

## **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.

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# **ANNUAL REPORT 2018**



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# BUSINESS OVERVIEW

## PEBBLE BEACH SYSTEMS GROUP PLC

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

## 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. It trades in the US as Pebble Broadcast Systems Inc and the rest of the world as Pebble Beach Systems Limited. Pebble Beach Systems Limited website is: <http://www.pebble.tv>

## OPERATIONAL HIGHLIGHTS

- Stabilised the business during unsettled market conditions during a period of technology and commercial transition
- Delivered significant improvements in profitability as a direct result of the restructure undertaken throughout 2017 and the first half of 2018
- Appointed a leadership team with capabilities to meet changing market needs
- Completed a review of our long-term vision and established a comprehensive strategy for growth

# NON-EXECUTIVE CHAIRMAN'S STATEMENT

## INTRODUCTION

We delivered a strong financial performance despite market conditions throughout 2018 being challenging as broadcast customers assessed how best to invest in the evolving technologies of IP and cloud orientated infrastructures whilst maintaining their significant historical investment into traditional proprietary infrastructure.

The restructuring of Pebble Beach Systems is now complete and we have a clear mission, focused on growth and a cost base structured to ensure ongoing profitability and cash generation.

Pebble Beach Systems' mission is to support broadcasters as they adapt to compete with new entrants in the video media space by providing solutions to support their transition from traditional broadcast infrastructure to more flexible IP-based technologies.

## FINANCIAL RESULTS

Order intake for the full year of £10.8 million is above the previous year (2017: £10.5 million). This includes two significant orders as announced in November 2018.

The first order was from PRO TV, the largest commercial broadcaster in Romania, who chose Pebble Beach Systems' solutions to upgrade its entire playout operations. The order value was £1.0 million, and project commission started in November 2018 ready for an on air date in early 2019.

The second order was from tpc Switzerland AG, the foremost broadcast service provider in Switzerland. This order, also with a value of £1.0 million, is for a new, state of the art, IP-based facility which is currently under construction in Zürich. The contract was finalised in November 2018 and the new facility is scheduled to open in the autumn of 2019.

As expected, revenue for 2018 of £9.2 million (2017: £10.3 million) was down on 2017 as a result of focussing on high margin business. Despite the slightly reduced revenue, overall gross margin grew in 2018 to £6.7 million (73%) (2017: £6.5 million (63%)).

The improved margin, combined with reduced overheads resulting from the restructure, has resulted in an Adjusted operating profit of £2.5m in 2018 (2017: £0.5 million) before non-recurring items, depreciation and amortisation of £2.7 million are deducted.

Net finance costs were slightly reduced in 2018 reflecting the Group's pay-down of some of its revolving credit facility ("RCF") and overdraft being offset by a higher rate of 3.30% (2017: 2.40%). The available RCF as at 31 December 2018 was brought down to £10.7 million, all of which had been drawn fully down (2017: £15.0 million, of which £11.5 million had been fully drawn down). Interest paid on the RCF was £0.3 million (2017: £0.3 million).

Liquidity risk continued to be reduced, with combined secured bank loans and trade and other payables being further reduced by £1.0 million from £16.3 million in 2017 to £15.3 million at the end of 2018.

The Company continues to view investment in the development of new products and services as key to future growth. In 2018 Pebble Beach Systems capitalised £0.7 million of development costs (amortised £0.8 million), (2017: £0.8 million) (amortised £0.7 million).

## GOING CONCERN

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

At 31 December 2018 net debt was £9.4 million (2017: £10.2 million) comprising net cash of £1.3 million (2017 £1.3 million) and the drawn down RCF of £10.7 million (2017: £11.5 million).

We maintain a good relationship with our bank and on 27 March 2019 an extension of the current loan agreement was signed with our bank. The revision secures the facility until 30 November 2020 with banking covenants and a repayment schedule in place.

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 continued impact of cost reductions implemented in 2017 and 2018, margin improvement strategies and sales growth in 2019.

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.

The Board have concluded that the Group will have sufficient resources to meet its liabilities for the foreseeable future and therefore the Group and hence the Company remains a going concern.

# NON-EXECUTIVE CHAIRMAN'S STATEMENT

## XG TECHNOLOGY INC.

In December 2018 the Board were pleased to report that following negotiations a resolution was reached with xG Technology Inc. ("xG") which concludes the ongoing dispute, last reported in our 2018 half year results. As a result the formal process to recover sums from xG was concluded and a mutual release signed to ensure no further liabilities are due by either party.

## BOARD CHANGES

Two appointments were made to the Board during 2018.

As previously announced, Peter Mayhead was appointed as Group CEO on 1 January 2018 and Graham Pitman was appointed to the Board as Non-Executive Director on 6 April 2018.

## TRADING OUTLOOK

With significant improvements in our profitability and operating cash generation over FY17, as we go into 2019, we will improve our financial position further as broadcasters invest to take advantages of increasing audience numbers and advertising spend.



John Varney  
Non-Executive Chairman  
27 March 2019

# 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

## WHAT WE DO

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

As an example, in 2018 tpc Switzerland AG, the foremost broadcast service provider in Switzerland, selected Pebble Beach Systems' Marina automation and Dolphin integrated channel technology for the new, state of the art, IP-based facility which is currently under construction in Zürich.

An independent subsidiary of SRG SSR (Swiss Broadcasting Corp), tpc Switzerland is responsible for production and technology for SRF (Schweizer Radio und Fernsehen-Swiss Radio and Television).

Scheduled to open in autumn 2019, the pioneering new broadcast facility is based on a full-IP solution using SMPTE ST 2110, with all production for news and sport utilising the new IP infrastructure. With several studios, postproduction facilities, a new nationwide master control room and a centralised ingest and playout centre, it will be the largest uncompressed IP project in Europe.

Playout automation will be handled by Pebble Beach Systems' flagship Marina solution, controlling multiple Dolphin integrated channel devices which utilise the Matrox X.mio5 Q25 network interface controller (NIC) card.

Dolphin is a compact and cost-effective integrated channel device which, operating under the control of Pebble's Marina automation, delivers highly automated integrated audio, video and graphics functionality for ingest, channel branding and frame-accurate multi-channel playout. The flexible pipeline design enables the virtual output chain to be customised for each channel, specifying the order in which functions including graphics, effects, and aspect ratio conversion are handled within the system.

For tpc, the Dolphin systems will integrate Vizrt graphics, the latest addition to the range of software graphics plug-ins offered by Pebble, which enable broadcasters to maintain their best-of-breed graphics workflows in a software or virtualised environment.

## 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.

# OUR STRATEGY

OUR STRATEGIC OBJECTIVES	PROGRESS ON OUR STRATEGIC OBJECTIVES	OUR GOALS AND KEY CHALLENGES
<b>Strategy</b>	<ul style="list-style-type: none"> <li>Completed a review of our long-term vision and established a comprehensive business strategy to focus Pebble Beach Systems as a market led solutions business</li> <li>Restructured operations in Q1 2018, strengthening the business capabilities to deliver complex system projects to ensure we are able to meet the needs of broadcasters during the initial phase of the transition to IP</li> <li>Driving a pipeline of appropriate prospects by positioning the business as a solutions provider through enhanced digital marketing and appropriate marcom</li> </ul>	<ul style="list-style-type: none"> <li>To support broadcasters as they adapt to compete with new entrants in the video media space by providing solutions to support their transition from traditional broadcast infrastructure to more flexible IP based technologies</li> <li>To further invest in our current product portfolio and focus on our technical capability to operate across both proprietary and IP platforms</li> <li>To migrate our technology to a service based architecture, identify technology gaps and provide strategic support on make or buy options</li> </ul>
<b>Continue to reduce overall debt leverage</b>	<ul style="list-style-type: none"> <li>The bank continues to show support and on 27 March 2019 an extension of the current loan agreement was signed. The revision secures the facility until 30 November 2020 with banking covenants and a repayment schedule in place.</li> </ul>	<ul style="list-style-type: none"> <li>Continue to build shareholder confidence</li> </ul>
<b>Continue to provide stability</b>	<ul style="list-style-type: none"> <li>Successfully stabilised the business during unsettled market conditions during a period of technology and commercial transition</li> </ul>	<ul style="list-style-type: none"> <li>Continue to provide stability to ensure continued profit and cash generation in FY2019</li> </ul>
<b>Market leading solutions to drive sales through innovation</b>	<ul style="list-style-type: none"> <li>The development of innovative products for our customers</li> </ul>	<ul style="list-style-type: none"> <li>To capitalise on sales of existing products to increase profit and growth</li> </ul>
<b>Focus on core markets</b>	<ul style="list-style-type: none"> <li>Build on relationship with other vendors and sales partners</li> <li>New products enhance offering to customers</li> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>Continue to expand our available markets</li> <li>Leverage our direct and global channels</li> <li>Further investment in organic growth</li> </ul>



# OUR BUSINESS MODEL

## WHAT WE DO

Pebble Beach Systems Limited, the operational division of the Group, develops and supplies highly reliable software solutions for mission-critical on-air broadcast applications, with its major strength in the area of play to air channel delivery systems, and the management of media assets.

## WHAT WE SELL

Our products meet the need of centralcast hubs, service providers, Multiple Channel Operators, and broadcasters. Our Marina automation platform provides broadcasters enterprise level control of their channels, extending the scope of play to air automation systems way beyond simple sequence control, and delivering the tools to manage quality control, assets and archive management, trailer production, reproduction of content in many delivery formats, play to air of multiple channels, and multiplatform delivery. We have also developed affordable products including Marina Lite for those looking to migrate from legacy or end-of-life automation systems, easing the transition to a modern scalable and flexible platform. Further, Pebble Beach Systems' Lighthouse web-based automation management and remote access system extends the Marina functionality to business users, operational staff and engineers both inside and outside of the broadcast facility.

Pebble Beach Systems has evolved its IP-enabled software solutions with Orca which provides a cost effective, yet infinitely scalable playout solution perfect for pop-up and experimental channels, and disaster recovery. It is a channel-in-a-box, without the box, enabling the deployment of IP-based channels almost instantly without the burden of racks of complicated hardware, and weeks or months of setup and provisioning. Orca channels run in a virtual machine in a private or public cloud.

The new 4K playout capabilities of the Dolphin integrated channel system go far beyond channel in a box offerings. Dolphin's software-defined architecture allows it to easily scale to the needs of any playout workflow either as a standalone, all-in-one system, or a hybrid system installed alongside third party channel delivery products.

## WHO WE SELL TO

Our customers are international, national, regional and specialised broadcasters who deliver the full range of TV programming from news and current affairs to live sports broadcasting; customers such as tpc Switzerland, SABC in South Africa, TV Globo in Brazil, MBC Dubai, Fox Sports in Holland, IMG London, ZDF Germany, AMC Networks (USA) and TV2 Denmark.

Customers are reached through direct sales, and partnerships with value added resellers and systems integrators. Whilst both are often focused on market sectors, they share knowledge of customer requirements and market trends, and offer local support where needed.

## WHAT IS OUR GOAL

Pebble Beach Systems' mission is to support broadcasters as they adapt to compete with new entrants in the video media space by providing solutions to support their transition from traditional broadcast infrastructure to more flexible IP based technologies.

# BUSINESS REVIEW –

## FINANCIAL REVIEW – CONTINUING OPERATIONS

	2018 £m	2017 £m	Change %
Revenue	9.2	10.3	-11.1%
Adjusted operating (loss)/profit <sup>1</sup>	2.5	0.5	
Net liabilities	(6.0)	(6.3)	
Cash and cash equivalents	1.3	1.2	+1.6%
Reported loss per share	(0.2)p	(2.1)p	

	2018 £m	2017 £m	Change %
Revenue	9.2	10.3	-11.1%
Gross profit	6.7	6.5	+2.6%
Gross margin %	72.6%	62.9%	+9.7pts
Research and development expenses	(0.4)	(1.1)	
Other expenses	(3.8)	(4.9)	
Adjusted operating (loss)/profit <sup>1</sup>	2.5	0.5	
Non-recurring items	(0.3)	(0.5)	
Foreign exchange gains	–	(0.1)	
Earnings before interest, tax, amortisation and depreciation (EBITDA)	2.2	(0.1)	
Depreciation	(0.1)	(0.2)	
Amortisation and impairment of acquired intangibles	(1.4)	(1.4)	
Amortisation of capitalised development costs	(0.8)	(0.7)	
Reported operating loss	(0.2)	(2.4)	
Net finance costs	(0.3)	(0.3)	
Loss before tax	(0.5)	(2.7)	
Taxation	(0.3)	(0.1)	
Loss attributable to equity shareholders	(0.2)	(2.6)	
Basic loss per share	(0.2)p	(2.1)p	
Adjusted earnings/(loss) per share <sup>2</sup>	1.6p	(0.2)p	

1. Adjusted operating profit/(loss) is a non-GAAP measure. It is operating profit/(loss) before depreciation, the amortisation and impairment of goodwill and acquired intangibles, the amortisation of capitalised development costs, non-recurring items and foreign exchange gains. 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.

2. 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 Group charged £0.3 million of non-recurring costs to the consolidated Group income statement.

- £0.4 million charge in respect of rationalisation and redundancy costs net of a £0.1 million provision release

# BUSINESS REVIEW –

## FINANCIAL REVIEW – CONTINUING OPERATIONS

### KEY PERFORMANCE INDICATORS

Financial indicators for the continuing business are shown below:

KPI MEASURE	2018 £m	2017 £m	% Change	DEFINITION/CALCULATION
<b>CUSTOMERS</b>				
<b>Order intake</b>	<b>10.8</b>	10.5	3.0%	<ul style="list-style-type: none"> <li>Order intake is a measure of new business secured during the year and represents firm orders</li> </ul>
<b>Revenue</b>	<b>9.2</b>	10.3	(11.1%)	<ul style="list-style-type: none"> <li>Monitoring of revenues provides a measure of business growth for the Group</li> <li>The Group measures foreign currency revenue at the actual exchange rate prevailing at the date of the transaction</li> </ul>
<b>PROFITABLE GROWTH</b>				
<b>Adjusted operating profit</b>	<b>2.5</b>	0.5		<ul style="list-style-type: none"> <li>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</li> </ul>
<b>Adjusted earnings/(loss) per share (pence)</b>	<b>1.6p</b>	(0.2)p		<ul style="list-style-type: none"> <li>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</li> </ul>
<b>Total operating costs</b>	<b>5.4</b>	7.4	(27.1%)	<ul style="list-style-type: none"> <li>Operating costs comprise sales and marketing expenses, administrative expenses, foreign exchange movements and the overhead costs associated with Logistics and Research and Development</li> </ul>
<b>Return on sales</b>	<b>26.9%</b>	4.8%	22.1pts	<ul style="list-style-type: none"> <li>Adjusted operating profit in the financial year, divided by revenue for the financial year</li> </ul>
<b>INNOVATION</b>				
<b>R&amp;D Expenditure as a proportion of revenue</b>	<b>12.2%</b>	18.5%	(6.3pts)	<ul style="list-style-type: none"> <li>Calculated as capitalised development costs less amortisation in the period plus R&amp;D expenses charged in the period divided by revenue</li> </ul>

# BUSINESS REVIEW – FINANCIAL REVIEW

## TAXATION

There was a net tax credit for the year for continuing operations of £0.3 million (2017: £0.1 million). The current tax charge in the year was £Nil (2017: £0.2 million). There was a deferred tax credit of £0.3 million (2017: £0.3 million).

At 31 December 2018 tax receivable was £Nil (2017: tax receivable of £Nil).

## 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 2018 is £3.2 million (2017: £3.2 million) which relates solely to Pebble Beach Systems Limited.

The carrying value at 31 December 2018 of acquired customer relationships is £0.9 million (2017: £1.7 million); acquired intellectual property is £0.1 million (2017: £0.8 million); and capitalised development costs is £1.2 million (£1.3 million).

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

## NET LIABILITIES

The Statement of Financial Position at 31 December 2018 is summarised as follows:

	<b>2018</b>	2017
	<b>£m</b>	£m
Intangible assets	<b>5.4</b>	6.9
Property, plant and equipment	<b>0.2</b>	0.3
Other non-current liabilities	<b>(9.9)</b>	(11.5)
Net current liabilities	<b>(3.1)</b>	(3.0)
	<b>(7.4)</b>	(7.3)
Cash and cash equivalents including overdrafts	<b>1.3</b>	1.2
Net liabilities	<b>(6.1)</b>	(6.1)

# BUSINESS REVIEW –

## FINANCIAL REVIEW

### CASH FLOWS

The Group held cash and cash equivalents, including overdrafts, of £1.3 million at 31 December 2018 (2017: £1.2 million). The table below summarises the cash flows for the year.

	<b>2018</b> <b>£m</b>	2017 £m
Cash generated from/(used in) operating activities	<b>1.7</b>	(2.6)
Net cash (used in)/ generated from investing activities	<b>(0.8)</b>	7.1
Net cash used in financing activities	<b>(0.8)</b>	(3.5)
Effects of foreign exchange	–	(0.3)
Net increase/(decrease) in cash and cash equivalents	<b>0.1</b>	0.7
Cash and cash equivalents at 1 January	<b>1.2</b>	0.5
Cash and cash equivalents at 31 December	<b>1.3</b>	1.2

### CASH FLOWS FROM OPERATING ACTIVITIES

There was a net cash inflow from operating activities in the year of £1.7 million (outflow in 2017: £2.6 million).

The cash outflow from investing activities amounted to £0.8 million (inflow in 2017: £7.1 million) which comprised £0.8 million in respect of capital expenditure and the capitalisation of development costs (2017: £0.9 million).

The cash outflow from financing activities amounted to £0.8 million (2017: £3.5 million) which comprised bank loans of £0.8 million (2017: £3.5 million).

### RETURNS TO SHAREHOLDERS

The directors do not recommend payment of a final dividend for the year ended 31 December 2018 (2017: 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:

	<b>Average rate 2018</b>	Average rate 2017	<b>Year end rate 2018</b>	Year end rate 2017
Rate compared to £ sterling				
US dollar	<b>1.335</b>	1.289	<b>1.277</b>	1.351

If the results for the year to 31 December 2017 had been translated at the 2018 average rate then the translation impact would be to reduce prior year revenue by £14,000 and reduce the loss before tax by £122,000.

# 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
<b>GOING CONCERN AND LIQUIDITY</b> Revolving Credit and Term Loan Facilities	The bank continues to show support with an extension to the current loan agreement. The revision secures the facility until 30 November 2020 with banking covenants and a repayment schedule in place.  We continue to maintain a good relationship with the bank and continue on track with the terms of our agreement.	High
<b>DEMAND FOR PRODUCTS</b> 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
<b>RESEARCH AND DEVELOPMENT</b> 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.	Medium
<b>REPUTATION OF THE GROUP</b> 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.	Medium
<b>LAW AND REGULATIONS</b> 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.	Medium
<b>PEOPLE</b> 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 consistent with this the Group invests in attracting, developing and retaining experienced staff through increased investment in training and organisational development.	Medium
<b>BREXIT</b> The uncertain outcome of Brexit and the potential implications on employment law, tariffs, currency, technology and standards has been considered by the Board.	As Brexit negotiations are ongoing by the Government, it is too early to have a clear view on the impact on our business, but its potential to do so is fully acknowledged by the Board.	Medium

# OUR BOARD

**John Varney** BA, FRSA  
Non-Executive Chairman

**APPOINTED TO THE BOARD:**  
October 2011

**INDEPENDENT:** Yes

**SKILLS AND EXPERIENCE:**

With over 35 years' experience in the broadcast industry, John provides extensive and relevant knowledge of the sector.

John has substantial understanding of business transformation and change management, combined with experience across a broad range of organisations inside and outside the broadcast sector.

Previous roles include Director of Technology and Chief Technology Officer for Granada Group and Global Chief Technology Officer at the BBC and over the past 13 years John has been an investor, adviser and Non-Executive Director for emerging technology companies.

An experienced Chair, John is passionate about transparency and his impartial and objective style encourages open and constructive Board level debate.

**OTHER RELEVANT EXTERNAL APPOINTMENTS:**

- 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

**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

**SKILLS AND EXPERIENCE:**

With considerable experience of multinational technology businesses, including over 25 years' experience in Chief Executive or Managing Director positions, Robin provides gravitas to the role of Senior Independent Non-Executive Director.

Robin's previous roles, including Divisional CEO of Vitec Group plc and CEO of UDEX Holdings Ltd, have extensive domain knowledge in the environment in which the business operates.

Robin is experienced in a broad range of Non-Executive Directorships. He brings independence of character and financial astuteness to his chairmanship of the Audit Committee and Remuneration Committee.

Robin's CPD training for 2018 includes attendance at Deloitte's Remuneration Strategy Conference in October and Deloitte's Corporate Governance seminar in November.

**OTHER RELEVANT EXTERNAL APPOINTMENTS:**

- Chairman and Director of MetaSphere Limited
- Director of Blackfyne Ltd
- Director of Locking & Security Solutions Limited
- Director of Puma Distribution Limited

**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

**SKILLS AND EXPERIENCE:**

Peter joined the company in 2013, bringing more than 20 years of broadcast industry, financial leadership and executive management experience. Peter was appointed as CEO in January 2018.

He graduated from Henley Management College in 2011, earning his Masters' degree in Business Administration. As a fellow of the Association of Certified Chartered Accountants Peter attends training and development courses on an ongoing basis to ensure Continuous Professional Development.

Previously, Peter served as CFO of Pro-Bel Ltd where his strong financial skills and management ability played a key role in the management turning the business around and ultimately merging with Snell & Wilcox.

He has enhanced his passion for empowered leadership through formal education, consultancy work, and interim change management roles.

Peter has an approach of building on the strengths of each individual to enhance the overall competitiveness, flexibility, and capability of the organisation.

**OTHER RELEVANT EXTERNAL APPOINTMENTS:**

- None

**BOARD COMMITTEE**

**MEMBERSHIPS:**

- Executive Board – member

**Graham Pitman** DipM, MBA  
Non-Executive Director

**APPOINTED TO THE BOARD:**  
April 2018

**INDEPENDENT:** Yes

**SKILLS AND EXPERIENCE:**

Graham has extensive international experience from his roles as CEO and Chairman within the broadcast and media technology industry and has considerable knowledge of strategic planning and execution including business transformation and turn-round.

Graham brings exceptional experience to the Board, gained from executive and non-executive roles in traditional and new technology segments, including positions with Pro-Bel Group Limited, Telestream UK Limited, Snell Corporation Limited, ATG Danmon Limited, Marquis Broadcast Ltd and NTP Technology A/S.

Graham is well-respected within the industry and his extensive range of connections means his presence on the Board contributes both in and outside of meetings.

Graham keeps up to date with industry trends by attending relevant industry conferences and reading the industry reports issued by IABM. He manages his commercial and governance development by attending seminars and webinars.

**OTHER RELEVANT EXTERNAL APPOINTMENTS:**

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

**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 2018, which were approved by the directors on 27 March 2019. 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 Our Strategy on pages 3 to 4 and 6.

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.

## RESULTS AND DIVIDENDS

The results for the year ended 31 December 2018 are set out in the consolidated income statement on page 36. The Group has reported an operating loss of £0.2 million (2017: £2.4 million). After accounting for

net finance costs, the consolidated Group income statement shows a loss before taxation of £0.5 million (2017: £2.7 million). The net result for the year after profit from discontinued operations of £0.2 million (2017: £2.9 million) was a loss of £Nil (2017: profit of £0.3 million).

The directors do not recommend payment of a final dividend for the year ended 31 December 2018 (2017: 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)
- Peter Mayhead (Chief Executive Officer) (appointed 1 January 2018)
- Graham Pitman (Non-Executive Director) (appointed 6 April 2018)

Short biographies of each current director are provided on page 13.

Details of the directors' service contracts and letters of appointment are given in the Remuneration Report on pages 24 to 27. 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 27 March 2019 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.



The Group has been notified of the following interests in more than 3 per cent of the Company's issued share capital at 27 March 2019.

	Number of shares	per cent
The Bank of New York (Nominees) Limited	24,265,942	19.47
HSBC Global Custody Nominee (UK) Limited	10,620,000	8.52
Lynchwood Nominees Limited	9,829,130	7.89
JIM Nominees Limited	8,318,479	6.68
Barclays Direct Investing Nominees Limited	6,761,173	5.43
Interactive Investor Services Nominees Limited	4,388,134	3.52
Goldman Sachs Securities (Nominee) Limited	4,000,000	3.21

## 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 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 2018 the Employee Share Ownership Plan (ESOP) held 126,496 shares (2017: 126,496) in the Company, representing 0.1 per cent of the issued share capital (2017: 0.1 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](http://www.pebbleplc.com).

# DIRECTORS' REPORT

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 12 Horizon Business Village, 1 Brooklands Road, Weybridge KT13 0TJ on Thursday 23 May 2019 at 11.00am. 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.

## STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

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 auditor is 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 auditor is aware of that information.

## CORPORATE GOVERNANCE

The Group's statement on corporate governance can be found in the

Corporate Governance Statement on pages 17 to 23 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 Company and Group's ability to continue to trade as a going concern.

At 31 December 2018 net debt was £9.4 million (2017: £10.2 million) comprising net cash of £1.3 million (2017 £1.3 million) and bank debt of £10.7 million (2017: £11.5 million).

We maintain a good relationship with our bank and on 27 March 2019 an extension of the current loan agreement was signed with our bank. The revision secures the facility until 30 November 2020 with banking covenants and a repayment schedule in place.

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 continued impact of cost reductions implemented in 2017 and 2018, margin improvement strategies and sales growth in 2019.

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.

The Board have concluded that the primary risk is one of ongoing trading and therefore the Group and hence the Company remains a going concern.

## INDEPENDENT AUDITOR

The independent auditor, Grant Thornton UK LLP, which was appointed in 2018, has indicated its willingness to continue in office and a resolution that they be reappointed will be proposed 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  
27 March 2019

# CORPORATE GOVERNANCE STATEMENT

As Non-Executive Chairman, it is my responsibility, together with my Board, to ensure the Company's medium to long-term success and that the Group remains 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.

The Group is committed to high standards of corporate governance across all our people, enabling us to conduct business sustainably and responsibly.

The Group recognises the role that its employees play in its success. The business 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.

On 30 March 2018 revised AIM Rules for Companies came into effect; AIM Notice 50. The principal amendment to the AIM Rules affecting Pebble Beach Systems Group plc relates to the corporate governance requirement of AIM companies.

In accordance with the AIM Regulation, on 2 July 2018, the Board confirmed

their decision to apply The QCA Corporate Governance Code (2018 edition) (the QCA Code). The directors will comply with the relevant requirements of the QCA Code Guidelines to the extent that they consider it appropriate having regard to the Company's size and the nature of its operations.

Further details of the requirements for AIM companies can be found on our website at [www.pebbleplc.com](http://www.pebbleplc.com).

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, and a CEO 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](http://www.pebbleplc.com).

# CORPORATE GOVERNANCE STATEMENT

The Board met twelve times during the year, excluding ad hoc meetings convened solely to deal with procedural matters. Attendance at Board and Committee meetings during 2018, expressed as the number of meetings attended compared to the number entitled to attend, was as follows:

	John Varney	Robin Howe	Graham Pitman	Peter Mayhead
Board No. attended	12/12	12/12	9/9 **	12/12
Audit No. attended	2/2	2/2	1/1 **	2/2
Remuneration No. attended	7/7	7/7	5/5 **	3/7 *
Nomination No. attended	2/2	2/2	0/0 **	2/2

\*Did not attend due to own remuneration being discussed.

\*\*Number eligible to attend.

## TIME COMMITMENT

The Executive Director is expected to devote substantially the whole of his time, attention and ability to his duties, whereas, as one would expect, the non-executives have a lesser time commitment. The Non-Executive Chairman has committed to spend as much time as is required to meet the needs of the business. It is agreed that each of the Non-Executive Directors will dedicate 2 days per month. The Non-Executive Directors have all confirmed that they are able to allocate sufficient time to meet the expectations of their role, and they are required to obtain the Non-Executive Chairman's agreement (or, in the case of the Non-Executive Chairman, the Chief Executive's agreement) before accepting additional commitments that might affect the time they are able to devote.

## INDEPENDENCE

When judged against the UK Corporate Governance Code, to qualify as independent, an individual would not normally serve more than nine years on the Board. However, it is at the discretion of a Board to decide who 'qualifies' as independent. In the case of Robin Howe, the Board wholeheartedly concur that Robin's independence of character and judgement, together with his integrity to remain unaffected

by circumstances that in theory could compromise independence, means he is free of any connections that may lead to conflicts of interest.

## BALANCE AND SIZE

The directors consider that the Board is well-balanced and has the right number of members for the size of the Group.

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.

## 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.

Robin Howe 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, who were appointed during 2018, were elected by shareholders at the Annual General Meeting held on 28 June 2018.

Biographical information for each of the directors are set out on page 13.

## NON-EXECUTIVE CHAIRMAN

John Varney is the 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).

## THE COMPANY SECRETARY

The 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 2018 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 segment 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.



# CORPORATE GOVERNANCE STATEMENT

## 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. The Board uses these, together with the Directors' Report on pages 14 to 16, to present a balanced and understandable assessment of the Group's position and prospects.

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 apprised 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 2018.

## 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

During Q418 the Senior Independent Director, on behalf of the Board, conducted a formal Board Effectiveness Report which enabled all directors to rate their performance and attributes on a rating scale which was then collated, summarised and reported to the Board.

The Board Effectiveness Report we adopted listed 23 assessment criteria along with a list of 11 attributes. Each director marked their own score for the 23 criteria and marked the whole Board for the 11 attributes. The completed scorecard was then reported to the Board.

Behaviour was assessed on statements relating to: Setting strategy; Strategy; Board performance; Managing Board meetings and discussions; Managing the Board's relationships with others; Board members' own skills; reaction to events; Non-Executive Chairman; attendance and contribution at meetings; open channels of communication; risk and control frameworks.

Processes was assessed on statements relating to: composition; the Company Secretary; Executive directors; Non-executive directors; meetings and administration; timeliness of information; agenda items; Annual General Meeting; risk management; induction and training; succession planning; performance evaluation;

For the Board attribute score, all Board members were asked to provide a rating (on a scale of 1 – 5 / low to high) across a variety of criteria, comprising: auditing, financial & accounting skills; corporate governance; banking and finance; international business development; product technologies; manufacturing & supply chain; acquisitions and mergers; HR & remuneration policies; information technology; domain knowledge.

The evaluation process will be performed annually. As a comparison against previous evaluations, although Board evaluations have taken place annually this was the first high level performance evaluation.

The Board agreed that the Board Performance Evaluation had allowed the Board to objectively self-test the role, performance and composition of the Board without undue bureaucracy. As a result the Board agreed that a positive outcome for the future would be to consider a 6 monthly, simple scenario planning exercise coupled to a strategy delivery review.

## THE AUDIT COMMITTEE MEMBERSHIP AND DUTIES

Robin Howe was appointed as Audit Committee Chairman on 1 January 2018 and chaired the Audit Committee throughout 2018. John Varney and Graham Pitman (from his appointment on 6 April 2018) served on the Committee throughout the year.

The Committee also meets with the external auditor 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 auditor based on its review of the scope of work, cost-effectiveness and independence of the external auditor; 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.

In order to ensure the independence and objectivity of our auditor, Grant Thornton UK 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 auditor 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 auditor 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 relating to tax compliance, tax advice and restructuring. Any significant non-audit work undertaken by the external auditor was approved by the Audit Committee to ensure that the auditor's 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 auditor and determined that adequate policies and safeguards were in place to ensure that their independence and objectivity had not been impaired during 2018.

## ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee met two times during the year and once up to the date of this report in 2019 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 2017, 31 December 2018 and the 2018 interim results prior to approval by the Board;
- considered and reviewed the 2017 and 2018 annual reports and financial statements and the 2018 interim report, paying particular attention to critical areas of management judgement, together with the external auditor reports;
- considered and discussed the audit plan with the external auditor for the 2018 audit;
- considered and recommended to the Board the reappointment of the auditor which will be put to shareholders for approval at the AGM;
- reviewed and considered reports from internal control visits and the external auditor 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 2018, and reviewed non-audit fees paid to the external auditor to ensure they were in accordance with the Group's policy;
- monitored the independence and undertook an evaluation of the effectiveness of the external auditor;

# CORPORATE GOVERNANCE STATEMENT

- 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 auditor. The main area of focus considered by the Committee during the year were as follows:

Area of focus	How addressed
<p><b>Valuation of goodwill and intangible assets</b> 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.</p>	<p>The audit committee concluded that the conclusion that no impairment was required for either goodwill or intangible assets was reasonable.</p>
<p><b>Investments impairment assessment</b> 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.</p>	<p>The audit committee concluded that the conclusion that no impairment was required for investments was reasonable.</p>
<p><b>Going Concern</b> The audit committee has reviewed the forecast which shows cost savings and an improvement in profitability. They have also considered sensitivities within the forecast.</p>	<p>The audit committee is satisfied that there is sufficient headroom within the forecast.</p>



## THE NOMINATION COMMITTEE

John Varney chairs the Nomination Committee. Robin Howe and Graham Pitman (since his appointment on 6 April) served on the Committee throughout 2018. 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 were two formal meetings 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 24 to 27.

## 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](http://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 23 May 2019. 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](http://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](http://www.pebbleplc.com).

By order of the Board



**John Varney**  
Non-Executive Chairman  
27 March 2019

# REMUNERATION REPORT

On behalf of the Remuneration Committee I am pleased to present our remuneration report for the financial year ended 31 December 2018, which has been approved by the Board.

This report is on the activities of the Remuneration Committee 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.

I chair the Committee and was assisted by John Varney throughout 2018, and by Graham Pitman since his appointment on 6 April 2018.

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 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.

The Remuneration Committee has access to both internal and external advice and the CEO's salary has been benchmarked against PayScale.com, BDO and Deloitte's remuneration reports and now lies at the upper end of the middle quartile for a London-based CEO. The top of the pay scale is £209,000.

## 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 2019.

The following table sets out the main elements of the remuneration policy for the year ended 31 December 2019. 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.

Component	Purpose and Link To Strategy	How Operated	Maximum Potential Value	Performance Measures
<b>SALARY AND FEES</b>	<p>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.</p> <p>The basic salary reflects the market rate for the individual, their role, skills and experience.</p>	<p>Generally reviewed annually (with any change effective 1 January) but exceptionally at other times of the year.</p> <p>Set with reference to individual performance, experience and responsibilities.</p> <p>Benchmarked against appropriate companies by the Remuneration Committee.</p> <p>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.</p>	N/A	N/A
<b>ALL TAXABLE BENEFITS</b>	<p>To aid retention and be competitive in the market place.</p> <p>Healthcare benefits in order to minimise business disruption.</p>	<p>Car allowance</p> <p>Fuel</p> <p>Medical insurance</p> <p>Permanent health insurance</p> <p>Life assurance</p>	N/A	N/A
<b>ANNUAL BONUSES</b>	<p>To incentivise the achievement of key financial and strategic targets for the forthcoming year without encouraging excessive risk taking.</p>	<p>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.</p> <p>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. In the absence of a broker's forecast, bonus entitlement will be determined by the Board according to a pre-agreed formula. The targets applying to financial measures are based on a sliding scale.</p> <p>Paid in cash.</p> <p>Not pensionable.</p>	<p>Up to 100% of base salary.</p> <p>The 2018 bonus targets were based on 50% of base salary.</p>	<p>Adjusted operating profit (defined for this purpose as profit from continuing operations before net finance costs, amortisation of acquired intangibles, non-recurring items and taxation) (50%).</p> <p>Orders received (25%)</p> <p>Revenue (25%).</p>
<b>PENSIONS</b>	<p>To aid retention and remain competitive in the marketplace.</p>	<p>For Executive Director, an annual pension allowance of up to 10 per cent of base salary.</p> <p>There is no pension entitlement for Non-Executive Directors.</p>	N/A	N/A

# REMUNERATION REPORT

## SERVICE CONTRACTS

For the period under review the following changes took place:

- On 1 January 2018 Peter Mayhead was appointed to the Board as Group Chief Executive Officer.

The CEO contract, dated 1 January 2018, conforms to the latest QCA guidelines on corporate governance. Notably those on remuneration and termination, including malus and clawback provisions.

- On 1 January 2018 Robin Howe was appointed Audit Committee Chairman.
- On 6 April 2018 Graham Pitman was appointed as Non-executive Director.
- 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 2017 and 2018 is made up as follows:

### AGGREGATE DIRECTORS' REMUNERATION (AUDITED)

Directors' emoluments and pension contributions for the year ended 31 December 2018 were as follows:

	Basic salary and fees £	Bonus £	Benefits £	Emoluments before pension contributions £	Pension contributions £	2018 Total £	2017 Total £
<b>Executive Directors</b>							
Peter Mayhead	152,000	19,240	14,359	185,599	7,600	<b>193,199</b>	–
<b>Non-executive Directors</b>							
John Varney	70,000	–	–	70,000	–	<b>70,000</b>	55,923
Robin Howe	40,000	–	–	40,000	–	<b>40,000</b>	40,000
Graham Pitman (from 6 April 2018)	22,500	–	–	22,500	–	<b>22,500</b>	–
	284,500	19,240	14,359	318,099	7,600	<b>325,699</b>	95,923

## BENEFITS

Benefits for the Executive Director include the provision of a company car, life assurance, private medical insurance and permanent health insurance. For the company car, the company will pay road tax, insurance and maintenance expenses. This will be subject to the appropriate benefit-in-kind tax.

## PERFORMANCE-RELATED BONUS

The Remuneration Committee establishes the objectives that must be met each financial year for a cash bonus to be paid to Executive Directors. Bonus parameters address the financial performance of the Group.

For the year ended 31 December 2018 the Remuneration Committee proposed an Executive Bonus Scheme based upon 50% of the CEO's annual base salary in which attainment of stretch targets for orders, revenue and EBIT would trigger the maximum bonus.

No payment would be made if EBIT was less than £1.33 million.

Payment was prorated from the lower range and the bonus of £19,240 represented 12.7% of the CEO's base salary.

## 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.

## 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. Peter Mayhead is the holder of options over 100,000 shares under an award made on 3 June 2014.

No LTIP awards were made to Executive Directors in the year ended 31 December 2018.

However, for 2019 the Company intends to adopt a HMRC-approved Enterprise Management Incentive Share Option Scheme for senior executives for a three-year term. This will be proposed as an Ordinary Resolution at the AGM being held on 23 May 2019.

### 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 2018	At 31 December 2017
<b>Executive Directors</b>		
Peter Mayhead	2,177	N/A
<b>Non-Executive Directors</b>		
John Varney	1,062,229	1,062,229
Robin Howe	1,232,578	1,232,578
Graham Pitman	300,400	N/A

No changes took place in the interests of the directors between 31 December 2017 and 31 December 2018.

## STATEMENT OF VOTING AT GENERAL MEETING

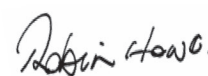
At the last AGM held on 28 June 2018, resolutions of the following kind were moved by the Company in respect of:

- A resolution to approve the Directors' Remuneration Report for the year ended 31 December 2017.

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 27 March 2019 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 auditor 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 auditor are aware of that information.

By order of the Board



**John Varney**  
Non-Executive Chairman  
27 March 2019

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

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OPINION

### OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Pebble Beach Systems Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, company income statement, company statement of financial position, company statement of changes in equity, company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- 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 2018 and of the group's loss and parent company's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### CONCLUSIONS RELATING TO GOING CONCERN

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

- 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 or the 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.



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

## GRANT THORNTON

### OVERVIEW OF OUR AUDIT APPROACH

- We performed a full scope audit of the financial statements of Pebble Beach Systems Group plc (the parent company), Legacy Broadcast Group Holdings Ltd, Legacy Broadcast Holdings Ltd, Legacy Broadcast International Ltd and Pebble Beach Systems Ltd. We performed targeted procedures on Pebble Broadcast Systems Inc and Legacy Broadcast Inc. Analytical procedures were performed on the rest of the Group.
- Overall group materiality: £200,000, which is 2.18% of revenue for the year.
- The key audit matter for the group and parent was identified as a going concern. For the group only, revenue recognition and the valuation of goodwill and intangible assets were identified.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) that we identified. These matters included those that 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 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.

#### Key Audit Matter – Group

##### Risk 1 Revenue Recognition

Revenue is recognised in accordance with the Group's accounting policy and International Financial Reporting Standard (IFRS) 15 'Revenue from Contracts with Customers'.

The revenue recorded by the Group is one of the key determinants of the Group's underlying profitability and is one of the Group's Key Performance Indicators.

The application of IFRS 15 is an area requiring significant judgement by management. In particular, the nature of the contracts with customers involve delivery of a service over a period of time. As a result, there is an element of judgement in determining the amount of revenue to be recognised in each reporting period.

We identified revenue recognition as a significant risk which was one of the most significant assessed risks of material misstatement.

#### How the matter was addressed in the audit – Group

Our audit work included, but was not restricted to:

- Understanding the processes and controls through which the business initiates, records and recognises revenue transactions.
- Understanding the application of the revenue recognition accounting policies and checked that revenue recognition is in accordance with this policy.
- Evaluating management's assessment for the transition to IFRS 15 'Revenue from Contracts with Customers' and determining whether revenue was recognised appropriately.
- Developing and understanding, for a sample of transactions in the year, the key performance obligations by obtaining copies of purchase orders, determining the expected revenue recognition for each contract based on those terms and the revenue recognition policy. We then compared our expectations against management's and investigated any differences.
- Testing the operating effectiveness of controls including the examination of authorised purchase orders, inspection of reviewed timesheets and signed despatch notes.
- Identifying contracts that spanned the year end and re-calculated the expected deferred and accrued income and compared this against management's calculation.

The Group's accounting policy on revenue is shown in note 2 to the financial statements and related disclosures are included in note 5.

##### Key observations

We noted no instances where the revenue recognised was not in accordance with the policies adopted by the Group.



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**Key Audit Matter – Group and Parent**
**Risk 2 Going Concern**

The determination of whether the Group and parent will be able to comply with banking covenants and payment obligations involves complex and subjective judgements by the Directors about the future of the business, including a significant turnaround in profit.

We therefore identified going concern as a significant risk, which was one of the most significant assessed risks of material misstatement.

**How the matter was addressed in the audit – Group and Parent**

Our audit work included, but was not restricted to:

- Examining correspondence with the Group's bankers and confirmed that the loan facility has been renewed until November 2020.
- Examining management's cash flow forecasts for the period to November 2020 the which show how the Group's profitability is expected to increase.
- Reperforming the calculation of the covenant position in the year which has demonstrated sufficient headroom and we reperformed whether there is likely to be headroom with the revised covenants.
- Assessing whether the revenue is on track to increase in 2019 as forecasted by management by reviewing the contracts won to date and the order book for 2019. Challenging management's key assumptions that support projections of expected cash flows. In addition to revenue growth, these include continued cost reductions and margin improvement strategies.
- Assessing the cash flow sensitivity against a change in the revenue growth rate and cost reductions used, which has demonstrated sufficient headroom with the revised covenant position.

The Group and parent's accounting policy on going concern is shown in note 2 to the financial statements.

The Audit Committee identified going concern as a significant issue in its report on page 22 where the Audit Committee also described the action that it has taken to address this issue.

**Key observations**

We have determined that management's assessment that the Group and parent remain a going concern is reasonable.

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

Key Audit Matter – Group	How the matter was addressed in the audit – Group
<p><b>Risk 3 Valuation of Goodwill and Intangibles</b></p> <p>Where there are indicators of impairment an impairment assessment is required for intangible assets. Goodwill is assessed annually for impairment.</p> <p>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.</p> <p>We therefore identified valuation of goodwill and intangible assets as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• Meeting with management and key operational personnel to update our understanding of discounted cash flow models with reference to current performance.</li> <li>• Assessing each of the key assumptions in turn and sensitised management's model. We also compared they key assumptions of discount rate and long-term growth with market data for reasonableness. Examining management's impairment assessment, inspecting in detail the key underlying assumptions in the discounted cash flow models.</li> <li>• Assessing the cash flow sensitivity against a change in the discount rate.</li> <li>• Assessing the cash flow sensitivity against a change in the growth rate used and identified headroom.</li> </ul> <p>The Group's accounting policies on goodwill and intangible assets are shown in note 2 to the financial statements and related disclosures are included in note 12.</p> <p>The Audit Committee identified valuation of goodwill and intangible assets as a significant issue in its report on page 22 where the Audit Committee also described the action that it has taken to address this issue.</p> <p><b>Key observations</b></p> <p>Based on our work, we concluded that the judgement made that no impairment was required for either goodwill or 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.</p> <p>We assessed the appropriateness of the accounting and related disclosures included in the financial statements. These are deemed reasonable.</p>

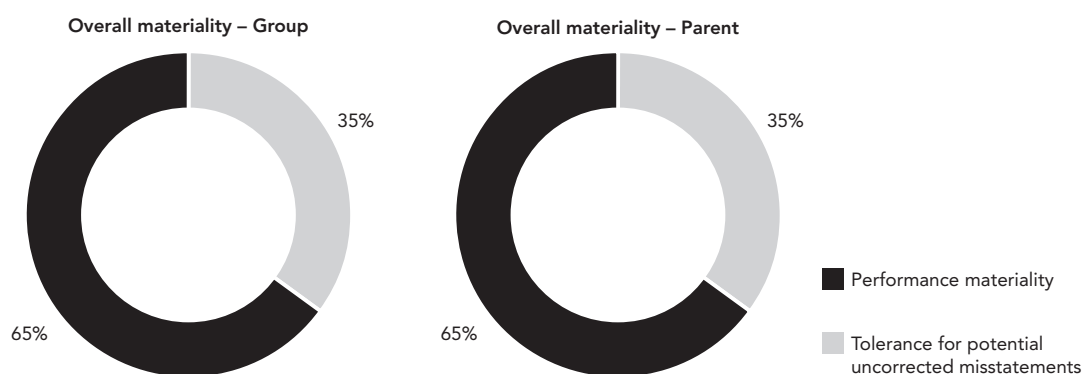
**OUR APPLICATION OF MATERIALITY**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
<b>Financial statements as a whole</b>	£200,000 which is 2.18% of Group revenue. Revenue is considered the most appropriate benchmark because it is a prominent key performance indicator to the users of the financial statements.  Materiality for the current year is higher than the level that was determined for the year ended 31 December 2017 due to a different benchmark used by the predecessor auditor.	Financial statement materiality is £110,000, which is 2.0% of gross assets in the Parent company, restricted to 55% of group materiality as it is a component of the group. This benchmark is considered the most appropriate because it ensures that we would obtain sufficient and appropriate evidence to support our opinion.  Materiality for the current year is higher than the level that was determined for the year ended 31 December 2017 due to a different benchmark used by the predecessor auditor.
<b>Performance materiality used to drive the extent of our testing</b>	65% of financial statement materiality, being £130,000.	65% of financial statement materiality, being £71,500.
<b>Communication of misstatements to the audit committee</b>	£10,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£5,500 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



**AN OVERVIEW OF THE SCOPE OF OUR AUDIT**

Our audit approach was a risk-based approach founded on a thorough understanding of the group’s business, its environment and risk profile and in particular included:

- Evaluating the Group’s internal control environment.
- Performing process walkthroughs and documenting the controls covering the Key Audit Matters and certain other risks in financial reporting system identified as part of our risk assessment.
- A full scope audit of the financial statements of, Pebble Beach Systems Group plc, Pebble Beach Systems Limited, Legacy Broadcast Holdings Limited, Legacy Broadcast Group Holdings Limited and Legacy Broadcast International Limited.
- Targeted procedures on Pebble Beach Systems Inc were focused on revenue, cash and expenses and on Legacy Broadcast Inc they were focused on exceptional costs.
- 100% of the Group and Parent Company’s revenues were included in the scope of our full scope and targeted procedures based on the above strategy.

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

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

### **Our opinion on other matters prescribed by the Companies Act 2006 is unmodified**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

## RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the directors' responsibilities statement set out on page 28 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

## AUDITOR'S 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 auditor's 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 Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Mark Bishop FCA

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

Oxford

27 March 2019

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £000	2017 £000
Revenue	5	9,174	10,320
Cost of sales		(2,515)	(3,831)
Gross profit		6,659	6,489
Sales and marketing expenses		(2,163)	(2,351)
Research and development expenses		(1,222)	(1,762)
Administrative expenses		(1,759)	(2,718)
Foreign exchange gain/(loss)		28	(95)
Other expenses	6	(1,723)	(1,931)
<b>Operating loss</b>	6	<b>(180)</b>	<b>(2,368)</b>
Operating loss is analysed as:			
Adjusted operating profit		2,470	500
Non-recurring items	6	(304)	(512)
Exchange gains/(losses) credited/(charged) to the income statement	6	28	(95)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		2,194	(107)
Depreciation		(127)	(187)
Amortisation and impairment of acquired intangibles		(1,419)	(1,419)
Amortisation of capitalised development costs		(828)	(655)
Finance costs	8	(296)	(339)
Finance income	8	4	4
<b>Loss before tax</b>		<b>(472)</b>	<b>(2,703)</b>
Tax	9	253	95
<b>Loss for the year being loss attributable to owners of the parent</b>		<b>(219)</b>	<b>(2,608)</b>
Net profit from discontinued operations	17	195	2,892
<b>Net (loss)/profit for the year</b>		<b>(24)</b>	<b>284</b>
<b>(Loss)/earnings per share from continuing and discontinued operations attributable to the parent during the year</b>			
<b>Basic (loss)/earnings per share</b>			
From continuing operations		(0.2)p	(2.1)p
From discontinued operations		0.2p	2.3p
<b>From loss for the year</b>	11	<b>0.0p</b>	0.2p
<b>Diluted (loss)/earnings per share</b>			
From continuing operations		(0.2)p	(2.1)p
From discontinued operations		0.2p	2.3p
<b>From loss for the year</b>	11	<b>0.0p</b>	0.2p

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	<b>2018</b>	2017
	<b>£000</b>	£000
(Loss)/profit for the financial year	<b>(24)</b>	284
Other comprehensive (expenses)/income – items that will not be reclassified subsequently to profit or loss:		
Exchange difference on translation of overseas operations		
– continuing operations	<b>(58)</b>	(92)
– discontinued operations	<b>2</b>	(176)
Recycle translation reserve for discontinued operations	–	(5,077)
<b>Total comprehensive expense for the financial year</b>	<b>(80)</b>	(5,061)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	2018 £000	2017 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	12	5,422	6,941
Property, plant and equipment	13	232	285
Deferred tax assets	23	3	–
Total non-current assets		5,657	7,226
<b>Current assets</b>			
Inventories	14	210	225
Trade and other receivables	15	2,391	3,729
Current tax assets	19	12	5
Cash and cash equivalents	16	1,269	1,862
Total current assets		3,882	5,821
<b>Liabilities</b>			
<b>Current liabilities</b>			
Financial liabilities – borrowings	20	1,100	1,613
Trade and other payables	18	4,287	5,588
Current tax liabilities	19	–	–
Provisions for other liabilities and charges	22	367	400
Total current liabilities		5,754	7,601
<b>Net current liabilities</b>		<b>(1,872)</b>	<b>(1,780)</b>
<b>Non-current liabilities</b>			
Financial liabilities – borrowings	20	9,550	10,500
Deferred tax liabilities	23	380	644
Provisions for other liabilities and charges	22	–	367
Total non-current liabilities		9,930	11,511
<b>Net liabilities</b>		<b>(6,145)</b>	<b>(6,065)</b>
<b>Equity attributable to owners of the parent</b>			
Ordinary shares	24	3,115	3,115
Share premium	25	6,800	6,800
Capital redemption reserve	25	617	617
Merger reserve	25	29,778	29,778
Translation reserve	25	(195)	(139)
Accumulated losses		(46,260)	(46,236)
<b>Total deficit</b>		<b>(6,145)</b>	<b>(6,065)</b>

The financial statements on pages 36 to 75 were approved by the Board of Directors on 27 March 2019 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 2018

	Ordinary shares £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Translation reserve £000	Accumulated losses £000	Total £000
At 1 January 2017	<b>3,115</b>	<b>6,800</b>	<b>617</b>	<b>32,448</b>	<b>5,206</b>	<b>(49,218)</b>	<b>(1,032)</b>
Share based payments:							
Value of employee services	-	-	-	-	-	28	1,247
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	<b>3,115</b>	<b>6,800</b>	<b>617</b>	<b>29,778</b>	<b>(139)</b>	<b>(46,236)</b>	<b>(6,065)</b>
At 1 January 2018	<b>3,115</b>	<b>6,800</b>	<b>617</b>	<b>29,778</b>	<b>(139)</b>	<b>(46,236)</b>	<b>(6,065)</b>
Retained loss for the year	-	-	-	-	-	(24)	(24)
Exchange differences on translation of overseas operations	-	-	-	-	(56)	-	(56)
Total comprehensive expense for the period	-	-	-	-	(56)	(24)	(80)
<b>At 31 December 2018</b>	<b>3,115</b>	<b>6,800</b>	<b>617</b>	<b>29,778</b>	<b>(195)</b>	<b>(46,260)</b>	<b>(6,145)</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £000	2017 £000
<b>Cash flows from operating activities</b>			
Cash generated from/(used in) operations	25	<b>2,039</b>	(2,761)
Interest paid		<b>(295)</b>	(348)
Taxation (paid)/received		<b>(25)</b>	528
<b>Net cash used in operating activities</b>		<b>1,719</b>	(2,581)
<b>Cash flows from investing activities</b>			
Interest received		<b>4</b>	47
Proceeds from sale of property, plant and equipment		<b>3</b>	510
Proceeds from sale of business		<b>-</b>	7,493
Purchase of property, plant and equipment	13	<b>(88)</b>	(107)
Expenditure on capitalised development costs	12	<b>(728)</b>	(798)
<b>Net cash generated from/(used in) investing activities</b>		<b>(809)</b>	7,145
<b>Cash flow from financing activities</b>			
Net cash used in repayment of financing activities		<b>(850)</b>	(3,500)
<b>Net cash used in financing activities</b>		<b>(850)</b>	(3,500)
<b>Net increase in cash and cash equivalents and overdrafts</b>		<b>60</b>	1,064
Effect of foreign exchange rate changes		<b>(40)</b>	(272)
Cash and cash equivalents and overdrafts at 1 January		<b>1,249</b>	457
<b>Cash and cash equivalents and overdrafts at 31 December</b>	16	<b>1,269</b>	1,249
Net debt comprises:			
Cash and cash equivalents and overdrafts		<b>1,269</b>	1,249
Borrowings		<b>(10,650)</b>	(11,500)
<b>Net debt at 31 December</b>		<b>(9,381)</b>	(10,251)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 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. The Group employs over 60 people worldwide.

The Company is listed on the AIM market of the London Stock Exchange (AIM: PEB). For further information, visit [www.pebbleplc.com](http://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. IFRS 9 Financial Instruments became effective for the Group from 1 January 2018; it has not impacted the Group. IFRS 15 Revenue from Contracts with Customers became effective for the Group from 1 January 2018. Its adoption had no material effect on the income or 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 16 Leases will become effective for the Group from 1 January 2019. The Group will recognise right of use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases the Group does not recognise related assets or liabilities, and instead charges the cost to the income statement on a straight-line basis over the period of the lease and discloses its total commitment in the notes to the financial statements. Instead of recognising an operating expense for its operating lease payments, the Group will recognise interest on its lease liabilities and amortisation on its right of use assets. This will increase adjusted operating profit by the amount of its current operating lease cost, which for the year ended 31 December 2018 is £167,000. It will not have a material effect on the Group's income or net assets.

### GOING CONCERN

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

At 31 December 2018 net debt was £9.4 million (2017: £10.2 million) comprising net cash of £1.3 million (2017 £1.3 million) and the drawn down RCF of £10.7 million (2017: £11.5 million).

We maintain a good relationship with our bank and on 27 March 2019 an extension of the current loan agreement was signed with our bank. The revision secures the facility until 30 November 2020 with banking covenants and a repayment schedule in place.

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 continued impact of cost reductions implemented in 2017 and 2018, margin improvement strategies and sales growth in 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

The Board have concluded that the Group will have sufficient resources to meet its liabilities for the foreseeable future and therefore the Group and hence the Company 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 2018. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns 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

The Group's internal organisational and management structure and its system of internal financial reporting to the Board of directors comprise of Pebble Beach Systems and central costs. 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.

### GEOGRAPHIC REGION REPORTING

Group management are focused on developing global revenue growth from the Broadcast market. Geographic 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.

The assumptions have been determined and they are consistent with past experience and external information. Management is not currently aware of any reasonable possible changes to key assumptions that would cause a unit's carrying amount to exceed its recoverable amount.

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.

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of a related business combination and represent the lowest level within the Group at which management monitors goodwill.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually.

All other individual assets or cash-generating units are tested 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 (or cash-generating unit's) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to

calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

### (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 capitalised development costs met the following criteria:

- the development costs can be measured reliably
- the project is technically and commercially feasible
- the Group intends to and has sufficient resources to complete the project
- the Group has the ability to use or sell the software
- the software will generate probable future economic benefits.

Any development costs not meeting these criteria for capitalisation were expensed as incurred.

- 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.

#### 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. IFRS 16 Leases will become effective for the Group from 1 January 2019.

#### 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.

#### 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.

#### FINANCIAL INSTRUMENTS

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement, and impairment are recognised in retained earnings.

The adoption of IFRS 9 has impacted the following areas:

The impairment of financial assets applying the expected credit loss model. This affects the Group's trade receivables and investments in debt-type assets measured at amortised cost. For contract assets arising from IFRS 15 and trade receivables, the Group applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Overall, IFRS 9 does not have a significant impact since all of the Group's financial assets continue to be held at amortised cost. The Group is also not exposed to a significant concentration of credit risk, and accordingly the impact of applying an expected credit loss model to its financial assets was not significant.

### RECOGNITION AND DERECOGNITION

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

### CLASSIFICATION AND INITIAL MEASUREMENT OF FINANCIAL ASSETS

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include borrowings, trade and other payables. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the corporation does not have any financial assets categorised as FVOCI.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

### SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

Financial assets at amortised cost Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.



## IMPAIRMENT OF FINANCIAL ASSETS

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

## PREVIOUS FINANCIAL ASSET IMPAIRMENT UNDER IAS 39

In the prior year, the impairment of trade receivables was based on the incurred loss model.

Individually significant receivables were considered for impairment when they were past due or when other objective evidence was received that a specific counterparty will default. Receivables that were not considered to be individually impaired were reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate was then based on recent historical counterparty default rates for each identified group.

## TRADE AND OTHER RECEIVABLES AND CONTRACT ASSETS

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due.

## FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

The category also contains an equity investment. The Group accounts for the investment at FVTPL and did not make the irrevocable election to account for the investment in the PLC company and listed equity securities at fair value through other comprehensive income (FVOCI). The equity investment in the PLC company was measured at cost less any impairment charges in the comparative period under IAS 39, as it was determined that its fair value could not be estimated reliably. In the current financial year, the fair value was determined in line with the requirements of IFRS 9, which does not allow for measurement at cost.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss.

Trade receivables and amounts owed by equity accounted investments, previously classified in the loans and receivables category and measured at amortised cost under IAS 39, continue to be classified in the amortised cost category under IFRS 9 as they are held within a business model to collect contracted cash flows and these cash flows consist solely of payments of principal and interest.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (A) TRADE AND OTHER 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.

### (B) 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.

### (C) TRADE AND OTHER 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.

### (D) BORROWINGS

Bank borrowings are recognised at fair value.

## 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.

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 contract liabilities 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 cash-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.

There were no transactions during the year.

### (C) EMPLOYEE SHARE OWNERSHIP PLAN

The Group's Employee Share Ownership Plan (ESOP) is a separately administered trust. There were no ESOP transactions during the year. 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

The Group has applied IFRS15 from 1 January 2018. It did not identify any material differences between its previous revenue recognition policy and the requirements of IFRS 15. It has utilised the simplified transitional approach. No adjustment has been made for contracts that completed prior to 31 December 2017. Had IFRS 15 been applied at 31 December 2017 it would have reduced revenue and increased contract liabilities by £7,000.

The Group has adopted IFRS 15 with no retrospective adjustments. Comparatives for the year ended 31 December 2017 have not been restated. The following expedients have been used:

- revenue in respect of completed contracts that begin and end in the same accounting period has not been restated;
- revenue in respect of completed contracts with variable consideration does not apply as the company does not have variable pricing; and
- the transaction price allocated to unsatisfied and partially unsatisfied performance obligations as at 31 December 2017 is not disclosed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Contracts with multiple performance obligations

Many of the Group's contracts comprise a variety of performance obligations including, but not limited to, hardware, software, elements of design and customisation, after-sales services, and installation. Under IFRS 15, the Group must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

- the customer benefits from the item either on its own or together with other readily available resources, and
- it is 'separately identifiable' (ie the Group does not provide a significant service integrating, modifying or customising it).

While this represents significant new guidance, the implementation of this new guidance did not have a significant impact on the timing or amount of revenue recognised by the Group in any year.

The revenue is divided into the following streams:

#### (A) SALES OF SERVICES (SOFTWARE)

The Group sells software for new installations. Revenue represents amounts receivable from external customers for goods sold by Group companies in the ordinary course of business and excluding value added tax. The sales price and payment terms are agreed at the time of order.

The performance obligation for sales of software is met and revenue is recognised at the 'point in time' when the software is despatched as this is when the customer takes undisputed control. This appropriate as software is not significantly customised nor subject to significant integration services that could not be performed by a third party.

#### (B) SALE OF GOODS (HARDWARE)

The Group sells hardware for new installations. Revenue represents amounts receivable from external customers for goods sold by Group companies in the ordinary course of business and excluding value added tax. The sales price and payment terms are agreed at the time of order. The performance obligation is met and revenue recognised at the 'point in time' when the goods are transferred to the customer, and the receipt of payment can be assured. Ownership of the goods transfers to the customer when the goods are shipped from the Group's premises.

For stand alone sales of hardware that are neither customised by the Group nor subject to significant integration services, control transfers at the point in time the customer takes undisputed delivery of the goods.

#### (C) CONSTRUCTION CONTRACTS (INSTALLATION)

From time to time the Group enters into contracts that involve complex development that will take a number of months to complete and may involve the delivery of multiple components. These are treated as construction contracts. Judgement will be required here to determine whether these should be bundled together or treated as distinct performance obligations. It is not expected that this will materially change the period over which revenue is recognised. Revenue represents the man-days required to complete the installation.

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.

All contract liabilities are calculated based on the value of the initial deposit paid by the customer, deducting any work completed to date.

#### (D) SUPPORT CONTRACTS

The main services the Group provides are ongoing support for its software in use. These are transaction processing to customers in exchange for a fixed monthly fee. Revenue is recognised on a straight-line basis over the term of each contract. As the amount of work required to perform under these contracts does not vary significantly from month to month, the straight-line method provides a faithful depiction on the transfer of goods or services.

For other sales of services, unless the contract qualifies as a construction contract, revenue is recognised in the accounting period in which the performance obligations are satisfied 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.

Any amounts paid by customers to the Group are generally non-refundable according to standard terms and conditions. Standard payment terms are specified on our quotation sent to the customer. The company provides warranties for goods that are in line with those provided by its suppliers. Costs to obtain contracts prior to receipt of order are expensed immediately, unless material. Sales commissions and costs incurred after receipt of order are recognised in line with the transfer of goods or services to the customer, in accordance with IFRS 15. Consideration does not need to be adjusted because it is expected that the customer will settle within agreed terms.

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

The Group identified, under IFRS 15, that the only capitalised contract cost where required, is commission. Commission cost is capitalised and released in line with revenue recognition. At the point of sale, price is agreed within the contract. The transaction price is individually allocated across software, hardware, installation and support. Any variations in the contracts do not result in variable consideration.

Most such arrangements include detailed customer payment schedules. When payments received from customers exceed revenue recognised to date on a particular contract, any excess (a contract liability) is reported in the statement of financial position under other liabilities.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

#### **INTEREST INCOME**

Interest income is recognised based on the effective rate as received.

#### **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.

The directors do not recommend payment of a final dividend for the year ended 31 December 2018.

#### **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.

#### **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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 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	<b>Average rate 2018</b>	Average rate 2017	<b>Year end rate 2018</b>	Year end rate 2017
US dollar	<b>1.335</b>	1.289	<b>1.277</b>	1.351

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 2017 had been translated at the 2018 average rate then the translation impact would be to reduce prior year revenue by £14,000 and reduce the loss before tax by £122,000.

### 3. FINANCIAL RISK MANAGEMENT CONTINUED

#### (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.

#### (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.

On 27 March 2019 the bank agreed an extension of the current loan agreement. The revision secures the facility until 30 November 2020 with banking covenants and a repayment schedule in place.

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
<b>At 31 December 2018:</b>				
Bank loans (secured)	1,100	9,550	–	10,650
Trade and other payables*	4,678	–	–	4,678
<b>At 31 December 2017:</b>				
Bank loans (secured)	1,000	10,500	–	11,500
Trade and other payables*	4,897	–	–	4,897

\* Included within trade and other payables is accrued interest on the RCF facility of £Nil (2017: £32,896).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 3. FINANCIAL RISK MANAGEMENT CONTINUED

In 2017 the Group made a provision of £310,000 in relation to two creditor obligations which arose prior to the disposal of the trade and assets of VCS to xG but for which xG had failed to discharge. Settlement was reached with the creditors and xG during 2018 resulting in £155,000 being released.

A share-based payment scheme, the Pebble Beach Systems Value Creation Plan, matured in 2018. A provision of £243k was held in respect of this scheme in 2017. As a consequence of the Board's decision that no payments are due under the scheme this provision was released in the year.

### 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 £3.2 million at 31 December 2018 (2017: £3.9 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.

### JUDGEMENTS

The Group has the following significant judgements recognised in the financial statements:

#### Recognition of service and construction contract revenues

As revenue from support agreements and construction contracts is recognised over time, the amount of revenue recognised in a reporting period depends on the extent to which the performance obligation has been satisfied. For support agreements and construction contracts (installation) this requires an estimate of the quantity of the services to be provided, based on historical experience with similar contracts. In a similar way, recognising revenue for construction contracts also requires significant judgment in determining the estimated number of hours required to complete the promised work.

#### SHARE-BASED PAYMENTS

A number of accounting 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.

The performance targets of the Pebble Beach Systems Ltd VCP were not met and the Board concluded in 2018 that no payments to participants would be made pursuant to it. The remaining provision of £243,000 has been credited to the income statement.



#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

##### BAD DEBT PROVISION

A number of judgements are incorporated within the calculation of the charge to the income statement in respect of a specific bad debt provision.

##### 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 £1.0 million (note 12) (2017: £2.5 million).

##### ESTIMATES

The Group has the following significant judgements recognised in the financial statements:

##### IMPAIRMENT OF GOODWILL

In assessing impairment, management estimates the recoverable amount of each cash generating unit based on expected future cash flows and uses a suitable discount rate in order to calculate the present value. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. Details of the impairment review are provided in note 12.

#### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 5. SEGMENTAL REPORTING CONTINUED

The segment information provided to the Board for the reportable continuing segments for the year ended 31 December 2018 is as follows:

Segmental reporting by division	Pebble Beach Systems £000	Central £000	<b>Total £000</b>
<b>Year ended 31 December 2018</b>			
<b>Income statement:</b>			
Broadcast	9,174	–	<b>9,174</b>
Total revenue	9,174	–	<b>9,174</b>
Adjusted operating profit/(loss)	2,867	(397)	<b>2,470</b>
Depreciation	(127)	–	<b>(127)</b>
Amortisation of acquired intangibles	(1,419)	–	<b>(1,419)</b>
Amortisation of capitalised development costs	(828)	–	<b>(828)</b>
Non-recurring items	(3,858)	3,554	<b>(304)</b>
Exchange (losses)/gains	46	(18)	<b>28</b>
Finance costs	–	(296)	<b>(296)</b>
Finance income	3	1	<b>4</b>
Intercompany finance income/(costs)	118	(118)	–
(Loss)/profit before taxation	(3,198)	2,726	<b>(472)</b>
Taxation	254	(1)	<b>253</b>
<b>Profit/(loss) for the year being attributable to owners of the parent</b>	<b>(2,944)</b>	<b>2,725</b>	<b>(219)</b>
<b>Segment assets</b>			
Non-current assets	5,657	–	<b>5,657</b>
Current assets	3,439	431	<b>3,870</b>
Total assets	9,096	431	<b>9,527</b>
Total liabilities	(3,788)	(11,884)	<b>(15,672)</b>
<b>Total net assets/(liabilities)</b>	<b>5,308</b>	<b>(11,453)</b>	<b>(6,145)</b>
<b>Other segment items</b>			
Capital expenditure	88	–	<b>88</b>
Capitalised development expenditure	728	–	<b>728</b>
Depreciation	127	–	<b>127</b>
Amortisation of intangibles	2,247	–	<b>2,247</b>

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.

## 5. SEGMENTAL REPORTING CONTINUED

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

Segmental reporting by division	Pebble Beach Systems £000	Central £000	<b>Total £000</b>
<b>Year ended 31 December 2017</b>			
<b>Income statement:</b>			
Broadcast	10,320	–	<b>10,320</b>
Total revenue	10,320	–	<b>10,320</b>
Adjusted operating profit/(loss)	1,772	(1,272)	<b>500</b>
Depreciation	(157)	(30)	<b>(187)</b>
Amortisation of acquired intangibles	(1,419)	–	<b>(1,419)</b>
Amortisation of capitalised development costs	(655)	–	<b>(655)</b>
Non-recurring items	(113)	(399)	<b>(512)</b>
Exchange (losses)/gains	(95)	–	<b>(95)</b>
Finance costs	–	(339)	<b>(339)</b>
Finance income	3	1	<b>4</b>
Intercompany finance income/(costs)	70	(70)	–
Profit/(loss) before taxation	(594)	(2,109)	<b>(2,703)</b>
Taxation	511	(416)	<b>95</b>
<b>Loss for the year being attributable to owners of the parent</b>	<b>(83)</b>	<b>(2,525)</b>	<b>(2,608)</b>
<b>Segment assets</b>			
Non-current assets	7,226	–	<b>7,226</b>
Current assets	5,603	218	<b>5,821</b>
Total assets	12,829	218	<b>13,047</b>
Total liabilities	(4,725)	(14,387)	<b>(19,112)</b>
<b>Total net assets/(liabilities)</b>	<b>8,104</b>	<b>(14,169)</b>	<b>(6,065)</b>
<b>Other segment items</b>			
Capital expenditure	107	–	<b>107</b>
Capitalised development expenditure	798	–	<b>798</b>
Depreciation	157	30	<b>187</b>
Amortisation of intangibles	2,073	–	<b>2,073</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 5. SEGMENTAL REPORTING CONTINUED GEOGRAPHIC EXTERNAL REVENUE ANALYSIS AND REVENUE BY STREAM

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

	2018 £000	2017 £000
<b>By market:</b>		
UK and Europe	4,820	4,655
North America	585	1,772
Latin America	513	357
Middle East and Africa	2,931	2,811
Asia/Pacific	325	725
<b>Total revenue by market</b>	<b>9,174</b>	<b>10,320</b>
<b>By segment stream:</b>		
Hardware	1,836	2,345
Software	3,045	4,071
Installation	1,198	1,216
Support	3,095	2,688
<b>Total revenue by stream</b>	<b>9,174</b>	<b>10,320</b>

One customer in UK and Europe accounted for £1.0 million revenue in 2018 (2017: £nil).

Non-current assets, other than financial instruments and deferred tax, located in the UK are £5.7 million (2017: £7.2 million) and rest of world £Nil (2017: £Nil).

## 6. OPERATING LOSS

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

	2018 £000	2017 £000
Depreciation of property, plant and equipment	127	187
Amortisation of acquired intangibles	1,419	1,419
Operating lease rentals	167	167
Exchange (gains)/losses charged to the income statement	(28)	95
Research and development expenditure expensed in the year which includes:	1,222	1,762
– Amortisation of capitalised development costs	828	655
<b>OTHER EXPENSES</b>		
Other expenses comprise:		
	2018 £000	2017 £000
Amortisation of acquired intangibles	1,419	1,419
Non-recurring items	304	512
	<b>1,723</b>	<b>1,931</b>

## 6. OPERATING LOSS CONTINUED 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:

	2018 £000	2017 £000
Rationalisation and redundancy costs	358	362
Provision for former Executive debt	(54)	260
Profit on sale of head office building	–	(110)
	<b>304</b>	<b>512</b>

## SERVICES PROVIDED BY THE GROUP'S AUDITOR AND NETWORK FIRMS

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

	2018 £000	2017 £000
Analysis of fees payable to Grant Thornton UK LLP (2017: PricewaterhouseCoopers LLP)		
Audit of the parent company and consolidated financial statements	25	82
Audit of the Company's subsidiaries	20	37
Audit related assurance services	–	32
Other assurance services	–	–
	<b>45</b>	<b>151</b>
Taxation compliance services	10	59
Taxation advisory services	–	4
Corporate finance services	–	79
	<b>55</b>	<b>293</b>

A description of the work of the Audit Committee is set out in the corporate governance statement on pages 17 to 23 and includes an explanation of how the auditor's objectivity and independence is safeguarded when non-audit services are provided by the auditor.

## 7. DIRECTORS AND EMPLOYEES

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

	2018 £000	2017 £000
Wages and salaries	3,973	5,585
Social security costs	299	469
Other pension costs – defined contribution plans (note 28)	79	108
Share based payments (note 24)	(243)	(464)
	<b>4,108</b>	<b>5,698</b>

Share based payments includes provision for the Pebble Beach Systems VCP. The performance targets of the Pebble Beach Systems Ltd VCP were not met and the Board concluded in 2018 that no payments to participants would be made pursuant to it. A credit of £243,000 (2017: £492,000) has been taken to the income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 7. DIRECTORS AND EMPLOYEES CONTINUED

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

	<b>2018 Number</b>	2017 Number
Average monthly number of employees		
Broadcast sales and marketing	<b>12</b>	9
Technology	<b>19</b>	36
Logistics	<b>22</b>	28
General and Admin	<b>10</b>	11
	<b>63</b>	84

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 2018 was 65 (2017: 80).

Key management compensation for the continuing business:

	<b>2018 £000</b>	2017 £000
Short term employee benefits – including salaries, social security costs and non-monetary benefits	<b>582</b>	699
Post-employment benefits – defined contribution pension plans	<b>17</b>	26
Share based payments (note 24)	<b>(243)</b>	(464)
	<b>356</b>	261

Share based payments includes provision for the Pebble Beach Systems VCP. The performance targets of the Pebble Beach Systems Ltd VCP were not met and the Board concluded in 2018 that no payments to participants would be made pursuant to it. A credit of £243,000 (2017: £492,000) has been taken to the income statement.

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 27.

## 8. FINANCE COSTS – NET

	<b>2018 £000</b>	2017 £000
Finance costs	<b>296</b>	339
Finance income	<b>(4)</b>	(4)
Finance costs – net	<b>292</b>	335

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

	2018 £000	2017 £000
Current tax		
UK corporation tax	27	–
Adjustments in respect of prior years	(11)	169
Total current tax	16	169
Deferred tax		
UK deferred tax	(269)	(267)
Adjustments in respect of prior years	–	3
Total deferred tax	(269)	(264)
Total taxation	(253)	(95)

### B) FACTORS AFFECTING TAX CHARGE FOR YEAR

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

	2018 £000	2017 £000
Loss before tax on continuing operations	(472)	(2,703)
Tax at the UK corporation tax rate of 19.00% (2017: 19.25%)	(90)	(520)
Adjustments in respect of prior years	(11)	(10)
Permanent differences	24	429
Enhanced R&D tax relief	(180)	(197)
Derecognition of deferred tax asset	–	(463)
Overseas taxation	27	–
Losses utilised	(225)	(55)
Depreciation of NOAs	1	–
Losses utilised	–	–
Current year losses not recognised	172	721
Effect of changes in UK tax rate	29	–
Total taxation	(253)	(95)

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.

There is no income tax arising from any component of other comprehensive income.

## 10. DIVIDENDS AND RETURNS TO SHAREHOLDERS

	2018 £000	2017 £000
Final dividend paid of nil pence per share (2017: nil pence per share)	Nil	Nil

The directors do not recommend payment of a final dividend for the year ended 31 December 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 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.

	2018			2017		
	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	(219)		(0.2)p	(2,608)		(2.1)p
Profit attributable to discontinued operations	195		0.2p	2,892		2.3p
Basic and diluted profit/(loss) per share	(24)	124,477	0.0p	284	124,292	0.2p

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

	£000	2018 Pence	£000	2017 Pence
Reported loss per share – continuing operations	(219)	(0.2)p	(2,608)	(2.1)p
Depreciation	105	0.1p	155	0.1p
Amortisation of acquired intangibles	1,178	0.9p	1,178	1.0p
Amortisation of capitalised development costs	687	0.6p	544	0.4p
Non-recurring items	245	0.2p	413	0.3p
Exchange (gains)/losses	(23)	0.0p	77	0.1p
<b>Adjusted profit/(loss) per share – continuing operations</b>	<b>1,973</b>	<b>1.6p</b>	<b>(241)</b>	<b>(0.2)p</b>



## 12. INTANGIBLE ASSETS

	Goodwill £000	Acquired customer relationships £000	Acquired intellectual property £000	Acquired brands £000	Capitalised development costs £000	Total £000
<b>Cost</b>						
At 1 January 2017	3,218	4,493	3,350	–	1,611	12,672
Additions	–	–	–	–	798	798
At 1 January 2018	3,218	4,493	3,350	–	2,409	13,470
Additions	–	–	–	–	728	728
<b>At 31 December 2018</b>	<b>3,218</b>	<b>4,493</b>	<b>3,350</b>	<b>–</b>	<b>3,137</b>	<b>14,198</b>
<b>Accumulated amortisation</b>						
At 1 January 2017	–	2,091	1,870	–	495	4,456
Charge for the year	–	748	670	–	655	2,073
At 1 January 2018	–	2,839	2,540	–	1,150	6,529
Charge for the year	–	749	670	–	828	2,247
<b>At 31 December 2018</b>	<b>–</b>	<b>3,588</b>	<b>3,210</b>	<b>–</b>	<b>1,978</b>	<b>8,776</b>
<b>Net book value</b>						
<b>At 31 December 2018</b>	<b>3,218</b>	<b>905</b>	<b>140</b>	<b>–</b>	<b>1,159</b>	<b>5,422</b>
At 31 December 2017	3,218	1,654	810	–	1,259	6,941
At 1 January 2017	3,218	2,402	1,480	–	1,116	8,216

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 £0.5 million (2017: £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.

### 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 carrying value of goodwill at 31 December 2018 is £3.2 million (2017: £3.2 million) which relates solely to Pebble Beach Systems (see note 17).

The carrying value of Pebble Beach Systems (including goodwill) has been assessed with reference to value in use over a projected period of five 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 2018 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, with growth peaking in years three and four.

The cash flow projections have been discounted to present value using a pre-tax discount rate of 11.1 per cent (2017: 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 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
<b>Cost</b>				
At 1 January 2017	116	295	1,215	1,626
Additions	–	5	102	107
Disposals	–	(85)	(166)	(251)
Exchange adjustment	–	(4)	(6)	(10)
At 1 January 2018	116	211	1,145	1,472
Additions	–	26	62	88
Disposals	–	(78)	(635)	(713)
Exchange adjustment	–	1	2	3
<b>At 31 December 2018</b>	<b>116</b>	<b>160</b>	<b>574</b>	<b>850</b>
<b>Accumulated depreciation</b>				
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 1 January 2018	35	178	974	1,187
Charge for the year	5	15	107	127
Disposals	–	(68)	(631)	(699)
Exchange adjustment	–	–	3	3
<b>At 31 December 2018</b>	<b>40</b>	<b>125</b>	<b>453</b>	<b>618</b>
<b>Net book value</b>				
<b>At 31 December 2018</b>	<b>76</b>	<b>35</b>	<b>121</b>	<b>232</b>
At 31 December 2017	81	33	171	285
At 1 January 2017	87	49	331	467

## 14. INVENTORIES

	2018 £000	2017 £000
Raw materials and consumables	166	152
Work in progress	44	73
Finished goods and goods for resale	–	–
	<b>210</b>	<b>225</b>

During the year the Group consumed £1.3 million (2017: £2.3 million) of inventories, of which £1.3 million (2017: £1.8 million) related to continuing operations.

## 15. TRADE AND OTHER RECEIVABLES

	2018 £000	2017 £000
Current:		
Trade receivables	1,944	2,382
Less: provision for impairment	(480)	(87)
Trade receivables – net	1,464	2,295
Other receivables	122	153
Prepayments and accrued income	805	1,281
	<b>2,391</b>	<b>3,729</b>

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 2018 trade receivables of £0.7 million (2017: £1.0 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:

	2018 £000	2017 £000
Up to three months	526	914
Three to six months	28	49
Over six months	107	10
	<b>661</b>	<b>973</b>

At 31 December 2018 trade receivables of £0.5 million (2017: £0.1 million) were impaired and provided for in whole or in part. The provision of £0.5 million (2017: £0.1 million) is set against specific customer debts. The ageing of these receivables is as follows:

	2018 £000	2017 £000
Up to three months	127	–
Three to six months	203	3
Over six months	150	140
	<b>480</b>	<b>143</b>

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

	2018 £000	2017 £000
Pounds sterling	1,321	1,537
US dollars	403	324
Euros	220	521
	<b>1,944</b>	<b>2,382</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 15. TRADE AND OTHER RECEIVABLES CONTINUED

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

	2018 £000	2017 £000
At 1 January	87	138
Provision for receivable impairment	444	(51)
Receivables written off during the year as uncollectable	(51)	–
Exchange adjustment	–	–
At 31 December	480	87

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 carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

## 16. CASH AND CASH EQUIVALENTS AND OVERDRAFTS

	2018 £000	2017 £000
Cash and bank balances	1,269	1,249
Cash and cash equivalents and overdrafts at 31 December	1,269	1,249

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

	2018 £000	2017 £000
Cash and cash equivalents and overdrafts	1,269	1,862
Bank overdrafts (note 20)	–	(613)
Cash and cash equivalents	1,269	1,249

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.

	2018 £000	2017 £000
A-1	1,269	1,249
Total	1,269	1,249

**16. CASH AND CASH EQUIVALENTS AND OVERDRAFTS CONTINUED**

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

	2018			2017		
	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	1,249	(11,500)	(10,251)	457	(15,000)	(14,543)
Cash flow for the year before financing	910	–	910	4,564	–	4,564
Movement in borrowings in the year	(850)	850	–	(3,500)	3,500	–
Exchange rate adjustments	(40)	–	(40)	(272)	–	(272)
<b>Cash and cash equivalents and overdrafts at 31 December</b>	<b>1,269</b>	<b>(10,650)</b>	<b>(9,381)</b>	<b>1,249</b>	<b>(11,500)</b>	<b>(10,251)</b>

**17. DISCONTINUED OPERATIONS**

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

	2018 £000	2017 £000
Revenue	–	1,034
Expenses	184	(3,881)
Profit/(loss) before tax of discontinued operations	184	(2,847)
Tax	11	662
Profit/(loss) after tax of discontinued operations	195	(2,185)
Recycle translation reserve for discontinued operations	–	5,077
Profit from discontinued operations	195	2,892

(II) CASH FLOW

	2018 £000	2017 £000
Operating cash flows	(485)	(1,277)
Investing cash flows	–	8,046
Total cash flows	(485)	6,769

**18. TRADE AND OTHER PAYABLES**

	2018 £000	2017 £000
Contract liabilities	2,323	2,625
Trade payables	683	861
Accruals	1,182	1,619
Other taxes and social security costs	99	483
	<b>4,287</b>	<b>5,588</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 19. CURRENT TAX ASSETS

	2018 £000	2017 £000
UK corporation tax	12	5
Foreign corporation tax	–	–
<b>Current tax assets</b>	<b>12</b>	<b>5</b>

## 20. FINANCIAL LIABILITIES – BORROWINGS

	2018 £000	2017 £000
Current:		
Bank loans (secured)	1,100	1,000
Bank overdrafts	–	613
Total	1,100	1,613
Non-current:		
Bank loans (secured)	9,550	10,500

### BANK BORROWING FACILITIES

On 27 March 2019 the bank agreed an extension of the current loan agreement. The revision secures the facility until 30 November 2020 with banking covenants and a repayment schedule in place.

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.

The Group does not have a net overdraft facility.

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:

	2018	2017
Bank overdraft	N/A	3.25%
Bank borrowings	3.30%	2.40%

The Group had net debt at 31 December 2018 of £9.4 million (2017: £10.3 million).

## 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

	<b>2018 Receivables £000</b>	2017 Receivables £000
<b>Assets as per statement of financial position at 31 December</b>		
Trade and other receivables excluding prepayments and contract assets	<b>1,539</b>	2,448
Cash and cash equivalents	<b>1,269</b>	1,862
Total	<b>2,808</b>	4,310

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

	<b>2018 Other financial liabilities at amortised cost £000</b>	2017 Other financial liabilities at amortised cost £000
<b>Liabilities as per statement of financial position at 31 December</b>		
Trade and other payables excluding contract liabilities and social security liabilities	<b>1,659</b>	1,803
Borrowings	<b>10,650</b>	12,113
Total	<b>12,309</b>	13,916

### FINANCIAL INSTRUMENTS BY CATEGORY – DISCONTINUED OPERATIONS

	<b>2018 Receivables £000</b>	2017 Receivables £000
<b>Assets as per statement of financial position at 31 December</b>		
Trade and other receivables excluding prepayments and contract assets	<b>47</b>	64
Total	<b>47</b>	64

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

	<b>2018 Other financial liabilities at amortised cost £000</b>	2017 Other financial liabilities at amortised cost £000
<b>Liabilities as per statement of financial position at 31 December</b>		
Trade and other payables excluding contract liabilities and social security liabilities	<b>206</b>	677
Total	<b>206</b>	677

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 22. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Property provisions £000	Total £000
At 1 January 2018	767	767
Additional provision in the year	–	–
Utilised during the year	(400)	(400)
Exchange adjustment	–	–
<b>At 31 December 2018</b>	<b>367</b>	<b>367</b>

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

	2018 £000	2017 £000
Current	<b>367</b>	400
Non-current	–	367
<b>At 31 December 2018</b>	<b>367</b>	<b>767</b>

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
<b>Deferred tax liabilities</b>					
At 1 January 2018	66	578	–	–	644
Credit to profit or loss	(12)	(257)	–	–	(269)
Exchange adjustment	–	–	–	–	–
<b>At 31 December 2018</b>	<b>54</b>	<b>321</b>	<b>–</b>	<b>–</b>	<b>375</b>



## 23. DEFERRED TAXATION CONTINUED

	Accelerated tax depreciation £000	Intangible assets £000	Losses £000	Other £000	Total £000
<b>Deferred tax assets</b>					
At 1 January 2018	-	-	-	-	-
Charge to profit or loss	-	-	-	-	-
Exchange adjustment	-	-	-	-	-
<b>At 31 December 2018</b>	-	-	-	-	-

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

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

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

	2018 £000	2017 £000
Net deferred tax liability at 1 January	(644)	(1,174)
Charged in the year	269	530
Net deferred tax liability at 31 December	(375)	(644)

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

	2018 £000	2017 £000
Deferred tax asset on losses	12,725	11,850
	<b>12,725</b>	<b>11,850</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 24. ORDINARY SHARES

	Number '000s	2018 £000	Number '000s	2017 £000
<b>Ordinary shares of 2.5 pence each at 31 December</b>				
Authorised	200,000	5,000	200,000	5,000
<b>Allotted and fully paid</b>				
At 1 January	124,603	3,115	124,603	3,115
Share issues	-	-	-	-
<b>At 31 December</b>	<b>124,603</b>	<b>3,115</b>	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 2018 (2017: 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	2018 Number '000s	2017 Number '000s
14 May 2015	54.0p	01/04/18 – 13/05/25	-	1,184
			-	1,184

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

	Number '000s	2018 Weighted average exercise price	Number '000s	2017 Weighted average exercise price
Outstanding at beginning of year	1,184	54.0p	2,050	54.8p
Lapsed during the year	1,184	54.0p	866	55.8p
Outstanding at the end of the year	-	-	1,184	54.0p
Exercisable at the end of the year	-	-	-	-

No options were exercised in 2018 (2017: nil). No options were outstanding at 31 December 2018.

## 24. ORDINARY SHARES CONTINUED

### 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	2018 Number '000s	2017 Number '000s
12 November 2013	48.5p	12 November 2016	–	2,000
03 June 2014	45.1p	03 June 2017	100	150
			100	2,150

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

	Number '000s	2018 Weighted average share price at the date of grant	Number '000s	2017 Weighted average share price at the date of grant
Outstanding at beginning of year	2,150	48.2p	3,381	46.8p
Forfeited during the year	2,050	48.4p	(931)	44.4p
Exercised during the year	–	–	(300)	45.1p
Outstanding at the end of the year	100	45.1p	2,150	48.2p

There were 100,000 LTIP options that were exercisable at the end of the year (2017: 2,150,000).

The weighted average contractual life remaining on the LTIP options outstanding at 31 December 2018 is 5.4 years (2017: 5.8 years).

At 31 December 2018 the trustee of the Employee Share Ownership Plan (ESOP) held 126,496 shares (2017: 126,496) with a market value of Nil (2017: £Nil). The net book value of these shares was Nil (2017: £Nil) and was deducted from equity.

During the year 2,050,000 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 £242,621 (2017: £463,840) related to cash-settled share based payment transactions in the income statement in the year, following the Board's decision that no payments are due under Pebble Beach Systems Value Creation Plan.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 25. RESERVES

The following describes the nature and purpose of each reserve within equity:

Share Premium	Amount subscribed for share capital in excess of nominal value.
Capital Redemption Reserve	Amounts transferred from share capital on redemption of issued shares.
Merger Reserve	The excess of value attributed to shares over the nominal value of those shares which were issued in part or full consideration for the acquisition of more than 90 per cent of the issued share capital of another company.
Translation Reserve	Gains or losses arising on retranslating the net assets of overseas operations into Sterling.
Accumulated Losses	All other net gains and losses and transactions with owners (eg dividends) not recognised elsewhere.

## 26. CASH FLOW USED IN OPERATING ACTIVITIES

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

	2018 £000	2017 £000
Loss before tax	(288)	(5,550)
Depreciation of property, plant and equipment	127	187
Loss/(profit) on disposal of property, plant and equipment	10	(110)
Loss on sale of VCS	–	1,335
Amortisation and impairment of development costs	828	856
Amortisation and impairment of acquired intangibles	1,419	1,418
Share based payment expense	–	28
Finance income	(4)	(47)
Finance costs	295	348
Increase/(decrease) in inventories	15	(19)
Decrease in trade and other receivables	848	2,489
Decrease in trade and other payables	(811)	(3,345)
Decrease in provisions	(400)	(351)
Net cash used in operating activities	<b>2,039</b>	(2,761)

## 27. CONTINGENT LIABILITIES AND COMMITMENTS – CONTINUING OPERATIONS

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

	2018 Land and buildings £000	2017 Land and buildings £000
Not later than one year	415	437
Later than one year and not later than five years	668	513
Later than five years	426	470
	<b>1,508</b>	1,420

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 (2017: £0.4 million) of operating lease payments were recognised in the consolidated Group income statement.

## 28. 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 £0.1 million (2017: £Nil). At 31 December 2018 there was £nil (2017: £nil) due to the scheme.

The Group has no unfunded pension liabilities.

## 29. 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 Legacy Broadcast Group Holdings Limited, leases two properties owned by the Denton Trust. Ian Cockett (a director of Pebble Beach Systems Limited during the year) is one of the 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 2018 the Company owed £Nil to the Denton Trust (2017: £21,000).

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 2018, are provided in the entity financial statements of Pebble Beach Systems Group plc.

There are no material related parties other than Group companies.

## 30. EVENTS AFTER THE REPORTING PERIOD

On 27 March 2019 the bank agreed an extension of the current loan agreement. The revision secures the facility until 30 November 2020 with banking covenants and a repayment schedule in place.

# COMPANY INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £000	2017 £000
Administrative expenses		(414)	(1,270)
Other expenses		3,285	(12,229)
<b>Operating profit/(loss)</b>		<b>2,871</b>	<b>(13,499)</b>
Operating loss is analysed as:			
Adjusted operating loss		(396)	(1,234)
Depreciation		-	(30)
Non-recurring items	E	3,285	(12,229)
Exchange losses charged to the income statement		(18)	(6)
Finance costs		(414)	(434)
Finance income		139	271
<b>Profit/(loss) before tax</b>		<b>2,596</b>	<b>(13,662)</b>
Tax	G	(21)	17
<b>Profit/(loss) for the year being loss attributable to shareholders</b>	Q	<b>2,575</b>	<b>(13,645)</b>

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 2018

	Note	2018 £000	2017 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	H	–	–
Investments in subsidiaries	I	12,880	12,880
Deferred tax assets	N	–	21
<b>Total non-current assets</b>		<b>12,880</b>	12,901
<b>Current assets</b>			
Trade and other receivables	J	5,025	4,870
Current tax assets	M	–	–
Cash and cash equivalents	K	271	10
<b>Total current assets</b>		<b>5,296</b>	4,880
<b>Liabilities</b>			
<b>Current liabilities</b>			
Financial liabilities – borrowings	O	1,100	1,626
Trade and other payables	L	3,992	4,696
<b>Total current liabilities</b>		<b>5,092</b>	6,322
<b>Net current assets(liabilities)</b>		<b>204</b>	(1,442)
<b>Non-current liabilities</b>			
Financial liabilities – borrowings	O	9,550	10,500
<b>Total non-current liabilities</b>		<b>9,550</b>	10,500
<b>Net assets</b>		<b>3,534</b>	959
<b>Equity attributable to shareholders</b>			
Ordinary shares	P	3,115	3,115
Share premium	Q	6,800	6,800
Capital redemption reserve	Q	617	617
Merger reserve	Q	1,882	1,882
Accumulated losses	Q	(8,880)	(11,455)
<b>Total equity</b>		<b>3,534</b>	959

The company's registered number: 04082188

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

The financial statements on pages 76 to 93 were approved by the Board of directors on 27 March 2019 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 2018

	Ordinary shares £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Accumulated losses £'000	Total equity £'000
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
At 1 January 2018	3,115	6,800	617	1,882	(11,455)	959
Profit for the financial year	-	-	-	-	2,575	2,575
Dividends paid	-	-	-	-	-	-
<b>At 31 December 2018</b>	<b>3,115</b>	<b>6,800</b>	<b>617</b>	<b>1,882</b>	<b>(8,880)</b>	<b>3,534</b>



# COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
<b>Cash flow from operating activities</b>			
Cash (used in)/generated from operations	R	(538)	3,441
Interest paid		(414)	(434)
Taxation paid		–	(179)
<b>Net cash (used in)/generated from operating activities</b>		<b>(952)</b>	2,828
<b>Cash flow from investing activities</b>			
Interest received		139	271
New intercompany loans		2,550	–
<b>Net cash generated from investing activities</b>		<b>2,689</b>	271
<b>Cash flow from financing activities</b>			
Net cash used in repayment of financing activities		(850)	(3,500)
<b>Net cash generated used in financing activities</b>		<b>(850)</b>	(3,500)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>887</b>	(401)
Cash and cash equivalents at 1 January		(616)	(215)
<b>Cash and cash equivalents at 31 December</b>	K	<b>271</b>	(616)

# 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

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

At 31 December 2018 net debt was £9.4 million (2017: £10.2 million) comprising net cash of £1.3 million (2017 £1.3 million) and the drawn down RCF of £10.7 million (2017: £11.5 million).

We maintain a good relationship with our bank and on 27 March 2019 an extension of the current loan agreement was signed with our bank. The revision secures the facility until 30 November 2020 with banking covenants and a repayment schedule in place.

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 continued impact of cost reductions implemented in 2017 and 2018, margin improvement strategies and sales growth in 2019.

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.

The Board have concluded that the Group will have sufficient resources to meet its liabilities for the foreseeable future and therefore the Group and hence the Company remains a going concern.

## B ACCOUNTING POLICIES CONTINUED

### 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.

The Company conducted an impairment review during the year.

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

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of a related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually.

All other individual assets or cash-generating units are tested 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 (or cash-generating unit's) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

### 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.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## **B ACCOUNTING POLICIES CONTINUED** **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 Note 4 of the Group financial statements.

## C SERVICES PROVIDED BY THE COMPANY'S AUDITOR

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

	2018 £000	2017 £000
Analysis of fees payable to Grant Thornton UK LLP (2017: PricewaterhouseCoopers LLP)		
Fees payable to the Company's auditor for the audit of the Company's financial statements	25	30
Fees payable to the Company's auditor for other services:		
Audit-related assurance services	-	-
Other assurance services	-	-
	<b>25</b>	<b>30</b>
Taxation compliance services	-	-
Taxation advisory services	-	-
Services relating to corporate finance transactions	-	-
	<b>25</b>	<b>30</b>

A description of the work of the Audit Committee is set out in the Corporate Governance Statement on pages 17 to 23 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

## D DIRECTORS AND EMPLOYEES

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

	2018 £000	2017 £000
Wages and salaries	156	866
Social security costs	-	141
Other pension costs – defined contribution plans (note 28)	-	23
Share-based payments (note P)	-	-
	<b>156</b>	<b>1,030</b>

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

	2018 Number	2017 Number
Average monthly number of employees		
General and administrative	3	4
	<b>3</b>	<b>4</b>

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 2018 was 4 (2017: 2).

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## D DIRECTORS AND EMPLOYEES CONTINUED

Key management compensation for the continuing business:

	2018 £000	2017 £000
Short-term employee benefits – including salaries, social security costs and non-monetary benefits	–	203
Post-employment benefits – defined contribution pension plans	–	8
	–	211

The analysis of key management compensation above includes Executive Directors. Key management is defined as the senior management team. The emoluments of Peter Mayhead were paid and borne by Pebble Beach Systems Ltd. Details of directors' emoluments are included in the remuneration report on pages 24 to 27.

## E OPERATING LOSS

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

	2018 £000	2017 £000
Depreciation of property, plant and equipment (note H)	–	30
Exchange losses charged to the income statement	18	6

	2018 £000	2017 £000
OTHER EXPENSES		
Other expenses comprise:		
– Non-recurring items	(3,285)	12,229

### 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:

	2018 £000	2017 £000
Liquidity advice and other costs	–	232
Redundancy and restructuring costs	(54)	620
Impairment of investment		–
Waiver of intercompany loan	(3,500)	8,627
Write-off of intercompany loans not recoverable	269	2,750
	(3,285)	12,229

£54,000 provided for the non-recoverability of a loan to a former employee was released to income. It is included in Central costs in the Group accounts.

**F FINANCE INCOME – NET**

	<b>2018</b>	2017
	<b>£000</b>	£000
Finance costs – third party	<b>296</b>	339
Finance costs – intercompany	<b>118</b>	95
Finance income – third party	<b>(1)</b>	(33)
Finance income – intercompany	<b>(138)</b>	(238)
Finance expense – net	<b>275</b>	163

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.

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

	<b>2018</b>	2017
	<b>£000</b>	£000
Current tax		
UK corporation tax	–	–
Adjustments in respect of prior years	–	–
Total current tax	–	–
Deferred tax		
UK corporation tax	<b>21</b>	(17)
Impact of change in tax rate	–	–
Total deferred tax	<b>21</b>	(17)
Total taxation	<b>21</b>	(17)

**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:

	<b>2018</b>	2017
	<b>£000</b>	£000
Profit/(loss) before tax on continuing operations	<b>2,596</b>	(13,663)
Tax at the UK corporation tax rate of 19.00% (2017: 19.25%)	<b>493</b>	(2,630)
Permanent differences	<b>(614)</b>	2,213
Current year losses not recognised	<b>144</b>	400
Effect of changes in UK tax rate	<b>(2)</b>	–
Total taxation	<b>21</b>	(17)

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## H PROPERTY, PLANT AND EQUIPMENT

	Plant and computer equipment £000
<b>Cost</b>	
At 1 January 2017	554
Disposals	(166)
At 1 January 2018	388
Disposals	(388)
<b>At 31 December 2018</b>	<b>-</b>
<b>Accumulated depreciation</b>	
At 1 January 2017	426
Charge for the year	30
Disposals	(68)
At 1 January 2018	388
Disposals	(388)
<b>At 31 December 2018</b>	<b>-</b>
<b>Net book value</b>	
<b>At 31 December 2018</b>	<b>-</b>
At 31 December 2017	-
At 1 January 2017	128

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.

## I INVESTMENTS IN SUBSIDIARIES

	Investments in subsidiaries' unlisted shares £000
<b>Cost</b>	
At 1 January 2018	26,507
Additions	-
Disposals	-
<b>At 31 December 2018</b>	<b>26,507</b>
<b>Provision for impairment</b>	
At 1 January 2018	13,627
Additions	-
Disposals	-
<b>At 31 December 2018</b>	<b>13,627</b>
<b>Net book value</b>	
<b>At 31 December 2018</b>	<b>12,880</b>
At 31 December 2017	12,880

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.



**J TRADE AND OTHER RECEIVABLES**

	<b>2018</b> <b>£000</b>	2017 £000
Amounts owed by Group undertakings	<b>4,974</b>	4,836
Trade receivables	–	10
Other debtors	<b>30</b>	–
Prepayments and accrued income	<b>21</b>	24
	<b>5,025</b>	4,870

Amounts owed by Group undertakings includes loans of £5.0 million (2017: £4.8 million) that bear interest at 2.75 per cent which are repayable on demand.

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers.

**K CASH AND CASH EQUIVALENTS**

	<b>2018</b> <b>£000</b>	2017 £000
Cash and bank balances	<b>271</b>	(616)
<b>Cash and cash equivalents at 31 December</b>	<b>271</b>	(616)

	<b>2018</b> <b>£000</b>	2017 £000
Cash and cash equivalents	<b>271</b>	10
Bank overdrafts (note M)	–	(626)
<b>Cash and cash equivalents at 31 December</b>	<b>271</b>	(616)

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

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.

	<b>2018</b> <b>£000</b>	2017 £000
Credit rating (S&P)		
A-1	<b>271</b>	(616)
Total	<b>271</b>	(616)

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## K CASH AND CASH EQUIVALENTS CONTINUED

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

	2018			2017		
	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	(616)	(11,500)	(12,116)	(215)	(15,000)	(15,215)
Cash flow for the year	1,737	–	1,737	3,099	–	3,099
Movement in borrowings in the year	(850)	850	–	(3,500)	3,500	–
Dividend paid	–	–	–	–	–	–
<b>Cash and cash equivalents at 31 December</b>	<b>271</b>	<b>(10,650)</b>	<b>(10,379)</b>	<b>(616)</b>	<b>(11,500)</b>	<b>(12,116)</b>

## L TRADE AND OTHER PAYABLES

	2018 £000	2017 £000
Trade creditors	248	45
Amounts owed to Group undertakings	3,331	3,874
Taxation and social security costs	–	137
Accruals and deferred income	413	640
	<b>3,992</b>	<b>4,696</b>

## M CURRENT TAX LIABILITIES

	2018 £000	2017 £000
UK corporation tax	–	–
	–	–

## N 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 2018	21	–	–	21
Charge to profit or loss	(21)	–	–	(21)
<b>At 31 December 2018</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

## O BANK LOANS

	2018 £000	2017 £000
Current:		
Bank loans and overdrafts (secured)	1,100	1,626
Non-current:		
Bank loans (secured)	9,550	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

	2018 Receivables £000	2017 Receivables £000
<b>Assets as per statement of financial position at 31 December</b>		
Trade and other receivables excluding prepayments and contract assets	4,974	4,846
Cash and cash equivalents	271	10
Total	5,245	4,856

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

	2018 Other financial liabilities at amortised cost £000	2017 Other financial liabilities at amortised cost £000
<b>Liabilities as per statement of financial position at 31 December</b>		
Trade and other payables excluding contract liabilities and social security liabilities	3,992	4,559
Borrowings	10,650	12,126
Total	14,642	16,685

## P CALLED UP SHARE CAPITAL

	Number '000s	2018 £000	Number '000s	2017 £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:

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## P CALLED UP SHARE CAPITAL CONTINUED

### 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 2018 (2017: 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	2018 Number '000s	2017 Number '000s
14 May 2015	54.0p	01/04/18 – 13/05/25	–	1,184
			–	1,184

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

	Number '000s	2018 Weighted average exercise price	Number '000s	2017 Weighted average exercise price
Outstanding at beginning of year	1,184	54.0p	2,050	54.8p
Lapsed during the year	1,184	54.0p	866	55.8p
Outstanding at the end of the year	–	–	1,184	54.0p
Exercisable at the end of the year	–	–	–	–

No options were exercised in 2018 (2017: nil). No options were outstanding at 31 December 2018.

### 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.

**P CALLED UP SHARE CAPITAL CONTINUED**

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

Date of grant	Share price at award date	Vesting date	2018 Number '000s	2017 Number '000s
12 November 2013	48.5p	12 November 2016	–	2,000
03 June 2014	45.1p	03 June 2017	100	150
			100	2,150

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

	Number '000s	2018 Weighted average share price at the date of grant	Number '000s	2017 Weighted average share price at the date of grant
Outstanding at beginning of year	2,150	48.2p	3,381	46.8p
Forfeited during the year	2,050	48.4p	(931)	44.4p
Exercised during the year	–	–	(300)	45.1p
Outstanding at the end of the year	100	45.1p	2,150	48.2p

There were 100,000 LTIP options that were exercisable at the end of the year (2017: 2,150,000).

The weighted average contractual life remaining on the LTIP options outstanding at 31 December 2018 is 5.4 years (2017: 5.8 years).

At 31 December 2018 the trustee of the Employee Share Ownership Plan (ESOP) held 126,496 shares (2017: 126,496) with a market value of £Nil (2017: £Nil). The net book value of these shares was £Nil (2017: £Nil) and was deducted from equity.

During the year 2,050,000 LTIP shares were forfeited as a result of employees leaving the Group.

**C) SHARE OPTIONS – VALUE OF EMPLOYEE SERVICES**

The Company recognised a total credit of £242,621 (2017: £463,840) related to cash-settled share based payment transactions in the income statement in the year, following the Board's decision that no payments are due under Pebble Beach Systems Value Creation Plan.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## Q RESERVES

	Ordinary shares £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Accumulated losses £000
At 1 January 2018	3,115	6,800	617	1,882	(11,455)
Loss for the financial year	–	–	–	–	(904)
<b>At 31 December 2018</b>	<b>3,115</b>	<b>6,800</b>	<b>617</b>	<b>1,882</b>	<b>(12,359)</b>

## R CASH FLOW FROM OPERATING ACTIVITIES

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

	2018 £000	2017 £000
Loss before tax	(904)	(13,662)
Depreciation of property, plant and equipment	–	30
Loss on disposal of fixed assets	–	111
Impairment of investment	–	8,627
Impairment of intercompany loans	269	2,750
Share-based payment expense	–	28
Finance income	(139)	(271)
Finance costs	414	434
(Increase)/decrease in trade and other receivables	(17)	6,730
Decrease in trade and other payables	(161)	(1,336)
<b>Net cash used in operating activities</b>	<b>(538)</b>	<b>3,441</b>

## S 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 2018, there was £10.7 million of bank borrowings outstanding (2017: £11.5 million).

The Company has no capital expenditure contracted for but not provided at 31 December 2018 (2017: £Nil).

## T 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*	100%	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%	Non-trading company	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey KT13 0TJ, England
Amplifier Technology Limited	100%	Dormant Company**	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	200 Continental Drive, Suite 401, Newark, Delaware 19713, USA
Legacy Broadcast Holdings Limited	100%	Holding company	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey KT13 0TJ, England
Continental Microwave Limited	100%	Dormant Company**	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey KT13 0TJ, England
Legacy Broadcast Technology Limited	100%	Dormant Company**	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey KT13 0TJ, England
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 2018

Holding size range	Number of shareholders	Percentage of total shareholders	Number of shares (000)	Percentage of issued share capital
0–1,000	3,521	59.0	1,559	1.25
1,001–5,000	1,852	31.2	4,186	3.36
5,001–10,000	284	5.0	2,131	1.71
10,001–100,000	213	3.6	6,532	5.24
Over 100,000	71	1.2	110,195	88.44
	5,941	100.0	124,603	100.0

## WARNING TO SHAREHOLDERS: BOILER ROOM SCAMS

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

### REGISTERED OFFICE

12 Horizon Business Village

1 Brooklands Road

Weybridge

Surrey

KT13 0TJ

### COMPANY REGISTRATION NUMBER

04082188

### INDEPENDENT AUDITOR

#### GRANT THORNTON UK LLP

3140 Rowan Place

John Smith Drive

Oxford

OX4 2WB

### BANKERS

#### SANTANDER CORPORATE BANKING

2 Triton Square

Regent's Place

London

NW1 3AN

### 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](http://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](http://www.pebbleplc.com).

## NEWS ALERTS

To receive the latest news announcements and press releases by email please visit [www.pebbleplc.com](http://www.pebbleplc.com) and follow the link to the news and 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](http://www.mpsonline.org.uk).

