreement to secure the facility until 30 November 2019, including a simplification of banking covenants

THIS STRATEGIC REPORT DISCUSSES THE FOLLOWING AREAS:

- Fair review of the Group's business
- Future developments
- Strategy and objectives
- Key performance indicators
- Review of principal risks and uncertainties

CAUTIONARY STATEMENT

This Strategic Report has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for those strategies to succeed.

The Strategic Report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The directors, in preparing the Strategic Report, have complied with s414c of the Companies Act 2006.

This Strategic Report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Pebble Beach Systems Group plc and its subsidiary undertakings when viewed as a whole.

NON–EXECUTIVE CHAIRMAN'S STATEMENT

INTRODUCTION

2017 has been a year focused on stabilising the Group following the disposal of the hardware division in Q1.

Pebble Beach Systems is a world leader in automation, channel in a box, integrated and virtualised playout technology, with scalable products designed for highly efficient multichannel transmission as well as complex news and sports television. Installed in more than 70 countries and with proven systems ranging from single up to over 150 channels in operation, Pebble Beach Systems offers open, flexible systems, which encompass ingest and playout automation, and complex file-based workflows. The company also trades in the US as Pebble Broadcast Systems.

Its products are flexible, reliable and scalable, and are designed to cater for all channel types. Its innovative solutions manage acquisition, file-based workflows, archiving and multi-channel playout at large and small installations worldwide.

FINANCIAL RESULTS

Pebble Beach Systems delivered a sound financial performance. Whilst order intake for the full year of £10.5 million is below the previous year (2016: £11.7 million), this is due to an exceptionally large order received late in 2016, which wasn't expected to be repeated in 2017. Resultant revenue was £10.3 million (2016: £10.9 million).

The business has historically high margins which were under pressure during 2017 as a result of a number of projects being completed ahead of the Harmonic OEM agreement coming to an end in March 2018. The number of projects increased as Harmonic looked to utilise the non-refundable software licences. The margins are therefore expected to recover in FY18.

Adjusted operating profit was £0.5 million in 2017 (loss in 2016: £1.1 million) before non-recurring costs of £0.5 million, depreciation and amortisation costs of £2.3 million and exchange losses of £0.1 million are deducted. Central costs included were £1.3 million. Headcount reductions made in early FY18 from 78 to 62 will contribute to operating profit improvements in FY18.

In 2017, the Central costs were £1.3 million (2016: £4.2 million). This decrease is due to £0.5 million release of the Pebble Beach Systems VCP accrual in 2017 (2016: charge of £0.7 million), closure of the head office in Hungerford and consolidation of head office roles with the operating business in Weybridge. As we look forward to 2018 we expect to see a further reduction.

Net finance costs remained steady during 2017 reflecting the Group's pay-down of some of its revolving credit facility ("RCF") and overdraft. The available RCF as at 31 December 2017 was £15.0 million (2016: £15.0 million) of which £11.5 million had been fully drawn down. Interest paid on the RCF was £0.3 million (2016: £0.3 million). In addition, there was an overdraft of £1.0 million (2016: £1.0 million) which was not utilised.

Liquidity risk has been reduced with combined secured bank loans and trade and other payables being reduced by £7.3 million from £23.4 million in 2016 to £16.3 million at the end of 2017.

The Company continues to view investment in the development of new products and services as key to future growth. In 2017 Pebble Beach Systems capitalised £0.8 million of development costs (amortised £0.65 million), (2016 £1.1 million) (amortised £0.36 million).

STRATEGIC REVIEW AND FORMAL SALE PROCESS ("FSP")

On 23 February 2017, the Company announced that, following the disposal of VCS, a strategic review and formal sales process (FSP) had been initiated to consider options available to reduce the Company's outstanding debt, including the possibility of a sale of the Group.

During the course of the FSP the Company engaged with a number of interested parties. These discussions did not result in an offer which was considered by the Board to reflect the value of the Group's operations and the Board decided to terminate the FSP.

GOING CONCERN

The directors are required to make an assessment of the Group's ability to continue to trade as a going concern.

On 2 February 2017 the Group sold the trade and assets of the hardware division (VCS) to xG Technology Inc., which reduced the net debt of the Group to £12.0 million.

On 14 February 2017, the Group pursued a cost reduction strategy, resulting in the closure of the Head Office function, which was then no longer appropriate as the Company had a single operating subsidiary, Pebble Beach Systems Limited, which operates from a stand-alone site. Accordingly, notice was served on the Head Office team.

During 2017 the Group forecast that it would be in breach of its banking covenants for the foreseeable future meaning it was reliant on the ongoing support of its bankers.

In December 2017 the Company commenced discussion with its bankers to secure the support required to remain independent.

NON–EXECUTIVE CHAIRMAN'S STATEMENT

By 31 December 2017 net debt had been reduced to £10.3 million (net cash £1.2 million and bank debt of £11.5 million). In addition, there was an available overdraft of £1.0 million which was not utilised.

In April 2018 the Company announced it had negotiated new heads of terms which were subject to a revision of the existing documentation. Subsequently, in June 2018, the Company confirmed that the amended Revolving Credit and Term Loan Facilities agreement had been signed with Santander UK PLC. The revision secures the facility until 30 November 2019 with simplified banking covenants and a reasonable repayment schedule.

In reaching their decision that the financial statements should be prepared on the going concern basis, the Board considered that the new signed facility with our bankers and their ongoing support indicates the Group's ability to continue as a going concern.

In order to assess the appropriateness of preparing the financial statements on a going concern basis, management have prepared detailed projections of expected cash flows. These projections include the impact of cost reductions of £3.6 million, £2.2 million delivered as part of the 2017 PLC cost reduction strategy and £1.4 million through operational costs savings completed in January 2018 in the Pebble Beach Systems operation.

As part of the review, the board considered sensitivities with regards to the timing of revenue growth coming from the transition in the broadcast industry from SDI to IP platforms. It looked at sensitivities regarding the recovery of gross margin following the completion of the Harmonic OEM. Finally, it considered sensitivities regarding the cost reductions.

Given that both the margin recovery and cost reductions both pertained to items already completed prior to sign off of the accounts the board concluded that the primary risk is one of ongoing trading and therefore the Group remains a going concern.

XG TECHNOLOGY INC.

As part of the revised business purchase agreement for the sale of VCS, it was agreed that the Group would retain the right to any sums received in the future in respect of an outstanding specific debtor, subject to a maximum sum of $2.0 million. The Group was reliant on xG Technology Inc. ("xG") fulfilling this contract to enable the Group to recover this debt.

In April 2017 the Company received $0.25 million in cash from xG against this debt.

In Q4 2017 xG advised on completion of the contract which was delaying receipt of the remaining $1.75 million. Following extensive discussions with xG, who were looking to offset alleged significant additional costs of completion and other VCS costs that xG considered should not be borne by it under the original agreement, the Board announced in December 2017 that there was no likelihood of agreement between xG and the Group and the collection of the remaining $1.75 million was unlikely without entering a protracted legal dispute. Accordingly, this debt has been fully impaired.

Subsequent to the decision not to pursue the remaining $1.75 million, it has come to light that xG have refused to meet their legal obligations to clear two historic creditors totalling $390k, which have been provided for in full in the accounts.

DIVIDENDS

In view of the results for the year the Board does not recommend payment of a final dividend for the year ended 31 December 2017.

BOARD CHANGES

Following the sale of the hardware division in 2017, it was mutually agreed with the outgoing Executive Chairman, John Hawkins, that his role had become redundant. The Board wish to thank Mr Hawkins for his contribution to the restructuring of the Group over his six years as Executive Chairman.

Following the Board's decision to operate the Company, Pebble Beach Systems, as an independent entity, two appointments were made to the Board.

At the beginning of 2018 Peter Mayhead was appointed as Group Chief Executive Officer.

In addition, as announced on 6 April 2018, the Board appointed Graham Pitman as Non-Executive Director.

TRADING OUTLOOK

The broadcast market continues to be challenging as customers assess how best to invest in the evolving technologies of IP and cloud-based infrastructures whilst maintaining their traditional infrastructure.

The Company is well placed to offer the market a solution which is able to bridge this transition period and is expected to maintain its performance through FY18 as the pipeline continues to be steady. At the same time, the Company will deliver improved profitability as a direct result of the restructure undertaken throughout 2017 and Q1 2018.

John Varney
Non-Executive Chairman
25 June 2018

GROUP AT A GLANCE

Pebble Beach Systems Group plc is a leading software technology Group serving customers in the broadcast markets.

PEBBLE BEACH SYSTEMS

Pebble Beach Systems is a leading developer and supplier of world class automation, Channel in a Box, integrated and virtualized playout technology for TV broadcasters, service providers, and cable and satellite operators. Pebble Beach Systems has developed a portfolio of successful products which have the flexibility to support a wide range of broadcast applications, with scalable products designed for highly efficient multichannel transmission as well as complex news and sports television.

KEY PRODUCTS INCLUDE:

- Marina – next generation enterprise-level playout automation platform for multi-channel applications
- Orca – state-of-the-art IP-enabled cloud-based integrated channel delivery solution running in a virtualised environment
- Dolphin – multi-format integrated channel delivery solutions based on standard IT hardware
- Stingray – cost-effective self-contained Channel in a Box

OUR MISSION

To provide the best software solutions and service to our customers worldwide.

WHAT WE DO

Our innovative solutions manage acquisition, file-based workflows, archiving and multi-channel playout at large and small installations worldwide.

In 2017, Pebble Beach Systems' technology enabled their customer DMC, a TVT company, to achieve the milestone of moving all its play out of 87 channels from its former facility to its new Amsterdam facility, leaving them ready to lead and drive the future of next generation entertainment.

TVT/DMC claims to be Europe's first fully operational, virtualised 'private broadcast cloud' playing out channels owned by A+E Networks, AMC Networks, Fox Networks Group, Liberty Global, Scripps Networks Interactive, Sony Pictures and others.

This was a landmark achievement for TVT/DMC, and a true technological feat that reflected their strong vision and desire to realise an all-IP, cloud-enabled world.

With all 87 channels operating from their private broadcast cloud, they are providing a cutting-edge content services offering that responds to the complexities of the dynamic international market for linear, on-demand and online entertainment media both today and in the future, with the capacity to adapt to new and unprecedented demands of scale and capacity as required.

OUR LOCATIONS

The business is run through the main operational site at Weybridge in the UK.

Our business addresses global markets, selling through direct sales and partnerships with resellers and systems integrators. Our partnerships are able to provide customer support local to our customers.

Our Group head office is located in Weybridge, UK, following the closure of the Hungerford office in August 2017.

GROUP STRATEGY

OUR STRATEGIC OBJECTIVES	PROGRESS ON OUR STRATEGIC OBJECTIVES	GOALS FOR 2018
Reduction of overall indebtedness	• Completion of the disposal of the hardware division on 2 February 2017 • Initial cost reduction strategy in February 2017 resulting in sale of registered office, closure of head office function and relocation to Weybridge • Completion of a strategic review of options, including a possible sale of the Group, which concluded in the Company securing bank support to continue as an independent entity • Agreed terms with Santander UK PLC for an amendment to the Revolving Credit and Term Loan Facilities agreement dated 17 March 2014 to secure the facility until 30 November 2019, including a simplification of banking covenants	• Strengthen the refocused Group • Provide stability to ensure continued profit and cash generation in FY2018 • Focus on stabilising the business and use 2018 to review our long-term vision and prepare a comprehensive strategy • Address negative reputational impact in the market, caused by historic reporting of indebtedness
Market leading solutions to drive sales through innovation	**The development of innovative products for our customers including:** • Dolphin integrated channel system with new 4K playout capabilities • Orca – a virtualised IP-enabled software-defined integrated channel. Orca runs in a virtual machine on a virtualised platform. DMC, a leading service provider based in the Netherlands, is the first to deploy Orca in a large multi-channel application • Lighthouse – a web-based automation management and remote access system, extending Marina's functionality and offering control, monitoring, media management and system configuration tools via an array of widgets, so status and corrective actions are seconds away	• To capitalise on sales of existing products to increase profit and growth
Focus on core markets	• Build on relationship with other vendors and sales partners • New products enhance offering to customers • An increased network of resellers and systems integrators across the world regions. These partnerships offer first-hand knowledge of customer needs and requirements, enhancing customer relationships with local support, and increasing sales	• Continue to expand our available markets • Leverage our direct and global channels • Further investment in organic growth

OUR STRATEGIC OBJECTIVES	PROGRESS ON OUR STRATEGIC OBJECTIVES	GOALS FOR 2018
Strategy	The broadcast industry is entering a period of significant change as broadcasters move from traditional proprietary technology to IP based platforms. This transition phase is predicted to last from five to ten years, at which point the majority of media will be delivered over IP based platforms.	We are currently undertaking a review of Pebble Beach Systems Group plc's business strategy to ensure we remain at the leading edge of technology adoption within the industry. In the meantime, a restructuring of Pebble Beach Systems operations was undertaken in Q1 2018 to refocus the business capabilities on delivering complex system projects. This ensures we are able to meet the needs of broadcasters during the initial phase of the transition to IP. Investment in our current product portfolio is focused on ensuring that we have the technical capability to operate across both proprietary and IP platforms.

BUSINESS REVIEW –
FINANCIAL REVIEW – CONTINUING OPERATIONS

	2017 £m	2016 £m	Change %
Revenue	**10.3**	10.9	–5.1%
Adjusted operating (loss)/profit	**0.5**	(1.1)	
Net liabilities	**(6.3)**	(1.0)	
Cash and cash equivalents	**1.2**	0.5	+173%
Reported loss per share	**(2.1)p**	(2.4)p	

	2017 £m	2016 £m	Change %
Revenue	**10.3**	10.9	–5.1%
Gross profit	**6.5**	8.0	–18.4%
Gross margin %	**62.9%**	73.1%	–10.2pts
Research and development expenses	**(1.1)**	(1.2)	–10.5%
Other expenses	**(4.9)**	(7.8)	
Adjusted operating (loss)/profit	**0.5**	(1.1)	
Depreciation	**(0.2)**	(0.2)	
Amortisation and impairment of acquired intangibles	**(1.4)**	(1.4)	
Amortisation of capitalised development costs	**(0.7)**	(0.4)	
Non–recurring items	**(0.5)**	(0.7)	
Foreign exchange gains	**(0.1)**	1.8	
Reported operating loss	**(2.4)**	(1.9)	
Net finance costs	**(0.3)**	(0.3)	
Loss before tax	**(2.7)**	(2.2)	
Taxation	**(0.1)**	(0.7)	
Loss attributable to equity shareholders	**(2.6)**	(2.9)	
Basic loss per share	**(2.1)p**	(2.4)p	
Adjusted (loss)/earnings per share[1]	**(0.2)p**	(1.8)p	

1. Adjusted EPS is calculated on operating profit before the amortisation and impairment of acquired intangibles, and non-recurring items after taking account of related tax effects and foreign exchange. Amortisation of capitalised development costs is included in Research and Development expenses in the income statement.

NON-RECURRING ITEMS

The continuing Group charged £0.5 million of non-recurring costs to the consolidated Group income statement.

- £0.6 million charge in respect of rationalisation and redundancy costs including a £0.3 million termination payment for director's loss of office
- £0.1 million gain in respect of disposal of the Group's head office in Hungerford

BUSINESS REVIEW –
FINANCIAL REVIEW – CONTINUING OPERATIONS

KEY PERFORMANCE INDICATORS

Financial indicators for the continuing business are shown below:

KPI MEASURE	**2017 £m**	2016 £m	% Change	DEFINITION/CALCULATION
CUSTOMERS				
Order intake	**10.5**	11.7	(10.0%)	• Order intake is a measure of new business secured during the year and represents firm orders
Revenue	**10.3**	10.9	(5.1%)	• Monitoring of revenues provides a measure of business growth for the Group • The Group measures foreign currency revenue at the actual exchange rate prevailing at the date of the transaction
PROFITABLE GROWTH				
Adjusted operating profit/(loss)	**0.5**	(1.1)		• Adjusted operating profit is defined as operating profit before depreciation, amortisation and impairment of acquired intangibles, amortisation of capitalised development costs, non–recurring items and exchange gains or losses charged to the income statement
Adjusted loss per share (pence)	**(0.2)p**	(1.8)p		• Adjusted earnings per share is calculated in the same manner as basic earnings per share except for the adding back of the after–tax effect of the adjustments for adjusted profit
Total operating costs	**7.4**	8.4	(11.8%)	• Operating costs comprise sales and marketing expenses, administrative expenses, foreign exchange movements and the overhead costs associated with Logistics and Research and Development
Loss/return on sales	**4.8%**	–9.9%	14.7pts	• Adjusted operating profit in the financial year, divided by revenue for the financial year
INNOVATION				
R&D Expenditure as a proportion of revenue	**18.5%**	21.5%	(3.0pts)	• Calculated as capitalised development costs less amortisation in the period plus R&D expenses charged in the period divided by revenue

BUSINESS REVIEW –
FINANCIAL REVIEW – DISCONTINUED OPERATIONS

	2017 £m	2016 £m	Change %
Revenue	**1.0**	31.7	–96.7%
Adjusted operating profit/(loss)	**3.8**	(7.7)	
Net (liabilities)/assets	**–**	10.2	
Reported earnings/(loss) per share	**2.3p**	(42.6)p	

	2017 £m	2016 £m	Change %
Revenue	**1.0**	31.7	–96.7%
Gross profit	**0.2**	5.9	–96.6%
Gross margin %	**19.4%**	18.6%	+0.8pts
Research and development expenses	**–**	(1.8)	–100.0%
Other expenses	**(1.0)**	(9.5)	
Adjusted operating loss	**(1.0)**	(5.4)	
Depreciation	**–**	(0.5)	
Amortisation and impairment of acquired intangibles	**–**	(0.3)	
Amortisation of capitalised development costs	**–**	(2.5)	
Non–recurring items	**(1.7)**	(45.3)	
Foreign exchange (loss)/gain	**(0.2)**	0.6	
Reported operating loss	**(2.9)**	(53.4)	
Net finance costs	**–**	–	
Loss before tax	**(2.9)**	(53.4)	
Taxation	**0.7**	1.0	
Loss after tax of discontinued operations	**(2.2)**	(52.4)	
Recycle translation reserve for discontinued operations	**5.1**	–	
Profit/(loss) attributable to equity shareholders	**2.9**	(52.4)	
Basic earnings/(loss) per share	**2.3p**	(42.6)p	
Adjusted earnings/(loss) per share[1]	**3.5p**	(7.8)p	

1. Adjusted EPS is calculated on operating profit before the amortisation and impairment of acquired intangibles, and non–recurring items after taking account of related tax effects.

NON–RECURRING ITEMS

The discontinued operation charged £1.7 million of non-recurring costs to the consolidated Group income statement. The charge comprised:

- £0.2 million charge in respect of capitalised development costs written off
- £1.3 million loss on disposal of VCS business as a result of impairing the $1.75 million xG debt and providing for $0.39 million supplier claims set against the £0.3 million anticipated profit on disposal.
- £0.1 million charge in respect of disposal costs

BUSINESS REVIEW –
FINANCIAL REVIEW

TAXATION

There was a net tax credit for the year for continuing operations of £0.1 million (2016: charge of £0.7 million). The current tax in the year was Nil (2016: charge of £0.1 million). There was a deferred tax charge of Nil (2016: charge of £0.9 million).

There was a net tax credit for the year of £0.7 million (2016: credit of £1.1 million) in respect of discontinued operations.

At 31 December 2017 tax receivable was Nil (2016: tax receivable of £0.3 million).

GOODWILL IMPAIRMENT

In accordance with the requirements of IAS 36 'Impairment of assets', goodwill is required to be tested for impairment on an annual basis, or where there is an indication of impairment, with reference to the value of the cash-generating units ("CGU") in question.

The carrying value of goodwill at 31 December 2017 is £3.2 million (2016: £3.2 million) which relates solely to Pebble Beach Systems Limited.

The carrying value of Pebble Beach Systems Limited (including goodwill) has been assessed with reference to value in use over a projected period of eight years with a terminal value. No impairment is considered necessary.

NET LIABILITIES

The Statement of Financial Position at 31 December 2017 is summarised as follows:

	2017 £m	2016 £m
Intangible assets	**6.9**	8.2
Property, plant and equipment	**0.3**	0.5
Other non-current liabilities	**(11.5)**	(1.9)
Net current liabilities	**(3.0)**	(18.5)
Net assets transferred to disposal Group and classified as held for sale	**–**	10.2
	(7.3)	(1.5)
Cash and cash equivalents including overdrafts	**1.2**	0.5
Net liabilities	**(6.1)**	(1.0)

The decrease in net assets in the year of £5.1 million comprises a profit for the financial year of £0.3 million, and £5.1 million reduction in reserves from recycling translation reserve for discontinued operations and a foreign exchange loss on translation of overseas operations of £0.3 million.

BUSINESS REVIEW –
FINANCIAL REVIEW

CASH FLOWS

The Group held cash and cash equivalents, including overdrafts, of £1.2 million at 31 December 2017 (2016: £0.5 million). The table below summarises the cash flows for the year.

	2017 £m	2016 £m
Cash used in operating activities	**(2.6)**	(1.8)
Net cash generated from/(used in) investing activities	**7.1**	(4.4)
Net cash generated from/(used in) financing activities	**(3.5)**	4.2
Effects of foreign exchange	**(0.3)**	(0.8)
Net increase/(decrease) in cash and cash equivalents	**0.7**	(2.8)
Cash and cash equivalents at 1 January	**0.5**	3.3
Cash and cash equivalents at 31 December	**1.2**	0.5

CASH FLOWS FROM OPERATING ACTIVITIES

There was a net cash outflow from operating activities in the year of £2.6 million (2016: £1.8 million).

The cash inflow from investing activities amounted to £7.1 million (outflow in 2016: £4.4 million) which comprised £0.5 million proceeds from the sale of property, plant, equipment and intangibles (2016: £0.1 million); £7.5 million proceeds from the sale of the VCS business; and £0.9 million in respect of capital expenditure and the capitalisation of development costs (2016: £4.5 million).

The cash outflow from financing activities amounted to £3.5 million (2016: cash inflow £4.2 million) which comprised bank loans of £3.5 million (2016: £6.0 million).

RETURNS TO SHAREHOLDERS

In view of the results for the year the directors do not recommend payment of a final dividend for the year ended 31 December 2017 (2016: Nil pence).

FOREIGN EXCHANGE

The principal exchange rates used by the Group in translating overseas profits and net assets into sterling are set out in the table below:

Rate compared to £ sterling	**Average rate 2017**	Average rate 2016	**Year end rate 2017**	Year end rate 2016
US dollar	**1.289**	1.354	**1.351**	1.230

If the results for the year to 31 December 2016 had been translated at the 2017 average rate then the translation impact would be to increase prior year revenue by £0.1 million and increase the loss before tax by Nil.

PRINCIPAL RISKS AND UNCERTAINTIES

Pebble Beach Systems Group plc is exposed to a number of risks in its everyday business, and in order to minimise those risks the Group has in place policies and procedures adopted by those who work within the business.

Risk is ultimately managed by the Board which is supported by operational and compliance reporting structures. The Board sets out below what it considers to be its main risks.

RISK DESCRIPTION	MITIGATION	RISK PROFILE
GOING CONCERN AND LIQUIDITY During 2017 we forecast to be in breach of our banking covenants for the foreseeable future. If the Group had not been compliant with its financing arrangements, the lender could have immediately called for repayment of the loan.	We maintain a good relationship with our bankers, and in Q1 2018 the Company signed new terms with Santander UK PLC for an amendment to the current Revolving Credit and Term Loan Facilities agreement dated 17 March 2014 to secure the facility until 30 November 2019, which included a simplification of banking covenants.	High
DEMAND FOR PRODUCTS May be adversely affected by a number of factors to include changing customer requirements, ability to deliver and/or support changes in technology, and competitor activity.	We value our customers and maintain solid relationships with those who are key to our business. We have made and continue to make investment in new products and technology to ensure we remain competitive in the markets.	High
RESEARCH AND DEVELOPMENT Failure to keep abreast of technological developments leading to product obsolescence, loss of customers and damage to the Group's reputation.	The Group invests significantly in new product and technology development which enables the business to deliver ahead of market developments and provide complete customer solutions. Best practice is shared throughout the Group.	Constant
REPUTATION OF THE GROUP The Group's reputation can be affected by poor performance of its products and unsatisfactory customer service.	We are aware of how important it is for our products to perform to high standards and for our customers to receive first class support. Our sales offices and partnerships with resellers and systems integrators provide a network of customer support.	Constant
LAW AND REGULATIONS Operating on a worldwide basis exposes the business to a host of different laws and regulations, for example different contract rules, anti–bribery provisions and competition. A failure to adhere to these laws and regulations may lead to fines and penalties, as well as damage to the Group's reputation.	We have resources in place for external legal advice where necessary. We also have good governance policies and procedures in place which all employees are required to adhere to.	Constant
PEOPLE We employ staff worldwide and there is a risk that we are unable to recruit and retain experienced staff.	Our people are the Group's biggest asset and in recognition of this fact the Group invests in attracting, developing and retaining experienced staff.	Constant

BOARD COMPOSITION

John Varney BA

Non-Executive Chairman

APPOINTED TO THE BOARD:
October 2011

INDEPENDENT:
Yes

KEY STRENGTHS:
- Experienced Chair
- 35 years' experience in the broadcast industry
- Digital Content Technology
- Business transformation and change management

CURRENT EXTERNAL COMMITMENTS:
- Director of Maximum Clarity Limited
- Chair of OFCOM Advisory Committee for England
- Director, Enterprising Macclesfield CIC
- Governor, Manchester Metropolitan University
- Chair of Silk Heritage Trust

PREVIOUS ROLES:
- Director of Technology and Chief Technology Officer for Granada Group
- Global Chief Technology Officer at the BBC
- For the last 12 years has been an investor, adviser and Non–Executive Director for emerging technology companies, combined with work across a broad range of organisations inside and outside the broadcast sector

BOARD COMMITTEE MEMBERSHIPS:
- Audit Committee – Member
- Remuneration Committee – Member
- Nomination Committee – Chairman

Robin Howe BSc, FCIM

Senior Independent Non-Executive Director

APPOINTED TO THE BOARD:
June 2006

INDEPENDENT:
Yes

KEY STRENGTHS:
- Over 25 years' experience as Chief Executive or Managing Director of multinational technology businesses
- Broad range of non–executive directorships
- Relevant domain knowledge as former Divisional Chief Executive of Vitec Group plc

CURRENT EXTERNAL COMMITMENTS:
- Chairman and Director of MetaSphere Limited
- Director of Blackfyne Ltd
- Director of Locking & Security Solutions Limited
- Director of Puma Distribution Limited

PREVIOUS ROLES:
- CEO of UDEX Holdings Ltd
- Chief Executive of the Broadcast Systems Division of Vitec Group plc

BOARD COMMITTEE MEMBERSHIPS:
- Remuneration Committee – Chairman
- Audit Committee – Chairman
- Nomination Committee – Member

Peter Mayhead FCCA, MBA

Group Chief Executive Officer

APPOINTED TO THE BOARD:
January 2018

INDEPENDENT:
No

KEY STRENGTHS:
- Over 20 years' experience in the broadcast industry
- Experienced in growing both software and hardware companies
- Corporate finance experience gained through successful management of multiple acquisitions and exit processes
- MBA from world class Henley Business School
- Fellow of the Chartered Association of Certified Accountants

CURRENT EXTERNAL COMMITMENTS:
None

PREVIOUS ROLES:
- Chief Operating Officer Pebble Beach Systems Limited
- Chief Financial Officer of Pro–Bel Group
- Consultant with The Strategic Partnership LLP
- Chief Financial Officer Envitia PLC
- Initial career in practice as Auditor and Financial Reporting specialist

BOARD COMMITTEE MEMBERSHIPS:
- Executive Board – member

Graham Pitman DipM, MBA,

Non-Executive Director

APPOINTED TO THE BOARD:
April 2018

INDEPENDENT:
Yes

KEY STRENGTHS:
- Extensive international experience in the broadcast and media technology industry
- Experience in traditional and new technology segments
- Strategic planning and execution
- Business transformation and turn–round

CURRENT EXTERNAL COMMITMENTS:
- Vice Chair of IABM
- Chairman of Yospace
- Director of Pitman Executive Solutions Limited
- Advises and invests in broadcast sector early stage companies

PREVIOUS ROLES:
- Telestream UK Limited
- ATG Danmon Limited
- Pro–Bel Group Limited
- Pro–Bel Limited
- Snell Corporation Limited
- Broadcast Investments Limited
- Vistek Electronics Limited
- Snell & Wilcox Trustee Limited
- CEL Electronics Limited
- Snell Advanced Media Limited
- Acron Limited
- PSP Digital Limited
- Post Impressions (Systems) Limited
- Electrocraft Laboratories Limited

BOARD COMMITTEE MEMBERSHIPS:
- Audit Committee – Member
- Remuneration Committee – Member
- Nomination Committee – Member

DIRECTORS' REPORT

The directors present the annual report of Pebble Beach Systems Group plc together with the audited Group and Company financial statements for the year ended 31 December 2017, which were approved by the directors on 25 June 2018. The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

A review of the Group's trading and an indication of future developments are contained in the Non-Executive Chairman's Statement and the Strategic Report on pages 3 to 4 and 6 to 7.

Pebble Beach Systems Group plc is incorporated in England (company registration number 04082188) and has its registered office at 12 Horizon Business Village, 1 Brooklands Road, Weybridge, KT13 0TJ. On 3 February 2017, following the disposal of the hardware business (VCS), the Group changed its name from Vislink plc to Pebble Beach Systems Group plc.

RESULTS AND DIVIDENDS

The results for the year ended 31 December 2017 are set out in the consolidated income statement on page 38. The continuing Group has reported an operating loss of £2.4 million (2016: loss of £1.9 million). After accounting for net finance costs, the consolidated Group income statement shows a loss before taxation of £2.7 million (2016: a loss before taxation of £2.2 million). The net result for the year after profit from discontinued operations of £2.9 million (2016: loss of £52.4 million) was a profit of £0.3 million (2016: loss of £55.3 million).

In view of the results for the year the directors do not recommend payment of a final dividend for the year ended 31 December 2017 (2016: Nil pence per ordinary share).

DIRECTORS

The directors of the Company who served during the year and up to the date of approval of the financial statements are as follows:

- John Varney (Non-Executive Chairman/Director)
- Robin Howe (Senior Independent Non-Executive Director)
- Oliver Ellingham (Non-Executive Director) (retired 31 December 2017)
- Peter Mayhead (Chief Executive Officer) (appointed 1 January 2018)
- Graham Pitman (Non-Executive Director) (appointed 6 April 2018)

Additionally, John Hawkins (Executive Chairman) served until 14 February 2017.

Short biographies of each current director are provided on page 14.

In accordance with the Company's Articles of Association, John Varney will retire by rotation and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting. Two new directors were appointed, Peter Mayhead on 1 January 2018 and Graham Pitman on 6 April 2018.

The Company's Articles of Association require any new directors appointed by the Board to retire from office and offer themselves for election by shareholders at the next Annual General Meeting following their appointment. Peter Mayhead and Graham Pitman therefore seek election by shareholders this year.

As previously announced by the Board, Oliver Ellingham stood down at the end of the financial year 2017. The Board would like to thank Oliver for his many years of service to the Company as a Non-Executive Director.

Details of the directors' service contracts and letters of appointment are given in the Remuneration Report on pages 25 to 28. Disclosure of the directors' interests in shares, including share options, is also given in the Remuneration Report. During the year the Group maintained insurance providing liability cover to its directors and officers.

MATERIAL INTEREST IN CONTRACTS

No director, either during or at the end of the financial year, was materially interested in any significant contract with the Group or any subsidiary undertaking.

SHARE CAPITAL

Details of the Group's share capital are shown in note 24 to the consolidated financial statements.

The Group's share capital comprises one class of ordinary shares and as at 25 June 2018 there were in issue 124,603,134 fully paid ordinary shares of 2.5 pence each. All shares, except for those held by the employees' share trust, are freely transferable and rank *pari passu* for voting and dividend rights.

DIRECTORS' REPORT

The Group has been notified of the following interests in more than 3 per cent of the Company's issued share capital at 21 June 2018.

	Number of shares	per cent
The Bank of New York (Nominees) Limited	16,797,660	13.48
HSBC Global Custody Nominee (UK) Limited	10,620,000	8.52
Lynchwood Nominees Limited	9.829,130	7.89
Barclays Direct Investing Nominees Limited	7,144,475	5.73
SCM Nominees Limited	6,319,145	5.07
Interactive Investor Services Nominees Limited	5,866,300	4.71
JIM Nominees Limited	5,039,384	4.04
Goldman Sachs Securities (Nominees) Limited	4,000,000	3.21
Alliance Trust Savings Nominees Ltd	3,856,540	3.10

FINANCIAL RISK MANAGEMENT

The Group's policies on financial risk management are set out in note 3 to the consolidated financial statements.

SOCIAL RESPONSIBILITY

The Board takes regular account of the significance of social, environmental and ethical matters. The following specific matters fall under the broad definition of Social Responsibility:

EMPLOYEES

The Group recognises the role that its employees play in its success. The business unit within the Group has lines of communication in place to ensure that employees are consulted with and kept informed of issues relevant to them. Staff notices, emails and staff meetings are used to communicate immediate issues to them.

The Group provides employees with access to training carried out both within the organisation and on external accredited courses that are relevant to an employee's role and development.

It is the policy of the Group not to discriminate between employees or potential employees with disabilities or on the grounds of age, race, religion, sex or political beliefs and to offer the same employment opportunities, training, career development and promotion prospects to all.

Applications for employment by disabled persons are always fully considered bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person, so far as possible, be identical to that of other employees.

EMPLOYEE SHARE SCHEME INCENTIVES

Pebble Beach Systems Group plc operates a number of share-based incentive schemes on a discretionary basis for the benefit of the Group's employees and its senior management. The aim of the share-based incentive schemes is to align the interests of the employees with those of the Company's shareholders.

To encourage employee interest and participation in the financial performance of the Group, a Pebble Beach Systems Group plc Share Incentive Plan is available for employees.

At 31 December 2017 the Employee Share Ownership Plan (ESOP) held 126,496 shares (2016: 626,496) in the Company, representing 0.1 per cent of the issued share capital (2016: 0.5 per cent). The ESOP has waived its rights to receive dividends.

HEALTH AND SAFETY

It is the policy of the Group to ensure the health and welfare of employees by maintaining a safe place and system of work. This policy is based on the requirements of national employment legislation in the countries where the Group operates, including the Safety, Health and Welfare at Work Act 1989.

ENVIRONMENTAL MANAGEMENT

The Group is committed to minimising our impact on the environment by reducing our waste and carbon footprint through energy management and recycling schemes.

The Group actively encourages all shareholders to contribute towards a greener countryside by registering for our registrar's e-Tree service under which a donation will be made to The Woodland Trust. All funds donated go to their many tree-planting programmes. This can be accessed through the investors' page on the Group website at www.pebbleplc.com.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 12 Horizon Business Village, 1 Brooklands Road, Weybridge, KT13 0TJ on Thursday 28 June 2018 at 11.00 am. Share capital resolutions will be proposed at the Annual General Meeting to renew for a further year the directors' authority to allot equity securities for cash other than to existing shareholders on a pro rata basis and to authorise purchases by the Company of its own shares.

CONSIDERATION OF SECTION 656 OF THE COMPANIES ACT 2006

The Directors have considered section 656 of the Companies Act 2006 during the completion phase of preparing the financial statements and associated audit for the year ended 31 December 2017. Section 656 states that where the net assets of a public company are half or less of its called-up share capital the directors must call a general meeting of the company to consider whether any, and if so what, steps should be taken to deal with the situation.

At 31 December 2017, the net assets of the Company had fallen below half of the nominal value of its called-up share capital. The main reason for this fall in the Company's net assets was the creation of an accounting impairment provision of £8.6m against the carrying value of the Company's investment in the Group's main trading subsidiary, Pebble Beach Systems Limited.

Accordingly, while the matter will be considered at the forthcoming Annual General Meeting of the Company as is legally required, no formal resolution as such is being put to the shareholders in connection with section 656. It is the Directors' view that the most appropriate course of action to remedy the situation is to continue with the execution of the strategy set out in this report.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

In the case of the individuals who are directors of the Company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information of which the Group's auditors are unaware, and
- each of the directors has taken all the steps they ought to have taken individually as a director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

CORPORATE GOVERNANCE

The Group's statement on corporate governance can be found in the Corporate Governance Statement on pages 18 to 24 of these financial statements. The Corporate Governance Statement forms part of this Directors' Report and is incorporated into it by its cross-reference.

GOING CONCERN BASIS

The directors are required to make an assessment of the Group's ability to continue to trade as a going concern.

On 2 February 2017 the Group sold the trade and assets of the hardware division (VCS) to xG, which reduced the net debt of the Group to £12.0 million.

On 14 February 2017, following the sale of VCS, the Group pursued a cost reduction strategy, resulting in the closure of the Head Office function, which was then no longer appropriate as the Company had a single operating subsidiary, Pebble Beach Systems Limited, which operates from a stand-alone site. Accordingly, notice was served on the Head Office team.

During 2017 the Group forecast that it would be in breach of its banking covenants for the foreseeable future meaning it was reliant on the ongoing support of its bankers.

At 31 December 2017 net debt was £10.2 million (net cash £1.3 million and bank debt of £11.5 million). In addition, there was an available overdraft of £1.0 million which was not utilised.

In April 2018 the Company announced it had negotiated new heads of terms which were subject to a revision of the existing documentation.

Subsequently, in June 2018, the Company confirmed that the amended Revolving Credit and Term Loan Facilities agreement had been signed with Santander UK PLC. The revision secures the facility until 30 November 2019 with simplified banking covenants and a reasonable repayment schedule.

In order to assess the appropriateness of preparing the financial statements on a going concern basis, management have prepared detailed projections of expected cash flows. These projections include the impact of cost reductions of £3.6 million, £2.2 million delivered as part of the 2017 PLC cost reduction strategy and £1.4 million through operational costs savings completed in January 2018 in the Pebble Beach Systems operation.

As part of the review, the board considered sensitivities with regards to the timing of revenue growth coming from the transition in the broadcast industry from SDI to IP platforms. It looked at sensitivities regarding the recovery of gross margin following the completion of the Harmonic OEM. Finally, it considered sensitivities regarding the cost reductions.

Given that both the margin recovery and cost reductions both pertained to items already completed prior to sign off of the accounts the board concluded that the primary risk is one of ongoing trading and therefore the Group remains a going concern.

INDEPENDENT AUDITORS

The company will propose a resolution to appoint new auditors at the Annual General Meeting.

The Strategic Report and Directors' Report were approved and signed by order of the Board.

John Varney
Non-Executive Chairman
25 June 2018

CORPORATE GOVERNANCE STATEMENT

The Group is committed to high standards of corporate governance, which it considers are critical to business integrity and to maintaining investors' and other stakeholders' trust in the Group. The Group seeks to embed honesty, integrity and fairness in its culture, and the behaviour of its people. With an international presence, the Group acts in accordance with the laws and customs of the countries in which it operates; adopts proper standards of business practice and procedure; operates with integrity; and observes and respects the culture of every country in which it does business.

Compliance with the UK Corporate Governance Code is not mandatory for companies whose shares are admitted to trading on AIM. The directors recognise, however, the importance of high standards of corporate governance and accordingly have determined that the Group shall have regard to the Quoted Companies Alliance (QCA) Code on corporate governance. The QCA Code applies key elements of the UK Corporate Governance Code and other relevant guidance to the needs and particular circumstances of small and mid-size quoted companies, including AIM companies, for which the UK Corporate Governance Code may not be entirely relevant due to their size. The Board reviews the Group's corporate governance procedures from time to time, having regard to the size, nature and resources of the Group to ensure such procedures are appropriate.

THE ROLE OF THE BOARD

BOARD COMPOSITION AND OPERATION

The Board currently consists of the following Board members:

John Varney – Non-Executive Chairman;

Robin Howe, – Senior Non-Executive Director;

Peter Mayhead – Group Chief Executive Officer; and

Graham Pitman – Non-Executive Director

Peter Mayhead was appointed as Group CEO on 1 January 2018.

Graham Pitman was appointed to the Board as Non-Executive Director on 6 April 2018.

The size of the Board is considered to be appropriate to the Group's size and scope of activities and provides for effective continuing operation. The Board considers that the current governance arrangements are suitable for the size of the Group. Each Board meeting has the Non-Executive Chairman, a Senior Independent Non-Executive Director, a Non-Executive Director, a CEO and a Chief Commercial Officer present together with the Group Financial Controller and Company Secretary. The Board has approved a formal schedule of matters reserved for its decision which it reviews annually.

KEY MATTERS INCLUDE

- Strategy and values;
- Corporate governance;
- Annual operating and expenditure budgets;
- Treasury policies;
- Significant capital and revenue projects;
- Risk management strategies including approach to/appetite for risk;
- Systems for internal control;
- Board and key management appointments;
- Remuneration policies;
- Acquisitions and disposals; and
- Any other matter which has a material consequence for the Group

The Board has delegated all authorities to senior management other than those contained in the schedule of matters reserved to the Board, on the understanding that they will at all times act in accordance with the best interests of the Group, its shareholders and staff. Their actions will be consistent with the Group's financial and strategic plans and objectives and in conformity with relevant legislation and best practice, and they will report regularly to the Board on the execution of these responsibilities.

In addition, the Board has established three permanent committees: the Audit Committee, the Nomination Committee and the Remuneration Committee. These operate within defined terms of reference, which are reviewed by the Board annually. Full details of the terms of reference are provided on the Group website at www.pebbleplc.com.

The Board met ten times during the year, excluding ad hoc meetings convened solely to deal with procedural matters. Attendance at Board and Committee meetings during 2017, expressed as the number of meetings attended compared to the number entitled to attend, was as follows:

	John Varney	Robin Howe	Oliver Ellingham
Board No. attended	10/10	10/10	10/10
Audit No. attended	3/3	3/3	3/3
Remuneration No. attended	3/4 *	4/4	4/4
Nomination No. attended	1/1	1/1	1/1

* Did not attend due to own remuneration being discussed.

At the invitation of the relevant committees, the Non-Executive Chairman usually attends Audit Committee meetings and the Remuneration Committee meetings other than when his own remuneration is discussed. Where directors are unable to attend Board meetings they are advised of the matters to be discussed in advance of the meeting and given the opportunity to provide their views to the Non-Executive Chairman or Senior Independent Director.

In addition to the formal scheduled meetings the Board holds informal discussions with Executive Directors and senior operational managers on strategy, business development and other topics important to the Group's progress throughout the year. Non-Executive Board members are invited to attend the executive management meetings in furtherance of these discussions.

APPOINTMENT AND ELECTION OF DIRECTORS

The rules governing the appointment and replacement of directors are set out in the Company's Articles of Association. The Articles provide that all directors offer themselves for re-election at the first AGM subsequent to their appointment and at least once every three years thereafter.

John Varney retires from office by rotation and offers himself for re-election by shareholders. All other directors have been re-elected within the last three years. The Board confirms that, having taken into consideration the results of the performance evaluation undertaken in the year, the director being proposed for re-election has demonstrated commitment to their responsibilities and continues to perform effectively, and subject to shareholder approval will be reappointed for a further three years.

The Company's Articles of Association require any new directors appointed by the Board to retire from office and offer themselves for election by shareholders at the next Annual General Meeting following their appointment. Peter Mayhead and Graham Pitman therefore seek election by shareholders this year.

Biographical information for each of the directors are set out on page 14.

NON-EXECUTIVE CHAIRMAN

On 14 February 2017, John Varney became Non-Executive Chairman, supported by the other two current Non-Executive Directors for the remainder of the financial year.

SENIOR INDEPENDENT DIRECTOR

Robin Howe is the nominated Senior Independent Director. Shareholders can seek to raise any concerns they may have with him, where they have not been addressed through the normal channels of Non-Executive Chairman and Group Company Secretary, or where these channels are not deemed appropriate. The Senior Independent Director is responsible for leading the other Non-Executive Directors in the annual evaluation review of the performance of the Non-Executive Chairman.

THE NON–EXECUTIVE DIRECTORS

The Non-Executive Directors bring external view and insight to the Board, providing a range of experience and knowledge from other industry sectors. The terms of appointment for the Non-Executive Directors are available for inspection at the Group's registered office during normal business hours and for 15 minutes prior to, and during, the Annual General Meeting (AGM).

CORPORATE GOVERNANCE STATEMENT

THE COMPANY SECRETARY

The Group Company Secretary is responsible for ensuring all appropriate information is with the Board and its Committees in order for them to make appropriate decisions. They are also responsible for reporting on all corporate governance issues to the Board.

RESPONSIBILITY FOR RISK AND INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control although it should be recognised that it can provide only reasonable and not absolute assurance against material misstatement or loss. The effectiveness of the Group's system of internal control has been reviewed by the Board during the year, having special regard to the structural and cultural changes implemented during the year.

The directors confirm that the internal control framework is consistent with the revised Turnbull Guidance, that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Group, which is regularly reviewed by the Board, and that this process was in place throughout the year ended 31 December 2017 and up to the date of this report.

The Group has an internal control system in place which is designed to protect shareholders' investments by safeguarding the assets of the Group and facilitating its efficient operation. The Board considers that strong internal controls are integral to the sound management of the Group, and it is committed to maintaining strict financial, operational and risk management control over all its activities.

The Board aims to take business risks in an informed and proactive manner, such that the level of risk is aligned with the potential business rewards. Management regularly reviews risk exposures against current business risk level tolerances. The aim of risk management is to provide reasonable assurance that the risks associated with achieving business objectives are understood and that these risks are being responded to appropriately at all levels within the organisation.

The key elements of internal control within the Group to monitor the key risks are described below:

CONTROL ENVIRONMENT

There is a clear organisation structure in place, levels of authority are well defined and responsibility for operational control of the business units is delegated to managing directors. Whilst management guidelines and a comprehensive management reporting package are in place for all subsidiaries, the Group also monitors these controls by a number of means including regular internal review.

IDENTIFICATION AND EVALUATION OF RISKS AND CONTROL OBJECTIVES

The Board has the primary responsibility for identifying and evaluating the major risks facing the Group and developing appropriate policies and procedures to manage them. It identifies the key risks faced by the Group, and delegates responsibility for managing those risks to executive and senior management. The effectiveness of the risk control procedures in place is reported to the Board on at least an annual basis.

FINANCIAL REPORTING

The Group operates a comprehensive budgeting, financial reporting and forecasting system. The operating entity is required to complete management accounts on a monthly basis which compare actual results with budget, forecast and prior year; these are reviewed at both executive and Board level meetings to ensure that variances and discrepancies are identified and acted upon on a timely basis.

Towards the end of each financial year the operating entities prepare budgets for the following year. The Board reviews budgets before they are formally adopted. The Group reports to its shareholders at the half year and full year ends.

MAIN CONTROL PROCEDURES AND MONITORING SYSTEMS USED BY THE BOARD

There are a number of key control procedures in place that are reviewed on an annual basis by the Board. These cover the key risks faced by the Group and are predominantly of an operational and financial nature.

The Group finance function consolidates the Group results monthly, and a full financial review is presented at each Board meeting, accompanied by appropriate Key Performance Indicators for the Group. Each Group entity compiles forecasts of profits and cash flows reflecting their current expectations, which are also monitored by the Board. Reviews of the performance and financial position of the Group are included in the Non-Executive Chairman's Statement and the Strategic Report on pages 3 to 4 and 6 to 7. The Board uses these, together with the Directors' Report on pages 15 to 17, to present a balanced and understandable assessment of the Group's position and prospects.

On 15 March 2017 the Group sold its registered head office address, Marlborough House, a building owned by Vislink Holdings Limited, for £0.5 million. The gain on disposal of this building was £0.1 million.

The registered head office function remained in Marlborough House until the sale completed on 4 August 2017, when Pebble Beach Systems Group plc changed its registered office to 12 Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ.

In addition, the Board considers the following matters:

COMMERCIAL RISK

All significant commercial contracts are reported to the Board and are controlled by the use of appropriate vetting processes and authorisation levels.

INVESTMENT APPRAISAL

The Group has a clearly defined framework for controlling and reporting acquisitions, disposals and capital expenditure including the use of appropriate authorisation levels.

LEGAL MATTERS

Significant litigation and legal matters are reported to the Board.

OPERATING BUSINESS FINANCIAL CONTROLS

The executive management has defined the financial controls and procedures that each operating entity is required to comply with. Key controls over major business risks include reviews against Key Performance Indicators and exception reporting. The operating entities make periodic assessments of its exposure to major business risks and the extent to which these risks are controlled. These are reviewed by the executive management and reported to the Board.

STRATEGIC PLANNING

The executive management are responsible for keeping the Board appraised of the Group strategy. The Board reviews strategic plans as part of the ongoing business planning process and has been closely involved in the review of the strategy undertaken during 2017.

COMPUTER SYSTEMS

Much of the Group's financial management information is processed by and stored on computer systems. Accordingly, the Group has established controls and procedures over the security of data held on computer systems.

INSURANCE

The Group's programme of insurance covers the major risks to the Group's assets and business and is reviewed annually by the Board.

INTERNAL AUDIT

The Group does not have an internal audit function although the head office team fulfils some functions of an internal audit department. The directors believe the Group falls into the category of small for this purpose. The Audit Committee reviews the need for an internal audit department at least annually.

BOARD PERFORMANCE EVALUATION

The directors confirm that they have conducted an evaluation of the performance and effectiveness of the Board for 2017. The directors met and discussed matters of performance, structure, objectives and process of the Board and its individual members.

The Board identified and agreed actions where appropriate. The directors addressed any comments on the Non-Executive Chairman's performance to the Senior Independent Director. The evaluation of the Non-Executive Chairman's performance during the year was led by the Senior Independent Director.

THE AUDIT COMMITTEE

MEMBERSHIP AND DUTIES

The Audit Committee was chaired by Oliver Ellingham until he retired at the end of 2017. John Varney and Robin Howe served on the Committee throughout the year. Robin Howe was appointed as Audit Committee Chairman on 1 January 2018. Robin has the relevant financial experience as required.

The Committee also meets with the external auditors without the presence of Executive Directors, for independent discussions.

The Audit Committee's responsibilities include: making recommendations to the Board regarding the appointment of the external auditors based on its review of the scope of work, cost-effectiveness and independence of the external auditors; keeping under review the effectiveness of the Group's system of internal controls and risk management and reporting to the Board its findings; reviewing the internal control review programme; monitoring the financial reporting process; reviewing and challenging the actions and judgements of management in relation to the interim and annual financial statements before submission to the Board; reviewing the Company's arrangements for its employees to raise concerns in confidence about possible wrongdoing; and reviewing the Company's procedures for detecting fraud.

CORPORATE GOVERNANCE STATEMENT

In order to ensure the independence and objectivity of our auditors, PricewaterhouseCoopers LLP, the Committee regularly reviewed the remuneration received by them for audit services, audit-related services and non-audit work. These reviews ensured a balance of objectivity, value for money and compliance with our requirement for independence. The outcome of these reviews was that the performance of non-audit work by our auditors was the most cost-effective way of conducting our business and that no conflicts of interest existed between such audit and non-audit work.

There are certain areas in which the Committee considers that the external auditors can add value to the Group, without compromising their independence. In accordance with the Group's policy on non-audit services, the Group received non-audit services during the year related to tax compliance, tax advice, restructuring and acquisitions. Any significant non-audit work undertaken by the external auditors was approved by the Audit Committee to ensure that the auditors' independence was not compromised. These reviews enabled the Audit Committee to confirm that it continues to receive an efficient, effective and independent audit service.

The Audit Committee confirms that it conducted an assessment of the external auditors and determined that adequate policies and safeguards were in place to ensure that their independence and objectivity had not been impaired during 2017. Audit partners are rotated at least every five years and the Board propose to appoint new auditors. The company will propose a resolution to appoint new auditors at the Annual General Meeting.

ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee met three times during the year and once up to the date of this report in 2018 and reported its conclusions to the Board.

In these meetings the Audit Committee:

- reviewed the accounting policies;
- reviewed the announcement of the financial results of the Group for the years ended 31 December 2016, 31 December 2017 and the 2017 interim results prior to approval by the Board;
- considered and reviewed the 2016 and 2017 annual reports and financial statements and the 2017 interim report, paying particular attention to critical areas of management judgement, together with the external auditors' reports;
- considered and discussed the audit plan with the external auditors for the 2017 audit;
- considered and recommended to the Board the reappointment of the auditors which will be put to shareholders for approval at the AGM;
- reviewed and considered reports from internal control visits and the external auditors on the effectiveness of the system of internal control, and reported to the Board on the results of the review;
- reviewed the reports from management on the Group's main risks and the assessment and mitigation of those risks;
- approved the statutory audit fee for 2017, and reviewed non-audit fees paid to the external auditors to ensure they were in accordance with the Group's policy;
- monitored the independence and undertook an evaluation of the effectiveness of the external auditors;
- reviewed the policies introduced to comply with the UK Bribery Act 2010; and
- reviewed the Code of Conduct which sets out how the Group's employees are able to raise concerns over financial or other irregularities in confidence. This policy was in place throughout the year.

In addition, the Audit Committee reviewed the need for an internal audit department and concluded that there was not a requirement given the present size of the Group and internal control reviews undertaken by the head office function.

FINANCIAL REPORTING

During the year, the Audit Committee reviewed the appropriateness of the Group's interim and full year financial statements, including the consideration of significant financial reporting judgements made by management taking into account reports from management and the external auditors. The main area of focus considered by the Committee during the year were as follows:

Area of focus	Conclusion
Valuation of goodwill and intangible assets The audit committee reviewed the valuation of goodwill and intangible assets to ensure assets are valued correctly and not overstated in the context of the trading performance of the relevant cash generating units.	**How our audit addressed this matter** The audit committee concluded that the conclusion that no impairment was required for either goodwill or intangible assets was reasonable.
Vislink Communication Systems (VCS) supplier obligations On the sale of the trade and assets of VCS to xG Technology Inc. (xG), it was agreed that the Group would retain the right to any sums received in the future in respect of an outstanding specific debtor, subject to a maximum sum of $2.0m. The Group was reliant on xG fulfilling this contract and so enabling the Group to recover this debt. After an initial $0.25m of this debt was received, the audit committee made the assessment that the remainder of the debt of $1.75m is not recoverable and have provided against it in full. In fulfilling the contract, suppliers were utilised by xG and a provision for obligations arising to these suppliers has been made of £0.3m.	Following extensive discussions with xG, the Board announced in December 2017 that there was no likelihood of the collection of the remainder is not recoverable. Accordingly, this debt has been fully impaired. In addition, provision has been made for supplier obligations of £0.3m.
Share based payment accrual Further to the termination of the formal sale process, the audit committee are working to agree the terms of the Pebble Beach Systems VCP scheme, to recalculate the valuation of the liability based on the terms within the scheme.	The deferred payout of this has been recalculated and a credit has been taken to the income statement for £0.5m. This reduction is as a result of a sale of the business no longer being probable.
Presentation of discontinued operations Following the sale of the trade and assets of the VCS to xG, the audit committee ensured the results from the discontinued activities were correctly calculated and the adjustments to clear the held for sale assets and liabilities were posted accordingly.	The audit committee is satisfied that the presentation in the accounts is appropriate.
Investments impairment assessment The audit committee reviewed the valuation of investments held in subsidiary companies, including judgement and any impairment below carrying value which could have a material impact on the parent company's financial statements.	Further to the termination of the FSP due to discussions not resulting in an offer considered by the Board to reflect the value of the Group's operations, the audit committee concluded that an £8.6m impairment was required to write down the investment in the business within the parent company.
Going Concern The audit committee has reviewed the forecast which shows cost savings and an improvement in profitability. They have also considered sensitivities within the forecast.	The audit committee is satisfied that there is sufficient headroom within the forecast.

CORPORATE GOVERNANCE STATEMENT

THE NOMINATION COMMITTEE

John Varney chairs the Nomination Committee. Oliver Ellingham and Robin Howe served on the Committee throughout 2017. The Group Company Secretary also attends the meetings.

The Nomination Committee reviews the structure, size and composition of the Board. It also ensures that there is adequate succession planning in regard to Board and senior management appointments.

There was one formal meeting of the Committee during the year.

THE REMUNERATION COMMITTEE

Details of the Remuneration Committee and the Group's compliance with the requirements of the NVQ Code are provided in the Remuneration Report as set out on pages 25 to 28.

RELATIONS WITH SHAREHOLDERS

The Board welcomes enquiries from both institutional and private investors throughout the year and responds quickly either verbally or in writing to enquiries received from both. The Non-Executive Directors are available to attend meetings with shareholders if they are requested to do so.

The Group, via its website at www.pebbleplc.com, provides up-to-date information on the Group and its operating subsidiaries, including all stock exchange announcements and downloadable copies of the most recent report and financial statements and interim statements. The website also provides a communication channel to the Group via email. Shareholders may elect to receive all shareholder documents electronically by registering with the Group's registrars.

The Group uses its AGM as an opportunity to communicate with its shareholders and encourages their participation. As in previous years, shareholders will have the opportunity for a question and answer session with members of the Board at the next AGM on 28 June 2018. The notice of the AGM is sent to shareholders, and is available on the Company website, at least 21 working days in advance of the date of the meeting and contains details of the separate resolutions that are proposed for shareholder approval. Separate resolutions are proposed on each substantially different issue and the number of proxy votes cast for each resolution is disclosed by the Chairman at the meeting. Shareholders have the option of submitting their voting instructions electronically or by returning the personalised proxy form which separately accompanies the annual report.

The notice of meeting for the forthcoming AGM separately accompanies the annual report and may be viewed on the Company's website: www.pebbleplc.com.

Documents relating to the Company's governance and the full terms of reference of its standing Committees are also available on the Company's website: www.pebbleplc.com.

By order of the Board

John Varney
Non-Executive Chairman
25 June 2018

REMUNERATION REPORT

This report is on the activities of the Remuneration Committee for the year to 31 December 2017, and sets out the Remuneration Committee's approach to directors' remuneration. The Remuneration Committee's main responsibility is to ensure that payments to executives are appropriate and aligned with shareholder interests, producing sustainable value creation through the delivery of our business strategy.

COMMITTEE ACTIVITIES

The responsibilities of the Committee are to advise upon and make recommendations to the Board on the Group's remuneration policies and, within the framework established by the Board, to recommend the remuneration of the Executive Directors.

Robin Howe chairs the Committee and was assisted by John Varney and Oliver Ellingham throughout 2017.

No member of the Committee has any personal financial interest (other than as a shareholder), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the Board.

The Remuneration Committee measures the performance of the Executive Directors and key members of senior management as a prelude to recommending their annual remuneration, bonus awards and share plan awards to the Board for final determination. The remuneration of the Non-Executive Directors is recommended by the Executive Directors and takes account of the time spent on Board and Committee matters. The Board as a whole will make the final determination but no director plays a part in any discussion about his own remuneration. The Remuneration Committee has access to both internal and external advice including, where appropriate, information on the remuneration of similar executives in comparable organisations. Executive compensation is regularly benchmarked against industry data, notably through the use of Deloitte's Annual Executive Remuneration report.

The focus is on ensuring that a competitive and appropriate base salary is paid to directors and senior managers, together with incentive arrangements that are aligned with shareholders' interests and with long-term business strategies, transparent, and measured against challenging benchmarks.

During 2017, the following salary changes were approved by the Remuneration Committee:

In recognition of the additional duties and responsibilities following his appointment as Non-Executive Chairman on 14 February 2017, John Varney's salary increased from £40,000 to £70,000 with effect from 21 June 2017.

No bonus was paid to the Executive Directors during 2017.

REMUNERATION POLICY

The information provided in this part of the Annual Report on Remuneration is not subject to audit.

The date from which it is intended by the Company that the remuneration policy is to take effect is 1 January 2018.

The following table sets out the main elements of the remuneration policy for the year ended 31 December 2018. Each year, the Remuneration Committee reviews the remuneration policy, taking into account both the external market (including environmental, social and corporate governance issues) and the Company's strategic objectives over the short and the medium term. The framework has been designed as an integral part of the Company's overall business strategy.

REMUNERATION REPORT

Component	Purpose and Link To Strategy	How Operated	Maximum Potential Value	Performance Measures
SALARY AND FEES	To attract and retain high-calibre individuals by providing an appropriate level of basic fixed income whilst avoiding excessive risk arising from over-reliance on variable income. The basic salary reflects the market rate for the individual, their role, skills and experience.	Generally reviewed annually (with any change effective 1 January) but exceptionally at other times of the year. Set with reference to individual performance, experience and responsibilities. Benchmarked against appropriate companies by the Remuneration Committee. The Remuneration Committee periodically benchmarks salaries based on market assessments, the intention being that basic salaries should not normally be increased by more than the rate of inflation each year whilst progressively increasing the performance-related element of pay. However, for senior managers the amount of performance-related pay, being a combination of cash bonus and long-term incentives, is expected to increase over time.	N/A	N/A
ALL TAXABLE BENEFITS	To aid retention and be competitive in the market place. Healthcare benefits in order to minimise business disruption.	Car allowance Fuel Medical insurance Permanent health insurance Life assurance	N/A	N/A
ANNUAL BONUSES	To incentivise the achievement of key financial and strategic targets for the forthcoming year without encouraging excessive risk taking.	The Remuneration Committee considers and approves the measures and targets at the start of each year and ensures they are aligned with business strategy and are sufficiently stretching. In setting financial parameters, the Remuneration Committee takes into account the Company's internal budgets and, where applicable, investors' expectations. No bonus is to be earned unless broker's forecasts for adjusted operating profit is achieved. The targets applying to financial measures are based on a sliding scale. Paid in cash. Not pensionable.	Up to 100% of base salary.	Adjusted operating profit (defined as profit before net finance costs, amortisation of acquired intangibles, non-recurring items and taxation) (75%). Cash (25%). No bonuses were paid to any directors during 2017.
PENSIONS	To aid retention and remain competitive in the marketplace.	For Executive Directors, an annual pension allowance of up to 20 per cent of base salary. There is no pension entitlement for Non-Executive Directors.	N/A	N/A

SERVICE CONTRACTS

For the period under review the following changes took place:

- Following the sale of the hardware division in 2017, it was mutually agreed with the outgoing Executive Chairman, John Hawkins, that his role had become redundant. His employee service contract for the role of Executive Chairman, which ran until 13 February 2018, provided for termination upon 12 months' prior notice in writing.
- On 14 February 2017 John Varney was appointed Non-Executive Chairman. On 1 January 2018 Robin Howe was appointed Audit Committee Chairman.
- As previously announced, Oliver Ellingham stood down on 31 December 2017.
- No payments or outstanding incentive awards were due to Mr Ellingham at the time of resignation.
- The directors' service contracts are available for inspection during business hours on any weekday between the date of the notice and the Annual General Meeting at the Company's registered office and at the venue of the Annual General Meeting from 15 minutes prior to the commencement of the Annual General Meeting until its conclusion.

POLICY ON PAYMENT FOR LOSS OF OFFICE

All payments due will normally be made in accordance with the Contract of Employment and Service Agreement of the executive concerned and will be sufficiently detailed to ensure transparency.

REPORT ON EXECUTIVE DIRECTORS' REMUNERATION DIRECTORS' EMOLUMENTS

The remuneration of the Executive Directors for the years 2016 and 2017 is made up as follows:

AGGREGATE DIRECTORS' REMUNERATION (AUDITED)

Directors' emoluments and pension contributions for the year ended 31 December 2017 were as follows:

	Basic salary and fees £	Payment for loss of office £	Benefits £	Emoluments before pension contributions £	Pension contributions £	**2017 Total £**	2016 Total £
Executive Directors							
John Hawkins	360,000	248,069	18,000	626,069	72,000	**698,069**	462,524
Non–executive Directors							
Robin Howe	40,000	–	–	40,000	–	**40,000**	40,000
Oliver Ellingham	40,000	–	–	40,000	–	**40,000**	40,000
John Varney	55,923	–	–	55,923	–	**55,923**	40,000
	495,923	248,069	18,000	761,992	72,000	**833,992**	582,524

BENEFITS

Benefits for the Executive Directors include the provision of a car allowance.

PERFORMANCE-RELATED BONUS

No bonus was paid to the Executive Directors during 2017.

REMUNERATION REPORT

TOTAL PENSION ENTITLEMENTS

The Group operates a defined contribution pension scheme and it is the Group's policy that only basic salaries are pensionable for Executive Directors.

There are no pension arrangements for the Non-Executive Directors. There are no unfunded pension promises or similar arrangements for current or previous directors.

PAYMENT TO PAST DIRECTORS

Following notice of termination of his service contract, John Hawkins received contractual salary and benefits to 13 February 2018.

PAYMENT FOR LOSS OF OFFICE

As part of his settlement agreement, the sum of £125,729 owed by John Hawkins was written off and PAYE and employee's National Insurance totalling £102,869 was provided for.

DIRECTORS' INTEREST IN SHARE AWARD SCHEMES

A) LONG TERM INCENTIVE PLAN (LTIP)

The plc Company LTIP was introduced in 2008, and an extension approved on 30 May 2012. It is designed to reward and retain executives over the long term whilst aligning their interests with those of shareholders.

Options have been granted as nil cost options under this scheme. The options granted under this scheme are generally exercisable at the end of the performance period and for seven years thereafter. Awards under this scheme are subject to performance criteria, the scales relating to which are determined by the Remuneration Committee. All awards made to John Hawkins lapsed on 13 February 2018 when his employment contract expired.

No LTIP awards were made to Executive Directors in the year ended 31 December 2017.

B) SHARE OPTIONS

No options were granted to Executive Directors during the year.

C) SHARE INCENTIVE PLAN (SIP)

The Executive Directors were not offered participation in this scheme.

DIRECTORS' INTERESTS IN SHARES

The table below shows the interests of the directors in office at the end of the year in the share capital of the Company.

	At 31 December 2017	At 31 December 2016
Non–Executive Chairman		
John Varney	**1,062,229**	62,229
Non–Executive Directors		
Robin Howe	**1,232,578**	1,232,578
Oliver Ellingham	**167,000**	167,000

The following changes took place in the interests of the directors between 31 December 2016 and 31 December 2017.

- John Varney purchased 1,000,000 shares at an average price of 1.49 pence per share on 1 December 2017.

STATEMENT OF VOTING AT GENERAL MEETING

At the last AGM held on 20 June 2017, resolutions of the following kind were moved by the Company in respect of:

- A resolution to approve the Directors' Remuneration Report for the year ended 31 December 2016.

The Group is committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to directors' remuneration, the reasons for any such vote will be sought, and any actions in response will be detailed here.

POLICY REPORT APPROVAL

This report was approved by the Board of directors on 25 June 2018 and signed on its behalf by:

Robin Howe
Senior Non-Executive Director,
Chairman of the Remuneration Committee,
Chairman of the Audit Committee

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the profit or loss of the Group and parent Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the Group and parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and parent Company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Annual Report, confirm that, to the best of their knowledge:

- the Group and parent Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group and loss of the parent Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and parent Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group and parent Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group and parent Company's auditors are aware of that information.

By order of the Board

John Varney
Non-Executive Chairman
25 June 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PEBBLE BEACH SYSTEMS GROUP PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion, Pebble Beach Systems Group Plc's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the Group's profit and cash flows, and the parent company's loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company statements of financial position as at 31 December 2017; the consolidated and company income statements and the consolidated statement of comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in shareholders' equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

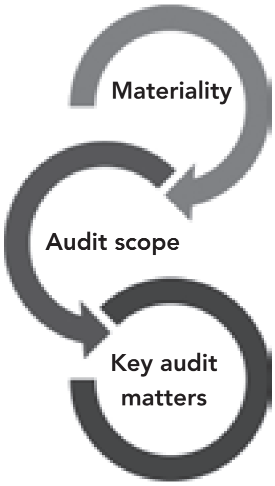
OUR AUDIT APPROACH

CONTEXT

Pebble Beach Systems Group plc is listed on the Alternative Investment Market (AIM) of the London Stock Exchange and its principal activities comprise the sale of Software.

On 3 February 2017 the Group completed the sale of the trade and assets of the Vislink Communication Systems division in a transaction with xG Technology Inc.

OVERVIEW



- Overall group materiality: £103,000 (2016: £319,000), based on 1% of revenue from continuing operations.
- Overall parent company materiality: £95,000 (2016: £275,000), based on 5% of loss before tax.

- The UK audit team performed an audit of the complete financial information of two operating units in the UK (Pebble Beach Systems Limited and Legacy Broadcast International Limited) and one operating unit in the USA (Pebble Beach Systems Inc.), as well as the parent company based in the UK (Pebble Beach Systems Group Plc).
- Additional procedures were also performed at a Group level over centralised processes and functions, including the audit of consolidation journals.
- Taken together, these four reporting units (post consolidation entries) comprise over 97% of Group overall revenues.
- Specific procedures were also performed by the UK audit team on certain other balances and transactions and the remaining reporting units. In particular, additional detailed testing was performed on exceptional costs in two reporting units (Legacy Broadcast Inc. and Legacy Broadcast Holdings Limited).

- Going concern (Group and parent).
- Valuation of goodwill and intangible assets (Group).
- Vislink Communication Systems supplier obligations (Group).
- Share based payment accrual (Group and parent).
- Presentation of discontinued operations (Group).
- Investments impairment assessment (Parent).

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PEBBLE BEACH SYSTEMS GROUP PLC

THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Going concern We focused on this area because the determination of whether the Group will be able to comply with new banking covenants and payment obligations involves complex and subjective judgements by the Directors about the future results of the business, including a significant turnaround in profit from continuing operations. At 31 December 2017 the group had external borrowings of £11.5m and was in breach of the banking covenants that were in place at the time. Group and parent	We examined correspondence with the Group's bankers and obtained evidence that a loan facility has been agreed which is in place until November 2019. In addition to this, we have examined management's cash flow forecasts for the period to November 2019 which show how revenue growth and the cost savings from the closure of the Hungerford head office and associated redundancies will return the Group to the necessary profitability in order to comply with the new banking covenants. We assessed each of the key assumptions of revenue growth, gross margin and cost reductions in turn and sensitised management's model, to ascertain the headroom within the model. Based on our work, we determined that management's assessment that the Group remains a going concern is reasonable.

Key audit matter	How our audit addressed the key audit matter
Valuation of goodwill and intangible assets The assessment of the carrying value of goodwill and intangible assets involves judgement and any impairment of the carrying value of such assets could have a material impact on the Group's financial statements. This is an area of continued focus for the audit to ensure that assets are valued correctly and not overstated in the context of the trading performance of the relevant cash generating units. Group	We examined management's impairment assessment, auditing in detail the key underlying assumptions in the discounted cash flow models. We met with management and key operational personnel to update our understanding of discounted cash flow models with reference to current performance. We assessed each of the key assumptions in turn and sensitised management's model. We also compared the key assumptions of discount rate and long-term growth with market data for reasonableness. Based on our work, we concluded that the judgement made that no impairment was required for either goodwill or intangible assets was reasonable. We note however that the goodwill and intangible assets held remain sensitive to changes in key assumptions. In particular, failure to achieve the cost savings from the redundancies made, could give rise to an impairment in the future. We assessed the appropriateness of the accounting and related disclosures included in the financial statements. These are deemed reasonable.
Vislink Communication Systems supplier obligations On the sale of the trade and assets of Vislink Communications Systems to xG Technology Inc., it was agreed that the group would retain the right to any sums received in the future in respect of an outstanding specific debtor, subject to a maximum sum of $2.0 million. The Group was reliant on xG Technology Inc. fulfilling this contract and so enabling the Group to recover this debt. After an initial $0.25 million of this debt was received, management have made the assessment that the remainder of the debt of $1.75 million is not recoverable and have provided against it in full. In fulfilling the contract, suppliers were utilised by xG Technology Inc. and a provision for obligations arising to these suppliers has been made of £0.3 million. Management are actively working to recover these costs. Group	We have met with management to update our understanding and reviewed correspondence with xG Technology Inc. We have obtained and reviewed correspondence with the suppliers for which a payment obligation exists, and assess the completeness of the liability as reasonable. We have agreed the receipt of $0.25 million against the debtor and consider management's assessment that the remainder is not recoverable to be reasonable. We assessed the appropriateness of the accounting and related disclosures included in the financial statements. These are deemed reasonable.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PEBBLE BEACH SYSTEMS GROUP PLC

Key audit matter	How our audit addressed the key audit matter
Share based payment accrual The terms of the Pebble Beach Systems VCP scheme include a provision for full pay out in the event of a sale of the business. As a result of the decision by management not to sell the continuing operations, the valuation of the liability has been recalculated based on the terms within the scheme. Group and parent	A credit has been taken to the income statement for £0.5m as a result of a sale of the business no longer being probable. We have reviewed the terms of the VCP scheme and agreed the calculation formula for the liability to these terms. We have recalculated the liability based on the formula and consider the liability to be reasonable. We assessed the appropriateness of the accounting for the credit to the income statement and related disclosures included in the financial statements. These are deemed reasonable.
Presentation of discontinued operations On 3 February 2017 the group completed the sale of the trade and assets of the Vislink Communication Systems division to xG Technology Inc. For the period to 31 December 2017, management need to ensure that the result from the discontinued activities has been correctly calculated and the adjustments to clear the held for sale assets and liabilities have been posted accordingly. Group	We have obtained the workings from management for the loss on disposal and have agreed to the calculation to the underlying support. We have agreed the held for sale assets and liabilities breakdown to the work that was performed in 2016 and have agreed the consideration received. There is particular judgement in regards to certain exceptional costs during the year and whether they relate to continuing or discontinued operations. We assessed the appropriateness of the accounting for these and the related disclosures included in the financial statements. These are deemed reasonable.
Investments impairment assessment The valuation of investments held in subsidiary companies involves judgement and any impairment below carrying value could have a material impact on the parent company's financial statements. Parent	An impairment of £8.6million has been taken in relation to the investment in the Pebble Beach Systems Limited within the parent company. This is the result of the failure to sell the business for the desired value during the year. We examined management's impairment assessment, auditing in detail the assumptions used in the calculation of the company valuations, which are based on the enterprise value. Based on our work, we determined that the judgement made by management that a £8.6 million impairment was required to write down the investment in Pebble Beach Systems business within the parent company was reasonable. We assessed the appropriateness of the accounting and related disclosures included in the financial statements. These are deemed reasonable.

HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Overall materiality	£103,000 (2016: £319,000).	£95,000 (2016: £275,000).
How we determined it	1% of revenue from continuing operations.	5% of loss before tax.
Rationale for benchmark applied	Revenue from continuing operations is deemed the most appropriate benchmark given the volatility of profit/loss before tax.	We believe profit before tax is the most appropriate benchmark since this entity is not revenue generating.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £32,000 and £95,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £5,000 (Group audit) (2016: £15,000) and £5,000 (Parent company audit) (2016: £15,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PEBBLE BEACH SYSTEMS GROUP PLC

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

STRATEGIC REPORT AND DIRECTORS' REPORT

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Directors' Responsibilities Statement set out on page 29, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

USE OF THIS REPORT

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Mark Ellis
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
25 June 2018

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	**2017 £000**	2016 £000
Revenue	5	**10,320**	10,879
Cost of sales		**(3,831)**	(2,924)
Gross profit		**6,489**	7,955
Sales and marketing expenses		**(2,351)**	(3,052)
Research and development expenses		**(1,762)**	(1,596)
Administrative expenses		**(2,718)**	(4,945)
Foreign exchange (loss)/gain		**(95)**	1,840
Other expenses	6	**(1,931)**	(2,100)
Operating loss	6	**(2,368)**	(1,898)
Operating loss is analysed as:			
Adjusted operating profit/(loss) (2016 restated)		**500**	(1,082)
Depreciation		**(187)**	(197)
Amortisation and impairment of acquired intangibles		**(1,419)**	(1,422)
Amortisation of capitalised development costs		**(655)**	(359)
Non-recurring items		**(512)**	(678)
Exchange (losses)/gains charged/credited to the income statement	6	**(95)**	1,840
Finance costs	8	**(339)**	(331)
Finance income	8	**4**	2
Loss before tax		**(2,703)**	(2,227)
Tax	9	**95**	(729)
Loss for the year being loss attributable to owners of the parent		**(2,608)**	(2,956)
Net profit/(loss) from discontinued operations	17	**2,892**	(52,358)
Net profit/(loss) for the year		**284**	(55,314)

(Loss)/earnings per share from continuing and discontinued operations attributable to the parent during the year			
Basic (loss)/earnings per share			
From continuing operations		**(2.1)p**	(2.4)p
From discontinued operations		**2.3p**	(42.6)p
From loss for the year	11	**0.2p**	(45.0)p
Diluted (loss)/earnings per share			
From continuing operations		**(2.1)p**	(2.4)p
From discontinued operations		**2.3p**	(42.6)p
From loss for the year	11	**0.2p**	(45.0)p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 £000	2016 £000
Profit/(loss) for the financial year	**284**	(55,314)
Other comprehensive (expenses)/income – items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of overseas operations		
– continuing operations	**(92)**	2,593
– discontinued operations	**(176)**	(2,230)
Recycle translation reserve for discontinued operations	**(5,077)**	–
Total comprehensive expense for the financial year	**(5,061)**	(54,951)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Assets			
Non-current assets			
Intangible assets	12	**6,941**	8,216
Property, plant and equipment	13	**285**	467
Deferred tax assets	23	**–**	–
Total non-current assets		**7,226**	8,683
Current assets			
Inventories	14	**225**	206
Trade and other receivables	15	**3,729**	5,436
Current tax assets	19	**5**	254
Cash and cash equivalents	16	**1,862**	2,044
		5,821	7,940
Assets of disposal group and non-current asset classified as held for sale	17	**–**	15,177
Total current assets		**5,821**	23,117
Liabilities			
Current liabilities			
Financial liabilities – borrowings	20	**1,613**	16,587
Trade and other payables	18	**5,588**	8,933
Current tax liabilities	19	**–**	–
Provisions for other liabilities and charges	22	**400**	391
		7,601	25,911
Liabilities of disposal group classified as held for sale	17	**–**	5,014
Total current liabilities		**7,601**	30,925
Net current liabilities		**(1,780)**	(7,808)
Non-current liabilities			
Financial liabilities – borrowings	20	**10,500**	–
Deferred tax liabilities	23	**644**	1,174
Provisions for other liabilities and charges	22	**367**	733
Total non-current liabilities		**11,511**	1,907
Net liabilities		**(6,065)**	(1,032)
Equity attributable to owners of the parent			
Ordinary shares	24	**3,115**	3,115
Share premium		**6,800**	6,800
Capital redemption reserve		**617**	617
Merger reserve		**29,778**	32,448
Translation reserve		**(139)**	5,206
Accumulated losses		**(46,236)**	(49,218)
Total deficit		**(6,065)**	(1,032)

The financial statements on pages 38 to 75 were approved by the Board of Directors on 25 June 2018 and were signed on its behalf by:

John Varney
Non-Executive Chairman

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Ordinary shares £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Translation reserve £000	Accumulated losses £000	Total £000
At 1 January 2016	**3,066**	**6,800**	**617**	**32,448**	**4,843**	**6,678**	**54,452**
Share based payments: Value of employee services	–	–	–	–	–	1,247	1,247
Dividends payable (note 10)	–	–	–	–	–	(1,829)	(1,829)
Transaction with owners	–	–	–	–	–	(582)	(582)
Issued shares	49	–	–	–	–	–	49
Retained loss for the year	–	–	–	–	–	(55,314)	(55,314)
Exchange differences on translation of overseas operations	–	–	–	–	363	–	363
Total comprehensive income/expense for the period	49	–	–	–	363	(55,314)	(54,902)
At 31 December 2016	**3,115**	**6,800**	**617**	**32,448**	**5,206**	**(49,218)**	**(1,032)**
At 1 January 2017	**3,115**	**6,800**	**617**	**32,448**	**5,206**	**(49,218)**	**(1,032)**
Share based payments: Value of employee services	–	–	–	–	–	28	28
Transaction with owners	–	–	–	–	–	28	28
Retained profit for the year	–	–	–	–	–	284	284
Transfer	–	–	–	(2,670)	–	2,670	–
Recycle translation reserve for discontinued operations	–	–	–	–	(5,077)	–	(5,077)
Exchange differences on translation of overseas operations	–	–	–	–	(268)	–	(268)
Total comprehensive income/expense for the period	–	–	–	(2,670)	(5,345)	2,982	(5,033)
At 31 December 2017	**3,115**	**6,800**	**617**	**29,778**	**(139)**	**(46,236)**	**(6,065)**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Cash used in operations	25	**(2,761)**	(1,235)
Interest paid		**(348)**	(351)
Taxation received/(paid)		**528**	(174)
Net cash used in operating activities		**(2,581)**	(1,760)
Cash flows from investing activities			
Interest received		**47**	2
Proceeds from sale of property, plant and equipment		**510**	80
Proceeds from sale of business		**7,493**	–
Purchase of property, plant and equipment	13	**(107)**	(301)
Expenditure on capitalised development costs	12	**(798)**	(4,261)
Net cash generated from/(used in) investing activities		**7,145**	(4,480)
Cash flow from financing activities			
Net new bank loans (repaid)/raised		**(3,500)**	6,000
Dividend paid	10	**–**	(1,829)
Issue of shares		**–**	49
Net cash (used in)/generated from financing activities		**(3,500)**	4,220
Net increase/(decrease) in cash and cash equivalents and overdrafts		**1,064**	(2,020)
Effect of foreign exchange rate changes		**(272)**	(774)
Cash and cash equivalents and overdrafts at 1 January		**457**	3,251
Cash and cash equivalents and overdrafts at 31 December	16	**1,249**	457

Net debt comprises:			
Cash and cash equivalents and overdrafts		**1,249**	457
Borrowings		**(11,500)**	(15,000)
Net debt at 31 December		**(10,251)**	(14,543)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

Pebble Beach Systems Group plc ("the Company") and its subsidiaries (together "the Group") is a leading developer and supplier of automation, Channel in a Box and content management solutions for TV broadcasters, service providers, and cable and satellite operators. Following the completion of the disposal of the hardware divisions, VCS, in February 2017 the continuing Group now employs around 65 people worldwide.

The Company is listed on the AIM market of the London Stock Exchange (AIM: PEB). For further information, visit www.pebbleplc.com.

The Company is incorporated and domiciled in the UK. The address of its registered office is 12 Horizon Business Village, 1 Brooklands Road, Weybridge, KT13 0TJ.

The registered number of the Company is 04082188.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

BASIS OF ACCOUNTING

The Group financial statements have been prepared on a going concern basis under the historical cost basis of accounting, except where fair value measurement is required under IFRS as described below and in accordance with International Financial Reporting Standards (IFRS), and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumption and estimates are significant to the Group financial statements, are disclosed in note 4.

During the current reporting year there were no new standards or amendments which had a material impact on the net assets of the Group. In addition, standards or amendments issued but not yet effective are not expected to have a material impact on the net assets of the Group. IFRS 9 Financial Instruments will become effective for the Group from 1 January 2018; it is not expected to impact the Group. IFRS 15 Revenue from Contracts with Customers will become effective for the Group from 1 January 2018. It will affect the Group's larger contracts, but is not expected to be material. IFRS 16 Leases will become effective for the Group from 1 January 2019; its effect has not been quantified.

GOING CONCERN

The directors are required to make an assessment of the Group's ability to continue to trade as a going concern.

On 2 February 2017 the Group sold the trade and assets of the hardware division (VCS) to xG, which reduced the net debt of the Group to £12.0 million.

On 14 February 2017, following the sale of VCS, the Group pursued a cost reduction strategy, resulting in the closure of the Head Office function, which was then no longer appropriate as the Company had a single operating subsidiary, Pebble Beach Systems Limited, which operates from a standalone site. Accordingly, notice was served on the Head Office team.

Following the disposal of VCS, a strategic review and formal sale process (FSP) was initiated to consider options available to reduce the Company's outstanding debt, including the possibility of a sale of the Group.

During the course of the FSP the Company engaged with a number of interested parties. These discussions did not result in an offer which was considered by the Board to reflect the value of the Group's operations and as the Company was not in dialogue with any third party regarding an offer for the Company's shares, the Board decided to terminate the FSP.

During 2017 the Group forecast that it would be in breach of its banking covenants for the foreseeable future meaning it was reliant on the ongoing support of its bankers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

At 31 December 2017 net debt was £10.2 million (net cash £1.3 million and bank debt of £11.5 million). In addition, there was an available overdraft of £1.0 million which was not utilised.

In April 2018 the Company announced it had negotiated new heads of terms which were subject to a revision of the existing documentation. Subsequently, in June 2018, the Company confirmed that the amended Revolving Credit and Term Loan Facilities agreement had been signed with Santander UK PLC. The revision secures the facility until 30 November 2019 with simplified banking covenants and a reasonable repayment schedule.

In order to assess the appropriateness of preparing the financial statements on a going concern basis, management have prepared detailed projections of expected cash flows. These projections include the impact of cost reductions of £3.6 million, £2.2 million delivered as part of the 2017 PLC cost reduction strategy and £1.4 million through operational costs savings completed in January 2018 in the Pebble Beach Systems operation.

As part of the review, the board considered sensitivities with regards to the timing of revenue growth coming from the transition in the broadcast industry from SDI to IP platforms. It looked at sensitivities regarding the recovery of gross margin following the completion of the Harmonic OEM. Finally, it considered sensitivities regarding the cost reductions.

Given that both the margin recovery and cost reductions both pertained to items already completed prior to sign off of the accounts the board concluded that the primary risk is one of ongoing trading and therefore the Group remains a going concern.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December 2017. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to vary from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from the inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

BUSINESS COMBINATIONS

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of assets transferred, the liabilities assumed and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Any contingent consideration to be transferred by the Group is recognised at the fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Costs directly attributable to an acquisition are charged directly to the income statement as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of the 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.

SEGMENTAL REPORTING

Following the disposal of the VCS businesses the Group has only one trading subsidiary. The Board believes that the Group's results should be viewed as a whole. The chief operating decision-maker has been identified as the Board.

The Board reviews the Group's internal financial reporting in order to assess performance and allocate resources. Management have therefore determined that the operating segments for the Group will be based on these reports.

The Pebble Beach Systems business is responsible for the sales and marketing of all Group software products and services.

Group management are focused on developing global revenue growth from the Broadcast market. Segmental reporting of revenue is therefore provided by reference to geographic region.

DISCONTINUED OPERATIONS

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of, has been abandoned or meets the criteria to be classified as held for sale.

Discontinued operations are presented on the income statement as a separate line and are shown net of tax.

FOREIGN CURRENCY TRANSLATION

(A) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Group financial statements are presented in pounds sterling (GBP), which is the Company's functional and presentation currency.

(B) TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(C) GROUP COMPANIES

Trading results and financial position of all Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate of exchange prevailing at the reporting date;
- income and expenditure for each income statement are translated at the average rates of exchange prevailing during the year; and
- all resulting exchange differences arising from restatement of the opening statements of financial position and trading results of overseas subsidiaries are recognised as a separate component of shareholders' equity

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

INTANGIBLE ASSETS

(A) GOODWILL

Goodwill represents the excess of the fair value of the purchase consideration for the interest in subsidiary undertakings over the fair value to the Group of the net assets acquired, including acquired intangible assets and any contingent liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Goodwill is tested annually or more frequently if events or circumstances indicate potential impairment. Impairment losses are recognised for the amount by which an asset's carrying amount exceeds its recoverable amount; that recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Impairments of goodwill are not reversed. Gains and losses on the disposal of an entity will be net of the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The allocation is made to cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(B) ACQUIRED INTANGIBLES

Intangible assets acquired as part of business combinations are capitalised at fair value at the date of acquisition. Following the initial recognition, the carrying amount of an intangible asset is its cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged on the basis of the estimated useful life on a straight-line basis and the expense is taken to the income statement (note 12).

The Group has recognised customer relationships, intellectual property and brands as separately identifiable acquired intangible assets. The useful economic life attributed to each intangible asset is determined at the time of acquisition and ranges from five to ten years.

Impairment reviews are undertaken when the directors consider that there has been a potential indication of impairment.

(C) RESEARCH AND DEVELOPMENT COSTS

Research expenditure is written off as incurred.

Where development expenditure meets the criteria for capitalisation as set out in IAS 38 "Intangible Assets" the costs are capitalised. The key eligibility criteria for capitalisation relate to:

- the identification of development costs. In general the Group's research and development activities are closely interrelated and it is not until the technical feasibility of a product can be determined with reasonable certainty that development costs are separately identifiable; and
- the generation of future economic benefit. Intangible assets are not recognised unless the resultant product is expected to generate future economic benefit in excess of the amount capitalised

Development costs are amortised over the estimated useful life of the products with which they are associated. Amortisation commences when a new product is in commercial production. The amortisation period ranges from one to five years. If a product becomes unviable the deferred development costs are written off.

NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE

Non-current assets (or disposal groups) are classified as assets and liabilities held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is calculated in order to write off the cost of property, plant and equipment, other than land, over their estimated useful lives by equal annual instalments using the following rates:

Freehold land and buildings	2 per cent for buildings No depreciation on land
Leasehold improvements	The remaining term of the lease
Fixtures and fittings	10 per cent
Plant, tools, test and computer equipment	10 per cent – 33 per cent

LEASES

Operating leases are leases where the risks and rewards of ownership are retained by the lessor. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost represents direct costs incurred and, where applicable, production or conversion costs and other costs to bring the inventory to its existing condition and location. Inventory is accounted for on a standard cost basis. Net realisable value comprises the actual or estimated selling price less all further costs to completion, and less all costs to be incurred in marketing, selling and distribution. Provisions for inventories are recognised when the book value exceeds its net realisable value. The Group makes provision for slow-moving, obsolete and defective inventory as appropriate.

TRADE RECEIVABLES

Trade receivables are initially recognised at fair value, being the original invoice amount, and subsequently measured at amortised cost less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Trade receivables that are less than three months past due are not considered impaired unless there are specific financial or commercial reasons that lead management to conclude that the customer will default. Older debts are considered to be impaired unless there is sufficient evidence to the contrary that they will be settled. The amount of the provision is the difference between the assets' carrying value and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement.

When a trade receivable is uncollectable it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the income statement.

CASH AND CASH EQUIVALENTS

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

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and short term deposits as defined above, together with bank overdrafts where applicable.

SHARE CAPITAL

Ordinary shares are classified as equity. Proceeds in excess of the nominal value of shares issued are allocated to the share premium account and are also classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are deducted from the share premium account.

Where shares are issued in part or full consideration for the acquisition of more than 90 per cent of the issued share capital of another company, the excess of value attributed to the shares over the nominal value of shares issued is allocated to the merger reserve. The merger reserve is also classified as equity.

TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

CURRENT AND DEFERRED TAXATION

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company's subsidiaries operate and generate taxable income. Management evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised in respect of all temporary differences except where the deferred tax liability arises from the initial recognition of goodwill in business combinations.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and tax losses, to the extent that they are regarded as recoverable. They are regarded as recoverable where, on the basis of available evidence, there will be suitable taxable profits against which the future reversal of the underlying temporary differences can be deducted. The carrying value of the amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part, of the tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

EMPLOYEE BENEFITS

(A) PENSION OBLIGATIONS

The Group employees are members of defined contribution money purchase schemes where the obligations of Group companies are charged to the income statement as they are incurred. The Group has no further obligations once the contributions have been paid.

(B) SHARE BASED COMPENSATION

The Group operates a number of equity-settled, share based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options) in the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, the Group's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save)

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(C) EMPLOYEE SHARE OWNERSHIP PLAN

The Group's Employee Share Ownership Plan (ESOP) is a separately administered trust. The Company guarantees liabilities of the ESOP, and the assets of the ESOP mainly comprise shares in the Company. The assets, liabilities, income and costs of the ESOP have been included in the Group financial statements. When the options are exercised the company assesses whether it is in shareholders' best interest to issue new shares, or to offer a cash alternative.

PROVISIONS

Provisions are made in respect of residual onerous long leasehold properties where expected future rental costs are in excess of expected income from subletting.

Provision is made for product warranty claims to the extent that the Group has a current obligation under warranties given. Warranty accruals are based on historic warranty claims experience. Provisions are discounted to their present value where the impact is significant.

REVENUE RECOGNITION

(A) SALES OF SERVICES

Revenue from service contracts that are not accounted for as construction contracts under IAS 11 is recognised in line with the delivery of service to the customer. For sales of services, revenue is recognised in the accounting period in which the services are rendered and assessed on the basis of the actual service provided as a proportion of the total services to be provided. Only the costs that reflect work performed to date are included in the costs of sale.

(B) SALE OF GOODS

Revenue represents amounts receivable from external customers for goods sold by Group companies in the ordinary course of business and excluding value added tax. Sales are recognised in accordance with IAS 18 "Revenue", when the significant risks and rewards of ownership of the goods are transferred to the customer, the sales price agreed and the receipt of payment can be assured. The risks and rewards of ownership of the goods transfer to the customer when the goods are shipped from the Group's premises.

(C) CONSTRUCTION CONTRACTS

From time to time the Group enters into construction contracts that will take a number of months to complete. Customer contracts that are expected to span more than one period end are recognised in revenue in accordance with IAS 11.

Where the outcome of a contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date. This is measured by the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable such costs will be recoverable.

Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

INTEREST INCOME

Interest income is recognised on a time apportionment basis.

DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

In view of the results for the year the directors do not recommend payment of a final dividend for the year ended 31 December 2017.

NON-RECURRING ITEMS

These are material items excluded from management's assessment of profit because by their nature they could distort the Group's underlying quality of earnings. These are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life, for example goodwill or intangible assets not ready for use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3. FINANCIAL RISK MANAGEMENT

FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise the potential adverse effects on the Group's financial performance.

Risk management policy is carried out through a central treasury function within the executive management team at the Group's head office. The treasury function identifies, evaluates and manages financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management while the central treasury function provides specific policy guidance for the operating units in terms of managing market risk, credit risk and cash and liquidity management.

(A) MARKET RISK

(I) FOREIGN EXCHANGE RISK

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily between the US dollar and GBP. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

At a transactional level the UK business has a broadly neutral exposure to foreign currency transactions, in that their revenues in euros and US dollars match their purchases. Foreign currency bank accounts are maintained to minimise exchange risk by trading currencies into sterling only when forecast surpluses or deficits are expected to arise. The flow of cash from the USA to the UK businesses is managed by central treasury in order to minimise the risk to the Group.

The exchange risk to the Group in terms of its reported results lies in the translation of the results and net assets and liabilities of the US business from US dollars to GBP. The Group's accounting policy is to translate the profits and losses of overseas operations using the average exchange rate for the financial year and the net assets and liabilities of overseas subsidiaries at the year end exchange rate. It continues to be the Group's policy not to hedge the foreign currency exposures on the translation of overseas profits or losses and net assets or liabilities to sterling as they are considered to be accounting rather than cash exposures.

The principal exchange rates used by the Group in translating overseas profits and net assets into GBP are set out in the table below:

Rate compared to £ sterling	**Average rate 2017**	Average rate 2016	**Year end rate 2017**	Year end rate 2017
US dollar	**1.289**	1.354	**1.351**	1.230

Where overseas acquisitions are made, it is the Group's policy to arrange any borrowings required in local currency.

It is the Group's policy not to trade in financial instruments. The Group does not use interest rate swaps. The Group does not speculate in foreign currencies and no operating company is permitted to take unmatched positions in any foreign currency. The Group will use borrowings in currencies other than GBP where appropriate to specific transactions, such as overseas acquisitions. This policy has been in force throughout the financial year and remains so.

If the results for the year to 31 December 2016 had been translated at the 2017 average rate then the translation impact would be to increase prior year revenue by £52,000 and increase the loss before tax by £27,000.

(II) CASH FLOW INTEREST RATE RISK

Cash flow interest rate risk comprises the interest rate price risk that results from borrowing at both fixed and variable rates of interest. The interest on the Group's RCF facility is charged at 1.9 per cent plus LIBOR, and the interest on the Group's overdraft facility is charged at 2.75 per cent above base rate.

(B) CREDIT RISK

Credit risk is managed on a Group basis, except for credit risk relating to accounts receivable balances.

Credit risk arises with cash balances and accounts receivables. The Group's cash deposits are held at banks that have been carefully selected, taking into consideration their individual external credit ratings (note 16).

Each local subsidiary is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. It is the Group's policy to obtain deposits from customers where possible, particularly overseas customers. In addition, the Group will seek confirmed letters of credit for the balances due. The nature of the customer base (for example, national TV stations, government procurement agencies) makes the use of credit insurance inappropriate. Credit risk is managed at the operating business unit level and monitored at the Group level to ensure adherence to Group policies. If there is no independent rating, the finance function assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

(C) LIQUIDITY RISK

Any material loss through ineffective investment of cash would undermine our ability to generate growth in shareholder value. Similarly, an inability to access these funds would undermine the Group's ability to meet its financial obligations. We have assessed the likelihood of loss to be low but with a high potential impact.

The main exposure to risk is from borrowings and other liabilities. The risk is monitored using rolling cash flow forecasts and is managed through the availability of committed credit lines and borrowing facilities.

In December 2017 the Company commenced discussion with its bankers to secure the support required to remain independent. Subsequently, in Q1 2018 the Company agreed terms with Santander UK plc for an amendment to the Revolving Credit and Term Loan Facilities agreement dated 17 March 2014 to secure the facility until 30 November 2019, which included a simplification of banking covenants. In June 2018, the Company confirmed that the amended Revolving Credit and Term Loan Facilities agreement had been signed with Santander UK PLC. The revision secures the facility until 30 November 2019 with simplified banking covenants and a reasonable repayment schedule.

As per the amended facilities agreement, the Group has an obligation to comply with the simplified banking covenants as well as complying with an agreed amortisation profile. In order to ensure full compliance the Group's executive management prepare thirteen week forecasts on a monthly basis to ensure ongoing obligations will be met.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than one year £000	Between one and two years £000	Between two and five years £000	Total £000
At 31 December 2017:				
Bank loans (secured)	1,000	10,500	–	11,500
Trade and other payables *	4,897	–	–	4,897
At 31 December 2016:				
Bank loans (secured)	15,000	–	–	15,000
Trade and other payables *	8,433	–	–	8,433

* Included within trade and other payables is accrued interest on the RCF facility of £32,896 (2016: £12,279).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

3. FINANCIAL RISK MANAGEMENT CONTINUED

Post disposal of the trade and assets of VCS to xG, the Group has made a provision of £310k in relation to two creditor obligations which arose prior to the disposal but for which xG have failed to discharge. Given the completion of the disposal was over a year ago the risk of additional liabilities arising is deemed low.

A share-based payment scheme, the Pebble Beach Systems VCP, is currently in place and due to mature in 2018. A provision of £735k was made in respect of this scheme in 2016 which has subsequently been reduced to £243k following Group management assessment of likely payout.

CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with other businesses, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the statement of financial position) less cash and cash equivalents.

Total capital is the sum of equity plus net debt (or less net cash) being £3.9 million at 31 December 2017 (2016: £13.5 million).

FAIR VALUE ESTIMATION

The carrying value of trade receivables (less impairment provision) and financial liabilities are assumed to approximate to their fair value. The carrying value of goodwill and intangible assets is reviewed on an annual basis utilising a discounted cash flow approach.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the Group's accounting policies, management have made accounting judgements in the determination of the carrying value of certain assets and liabilities. Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes will differ from those assumptions and estimates. The following judgements have the most significant effect on the amounts recognised in the financial statements.

ACQUIRED INTANGIBLES

Intangible assets (intellectual property, brands and customer relationships) have been acquired as part of the net assets of certain subsidiaries. These intangible assets were capitalised at their fair value at the date of acquisition. Determining the value of acquired intangibles required the calculation of estimated future cash flows expected to arise from the intangible assets at a suitable discount rate in order to calculate their present value. In addition, an estimate of the useful life of the intangible asset has to be made, over which period the cash flows were expected to be generated. The carrying amount of acquired intangibles at the reporting date was £2.5 million (note 12) (2016: £3.9 million).

IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires the estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate future cash flows expected to arise from the cash-generating unit at a suitable discount rate in order to calculate the present value. Details of the impairment review are provided in note 12.

PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Following the announcement by the Board in December 2017 that there was no likelihood of agreement between xG and the Group regarding the collection of the remaining $1.75 million due without entering a protracted legal dispute, the debt has been fully impaired, and the expense included in the loss on disposal of the business. Some supplier obligations transferred to xG as part of the sale agreement have not been met by xG and these suppliers have lodged claims against the Group. The Group has indemnities against these liabilities but has judged that it is unlikely they will be honoured without protracted legal action and has made a provision of £0.3 million against these liabilities.

SHARE-BASED PAYMENTS

A number of accounting estimates and judgements are incorporated within the calculation of the charge to the income statement in respect of share-based payments. These are described in more detail in note 24.

In addition to the provision for a full payout in the event of a sale of the business, the Pebble Beach Systems VCP includes provision for a pay out in the event that the business is not sold and no acquisition activity takes place. This latter payout is based on the sales and profit of Pebble Beach Systems Ltd for the year ending December 2017. For the year ending December 2016 it was assumed that the business would be sold and provision was made on this basis. Following the decision to end the formal sale process the provision was recalculated for 2017, resulting in a credit of £0.5 million to the income statement.

IMPAIRMENT OF INVESTMENTS

The value of the Company's investment in Pebble Beach Systems Ltd has been reviewed following the decision not to sell the business. A valuation based on the enterprise value of the business has resulted in an impairment of £8.6 million being required.

DISCONTINUED OPERATIONS

The value of the assets and liabilities of the discontinued business were assessed and adjusted in 2016. The loss on disposal of the discontinued operations has been calculated after taking into account exceptional costs which have been judged as relating to it.

5. SEGMENTAL REPORTING

The directors believe that adjusted operating profit provides additional useful information on underlying trends to shareholders. This measure is used by management for internal performance analysis and incentive compensation arrangements. The term "adjusted" is not a defined term under IFRS and may not therefore be comparable with similarly titled profit measurements reported by other companies. The principal adjustments are made in respect of depreciation, the amortisation of acquired intangibles and capitalised development costs, non-recurring items and exchange gains or losses charged to the income statement. The definition has been changed from that used in 2016 and that year's figures restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

5. SEGMENTAL REPORTING CONTINUED

The segment information provided to the Board for the reportable continuing segments for the year ended 31 December 2017 is as follows:

Segmental reporting by division	PebbleBeach Systems £000	Central £000	**Total £000**
Year ended 31 December 2017			
Income statement:			
Broadcast	10,320	–	**10,320**
Total revenue	10,320	–	**10,320**
Adjusted operating profit/(loss) (2016 restated)	1,772	(1,272)	**500**
Depreciation	(157)	(30)	**(187)**
Amortisation of acquired intangibles	(1,419)	–	**(1,419)**
Amortisation of capitalised development costs	(655)	–	**(655)**
Non-recurring items	(113)	(399)	**(512)**
Exchange (losses)/gains	(95)	–	**(95)**
Finance costs	–	(339)	**(339)**
Finance income	73	(69)	**4**
Loss before taxation	(594)	(2,109)	**(2,703)**
Taxation	511	(416)	**95**
Loss for the year being attributable to owners of the parent	(83)	(2,525)	**(2,608)**
Segment assets			
Non-current assets	7,226	–	**7,226**
Current assets	5,603	218	**5,821**
Total assets	12,829	218	**13,047**
Total liabilities	(4,725)	(14,387)	**(19,112)**
Total net assets/(liabilities)	8,104	(14,169)	**(6,065)**
Assets of disposal group held for sale			**–**
Liabilities of disposal group held for sale			**–**
Total net liabilities			**(6,065)**
Other segment items			
Capital expenditure	107	–	**107**
Capitalised development expenditure	798	–	**798**
Depreciation	157	30	**187**
Amortisation of intangibles	2,073	–	**2,073**

Included in non-recurring items in the Central segment are £620,000 of redundancy and restructuring costs as reported in the company accounts, and a £221,000 gain on the sale of the Hunderford head office.

Central costs represent corporate expenses.

Segment assets include property, plant and equipment, goodwill, other intangibles, inventories, trade receivables and operating cash. Segment assets exclude inter-segment investments. Segment liabilities comprise operating liabilities, taxation and segmental provisions for liabilities and charges. Segmental assets and liabilities exclude amounts owed to/from other segments.

Segmental capital expenditure comprises additions to property, plant and equipment.

The results and balance sheet of discontinued operations are presented in note 17.

Segmental reporting by division	Pebble Beach Systems £000	Central £000	**Total £000**
Year ended 31 December 2016			
Income statement:			
Broadcast	10,879	–	**10,879**
Total revenue	10,879	–	**10,879**
Adjusted operating profit/(loss) (2016 restated)	3,166	(4,248)	**(1,082)**
Depreciation	(175)	(22)	**(197)**
Amortisation of acquired intangibles	(1,422)	–	**(1,422)**
Amortisation of capitalised development costs	(359)	–	**(359)**
Non-recurring items	–	(678)	**(678)**
Exchange (losses)/gains	(295)	2,135	**1,840**
Finance costs	–	(331)	**(331)**
Finance income	69	(67)	**2**
Profit/(loss) before taxation	984	(3,211)	**(2,227)**
Taxation	342	(1,071)	**(729)**
Profit/(loss) for the year being profit/(loss) attributable to owners of the parent	1,326	(4,282)	**(2,956)**
Segment assets			
Non-current assets	8,555	128	**8,683**
Current assets	5,642	2,298	**7,940**
Total assets	14,197	2,426	**16,623**
Total liabilities	(3,957)	(23,861)	**(27,818)**
Total net assets/(liabilities)	10,240	(21,435)	**(11,195)**
Assets of disposal group held for sale			**15,177**
Liabilities of disposal group held for sale			**(5,014)**
Total net liabilities			**(1,032)**
Other segment items			
Capital expenditure	187	2	**189**
Capitalised development expenditure	1,098	–	**1,098**
Depreciation	175	22	**197**
Amortisation of intangibles	1,781	–	**1,781**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

5. SEGMENTAL REPORTING CONTINUED

GEOGRAPHIC EXTERNAL REVENUE ANALYSIS

The revenue analysis in the table below is based on the geographic location of the customer for each business.

	2017 £000	2016 £000
By market:		
UK and Europe	**4,655**	5,360
North America	**1,772**	2,032
Latin America	**357**	1,122
Middle East and Africa	**2,811**	2,104
Asia/Pacific	**725**	261
	10,320	10,879

Non-current assets, other than financial instruments and deferred tax, located in the UK are £7.2 million (2016: £8.6 million) and rest of world £nil (2016: £0.1 million).

6. OPERATING LOSS

The following items have been included in arriving at the operating loss for the continuing business:

	2017 £000	2016 £000
Depreciation of property, plant and equipment	**187**	197
Amortisation of acquired intangibles	**1,419**	1,422
Operating lease rentals	**167**	437
Exchange losses charged to the income statement	**95**	(1,840)
Research and development expenditure expensed in the year	**1,762**	1,596
which includes:		
– Amortisation of capitalised development costs	**655**	359

OTHER EXPENSES

Other expenses comprise:

	2017 £000	2016 £000
Amortisation of acquired intangibles	**1,419**	1,422
Non-recurring items	**512**	678
	1,931	2,100

NON-RECURRING ITEMS

The following items are excluded from management's assessment of profit because by their nature they could distort the Group's underlying quality of earnings. They are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis:

	2017 £000	2016 £000
Liquidity advice and other costs	**–**	176
Increase in onerous property provision	**–**	502
Rationalisation and redundancy costs	**362**	–
Provision for former Executive debt	**260**	–
Profit on sale of head office building	**(110)**	–
	512	678

SERVICES PROVIDED BY THE GROUP'S AUDITORS AND NETWORK FIRMS

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors at costs detailed below:

	2017 £000	2016 £000
Analysis of fees payable to PricewaterhouseCoopers LLP		
Audit of the parent company and consolidated financial statements	**82**	70
Audit of the Company's subsidiaries	**37**	89
Audit related assurance services	**32**	37
Other assurance services	**–**	344
	151	540
Taxation compliance services	**59**	32
Taxation advisory services	**4**	21
Corporate finance services	**79**	314
	293	907

A description of the work of the Audit Committee is set out in the corporate governance statement on pages 18 to 24 and includes an explanation of how the auditors' objectivity and independence is safeguarded when non-audit services are provided by the auditors.

7. DIRECTORS AND EMPLOYEES

Staff costs during the year for the continuing business were as follows:

	2017 £000	2016 £000
Wages and salaries	**5,585**	5,765
Social security costs	**469**	573
Other pension costs – defined contribution plans (note 27)	**108**	226
Share based payments (note 24)	**(464)**	1,361
	5,698	7,925

Share based payments includes provision for the Pebble Beach Systems VCP. As a result of the decision not to sell the business, the scheme will not pay out in full. A credit of £492k has been taken in 2017 (2016: charge of £1.3m).

7. DIRECTORS AND EMPLOYEES CONTINUED

The monthly average number of employees employed by the continuing Group during the year was as follows:

	2017 Number	2016 Number
Average monthly number of employees		
Broadcast sales and marketing	**9**	10
Technology	**36**	44
Logistics	**28**	26
General and Admin	**11**	14
	84	94

The average number of employees has been calculated on a pro rata basis from the date of disposal or acquisition of subsidiaries and businesses. The average number of employees includes directors with service contracts. The total number of employees at 31 December 2017 was 80 (2016: 96).

Key management compensation for the continuing business:

	2017 £000	2016 £000
Short term employee benefits – including salaries, social security costs and non-monetary benefits	**699**	1,320
Post-employment benefits – defined contribution pension plans	**26**	135
Share based payments (note 24)	**(464)**	851
	261	2,306

Share based payments includes provision for the Pebble Beach Systems VCP. As a result of the decision not to sell the business, the scheme will not pay out in full. A credit of £492k has been taken in 2017.

The analysis of key management compensation above includes Executive Directors. Key management is defined as the senior management teams in each of the business units of the Group. Details of directors' emoluments are included in the remuneration report on pages 24 to 28.

8. FINANCE COSTS – NET

	2017 £000	2016 £000
Finance costs	**339**	331
Finance income	**(4)**	(2)
Finance costs – net	**335**	329

Finance costs represent interest payable on bank borrowings.

Finance income is derived from cash held on deposit.

9. INCOME TAX EXPENSE

A) ANALYSIS OF THE TAX CHARGE IN YEAR

	2017 £000	2016 £000
Current tax		
UK corporation tax	**–**	(64)
Adjustments in respect of prior years	**169**	(67)
Total current tax	**169**	(131)
Deferred tax		
UK deferred tax	**(267)**	900
Impact of change in tax rate	**–**	(40)
Adjustments in respect of prior years	**3**	–
Total deferred tax	**(264)**	860
Total taxation	**(95)**	729

B) FACTORS AFFECTING TAX CHARGE FOR YEAR

The charge for the year can be reconciled to the loss in the income statement as follows:

	2017 £000	2016 £000
Loss before tax on continuing operations	**(2,703)**	(2,227)
Tax at the UK corporation tax rate of 19.25% (2016: 20.0%)	**(520)**	(445)
Adjustments in respect of prior years	**(10)**	(68)
Permanent differences	**429**	708
Enhanced R&D tax relief	**(197)**	(274)
Derecognition of deferred tax asset	**(463)**	10
Group relief	**(55)**	(604)
Depreciation of NQAs	**–**	3
Underwater share options	**–**	5
Current year losses not recognised	**721**	1,011
Effect of changes in UK tax rate	**–**	(40)
Effects of different tax rates of subsidiaries operating in other jurisdictions	**–**	423
Total taxation	**(95)**	729

The tax rate for the current year is lower than the prior year due to changes in the UK corporation tax rate which decreased from 20 per cent to 19 per cent from 1 April 2017.

Changes to the UK corporation tax rates were substantively enacted on 7 September 2016. These include reductions to the main rate to reduce the rate to 17 per cent from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

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FOR THE YEAR ENDED 31 DECEMBER 2017

10. DIVIDENDS AND RETURNS TO SHAREHOLDERS

	2017 £000	2016 £000
Final dividend paid of nil pence per share (2016: 1.5 pence per share)	**Nil**	1,829

In view of the results for the year the directors do not recommend payment of a final dividend for the year ended 31 December 2017.

11. EARNINGS PER SHARE

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

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The dilutive shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

Reconciliation of the earnings and weighted average number of shares used in the calculations are set out below.

		2017			2016	
	Earnings £000	**Weighted average number of shares 000s**	**Earnings per share pence**	Earnings £000	Weighted average number of shares 000s	Earnings per share pence
Basic and diluted loss per share						
Loss attributable to continuing operations	**(2,608)**		**(2.1)p**	(2,956)		(2.4)p
(Loss)/profit attributable to discontinued operations	**2,892**		**2.3p**	(52,358)		(42.6)p
Basic and diluted profit/(loss) per share	**284**	**124,292**	**0.2p**	(55,314)	122,804	(45.0)p

Potential ordinary shares are non-dilutive in the current and prior years as they would decrease the loss per share from continuing operations. Accordingly, there is no difference between basic and diluted EPS.

ADJUSTED EARNINGS

The directors believe that adjusted operating profit, adjusted profit before tax, adjusted earnings and adjusted earnings per share provide additional useful information on underlying trends to shareholders. These measures are used by management for internal performance analysis and incentive compensation arrangements. The term "adjusted" is not a defined term under IFRS and may not therefore be comparable with similarly titled profit measurements reported by other companies. The principal adjustments are made in respect of depreciation, the amortisation of acquired intangibles and capitalised development costs, non-recurring items and exchange gains or losses charged to the income statement and their related tax effects. The definition has been changed from that used in 2016 and that year's figures restated.

The reconciliation between reported and underlying earnings and basic earnings per share is shown below:

	£000	**2017 Pence**	£000	2016 Pence
Reported loss per share – continuing operations	(2,608)	**(2.1)p**	(2,956)	(2.4)p
Depreciation	155	**0.1p**	162	0.1p
Amortisation of acquired intangibles	1,178	**1.0p**	1,166	1.0p
Amortisation of capitalised development costs	544	**0.4p**	294	0.3p
Non-recurring items	413	**0.3p**	542	0.4p
Exchange losses/(gains)	77	**0.1p**	(1,485)	(1.2)p
Adjusted loss per share – continuing operations	(241)	**(0.2)p**	(2,277)	(1.8)p

12. INTANGIBLE ASSETS

	Goodwill £000	Acquired customer relationships £000	Acquired intellectual property £000	Acquired brands £000	Capitalised development costs £000	Total £000
Cost						
At 1 January 2016	41,492	17,493	8,378	1,764	26,528	95,655
Additions	–	–	–	–	4,261	4,261
Disposals	(99)	–	–	–	–	(99)
Transferred to disposal group classified as held for sale	(39,612)	(14,551)	(5,028)	(1,916)	(30,498)	(91,605)
Exchange adjustment	1,437	1,551	–	152	1,320	4,460
At 1 January 2017	3,218	4,493	3,350	–	1,611	12,672
Additions	–	–	–	–	798	798
At 31 December 2017	**3,218**	**4,493**	**3,350**	**–**	**2,409**	**13,470**
Accumulated amortisation						
At 1 January 2016	16,445	13,515	5,953	1,014	16,437	53,364
Charge for the year	–	943	671	92	2,844	4,550
Impairment	22,319	633	274	677	10,928	34,831
Transferred to disposal group classified as held for sale	(39,612)	(14,551)	(5,028)	(1,916)	(30,498)	(91,605)
Exchange adjustment	848	1,551	–	133	784	3,316
At 1 January 2017	–	2,091	1,870	–	495	4,456
Charge for the year	–	748	670	–	655	2,073
At 31 December 2017	**–**	**2,839**	**2,540**	**–**	**1,150**	**6,529**
Net book value						
At 31 December 2017	**3,218**	**1,654**	**810**	**–**	**1,259**	**6,941**
At 31 December 2016	3,218	2,402	1,480	–	1,116	8,216
At 1 January 2016	25,047	3,978	2,425	750	10,091	42,291

The estimated useful life for the intellectual property and customer relationships acquired with the business of Pebble Beach Systems has been determined to be five years and six years respectively based on the expected future cash flows that they would generate.

The amortisation of development costs is included in research and development expenses in the Consolidated Group Income Statement. Within development costs there are £nil (2016: £nil) of fully written down assets that are still in use.

The amortisation of customer relationships, brands and intellectual property are all charged to other expenses in the Consolidated Income Statement and are referred to as the amortisation of acquired intangibles.

12. INTANGIBLE ASSETS CONTINUED

IMPAIRMENT TEST FOR CASH-GENERATING UNITS CONTAINING GOODWILL

Historical goodwill acquired in business combinations was allocated, at acquisition, to the cash-generating units (CGUs) that were expected to benefit from those business combinations, being the markets that the Group served, namely Broadcast, Surveillance and Public Safety, Amplifier Technology Limited and Pebble Beach Systems Limited.

In accordance with the requirements of IAS 36 "Impairment of assets", goodwill is required to be tested for impairment on an annual basis, with reference to the value of the cash-generating units in question. The goodwill relating to the Surveillance and Public Safety market was fully written down in 2010. The goodwill relating to the Broadcast market (excluding Pebble Beach Systems) and Amplifier Technology was fully written down in 2016 (see note 17). The carrying value of goodwill at 31 December 2017 is £3.2 million (2016: £3.2 million) which relates solely to Pebble Beach Systems.

The carrying value of Pebble Beach Systems (including goodwill) has been assessed with reference to value in use over a projected period of eight years with a terminal value. This reflects projected cash flows based on actual operating results and approved budget, strategic plans and management projections.

The key assumptions on which the value in use calculations are based relate to business performance over the next four years, long term growth rates beyond 2017 and the discount rate applied. The forecast business performance assumes an average growth rate of 15 per cent each year over the next five years. This is expected to be realised through increased traction in the US market, along with additional revenue anticipated as customers continue to transition to IP-based products.

The cash flow projections have been discounted to present value using a pre-tax discount rate of 14.6 per cent (2016: 14.6 per cent), which has been used for the purpose of the impairment test. The value in use was found to be higher than the carrying value, hence no impairment is necessary, any reasonable movement in the assumptions used in the impairment tests would not result in any impairment. The cash flow projections have been prepared by local management on the basis of the expected growth of the business over the next five years.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £000	Leasehold improvements, fixtures and fittings £000	Plant, tools, test and computer equipment £000	Total £000
Cost				
At 1 January 2016	549	1,992	11,690	14,231
Additions	4	49	248	301
Transferred to disposal group classified as held for sale	(437)	(1,839)	(11,276)	(13,552)
Exchange adjustment	–	93	553	646
At 1 January 2017	116	295	1,215	1,626
Additions	–	5	102	107
Disposals	–	(85)	(166)	(251)
Exchange adjustment	–	(4)	(6)	(10)
At 31 December 2017	**116**	**211**	**1,145**	**1,472**
Accumulated depreciation				
At 1 January 2016	160	1,544	10,326	12,030
Charge for the year	15	132	554	701
Impairment	–	340	749	1,089
Transferred to disposal group classified as held for sale	(146)	(1,839)	(11,276)	(13,261)
Exchange adjustment	–	69	531	600
At 1 January 2017	29	246	884	1,159
Charge for the year	6	19	162	187
Disposals	–	(85)	(68)	(153)
Exchange adjustment	–	(2)	(4)	(6)
At 31 December 2017	**35**	**178**	**974**	**1,187**
Net book value				
At 31 December 2017	**81**	**33**	**171**	**285**
At 31 December 2016	87	49	331	467
At 1 January 2016	389	448	1,364	2,201

14. INVENTORIES

	2017 £000	2016 £000
Raw materials and consumables	**152**	137
Work in progress	**73**	69
Finished goods and goods for resale	**–**	–
	225	206

During the year the Group consumed £2.3 million (2016: £10.3 million) of inventories, of which £2.3 million (2016: £2.2 million) related to continuing operations.

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FOR THE YEAR ENDED 31 DECEMBER 2017

15. TRADE AND OTHER RECEIVABLES

	2017 £000	2016 £000
Current:		
Trade receivables	**2,382**	3,446
Less: provision for impairment	**(87)**	(138)
Trade receivables – net	**2,295**	3,308
Other receivables	**153**	176
Prepayments and accrued income	**1,281**	1,952
	3,729	5,436

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated to each other.

Trade receivables that are less than three months past due are not considered impaired unless there are specific financial or commercial reasons that lead management to conclude that the customer will default. At 31 December 2017 trade receivables of £1.0 million (2016: £0.4 million) were past due but not impaired. The credit quality of the Group's customers is good, being a combination of large broadcast stations (public and private) and government agencies and departments. Controls within Group companies are in place to ensure that appropriate credit limits are in place. The overdue amounts relate to customers with no history of default. The ageing of these receivables is as follows:

	2017 £000	2016 £000
Up to three months	**914**	164
Three to six months	**49**	100
Over six months	**10**	99
	973	363

At 31 December 2017 trade receivables of £0.1 million (2016: £0.1 million) were impaired and provided for in whole or in part. The provision of £0.1 million (2016: £0.1 million) is set against specific customer debts. The ageing of these receivables is as follows:

	2017 £000	2016 £000
Three to six months	**3**	–
Over six months	**140**	643
	143	643

The gross amounts of the Group's trade receivables are denominated in the following currencies:

	2017 £000	2016 £000
Pounds sterling	**1,537**	1,342
US dollars	**324**	2,062
Euros	**521**	42
	2,382	3,446

Movements on the Group provision for impairment of trade receivables are as follows:

	2017 £000	2016 £000
At 1 January	**138**	643
Provision for receivable impairment	**(51)**	118
Receivables written off during the year as uncollectable	**–**	(26)
Transferred to disposal group classified as held for sale	**–**	(597)
Exchange adjustment	**–**	–
At 31 December	**87**	138

Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

16. CASH AND CASH EQUIVALENTS AND OVERDRAFTS

	2017 £000	2016 £000
Cash and bank balances	**1,249**	457
Cash and cash equivalents and overdrafts at 31 December	**1,249**	457

Cash and cash equivalents and overdrafts include the following for the purpose of the cash flows:

	2017 £000	2016 £000
Cash and cash equivalents and overdrafts	**1,862**	2,044
Bank overdrafts (note 20)	**(613)**	(1,587)
Cash and cash equivalents	**1,249**	457

The credit quality of the cash and cash equivalents and overdrafts that are not impaired can be assessed by reference to the external credit ratings of the banks where the deposits are held.

Credit rating (S&P)	**2017 £000**	2016 £000
A-1+	**–**	253
A-1	**1,249**	123
A-2	**–**	+81
Total	**1,249**	457

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FOR THE YEAR ENDED 31 DECEMBER 2017

16. CASH AND CASH EQUIVALENTS AND OVERDRAFTS CONTINUED

Reconciliation of decrease in cash and cash equivalents and overdrafts to movement in net cash:

	2017			2016		
	Net cash and cash equivalents and overdrafts £000	**Other borrowings £000**	**Total net cash £000**	Net cash and cash equivalents and overdrafts £000	Other borrowings £000	Total net cash £000
At 1 January	**457**	**(15,000)**	**(14,543)**	3,251	(9,000)	(5,749)
Cash flow for the year before financing	**4,564**	**–**	**4,564**	(6,240)	–	(6,240)
Proceeds on issue of shares	**–**	**–**	**–**	49	–	49
Movement in borrowings in the year	**(3,500)**	**3,500**	**–**	6,000	(6,000)	–
Dividend paid	**–**	**–**	**–**	(1,829)	–	(1,829)
Exchange rate adjustments	**(272)**	**–**	**(272)**	(774)	–	(774)
Cash and cash equivalents and overdrafts at 31 December	**1,249**	**(11,500)**	**(10,251)**	457	(15,000)	(14,543)

17. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

(A) VISLINK COMMUNICATIONS SYSTEMS

The assets and liabilities related to Vislink Communication Systems were presented as held for sale following the signing of the initial business purchase agreement in December 2016; completion of the sale of the trade and assets took place on 2 February 2017.

(I) ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

	2017 £000	2016 £000
Inventory	**–**	5,241
Trade and other debtors	**–**	9,645
Total assets	**–**	14,886

(II) LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

	2017 £000	2016 £000
Trade and other payables	**–**	5,008
Provisions	**–**	6
Total liabilities	**–**	5,014

In accordance with IAS 36, the plan to dispose of the trade and assets represented an impairment trigger, which resulted in the remaining intangible and tangible fixed assets of the Vislink Communication Systems business being fully written down in 2016.

On reclassification as held for sale, in accordance with IFRS 5, the remaining assets and liabilities for the Vislink Communication Systems disposal group were measured against the fair value less costs to sell. This led to an additional impairment of £1.6 million.

(III) ANALYSIS OF THE RESULT OF DISCONTINUED OPERATIONS IS AS FOLLOWS:

	2017 £000	2016 £000
Revenue	**1,034**	31,667
Expenses	**(3,881)**	(85,077)
Loss before tax of discontinued operations	**(2,847)**	(53,410)
Tax	**662**	1,052
Loss after tax of discontinued operations	**(2,185)**	(52,358)
Recycle translation reserve for discontinued operations	**5,077**	–
Profit/(loss) from discontinued operations	**2,892**	(52,358)

Included in expenses above is £1.3 million for the impairment of the $1.75 million xG Technology Inc. debt and £0.3 million for xG obligations.

(IV) CASH FLOW

	2017 £000	2016 £000
Operating cash flows	**(1,277)**	(2,173)
Investing cash flows	**8,046**	(3,194)
Total cash flows	**6,769**	(5,367)

(B) TANGIBLE FIXED ASSETS

The tangible fixed asset held in relation to the former head office, Marlborough House, has been presented as held for sale following the receipt of an offer for the building in December 2016 and the sale of this building on 15 March 2017.

(I) NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE

	2017 £000	2016 £000
Property, plant and equipment	**–**	291
Total assets	**–**	291

18. TRADE AND OTHER PAYABLES

	2017 £000	2016 £000
Payments received on account	**2,625,**	1,472
Trade payables	**861**	3,771
Accruals	**1,619**	3,190
Other taxes and social security costs	**483**	500
	5,588	8,933

A balance of £243k (2016: £735k) in respect of an accrual for cash settled share-based payment is included within accruals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

19. CURRENT TAX ASSETS

	2017 £000	2016 £000
UK corporation tax	**5**	20
Foreign corporation tax	**–**	234
Current tax assets	**5**	254

20. FINANCIAL LIABILITIES – BORROWINGS

	2017 £000	2016 £000
Current:		
Bank loans (secured)	**1,000**	15,000
Bank overdrafts	**613**	1,587
Total	**1,613**	16,587
Non-current:		
Bank loans (secured)	**10,500**	–

BANK BORROWING FACILITIES

On 26 November 2015 the Group extended its RCF to £15.0 million to provide greater flexibility. As at 31 December 2016 this had been fully utilised. The RCF is committed until November 2018.

The Group overdraft facility expires within one year and is therefore subject to review during 2017 in the normal course of business. At 31 December 2016 the Group had an overdraft facility with a net limit of £1.0 million. Interest on the overdraft facility is charged at 2.75 per cent over base rate.

All bank facilities are secured by fixed and floating charges over the Group's assets and by cross-guarantees between the Company and certain UK and US subsidiaries.

At 31 December 2016, the Group was fully utilising its available facilities and was therefore reliant on the ongoing support of its bankers, Santander. In January 2017, net debt reached £17.0 million but subsequently reduced to £12.0 million following the sale of the Vislink Communication Systems division on 2 February 2017. The Group continues to rely on the ongoing support of its bankers.

Following discussions with its bankers, in late 2017 the Company successfully reached an agreement with its bank which allowed the business to continue as an independent entity. Subsequently, in Q1 2018 the Company agreed terms with Santander UK PLC for an amendment to the Revolving Credit and Term Loan Facilities agreement dated 17 March 2014 to secure the facility until 30 November 2019, which included a simplification of banking covenants.

The Group does not use interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. The effective interest rates at the balance sheet dates were as follows:

	2017	2016
Bank overdraft	**3.25%**	3.25%
Bank borrowings	**2.40%**	2.40%

The Group had net debt at 31 December 2017 of £10.3 million (2016: £14.5 million). The Group was not using the available net overdraft facility.

21. FINANCIAL INSTRUMENTS

Numerical financial instrument disclosures are set out below. Additional disclosures are set out in the accounting policies (note 2).

FINANCIAL INSTRUMENTS BY CATEGORY – CONTINUING OPERATIONS

	2017 Loans and receivables £000	2016 Loans and receivables £000
Assets as per statement of financial position at 31 December		
Trade and other receivables excluding prepayments and accrued income	**2,448**	3,484
Cash and cash equivalents	**1,862**	2,044
Total	**4,310**	5,528

There are no financial assets that are pledged as collateral for liabilities or contingent liabilities.

	2017 Other financial liabilities at amortised cost £000	2016 Other financial liabilities at amortised cost £000
Liabilities as per statement of financial position at 31 December		
Trade and other payables excluding payments received on account and social security liabilities	**1,803**	6,961
Borrowings	**12,113**	16,587
Total	**13,916**	23,548

FINANCIAL INSTRUMENTS BY CATEGORY – DISCONTINUED OPERATIONS

	2017 Loans and receivables £000	2016 Loans and receivables £000
Assets as per statement of financial position at 31 December		
Trade and other receivables excluding prepayments and accrued income	**64**	8,770
Total	**64**	8,770

There are no financial assets that are pledged as collateral for liabilities or contingent liabilities.

	2017 Other financial liabilities at amortised cost £000	2016 Other financial liabilities at amortised cost £000
Liabilities as per statement of financial position at 31 December		
Trade and other payables excluding payments received on account and social security liabilities	**677**	4,020
Total	**677**	4,020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

22. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Warranty provisions £000	Property provisions £000	Total £000
At 1 January 2017	170	954	1,124
Additional provision in the year	(161)	203	42
Utilised during the year	(5)	(390)	(395)
Exchange adjustment	(4)	–	(4)
At 31 December 2017	–	767	767

Provisions have been analysed between current and non-current as follows:

	2017 £000	2016 £000
Current	**400**	391
Non-current	**367**	733
At 31 December	**767**	1,124

There is no warranty provision in respect of the continuing business.

The onerous property provision movement in the year relates to the vacant property provision at the Legacy Broadcast International Hemel Hempstead site, arising following the sale of Vislink Communication Systems.

23. DEFERRED TAXATION

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate appropriate to the country in which the deferred tax liability or asset has arisen. Deferred tax assets have been recognised in respect of all tax losses and other temporary differences to the extent that they are regarded as more likely than not to be recoverable against future profits.

No deferred tax is recognised on unremitted earnings of overseas subsidiaries. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

From 1 April 2020 the corporation tax rate will be 17 per cent; the 17 per cent rate was substantively enacted on 7 September 2016 and hence deferred tax assets are calculated at 17 per cent, in so far as they relate to the UK.

	Accelerated tax depreciation £000	Intangible assets £000	Losses £000	Other £000	Total £000
Deferred tax liabilities					
At 1 January 2017	88	1,086	–	–	1,174
Credit to profit or loss	(22)	(508)	–	–	(530)
Exchange adjustment	–	–	–	–	–
At 31 December 2017	66	578	–	–	644

	Accelerated tax depreciation £000	Intangible assets £000	Losses £000	Other £000	Total £000
Deferred tax assets					
At 1 January 2017	–	–	–	–	–
Charge to profit or loss	–	–	–	–	–
Exchange adjustment	–	–	–	–	–
At 31 December 2017	–	–	–	–	–

	Accelerated tax depreciation £000	Intangible assets £000	Losses £000	Other £000	Total £000
Deferred tax liabilities					
At 1 January 2016	2,525	3,189	–	–	5,714
Credit to profit or loss	(2,640)	(2,270)	–	–	(4,910)
Exchange adjustment	203	167	–	–	370
At 31 December 2016	88	1,086	–	–	1,174

	Accelerated tax depreciation £000	Intangible assets £000	Losses £000	Other £000	Total £000
Deferred tax assets					
At 1 January 2016	–	–	2,287	2,174	4,461
Charge to profit or loss	–	–	(2,435)	(2,371)	(4,806)
Exchange adjustment	–	–	148	197	345
At 31 December 2016	–	–	–	–	–

The movement on net deferred tax liability in the year was:

	2017 £000	2016 £000
Net deferred tax liability at 1 January	**(1,174)**	(1,253)
Charged in the year	**530**	104
Exchange adjustment	**–**	(25)
Net deferred tax liability at 31 December	**(644)**	(1,174)

Certain deferred tax assets have not been recognised where it is not considered probable that they will be recovered.

	2017 £000	2016 £000
Losses	**11,850**	16,139
	11,850	16,139

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

24. ORDINARY SHARES

	Number '000s	**2017 £000**	Number '000s	2016 £000
Ordinary shares of 2.5 pence each at 31 December				
Authorised	**200,000**	**5,000**	200,000	5,000
Allotted and fully paid				
At 1 January	**124,603**	**3,115**	122,603	3,066
Share issues	**–**	**–**	2,000	49
At 31 December	**124,603**	**3,115**	124,603	3,115

POTENTIAL ISSUE OF SHARES

The Group has the following share based payment schemes:

A) EXECUTIVE SHARE OPTION SCHEMES

Executive share options are granted at a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is ten years. Awards are at the discretion of the Remuneration Committee. Options will become exercisable on the third anniversary of the date of grant. Exercise of an option is subject to continued employment. There are no performance criteria attached to the options granted in 2006, 2007 and 2012.

No executive options were granted during 2017 (2016: nil).

Certain senior executives hold options to subscribe for shares in the Company at 54.0 pence under the share option schemes approved by shareholders.

The number of shares subject to options and the exercise prices are:

Date of grant	Exercise price	Exercise period	**2017 Number '000s**	2016 Number '000s
27 April 2007	86.3p	27/04/10 – 26/04/17	**–**	50
29 March 2012	29.0p	29/03/15 – 28/03/22	**–**	100
14 May 2015	54.0p	01/04/18 – 13/05/25	**1,184**	1,184
25 June 2015	59.5p	25/06/18 – 24/06/25	**–**	636
30 September 2015	40.9p	30/09/18 – 29/09/25	**–**	80
			1,184	2,050

A reconciliation of executive option movements over the year is shown below:

	Number '000s	**2017 Weighted average exercise price**	Number '000s	2016 Weighted average exercise price
Outstanding at beginning of year	**2,050**	**54.8p**	3,100	54.7p
Forfeited during the year	**–**	**–**	(996)	54.5p
Lapsed during the year	**866**	**55.8p**	(54)	53.5p
Exercised during the year	**–**	**–**	–	–
Issued during the year	**–**	**–**	–	–
Outstanding at the end of the year	**1,184**	**54.0p**	2,050	54.8p
Exercisable at the end of the year	**–**	**–**	150	48.1p

No options were exercised in 2017 (2016: nil). The options outstanding at 31 December 2017 had a weighted average exercise price of 54.0 pence (2016: 54.8 pence) and a weighted average remaining contractual life of 7.4 years (2016: 8.1 years).

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The risk-free rate of return is the yield on zero coupon UK government bonds of a term consistent with the assumed option life.

B) LONG TERM INCENTIVE PLAN (LTIP)

Options have been granted as nil cost options under this scheme. The options granted under this scheme are generally exercisable at the end of the performance period and for seven years thereafter. Awards under this scheme are reserved for employees at senior management level and above. If an employee leaves the employment of the Group, a proportion of his award may be deemed to have vested, subject to satisfying any performance conditions and at the discretion of the Remuneration Committee.

Awards under the LTIP scheme are subject to performance criteria, the scales relating to which will be determined annually by the Remuneration Committee. Details of the performance criteria are disclosed in the Remuneration Report.

No new LTIP options were granted during the year.

The number of shares subject to LTIP options and the exercise prices are:

Date of grant	Share price at award date	Vesting date	**2017 Number '000s**	2016 Number '000s
28 March 2012	29.5p	28 March 2015	**–**	200
12 November 2013	48.5p	12 November 2016	**2,000**	2,681
03 June 2014	45.1p	03 June 2017	**150**	500
			2,150	3,381

When John Hawkins' employment ceased on 13 February 2018, 2 million of the above share options lapsed.

A reconciliation of LTIP option movements over the year is shown below:

	Number '000s	**2017 Weighted average share price at the date of grant**	Number '000s	2016 Weighted average share price at the date of grant
Outstanding at beginning of year	**3,381**	**46.8p**	6,685	40.6p
Forfeited during the year	**(931)**	**44.4p**	(1,304)	41.2p
Exercised during the year	**(300)**	**45.1p**	(2,000)	29.5p
Outstanding at the end of the year	**2,150**	**48.2p**	3,381	46.8p

There were 2,150,000 LTIP options that were exercisable at the end of the year (2016: 2,000,000).

The weighted average contractual life remaining on the LTIP options outstanding at 31 December 2017 is 5.8 years (2016: 6.9 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

24. ORDINARY SHARES CONTINUED

At 31 December 2017 the trustee of the Employee Share Ownership Plan (ESOP) held 126,496 shares (2016: 626,496) with a market value of Nil (2016: £0.1 million). The net book value of these shares was Nil (2016: £0.1 million) and was deducted from equity.

During the year 931,000 LTIP shares were forfeited as a result of employees leaving the Group.

C) SHARE OPTIONS – VALUE OF EMPLOYEE SERVICES

The Group recognised a total credit of £463,840 (2016: expense of £1,775,857) related to equity-settled share based payment transactions in the income statement in the year.

Following the decision to end the formal sale process, the Pebble Beach Systems VCP liability was reassessed. This scheme can be settled in either equity or cash. The liability has been assessed on a cash basis.

25. CASH FLOW USED IN OPERATING ACTIVITIES

Reconciliation of loss before taxation to net cash flows from operating activities:

	2017 £000	2016 £000
Loss before tax	**(5,550)**	(55,637)
Depreciation of property, plant and equipment	**187**	701
(Profit)/loss on disposal of property, plant and equipment	**(110)**	1,009
Loss on sale of VCS	**1,335**	–
Amortisation and impairment of development costs	**856**	13,772
Amortisation and impairment of acquired intangibles	**1,418**	25,609
Share based payment expense	**28**	1,247
Finance income	**(47)**	(2)
Finance costs	**348**	351
(Increase)/decrease in inventories	**(19)**	7,249
Decrease in trade and other receivables	**2,489**	3,670
(Decrease)/increase in trade and other payables	**(3,345)**	376
(Decrease)/increase in provisions	**(351)**	420
Net cash used in operating activities	**(2,761)**	(1,235)

26. CONTINGENT LIABILITIES AND COMMITMENTS – CONTINUING OPERATIONS

The aggregate future minimum lease payments due under non-cancellable operating leases are as follows:

	2017 Land and buildings £000	2016 Land and buildings £000
Not later than one year	**437**	462
Later than one year and not later than five years	**513**	1,017
Later than five years	**470**	910
	1,420	2,389

The Group leases a number of office and factory premises under operating leases of periods between five and ten years. None of these leases contain contingent rentals. During the year £0.4 million (2016: £0.4 million) of operating lease payments were recognised in the consolidated Group income statement.

27. PENSIONS

DEFINED CONTRIBUTION PLANS

The Group operates a stakeholder pension scheme in the UK with Scottish Widows Plc. The total Group pension charge for the year was £0.0 million (2016: £0.2 million).

The Group has no unfunded pension liabilities.

28. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Key management includes directors (executive and non-executive), members of the senior management and the Company Secretary. The compensation paid or payable to key management for employee services is disclosed in note 7.

Pebble Beach Systems Limited, a wholly owned subsidiary of Vislink Group Holdings Limited, leases two properties owned by the Denton Trust. Ian Cockett (a director of Pebble Beach Systems Limited) and Peter Hajittofi (a non-executive director of Pebble Beach Systems Limited) are trustees in the Denton Trust. The first property (Unit 12 Horizon Business Village) is rented from the trust for £105,000 per annum. The second property (Unit 15 Horizon Business Village) is rented from the trust for £62,000 per annum. As at 31 December 2017 the Company owed £21,000 to the Denton Trust (2016: £51,100).

In accordance with Section 409 of the Companies House Act 2006 a full list of subsidiaries, partnerships, associates, and joint ventures of the Group, along with the principal activity, the country of incorporation and the effective percentage of equity owned by Pebble Beach Systems Group plc, as of 31 December 2017, are provided in the entity financial statements of Pebble Beach Systems Group plc.

There are no material related parties other than Group companies.

29. EVENTS AFTER THE REPORTING PERIOD

In January 2018 the Group completed a cost out program with the restructure of Pebble Beach Systems operations. Overall headcount has been reduced from 78 to 62 achieving a net salary saving of just over £1.0 million. Combined with savings from the closure of the North America operations PBS overheads have been reduced by £1.43 million. With additional saving from the closure of the PLC head office and reduced professional fees, overall cost savings from 2017 to 2018 total £3.6 million.

In June 2018 the Group agreed terms with Santander UK PLC for an amendment to the current Revolving Credit and Term Loan Facilities agreement dated 17 March 2014 to secure the facility until 30 November 2019. The amendment included a repayment schedule totalling £1.0 million in each of 2018 and 2019, reducing the overall facility to £9.5 million at the end of November 2019. The amendment also included a simplification of banking covenants to an absolute EBITDA test and a margin of 2.5% over LIBOR.

COMPANY INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	**2017 £000**	2016 £000
Administrative expenses		**(1,270)**	(2,298)
Other expenses		**(12,229)**	(13,300)
Operating loss		**(13,499)**	(15,598)
Operating loss is analysed as:			
Adjusted operating loss (2016 restated)		**(1,240)**	(2,276)
Depreciation		**(30)**	(22)
Non-recurring items	E	**(12,229)**	(13,300)
Finance costs		**(434)**	(480)
Finance income		**271**	529
Loss before tax		**(13,662)**	(15,549)
Tax	G	**17**	(224)
Loss for the year being loss attributable to shareholders	R	**(13,645)**	(15,773)

The Company has no recognised gains and losses other than the losses for the years stated above and therefore no separate statement of comprehensive income has been presented.

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Assets			
Non-current assets			
Property, plant and equipment	I	–	128
Investments in subsidiaries	J	**12,880**	21,507
Deferred tax assets	O	**21**	4
Total non-current assets		**12,901**	21,639
Current assets			
Trade and other receivables	K	**4,870**	11,982
Current tax assets	N	–	–
Cash and cash equivalents	L	**10**	31
Total current assets		**4,880**	12,013
Liabilities			
Current liabilities			
Trade and other payables	M	**6,322**	19,076
Total current liabilities		**6,322**	19,076
Net current liabilities		**(1,442)**	(7,063)
Non-current liabilities			
Financial liabilities – borrowings	P	**10,500**	–
Total non-current liabilities		**10,500**	–
Net assets		**959**	14,576
Equity attributable to shareholders			
Ordinary shares	Q	**3,115**	3,115
Share premium	R	**6,800**	6,800
Capital redemption reserve	R	**617**	617
Merger reserve	R	**1,882**	4,552
Accumulated losses	R	**(11,455)**	(508)
Total equity		**959**	14,576

The Group will not be able to pay dividends without a court approved capital reduction.

The financial statements on pages 76 to 95 were approved by the Board of directors on 25 June 2018 and were signed on its behalf by:

John Varney
Non-Executive Chairman

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Ordinary shares £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Accumulated losses £'000	Total equity £'000
At 1 January 2016	3,066	6,800	617	4,552	15,847	30,882
New share issue	49	–	–	–	–	49
Loss for the financial year	–	–	–	–	(15,773)	(15,773)
Value of employee services	–	–	–	–	1,247	1,247
Income from shares in Group undertakings	–	–	–	–	–	–
Dividends paid	–	–	–	–	(1,829)	(1,829)
At 31 December 2016	3,115	6,800	617	4,552	(508)	14,576
At 1 January 2017	3,115	6,800	617	4,552	(508)	14,576
Transfer	–	–	–	(2,670)	2,670	–
Loss for the financial year	–	–	–	–	(13,645)	(13,645)
Value of employee services	–	–	–	–	28	28
Dividends paid	–	–	–	–	–	–
At 31 December 2017	**3,115**	**6,800**	**617**	**1,882**	**(11,455)**	**959**

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	**2017 £000**	2016 £000
Cash flow from operating activities			
Cash generated from/(used in) operations	S	**3,441**	(6,409)
Interest paid		**(434)**	(480)
Taxation paid		**(179)**	1,630
Net cash generated from/(used in) operating activities		**2,828**	(5,259)
Cash flow from investing activities			
Interest received		**271**	529
Purchase of property, plant and equipment	I	**–**	(2)
Income from shares in Group undertakings	H	**–**	–
Net cash generated from investing activities		**271**	527
Cash flow from financing activities			
New bank loans		**(3,500)**	6,000
Dividend paid	H	**–**	(1,829)
Proceeds on issue of shares		**–**	49
Net cash generated (used in)/from financing activities		**(3,500)**	4,220
Net decrease in cash and cash equivalents		**(401)**	(512)
Cash and cash equivalents at 1 January		**(215)**	297
Cash and cash equivalents at 31 December	L	**(616)**	(215)

NOTES TO THE COMPANY FINANCIAL STATEMENTS

A GENERAL INFORMATION

The Company is incorporated and domiciled in the UK. The address of its registered office is Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ. The registered number of the Company is 04082188.

B ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on a going concern basis under the historical cost basis of accounting, except where fair value measurement is required under IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumption and estimates are significant to the Company financial statements, are disclosed in note 4 of the Group financial statements.

GOING CONCERN BASIS

The directors are required to make an assessment of the Group's ability to continue to trade as a going concern.

On 2 February 2017 the Group sold the trade and assets of the hardware division (VCS) to xG, which reduced the net debt of the Group to £12.0 million.

On 14 February 2017, following the sale of VCS, the Group pursued a cost reduction strategy, resulting in the closure of the Head Office function, which was then no longer appropriate as the Company had a single operating subsidiary, Pebble Beach Systems Limited, which operates from a standalone site. Accordingly, notice was served on the Head Office team.

Following the disposal of VCS, a strategic review and formal sale process (FSP) was initiated to consider options available to reduce the Company's outstanding debt, including the possibility of a sale of the Group.

During the course of the FSP the Company engaged with a number of interested parties. These discussions did not result in an offer which was considered by the Board to reflect the value of the Group's operations and as the Company was not in dialogue with any third party regarding an offer for the Company's shares, the Board decided to terminate the FSP.

During 2017 the Group forecast that it would be in breach of its banking covenants for the foreseeable future meaning it was reliant on the ongoing support of its bankers.

At 31 December 2017 net debt was £10.2 million (net cash £1.3 million and bank debt of £11.5 million). In addition, there was an available overdraft of £1.0 million which was not utilised.

In April 2018 the Company announced it had negotiated new heads of terms which were subject to a revision of the existing documentation. Subsequently, in June 2018, the Company confirmed that the amended Revolving Credit and Term Loan Facilities agreement had been signed with Santander UK PLC. The revision secures the facility until 30 November 2019 with simplified banking covenants and a reasonable repayment schedule.

In order to assess the appropriateness of preparing the financial statements on a going concern basis, management have prepared detailed projections of expected cash flows. These projections include the impact of cost reductions of £3.6m, £2.2m delivered as part of the 2017 PLC cost reduction strategy and £1.4m through operational costs savings completed in January 2018 in the Pebble Beach Systems operation. As part of the review, the Board considered sensitivities with regards to the timing of revenue growth coming from the transition in the broadcast industry from SDI to IP platforms. It looked at sensitivities regarding the recovery of gross margin following the completion of the Harmonic OEM. Finally, it considered sensitivities regarding the cost reductions.

Given that both the margin recovery and cost reductions both pertained to items already completed prior to sign off of the accounts the board concluded that the primary risk is one of ongoing trading and therefore the Group remains a going concern.

INVESTMENTS

All investments are initially recorded at cost, being the fair value of consideration given including the acquisition costs associated with the investment. Subsequently, they are reviewed for impairment on an individual basis if events or changes in circumstances indicate the carrying value may not be fully recoverable.

In addition, there is a judgement for the Company over whether the carrying value of the investments held are fully recoverable.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment.

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is calculated in order to write off the cost of property, plant and equipment over their estimated useful lives by equal annual instalments using the following rates:

Plant and computer equipment: 10 per cent – 33 per cent.

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible timing differences, carry-forward of unused tax assets and tax losses, to the extent that they are regarded as recoverable. They are regarded as recoverable where, on the basis of available evidence, there will be suitable taxable profits against which the future reversal of the underlying timing differences can be deducted. The carrying value of the amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part, of the tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted at the balance sheet date. Deferred tax is measured on an undiscounted basis.

FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date and non-monetary transactions at the exchange rates ruling at the dates of the transactions. All differences on exchange are taken to the income statement.

SHARE-BASED PAYMENTS

The fair value of employee share plans is calculated using an option-pricing model. In accordance with IFRS 2 "Share-based Payment", the resulting cost is charged to the income statement over the vesting period of the plans. The value of the charge is adjusted to reflect the expected and actual levels of options vesting.

DIVIDENDS

Under IAS 10, dividends are not to be recognised as a liability until the dividend is approved by the Company's shareholders.

PENSIONS

Company employees are members of money purchase schemes where the obligations of the Company are charged to the income statement as they are incurred.

NON-RECURRING ITEMS

These are material items excluded from management's assessment of profit because by their nature they could distort the Group's underlying quality of earnings. These are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Please refer to section 4 of the Group financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

C SERVICES PROVIDED BY THE COMPANY'S AUDITORS

During the year, the Company obtained the following services from the Company's auditors at the costs detailed below:

	2017 £000	2016 £000
Analysis of fees payable to PricewaterhouseCoopers LLP		
Fees payable to the Company's auditors for the audit of the Company's financial statements	**30**	70
Fees payable to the Company's auditors for other services:		
Audit-related assurance services	**–**	–
Other assurance services	**–**	–
	30	70
Taxation compliance services	**–**	–
Taxation advisory services	**–**	–
Services relating to corporate finance transactions	**–**	–
	30	70

A description of the work of the Audit Committee is set out in the Corporate Governance Statement on pages 18 to 24 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

D DIRECTORS AND EMPLOYEES

Staff costs (gross of recharges to subsidiary undertakings) during the year were as follows:

	2017 £000	2016 £000
Wages and salaries	**866**	823
Social security costs	**141**	138
Other pension costs – defined contribution plans (note 27)	**23**	124
Share-based payments (note Q)	**–**	798
	1,030	1,883

The monthly average number of employees employed by the Company during the year was as follows:

	2017 Number	2016 Number
Average monthly number of employees		
General and administrative	**4**	8
	4	8

The average number of employees has been calculated on a pro rata basis. The average number of employees includes directors with service contracts. The total number of employees at 31 December 2017 was 2 (2016: 7).

Key management compensation for the continuing business:

	2017 £000	2016 £000
Short-term employee benefits – including salaries, social security costs and non-monetary benefits	**203**	605
Post-employment benefits – defined contribution pension plans	**8**	108
Share-based payments (note Q)	**–**	851
	211	1,564

The analysis of key management compensation above includes Executive Directors. Key management is defined as the senior management team. Details of directors' emoluments are included in the remuneration report on pages 25 to 28.

E OPERATING LOSS

The following items have been included in arriving at the operating loss for the continuing business:

	2017 £000	2016 £000
Depreciation of property, plant and equipment (note I)	**30**	22
Exchange gains credited to profit and loss	**(6)**	(908)

	2017 £000	2016 £000
OTHER EXPENSES		
Other expenses comprise:		
– Non-recurring items	**12,229**	13,300

NON-RECURRING ITEMS

The following items are excluded from management's assessment of profit because by their nature they could distort the Company's underlying quality of earnings. They are excluded to reflect performance in a consistent manner and are in line with how the business is managed and measured on a day-to-day basis:

	2017 £000	2016 £000
Liquidity advice and other costs	**232**	1,090
Redundancy and restructuring costs	**620**	–
Impairment of investment	**8,627**	5,000
Write-off of intercompany loans not recoverable	**2,750**	7,210
	12,229	13,300

The Company incurred £291,000 of disposal costs and a refund of £59,000 in relation to bank fees incorrectly charged to a dormant subsidiary.

The closure of the Company head office resulted in redundancy costs of £249,000, fixed asset losses of £111,000 and a cost of £260,000 to provide for the non-recoverability of a loan to a former employee, which are included in Central costs in the Group accounts.

As a result of the termination of the Strategic Review and Formal Sale Process, an £8.6 million impairment was recognised on the Company's investment in its subsidiary, Legacy Broadcast Group Holdings Limited, and £2.7 million of intercompany loans were written off as unrecoverable.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

F FINANCE INCOME – NET

	2017 £000	2016 £000
Finance costs – third party	**339**	331
Finance costs – intercompany	**95**	149
Finance income – third party	**(33)**	(1)
Finance income – intercompany	**(238)**	(528)
Finance expense/(income) – net	**163**	(49)

Finance costs represent interest payable on bank borrowing and interest charged on intercompany loans.

Finance income is derived from cash held on deposit and interest received on intercompany loans.

£245,000 relates to discontinued business.

G INCOME TAX (CREDIT)/CHARGE

A) ANALYSIS OF THE TAX (CREDIT)/CHARGE IN THE YEAR

	2017 £000	2016 £000
Current tax		
UK corporation tax	**–**	–
Adjustments in respect of prior years	**–**	109
Total current tax	**–**	109
Deferred tax		
UK corporation tax	**(17)**	127
Impact of change in tax rate	**–**	(12)
Total deferred tax	**(17)**	115
Total taxation	**(17)**	224

B) FACTORS AFFECTING TAX (CREDIT)/CHARGE FOR THE YEAR

The (credit)/charge for the year can be reconciled to the loss in the income statement as follows:

	2017 £000	2016 £000
Loss before tax on continuing operations	**(13,663)**	(15,549)
Tax at the UK corporation tax rate of 19.25% (2016: 20.0%)	**(2,630)**	(3,110)
Adjustments in respect of prior years	**–**	109
Permanent differences	**2,213**	2,608
Underwater share options	**–**	5
Additional losses now recognised	**–**	–
Current year losses not recognised	**400**	624
Effect of changes in UK tax rate	**–**	(12)
Total taxation	**(17)**	224

H INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2017 £000	2016 £000
Income from shares in Group undertakings	**–**	–
Final dividend paid of nil pence per share (2016: 1.5 pence per share)	**–**	1,829

In view of the results for the year, the directors do not recommend payment of a final dividend for the year ended 31 December 2017.

I PROPERTY, PLANT AND EQUIPMENT

	Plant and computer equipment £000
Cost	
At 1 January 2016	552
Additions	2
At 1 January 2017	**554**
Disposals	(166)
At 31 December 2017	**388**
Accumulated depreciation	
At 1 January 2016	404
Charge for the year	22
At 1 January 2017	**426**
Charge for the year	30
Disposals	(68)
At 31 December 2017	**388**
Net book value	
At 31 December 2017	**–**
At 31 December 2016	128
At 1 January 2016	148

The directors are of the opinion that there is no material difference between the fair value and carrying value of the property, plant and equipment.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

J INVESTMENTS IN SUBSIDIARIES

	Investments in subsidiaries' unlisted shares £000
Cost	
At 1 January 2017	26,507
Additions	–
Disposals	–
At 31 December 2017	**26,507**
Provision for impairment	
At 1 January 2017	**5,000**
Additions	8,627
Disposals	–
At 31 December 2017	**13,627**
Net book value	
At 31 December 2017	**12,880**
At 31 December 2016	21,507

As at 31 December 2017, following the termination of the Strategic Review and Formal Sale Process, the carrying value of the investment in Legacy Broadcast Group Holdings Limited has been impaired by £8.6 million.

The net book value represents an estimate of the recoverable amount of the underlying net assets of the investment in the Group's subsidiary undertakings.

K TRADE AND OTHER RECEIVABLES

	2017 £000	2016 £000
Amounts owed by Group undertakings	**4,836**	11,768
Trade receivables	**10**	–
Other debtors	**–**	160
Prepayments and accrued income	**24**	54
	4,870	11,982

Amounts owed by Group undertakings includes loans of £4.8 million (2016: £11.8 million) that bear interest at 2.75 per cent which are repayable on demand.

£51,000 has been provided against a debt of £61,000 that is overdue and considered unlikely to be recovered.

L CASH AND CASH EQUIVALENTS

	2017 £000	2016 £000
Cash and bank balances	**(616)**	(215)
Cash and cash equivalents at 31 December	**(616)**	(215)

Cash and cash equivalents include the following for the purpose of cash flows:

	2017 £000	2016 £000
Cash and cash equivalents	**10**	31
Bank overdrafts (note M)	**(626)**	(246)
Cash and cash equivalents at 31 December	**(616)**	(215)

The credit quality of the cash and cash equivalents that are not impaired can be assessed by reference to the external credit ratings of the banks where the deposits are held.

	2017 £000	2016 £000
Credit rating (S&P)		
A-1	**(616)**	(215)
Total	**(616)**	(215)

Reconciliation of decrease in cash and cash equivalents to movement in net cash:

	2017			2016		
	Net cash and cash equivalents £000	**Other borrowings £000**	**Total net cash £000**	Net cash and cash equivalents £000	Other borrowings £000	Total net cash £000
At 1 January	**(215)**	**(15,000)**	**(15,215)**	297	(9,000)	(8,703)
Cash flow for the year	**3,099**	**–**	**3,099**	(4,683)	–	(4,683)
Movement in borrowings in the year	**(3,500)**	**3,500**	**–**	6,000	(6,000)	–
Dividend paid	**–**	**–**	**–**	(1,829)	–	(1,829)
Cash and cash equivalents at 31 December	**(616)**	**(11,500)**	**(12,116)**	(215)	(15,000)	(15,215)

NOTES TO THE COMPANY FINANCIAL STATEMENTS

M TRADE AND OTHER PAYABLES

	2017 £000	2016 £000
Bank loans and overdrafts (note P)	**1,626**	15,246
Trade creditors	**45**	867
Amounts owed to Group undertakings	**3,874**	1,506
Taxation and social security costs	**137**	232
Accruals and deferred income	**640**	1,225
	6,322	19,076

A balance of £243k (2016: £735k in respect of an accrual for cash settled share-based payment is included within accruals.

N CURRENT TAX (LIABILITIES)/ASSETS

	2017 £000	2016 £000
UK corporation tax	**–**	(179)
	–	(179)

O DEFERRED TAXATION

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate appropriate to the country in which the deferred tax liability or asset has arisen. Deferred tax assets have been recognised in respect of all tax losses and other temporary differences to the extent that they are regarded as more likely than not to be recoverable against future profits.

From 1 April 2020, the corporation tax rate will be 17 per cent. The 17 per cent rate was substantively enacted on 7 September 2016 and hence deferred tax assets are calculated at 17 per cent.

	Accelerated tax depreciation £000	Losses £000	Other £000	Total £000
At 1 January 2017	4	–	–	4
Charge to profit or loss	17	–	–	17
At 31 December 2017	21	–	–	21

P BANK LOANS

	2017 £000	2016 £000
Current:		
Bank loans and overdrafts (secured)	**1,626**	15,246
Non-current:		
Bank loans (secured)	**10,500**	–

Further information about these facilities is given in note 20 of the Group financial statements.

FINANCIAL INSTRUMENTS

Numerical financial instrument disclosures are set out below. Additional disclosures are set out in the accounting policies (note 2).

FINANCIAL INSTRUMENTS BY CATEGORY

	2017 Loans and receivables £000	2016 Loans and receivables £000
Assets as per statement of financial position at 31 December		
Trade and other receivables excluding prepayments and accrued income	**10**	160
Cash and cash equivalents	**10**	31
Total	**20**	191

There are no financial assets that are pledged as collateral for liabilities or contingent liabilities.

	2017 Other financial liabilities at amortised cost £000	2016 Other financial liabilities at amortised cost £000
Liabilities as per statement of financial position at 31 December		
Trade and other payables excluding payments received on account and social security liabilities	**685**	2,092
Borrowings	**12,126**	15,246
Total	**12,811**	17,338

NOTES TO THE COMPANY FINANCIAL STATEMENTS

Q CALLED UP SHARE CAPITAL

	Number '000s	**2017 £000**	Number '000s	2016 £000
Authorised ordinary shares of 2.5 pence each at 31 December	**200,000**	**5,000**	200,000	5,000
Allotted and fully paid:				
31 December	**124,603**	**3,115**	124,603	3,115

POTENTIAL ISSUE OF SHARES

The Company has the following share-based payment schemes:

A) EXECUTIVE SHARE OPTION SCHEMES

Executive share options are granted at a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is ten years. Awards are at the discretion of the Remuneration Committee. Options will become exercisable on the third anniversary of the date of grant. Exercise of an option is subject to continued employment. There are no performance criteria attached to the options granted in 2006, 2007 and 2012.

No executive options were granted during 2017 (2016: nil).

Certain senior executives hold options to subscribe for shares in the Company at 54.0 pence under the share option schemes approved by shareholders.

The number of shares subject to options and the exercise prices are:

Date of grant	Exercise price	Exercise period	**2017 Number '000s**	2016 Number '000s
27 April 2007	86.3p	27/04/10 – 26/04/17	**–**	50
29 March 2012	29.0p	29/03/15 – 28/03/22	**–**	100
14 May 2015	54.0p	01/04/18 – 13/05/25	**1,184**	1,184
25 June 2015	59.5p	25/06/18 – 24/06/25	**–**	636
30 September 2015	40.9p	30/09/18 – 29/09/25	**–**	80
			1,184	2,050

A reconciliation of executive option movements over the year is shown below:

	Number '000s	**2017 Weighted average share price at the date of grant**	Number '000s	2016 Weighted average share price at the date of grant
Outstanding at the beginning of the year	**2,050**	**54.8p**	3,100	54.7p
Forfeited during the year	**–**	**–**	(996)	54.5p
Lapsed during the year	**866**	**55.8p**	(54)	53.5p
Exercised during the year	**–**	**–**	–	–
Issued during the year	**–**	**–**	–	–
Outstanding at the end of the year	**1,184**	**54.0**	2,050	53.2p
Exercisable at the end of the year	**–**	**–**	150	48.1p

No options were exercised in 2017 (2016: nil). The options outstanding at 31 December 2017 had a weighted average exercise price of 54.0 pence (2016: 54.8 pence) and a weighted average remaining contractual life of 7.4 years (2016: 8.1 years).

B) LONG TERM INCENTIVE PLAN (LTIP)

Options have been granted as nil cost options under this scheme. The options granted under this scheme are generally exercisable at the end of the performance period and for seven years thereafter. Awards under this scheme are reserved for employees at senior management level and above. If an employee leaves the employment of the Group, a proportion of his award may be deemed to have vested, subject to satisfying any performance conditions and at the discretion of the Remuneration Committee.

Awards under the LTIP scheme are subject to performance criteria, the scales relating to which being determined annually by the Remuneration Committee. Details of the performance criteria are disclosed in the Remuneration Report.

No new LTIP options were granted during the year.

The number of shares subject to LTIP options and the exercise prices are:

Date of grant	Share price at award date	Vesting date	**2017 Number '000s**	2016 Number '000s
28 March 2012	29.5p	28 March 2015	**–**	200
12 November 2013	48.5p	12 November 2016	**2,000**	2,681
3 June 2014	45.1p	3 June 2017	**150**	500
			2,150	3,381

When John Hawkins' employment ceased, 2 million of the above share options lapsed.

Q CALLED UP SHARE CAPITAL CONTINUED

A reconciliation of LTIP option movements over the year is shown below:

	Number '000s	**2017 Weighted average exercise price**	Number '000s	2016 Weighted average exercise price
Outstanding at the beginning of the year	**3,381**	**46.8p**	6,685	40.6p
Forfeited during the year	**(931)**	**44.4p**	(1,304)	41.2p
Exercised during the year	**(300)**	**45.1p**	(2,000)	29.5p
Outstanding at the end of the year	**2,150**	**48.2p**	3,381	46.8p

There were 2,150,000 LTIP options that were exercisable at the end of the year (2016: 2,000,000).

The weighted average contractual life remaining on the LTIP options outstanding at 31 December 2017 is 5.8 years (2016: 6.9 years).

C) SHARE OPTIONS – VALUE OF EMPLOYEE SERVICES

The Group recognised total credit of £463,840 (2016: expense of £1,775,857) related to equity-settled share-based payment transactions in the year.

Following the decision to end the formal sale process, the Pebble Beach Systems VCP liability was reassessed. This scheme can be settled in either equity or cash. The liability has been assessed on a cash basis.

R RESERVES

	Share options £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Accumulated losses £000
At 1 January 2017	3,115	6,800	617	4,552	(508)
Transfer	–	–	–	(2,670)	2,670
Loss for the financial year	–	–	–	–	(13,645)
Value of employee services	–	–	–	–	28
At 31 December 2017	**3,115**	**6,800**	**617**	**1,882**	**(11,455)**

S CASH FLOW FROM OPERATING ACTIVITIES

Reconciliation of loss before taxation to net cash flows from operating activities.

	2017 £000	2016 £000
Loss before tax	**(13,662)**	(15,549)
Depreciation of property, plant and equipment	**30**	22
Loss on disposal of fixed assets	**111**	–
Impairment of investment	**8,627**	5,000
Impairment of intercompany loans	**2,750**	–
Share-based payment expense	**28**	1,247
Finance income	**(271)**	(529)
Finance costs	**434**	480
Decrease/(increase) in trade and other receivables	**6,730**	6,354
(Decrease)/increase in trade and other payables	**(1,336)**	(3,434)
Net cash used in operating activities	**3,441**	(6,409)

T CONTINGENT LIABILITIES AND COMMITMENTS

The Company is party to a cross-guarantee to secure bank borrowings and facilities for credit cards, bonds and guarantees to certain members of the Group. At 31 December 2017, there was £11.5 million of bank borrowings outstanding (2016: £15.0 million).

The Company has no capital expenditure contracted for but not provided at 31 December 2017 (2016: £nil).

NOTES TO THE COMPANY FINANCIAL STATEMENTS

U RELATED PARTY TRANSACTIONS

The subsidiaries of the Group which are unlisted unless otherwise indicated, are shown below.

The following subsidiaries are included in the Group's consolidated results.

	Proportion of ordinary shares held by the Group	Principal activity	Country of incorporation and operation	Registered office
Legacy Broadcast Group Holdings Limited*	83.3%	Management holding company**	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ, England
Legacy Broadcast International Limited (incorporating the business of Advent Communications, Link Research and Gigawave)	100%	Design and manufacture of wireless camera systems, satellite uplink and downlink equipment	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ, England
Legacy Broadcast, Inc. (incorporating the businesses of Microwave Radio Communications, Pacific Microwave Research and Western Technical Services)	100%	Design and manufacture of microwave radio transmission equipment**	USA	251 Little Falls Drive, Wilmington, Delaware, 19808, USA
Amplifier Technology Limited	100%	Design and manufacture of amplifiers**	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ, England
Pebble Beach Systems Limited	100%	Software service, video capture and playout provider for the broadcast industry	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ, England
Pebble Broadcast Systems, Inc.	100%	Software service, video capture and playout provider for the broadcast industry	USA	2095 West 6th Avenue, Suite 200, Broomfield, Colorado, 80020, USA
Legacy Broadcast Holdings Limited	100%	Management holding company**	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ, England
Continental Microwave Limited	100%	Broadcast transmission systems integration and project management**	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ, England
Legacy Broadcast Holdings, Inc.	100%	Management holding company**	USA	251 Little Falls Drive, Wilmington, Delaware, 19808, USA
Legacy Broadcast Technology Limited	100%	Dormant Company**	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ, England

	Proportion of ordinary shares held by the Group	Principal activity	Country of incorporation and operation	Registered office
Link Research Limited	100%	Dormant Company**	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ, England
Legacy Broadcast Communications Limited	100%	Dormant Company**	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ, England
Advent Communications Limited	100%	Dormant Company**	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ, England
Multipoint Communications Limited	100%	Dormant Company**	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ, England
Legacy Broadcast Limited	100%	Dormant Company**	UK	Wilton Park House, Wilton Place, Dublin 2, Ireland
Gigawave Limited	100%	Dormant Company**	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ, England

* Owned directly by the Company
** Unaudited

ANALYSIS OF SHAREHOLDERS

AS AT 31 DECEMBER 2017

U RELATED PARTY TRANSACTIONS CONTINUED

Holding size range	Number of shareholders	Percentage of total shareholders	Number of shares (000)	Percentage of issued share capital
0–1,000	3,540	58.0	1,566	1.26
1,001–5,000	1,878	31.6	4,249	3.41
5,001–10,000	284	5.0	2,131	1.71
10,001–100,000	227	4.0	7,081	5.68
Over 100,000	78	1.4	109,576	87.94
	6,007	100.0	124,603	100.0

WARNING TO SHAREHOLDERS: BOILER ROOM SCAMS

Over the last few years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based "brokers" who target UK shareholders, offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. These operations are commonly known as "boiler rooms". These "brokers" can be very persistent and extremely persuasive.

The directors have been made aware that approaches have been made to Pebble Beach Systems Group plc shareholders. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

More detailed information on this or similar activity can be found on the FCA website http://www.fca.org.uk/ or by calling
the FCA Consumer Helpline on 0800 111 6768.

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

JOHN VARNEY
Independent Non-Executive Chairman

ROBIN HOWE
Senior Independent Non-Executive Director
Remuneration Committee Chairman
Audit Committee Chairman

GRAHAM PITMAN
Non-Executive Director

PETER MAYHEAD
Group Chief Executive Officer

SECRETARY
Alison Unitt

REGISTERED OFFICE
12 Horizon Business Village
1 Brooklands Road
Weybridge
Surrey
KT13 0TJ

COMPANY REGISTRATION NUMBER
04082188

INDEPENDENT AUDITORS
PRICEWATERHOUSECOOPERS LLP
2 Glass Wharf
Bristol
BS2 0FR

BANKERS
SANTANDER CORPORATE BANKING
Solent Corporate Banking Centre
1 Dorset Street
Southampton
Hampshire
SO15 2DP

LEGAL ADVISERS
PINSENT MASONS LLP
3 Colmore Circus
Birmingham
B4 6BH

REGISTRARS
COMPUTERSHARE INVESTOR SERVICES PLC
The Pavilions
Bridgwater Road
Bristol
BS13 8AE

NOMINATED ADVISER AND BROKER
N+1 SINGER ADVISORY LLP
One Bartholomew Lane
London
EC2N 2AX

SHAREHOLDER QUERIES

All queries regarding shareholdings, dividends, lost share certificates or changes of address should be communicated in writing to Pebble Beach Systems Group plc, c/o Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE, stating the registered shareholder's name and address.

Telephone: 0370 703 6270.

Shareholders may also check their shareholding, dividend payments or update their personal details via the Investor Services section of the Registrars' website at www.computershare.com. This is a secure section of the Computershare website. To access your details you will require the unique Shareholder Reference Number, found on the corresponding share certificate.

SHAREHOLDER ECOMS WEBSITE

For further up-to-date shareholder information, please visit www.pebbleplc.com.

NEWS ALERTS

To receive the latest news announcements and press releases by email please visit www.pebbleplc.com and follow the link to the news & events/email alerts page to register your details.

UNSOLICITED MAIL

The Company is required by law to make its share register available on request to the public and organisations which may use it as a mailing list resulting in shareholders receiving unsolicited mail. Shareholders wishing to limit the receipt of such mail should write to the Mailing Preference Service, DMA House, 70 Margaret Street, London, W1W 8SS or register online at www.mpsonline.org.uk.