

## **Pebble Beach Systems Group plc**

A global software and technology business, specialising in solutions for playout automation for the broadcast markets.

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# **ANNUAL REPORT 2016**



**Company  
Registration  
Number:  
04082188**

# BUSINESS OVERVIEW

## **PEBBLE BEACH SYSTEMS GROUP PLC**

Pebble Beach Systems Group plc is a global technology business specialising in world class automation, Channel in a Box and content management solutions for TV broadcasters.

In 2016, the Group agreed to sell the business and assets of the hardware division, Vislink Communication Systems, and the disposal completed on 2 February 2017. The results of Vislink Communication Systems are disclosed as discontinued operations in this Annual Report and financial statements and the assets and liabilities disposed of classified as held for sale.

## **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.

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# STRATEGY

## OPERATIONAL HIGHLIGHTS

- Transition to IP technology and virtualization with the development of new products
- Sale of hardware division

## THIS STRATEGIC REPORT DISCUSSES THE FOLLOWING AREAS:

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

## CAUTIONARY STATEMENT

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

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

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

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

# NON-EXECUTIVE CHAIRMAN'S STATEMENT

## INTRODUCTION

2016 has been a year of mixed fortunes for the Group and in many ways, has been a disappointing year for the Group, shareholders and employees.

During the year the Group operated as two divisions: Pebble Beach Systems which is the Group's automation and playout software business and Vislink Communication Systems, the Group's hardware business, which was sold post year end on 2 February 2017.

In line with our announced strategy to focus the Group on software, in early 2016, the Board began to explore a sale of the Group's hardware division, Vislink Communication Systems.

Later in the year a proposal to acquire the business and assets of Vislink Communication Systems was made by xG Technology, Inc. The sale of the business and assets (excluding liabilities over 30 days old) for \$16.0 million was announced on 16 December 2016. Subsequently, in accordance with the announcement on 20 March 2017, an agreement was reached with xG Technology Inc., to accept a reduction in the deferred consideration whereby the total consideration received equated to \$13.1 million.

The Board considered that there was a significant benefit to the Group by the removal of uncertainty relating to the sale of Vislink Communication Systems in reaching this settlement rather than this representing a subsequent change in the business or assets sold post year end.

During the year, the Group's borrowings started to rise significantly as trading by Vislink Communication Systems failed to generate cash and during the second half of the year it became clear that the Group was likely to breach the terms of its banking facilities, which as at 30 June stood at £16.0 million in total.

In October, the Group Finance Director resigned with immediate effect for health reasons.

Dialogue took place with the Group's bankers to waive various covenants and to increase the facility amount until the sale of Vislink Communication Systems could complete. The RCF is currently at £11.6 million and the Group forecasts to continue to breach its banking covenants for the foreseeable future.

Pebble Beach Systems generated revenue of £10.9 million in the year and contributed £2.3 million of adjusted operating profit. In 2016, Central costs were £2.1 million.

Vislink Communication Systems was classified as discontinued in the year end results and made an operating loss of £53.4 million.

## PEBBLE BEACH SYSTEMS

Pebble Beach Systems is a leading developer and supplier of software for automation, Channel in a Box and content management solutions for TV broadcasters, service providers and cable and satellite operators. Its leading next generation products and software technology within the broadcasting sector are best reflected by its growing global customer base, with blue chip clients TV Globo Brazil, Fox News and Business channels USA, ZDF Germany, Orbit Showtime Network UAE, TV4 Sweden, TV2 Denmark, Viasat UK and AMC Networks Inc. USA.

In 2016 Pebble Beach Systems announced that Globosat, a leader in the Brazilian Pay TV market, was using Pebble Beach System's Marina automation to expand playout capacity during the Rio Olympic Games, representing the largest and most comprehensive games coverage ever delivered to the Brazilian public.

Additionally, its expansion continued into new markets. As part of the development of its broadcast services, Canada Groupe V Media became the first Canadian company to install Dolphin, Pebble Beach System's compact and cost-efficient integrated channel device, and Marina. Further progress was made in Chilean markets with CNN Chile installing Marina Xpress.

Pebble Beach Systems also continued to build on its strategic partnership with Harmonic and entered into new partnerships with Tedral, Pixel Power and Blue Lucy.

Pebble Beach Systems delivered a good financial performance, achieving revenue of £10.9 million (2015: £10.9 million). Pebble Beach Systems contributed £2.3 million of adjusted operating profit in 2016 (2015: £3.3 million) which reflects investment in software development and expansion of sales capability to underpin the future growth of the division.

The business has high margins, excellent growth prospects and solid cash generation.

The Group continues to view investment in the development of new products and services as key to future growth. In 2016 Pebble Beach Systems capitalised £1.1 million of development costs (2015: £0.4 million).

# NON-EXECUTIVE CHAIRMAN'S STATEMENT

## VISLINK COMMUNICATION SYSTEMS

The continued significant changes in both the broadcast marketplace and the media technology used to meet the industry's needs, combined with the external worldwide economic factors, meant that Vislink Communication Systems found market conditions continued to be challenging in 2016, resulting in a poor trading performance.

As part of a strategic review of the Group, and in particular Vislink Communication Systems, a restructuring process was instigated of Vislink Communication Systems to include a relocation of its finance function to Head Office. This resulted in improved cash collection. A decision to sell Vislink Communication Systems had already been taken but was halted due to the uncertainty around Brexit. The process was recommenced in the Autumn of 2016 culminating in a completion of the sale on 2 February 2017 to xG Technology Inc.

## CENTRAL COSTS

In 2016, Central costs were £2.1 million (2015: £1.9 million). This increase is due to the Group cancelling the Group VCP scheme, resulting in an acceleration of the accounting charge into 2016, offset by favourable foreign exchange differences. There is a charge of £1.3 million included in Central costs for 2016 in relation to the Group VCP scheme (2015: £0.2 million). This is a non-cash cost.

Net finance costs increased further in 2016 reflecting the Group's increased use of its RCF facility and overdraft. The available RCF facility as at 31 December 2016 was £15.0 million which had been fully drawn down. Interest paid on the RCF was £0.3 million. In addition there was an overdraft of £1.0 million which was fully utilised.

## GOING CONCERN

In 2016 Vislink Communication Systems underperformed and, as previously announced, the Group have been in conversations with its bankers.

At 31 December 2016 net debt was £14.5 million (net cash £0.5 million and bank debt of £15.0 million). In addition there was an overdraft of £1.0 million which was fully utilised. In January 2017, net debt increased further to £17.0 million.

On 2 February 2017 the Group sold the trade and assets of the Vislink Communication Systems division to xG Technology Inc., which has reduced the net debt of the Group to £12.0 million. The Group forecasts that it will be in breach of its banking covenants for the foreseeable future meaning it is reliant on the ongoing support of its bankers.

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 and these have been reviewed by the Board.

Whilst conditions remain challenging, as announced in February 2017, management have commenced a strategic review of the options for the Group, which could include a sale of the Group.

In reaching their decision that the financial statements should be prepared on the going concern basis, the Board has considered the forecast covenant breaches. If the Group is not in compliance with its financing arrangements, the lender can immediately call for repayment of the loan, and the Group have insufficient cash to repay the secured loan without securing additional funding. However, the Group remains in constructive discussions with its bankers.

The condition identified above regarding the ongoing support of the Group's bankers, indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

The consolidated financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

## DIVIDENDS

In view of the results for the year the Board does not recommend payment of a final dividend for the year ended 31 December 2016.

## KEY EVENTS POST 31 DECEMBER 2016 VISLINK COMMUNICATION SYSTEMS

On 17 January 2017 the Group and xG Technology Inc., announced that they had agreed to amend the terms of the sale of the business and assets of Vislink Communication Systems with \$9.5 million of the \$16.0 million sale price being deferred until mid-March.

Prior to mid-March xG Technology Inc., settled \$4.6 million of the deferred consideration by taking responsibility for \$4.6 million of creditors that had remained with the Group as part of the sale agreement.

On 17 March 2017 xG Technology Inc., and the Group agreed that a payment of \$2.0 million would settle the remainder of the deferred consideration and all liabilities and claims against the Company in respect of Vislink Communication Systems.

Additionally, as part of the revised business purchase agreement, it was agreed that the Group would retain the right to any sums received in future in respect of an outstanding specific debtor, subject to a maximum sum of \$2.0 million. The Group is reliant on xG Technology Inc., fulfilling this contract and so enabling the Group to recover this debt. We continue to work with xG Technology Inc., who have agreed to finish the contract and deliver the goods, and accordingly we expect to collect this cash in the foreseeable future. We have now received the first \$250k of this debt.

## STRATEGIC REVIEW

On 14 February, it was announced that the Head Office would be closed as part of a cost reduction strategy and that John Hawkins would cease to be employed as Executive Chairman with immediate effect.

On 23 February, the company announced that it had commenced a strategic review to determine the optimal future for the operating company, Pebble Beach Systems Ltd and that this review could include a sale of the Group.

We have remained in close contact with our bank, who have remained supportive through these challenging times. We are grateful to Santander for their understanding, assistance and support.

## CURRENT OUTLOOK TRADING

The Group is now positioned and focussed wholly on the broadcast solutions business, Pebble Beach Systems, where:

- the pipeline continues to be strong
- further geographic expansion is anticipated outside Europe; and
- the market outlook for broadcast software represents an exciting opportunity with expected technology shift requiring more complex playout solutions.



John Varney  
Non-Executive Chairman  
28 April 2017

# 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 our software business. Our expertise is in the provision of software for automation, Channel in a Box, and integrated and virtualized playout technology for TV broadcasters, service providers, and cable and satellite operators. Managing content acquisition, file-based workflows and multi-channel playout, our products are used by broadcasters worldwide for projects of all scales.

### 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 solutions enable the management, delivery and distribution of collected live video and associated data, with a software-defined virtualised IP channel solution and a suite of tools to ease transition to a modern, flexible and scalable platform.

2016 saw Pebble Beach Systems collaborating with Globosat, a leader in the Brazilian Pay TV market, to provide its Marina automation to expand playout capacity during the Rio Olympic Games. This new expansion represented the largest and most comprehensive games coverage ever delivered to the Brazilian public. Globosat uses the Pebble Marina system for automated control of ingest and playout as well as content handling workflow management for its 16 Sport TV channels.

## VISLINK COMMUNICATION SYSTEMS

Vislink Communication Systems was the Group's hardware technology business, specialising in the provision of advanced communications to the broadcast, surveillance and public safety markets. Its core competency was the collection and delivery of high quality video and data from scene to screen in real-time.

Unfortunately, the underperformance of Vislink Communication Systems presented issues with cash flow and placed pressure on the Group's borrowing level with the bank which led to the Group taking the decision to explore a sale of Vislink Communication Systems. The process for sale of this hardware division was commenced early in 2016 but was halted due to the uncertainty around Brexit. An eventual sale of the business and assets of the division completed on 2 February 2017.

## OUR LOCATIONS

Post year end with the sale of the hardware division, our continuing 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.

We have sales offices in Weybridge, UK and Colorado, USA, with our development location also being in Weybridge, UK.

Our Group head office is currently in Hungerford, UK, but will be closed during 2017.

# GROUP STRATEGY

OUR STRATEGIC OBJECTIVES	PROGRESS ON OUR STRATEGIC OBJECTIVES	GOALS FOR 2017
<b>Reduction of overall indebtedness</b>	<ul style="list-style-type: none"> <li>Initial relocation of Vislink Communication Systems finance function to Head Office leading to improved cash collection</li> <li>Sale of the hardware division completing post year end on 2 February 2017</li> </ul>	<ul style="list-style-type: none"> <li>Continue to reduce indebtedness</li> <li>Closure of the Head Office function</li> <li>Strategic review of options, which could include a sale of the Group</li> </ul>
<b>Market Leading Solutions to Drive Sales through Innovation</b>	<p>The development of innovative products for our customers including:</p> <ul style="list-style-type: none"> <li>Dolphin integrated channel system with new 4K ployout capabilities</li> <li>Orca - a virtualised IP-enabled software-defined integrated channel. Orca runs in a virtual machine on a virtualised platform. DMC, a leading service provider based in the Netherlands, are the first to deploy Orca in a large multi-channel application</li> <li>Lighthouse - a web-based automation management and remote access system, extending Marina's functionality and offering control, monitoring, media management and system configuration tools via an array of widgets, so status and corrective actions are seconds away</li> </ul>	<ul style="list-style-type: none"> <li>To capitalise on sales of new products to increase profit and growth</li> </ul>
<b>Expansion of Available Markets</b>	<ul style="list-style-type: none"> <li>Build on relationship with partners Harmonic, Pixel Power, Tedral and Blue Lucy</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>
<b>Continuing Transition to Software and Services</b>	<ul style="list-style-type: none"> <li>Continued development of our products to meet market trends relating to virtualisation and cloud technology</li> </ul>	<ul style="list-style-type: none"> <li>Continued expansion of our software and services</li> </ul>

# OUR BUSINESS MODEL

With the sale of Vislink Communication Systems, our business model has changed to reflect that the Group is now a software technology business.

## 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

Its products meet the need of centralcast hubs, service providers, Multiple Channel Operators, and broadcasters. Its 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 multi-platform delivery. It has 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' new 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 is evolving 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 stand-alone, all-in-one system, or a hybrid system installed alongside third party channel delivery products.

## WHO WE SELL TO

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

With the broadcast industry transforming towards software-only technology infrastructures and Software as a Service models, Pebble Beach Systems has the core skills and expertise to adapt to the changing landscape.

# OUR MARKETPLACE

## KEY MARKET DRIVERS

- The shift from hardware technology to software-based solutions
- The ongoing growth of digital *terrestrial, satellite and cable* services, and web-based streaming platforms, along with the adoption of HD technology in emerging markets
- Changing business dynamics which drive the demand for flexible technology configurations
- The centralisation of broadcast operations into hub and spoke models, enabling the delivery of regional channels at lower cost with targeted content and advertising

## TRENDS

- Consuming technology as a service to deliver more flexible operating costs, capacity and capability
- More channels are being tested, launched, and decommissioned with shorter deployment times, requiring agile channel delivery technology for event-based services e.g. sports tournament channels, music festival channels
- Replacement of traditional hardware solutions with virtualised solutions or 'cloud' technology

## OUR POSITION

Since its formation in 2000 Pebble Beach Systems has grown to become a world leader in the highly specialised and mission-critical field of broadcast automation, and we are committed to maintaining and enhancing the excellent reputation we have built up for technical innovation, high reliability and exceptional customer service.

## AVAILABLE MARKET

The transition from hardware to software significantly opens up the addressable market. Diverse functions within the channel delivery chain which previously required discrete, dedicated hardware devices are now achievable within a single software-defined solution, enabling us to target a huge international market for integrated playout technology in addition to our core automation user base.

## NEW MARKETS

In 2016 Pebble Beach Systems entered two new markets in Canada and Chile. Canada's Groupe V Media became the first Canadian company to install Dolphin – Pebble Beach System's compact and cost-effective integrated channel device – and Marina – the centralized ingest, content management and multi-channel automation solution – as part of its newly revamped broadcast operations. A Quebec-based media and entertainment company, Groupe V Media owns V, a French-language television network, as well as two speciality television networks, MusiquePlus and MAX and several online content platforms such as the 25Stanley sports blog and noovo.ca. The three Dolphin integrated channel servers with Marina automation control the playout of video, graphics, and subtitles of the master channel in Montreal as well as four regional channels along with the two speciality channels.

CNN Chile installed Pebble Beach Systems' Marina Xpress automation to replace their legacy Sundance system. Based in Santiago, this is the first installation of Marina Xpress in Chile. Pebble Beach Systems were able to provide a smooth and uninterrupted migration path to state of the art automation systems to enable the customer to continue operations.

# PEBBLE BEACH SYSTEMS

## PERFORMANCE REVIEW

### PERFORMANCE REVIEW

Revenue by Region	Pebble Beach Systems		
	2016 £m	2015 £m	Change %
UK and Europe	5.4	3.7	+42.6%
North America	2.0	2.8	-26.6%
Latin America	1.1	0.7	+68.0%
Middle East and Africa	2.1	2.8	-23.9%
Asia/Pacific	0.3	0.9	-73.7%
<b>Total Revenue</b>	<b>10.9</b>	<b>10.9</b>	<b>-0.6%</b>

The Company has maintained its strong performance in Europe due to its already existing strong reputation, which was supplemented by a significant contract win towards the end of 2016. An additional order was also placed in 2016 relating to the Company's US operation which will be recognised in 2017.

# OUTLOOK

2016 was a pivotal year for Pebble Beach Systems, with a change in leadership, good revenues, and expansion into new territories and technologies.

## A STRATEGY FOR GROWTH

The company’s strategy for growth is founded on 3 pillars:

- Expansion and enhancement of our product range to leverage the increase in customer investment triggered by the transition to IP, cloud and virtualised infrastructures.
- Nurturing and development of our sales channels in order to maximise exposure and open up new geographical markets via the expansion of our reseller and OEM partner network, and the development of our reseller support programme.
- Development of new partnerships and strategic alliances which enable us to broaden our offering, increase our routes to market, and expand our product range, especially in the areas of graphics and workflow orchestration.

## LEVERAGING OUR EXPERTISE

Our core area of expertise remains the development of robust, flexible and scalable software for automating the playout of television channels for broadcasters, hosted on dedicated and virtualised platforms.

As the multi-platform delivery and consumption of media increases, we seek to add value in linking linear and on demand content distribution, and ensuring that we have the necessary expertise to support customers across all platforms.

Target markets worldwide span the privately and publicly funded broadcast market, as well as service providers who host channels for broadcasters, and the telco companies who are making inroads in this space. A fundamental factor in our ability to scale is productisation. As the industry moves towards adopting Commercial Off The Shelf (COTS) technology, we are transitioning the business from its roots as a projects business which was built on large, complex implementations to focussing increasingly on products, with the formation of a new highly skilled and experienced team to drive Product Engineering and Pre Sales activities and initiatives. We continue to challenge, and be favourably compared with, companies many times our size in this challenging marketplace.

## DEVELOPING PARTNERSHIPS

We maintain our focus on instigating and nurturing strategic partnerships. As the industry transitions to IP delivery, we are committed to delivering solutions for this and the virtualised environment which can operate in both private and public cloud environments for maximum flexibility, with the ultimate goal of providing a level of channel functionality in software that is currently possible using best of breed technologies. Our software-defined channel products can host 3rd party plugins that offer a wide range of functionality, allowing multi-vendor / best of breed systems to be designed in a software only environment.

In addition to the ongoing Harmonic tie-up, we announced new partnerships with Pixel Power, Tedial and Blue Lucy in 2016, with further announcement and agreements already in progress for 2017. These alliances enable us to exploit the advanced control capability of high value linear media delivery and explore the OTT and on-demand markets. Partnerships with media asset management companies help us to offer coherent solutions which simplify workflows and drive efficiencies at broadcasters and media companies.

Tom Gittins  
CEO Pebble Beach Systems Limited

# BUSINESS REVIEW –

## FINANCIAL REVIEW – CONTINUING OPERATIONS

	2016 £m	Restated 2015 £m	Change %
Revenue	10.9	10.9	-0.6%
Adjusted operating profit	0.2	1.4	
Net (liabilities)/assets	(1.0)	1.9	
Cash and cash equivalents	0.5	3.3	-85.9%
Reported loss per share	(2.4)p	(0.9)p	

	2016 £m	2015 £m	Change %
Revenue	10.9	10.9	-0.6%
Gross profit	8.0	8.4	-5.6%
Gross margin %	73.1%	77.0%	-3.9pts
Research and development expenses	(1.6)	(1.1)	+48.5%
Other expenses	(8.0)	(6.5)	
Foreign exchange gains	1.8	0.6	
Adjusted operating profit	0.2	1.4	
Amortisation of acquired intangibles	(1.4)	(1.4)	
Non-recurring items	(0.7)	(0.6)	
Reported operating loss	(1.9)	(0.6)	
Net finance costs	(0.3)	(0.2)	
Loss before tax	(2.2)	(0.8)	
Taxation	(0.7)	(0.4)	
Loss attributable to equity shareholders	(2.9)	(1.2)	
Basic loss per share	(2.4)p	(0.9)p	
Adjusted (loss)/earnings per share <sup>1</sup>	(1.0)p	0.5p	

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

### NON-RECURRING ITEMS

The continuing Group charged £0.7 million of non-recurring costs to the consolidated Group income statement. The charge comprised:

- £0.5 million charge in respect of onerous property commitments, and
- £0.2 million charge in respect of liquidity advice and other costs.

## KEY PERFORMANCE INDICATORS

Financial indicators for the continuing business are shown below:

KPI MEASURE	2016 £m	2015 £m	% Change	DEFINITION/CALCULATION
<b>CUSTOMERS</b>				
Order Intake	11.7	9.8	+19.3%	<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>
Revenue	10.9	10.9	-0.6%	<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>				
Adjusted operating profit	0.2	1.4		<ul style="list-style-type: none"> <li>Adjusted operating profit is defined as operating profit before the amortisation and impairment of acquired intangibles, and other non-recurring items</li> </ul>
Adjusted (loss)/earnings per share (pence)	(1.0)p	0.5p		<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 amortisation and impairment of acquired intangibles, and other non-recurring items</li> </ul>
Total Operating Costs	8.4	7.6	+10.5%	<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>
Return on Sales	1.9%	12.8%	-10.9pts	<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>				
R&D Expenditure as a proportion of revenue	21.5%	12.1%	+9.4pts	<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 – DISCONTINUED OPERATIONS

	2016 £m	2015 £m	Change %
Revenue	31.7	46.9	-32.4%
Adjusted operating loss/(profit)	(7.8)	3.3	
Net Assets	10.2	52.5	
Reported (loss)/earnings per share	(42.6)p	0.2p	

	2016 £m	2015 £m	Change %
Revenue	31.7	46.9	-32.4%
Gross profit	5.9	17.0	-65.4%
Gross margin %	18.6%	36.3%	-17.7pts
Research and development expenses	(4.3)	(4.1)	-4.0%
Other expenses	(10.0)	(9.8)	
Foreign exchange gains	0.6	0.2	
Adjusted operating (loss)/profit	(7.8)	3.3	
Amortisation of acquired intangibles	(0.3)	(1.0)	
Non-recurring items	(45.3)	(2.5)	
Reported operating loss	(53.4)	(0.2)	
Net finance costs	-	-	
Loss before tax	(53.4)	(0.2)	
Taxation	1.0	0.5	
(Loss)/profit attributable to equity shareholders	(52.4)	0.3	
Basic loss/(earnings) per share	(42.6)p	0.2p	
Adjusted loss/(earnings) per share <sup>1</sup>	(7.8)p	2.6p	

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

The continued significant changes in both the broadcast marketplace and the media technology used to meet the industry's needs, combined with the external worldwide economic factors, meant that Vislink Communication Systems found market conditions continued to be challenging in 2016, resulting in a poor trading performance.

### NON-RECURRING ITEMS

The discontinued operation charged £45.3 million of non-recurring costs to the consolidated Group income statement. The charge comprised:

- £0.3 million charge in respect of redundancy and restructuring costs
- £8.3 million charge in respect of impairment of inventory
- £12.5 million charge in respect of impairment of intangible assets
- £1.1 million charge in respect of impairment of fixed assets
- £22.3 million charge in respect of impairment of goodwill
- £0.8 million in respect of disposal costs

# BUSINESS REVIEW – FINANCIAL REVIEW

## TAXATION

There was a net tax charge for the year for continuing operations of £0.7 million (2015: charge of £0.4 million). The current tax credit in the year was £0.1 million (2015: charge of £0.6 million). There was a deferred tax charge of £0.9 million (2015: credit of £0.2 million).

There was a net tax credit for the year of £1.1 million (2015: £0.5 million) in respect of discontinued operations.

At 31 December 2016 tax receivable was £0.3 million (2015: tax payable of £0.2 million).

## GOODWILL IMPAIRMENT

In accordance with the requirements of IAS 36 'Impairment of assets', goodwill is required to be tested for impairment on an annual basis, or where there is an indication of impairment, with reference to the value of the cash-generating units ("CGU") in question. The goodwill relating to the surveillance and public safety market was fully written down in 2010.

The goodwill relating to the Broadcast market (excluding Pebble Beach Systems Limited) and Amplifier Technology Limited has been fully written down in the year. The carrying value of goodwill at 31 December 2016 is £3.2 million (2015: £25.0 million) which relates solely to Pebble Beach Systems Limited.

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

## NET ASSETS

The Statement of Financial Position at 31 December 2016 is summarised as follows:

	<b>2016</b>	2015
	<b>£m</b>	£m
Intangible assets	<b>8.2</b>	42.3
Property, plant and equipment	<b>0.5</b>	2.2
Other non-current liabilities	<b>(1.9)</b>	(1.7)
Current (liabilities)/assets	<b>(18.5)</b>	8.4
Net assets transferred to disposal Group and classified as held for sale	<b>10.2</b>	–
	<b>(1.5)</b>	51.2
Cash and cash equivalents including overdrafts	<b>0.5</b>	3.3
Net (liabilities)/assets	<b>(1.0)</b>	54.5

The decrease in net assets in the year of £55.5 million comprises a loss for the financial year of £55.3 million, and £1.8 million of dividends paid, offset by a foreign exchange gain on translation of overseas operations of £0.4 million, and by the value of employee services of £1.2 million.

# BUSINESS REVIEW – FINANCIAL REVIEW

## CASH FLOWS

The Group held cash and cash equivalents, including overdrafts, of £0.5 million at 31 December 2016 (2015: £3.3 million). The table below summarises the cash flows for the year.

	<b>2016</b> <b>£m</b>	2015 £m
Cash used in operating activities	<b>(1.8)</b>	(0.6)
Net cash used in investing activities	<b>(4.4)</b>	(3.8)
Net cash from financing activities	<b>4.2</b>	(0.8)
Effects of foreign exchange	<b>(0.8)</b>	0.1
Net decrease in cash and cash equivalents	<b>(2.8)</b>	(5.1)
Cash and cash equivalents at 1 January	<b>3.3</b>	8.4
Cash and cash equivalents at 31 December	<b>0.5</b>	3.3

## CASH FLOWS FROM OPERATING ACTIVITIES

There was a net cash outflow from operating activities in the year of £1.8 million (2015: £0.6 million).

The cash outflow from investing activities amounted to £4.4 million (2015: £3.8 million) which comprised £0.1 million proceeds from the sale of property, plant, equipment and intangibles (2015: £0.4 million); and £4.5 million in respect of capital expenditure and the capitalisation of development costs (2015: £4.2 million).

The cash inflow from financing activities amounted to £4.2 million (2015: cash outflow £0.8 million) which comprised bank loans of £6.0 million (2015: £1.0 million); and returns to shareholders in the form of a dividend payment of £1.8 million (2015: £1.8 million).

## RETURNS TO SHAREHOLDERS

In view of the results for the year the directors do not recommend payment of a final dividend for the year ended 31 December 2016 (2015: 1.50 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>Rate compared to £ sterling</b>	<b>Average rate 2016</b>	Average rate 2015	<b>Year end rate 2016</b>	Year end rate 2015
US dollar	<b>1.354</b>	1.529	<b>1.230</b>	1.482

If the results for the year to 31 December 2015 had been translated at the 2016 average rate then the translation impact would be to increase prior year revenue by £2.6 million and increase the loss before tax by £0.5 million.

# 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
<p><b>GOING CONCERN AND LIQUIDITY</b> We are forecasting to be in breach of our banking covenants for the foreseeable future. If the Group is not in compliance with its financing arrangements, the lender can immediately call for repayment of the loan.</p>	We remain in constructive discussions with our bankers.	High
<p><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.</p>	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
<p><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.</p>	The Group invests significantly in new product and technology development which enables the business to deliver ahead of market developments and provide complete customer solutions. Best practice is shared throughout the Group.	Constant
<p><b>REPUTATION OF THE GROUP</b> The Group's reputation can be affected by poor performance of its products and unsatisfactory customer service.</p>	We are aware of how important it is for our products to perform to high standards and for our customers to receive first class support. Our sales offices and partnerships with resellers and systems integrators provide a network of customer support.	Constant
<p><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.</p>	We have resources in place for external legal advice where necessary. We also have good governance policies and procedures in place which all employees are required to adhere to.	Constant
<p><b>PEOPLE</b> We employ staff worldwide and there is a risk that we are unable to recruit and retain experienced staff.</p>	Our people are the Group's biggest asset and in recognition of this fact the Group invests in attracting, developing and retaining experienced staff.	Constant

# BOARD COMPOSITION

## John Varney BA

Non-Executive Chairman

### APPOINTED TO THE BOARD:

October 2011

### INDEPENDENT:

Yes

### KEY STRENGTHS:

- 35 years' experience in the broadcast industry
- Digital Content Technology
- Business transformation and change management

### CURRENT EXTERNAL COMMITMENTS:

- Director of Maximum Clarity Limited
- Chairman of OFCOM's Advisory Committee for England
- Chairman of Silk Heritage Trust

### PREVIOUS ROLES:

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

### BOARD COMMITTEE MEMBERSHIPS:

- Audit Committee – Member
- Remuneration Committee – Member
- Nomination Committee – Chairman

## Robin Howe BSc, FCIM

Senior Independent

Non-Executive Director

### APPOINTED TO THE BOARD:

June 2006

### INDEPENDENT:

Yes

### KEY STRENGTHS:

- Over 25 years' experience as Chief Executive or Managing Director of multinational technology businesses
- Wide experience in establishing and building international businesses
- Passionate about lean manufacturing/supply chains and continuous improvement
- Broad range of Non-Executive directorships
- Relevant domain knowledge as former Divisional Chief Executive of Vitec Group plc

### CURRENT EXTERNAL COMMITMENTS:

- Chairman and Director of MetaSphere Limited
- Director of Blackfyne Ltd
- Director of Locking & Security Solutions Limited
- Director of Puma Distribution Limited
- Advises and invests in a number of early stage companies

### PREVIOUS ROLES:

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

### BOARD COMMITTEE MEMBERSHIPS:

- Remuneration Committee – Chairman
- Audit Committee – Member
- Nomination Committee – Member

## Oliver Ellingham BA, ACA

Independent Non-Executive Director

### APPOINTED TO THE BOARD:

October 2007

### INDEPENDENT:

Yes

### KEY STRENGTHS:

- During a 23-year career in investment banking Oliver advised UK and international businesses on transactions and financing as well as running the teams in Western Europe
- Owns a self-storage business
- Chairs the Risk Committee of NAMA, the "bad" Irish bank with some £4.0 billion of assets

### CURRENT EXTERNAL COMMITMENTS:

- Director of NAMA (Ireland)
- Director of Eurobank Cyprus Ltd
- Director of Naafi Pension Fund Trustees
- Owner of Ellingham Limited

### PREVIOUS ROLES:

- Head of Corporate Finance (Europe) at BNP Paribas
- Senior management roles within Charterhouse Bank and Robert Fleming
- Non-Executive Director with the Irish Bank Resolution Corporation Limited
- Non-Executive Director of McCarthy & Stone plc, Notting Hill Housing Trust and Cenkos Securities plc

### BOARD COMMITTEE MEMBERSHIPS:

- Audit Committee – Chairman
- 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 2016, which were approved by the directors on 28 April 2017. The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

A review of the Group's trading and an indication of future developments are contained in the Non-Executive Chairman's Statement and the Strategic Report on pages 3 to 5 and 7.

Pebble Beach Systems Group plc is incorporated in England (company registration number 04082188) and has its registered office at Chilton House, Charnham Lane, Hungerford, Berkshire RG17 0EY. On 3 February 2017, following the disposal of the Vislink Communication Systems business, the Group changed its name from Vislink plc to Pebble Beach Systems Group plc.

## RESULTS AND DIVIDENDS

The results for the year ended 31 December 2016 are set out in the consolidated Group income statement on page 36. The continuing Group has reported an operating loss of £1.9 million (2015: £0.6 million). After accounting for net finance costs the consolidated Group income statement shows a loss before taxation of £2.2 million (2015: a loss before taxation of £0.8 million). The net result for the year after loss from discontinued operations of £52.4 million (2015: profit of £0.3 million) was a loss of £55.3 million (2015: £0.9 million).

In view of the results for the year the directors do not recommend payment of a final dividend for the year ended 31 December 2016 (2015: 1.50 pence per ordinary share).

## DIRECTORS

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

- John Varney (Non-Executive Chairman/Director)
- Robin Howe (Senior Independent Non-Executive Director)
- Oliver Ellingham (Non-Executive Director)

Additionally the two following directors served during the year:

- John Hawkins (Executive Chairman up to 14 February 2017)
- Ian Davies (Group Finance Director and Company Secretary up to 13 October 2016)

Short biographies of each current director are provided on page 18.

In accordance with the Company's Articles of Association, Robin Howe will retire by rotation and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting. 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. No new directors were appointed during 2016.

At the AGM on 20 May 2016, Oliver Ellingham indicated to the Board his intention to stand down at the end of the financial year 2016. However, in light of the sale of the hardware division, he was asked to remain on the Board until completion. Then in light of the Group Restructuring announcement on 14 February 2017, and the Strategic Review announcement on 23 February 2017, the Board requested an extension of contract to Oliver Ellingham until completion of a potential sale of the Group.

On 13 October 2016 the Group announced that Ian Davies, the Finance Director of the Group, had decided to resign with immediate effect for personal health-related reasons. The Board wished to thank Ian for his service and wished him well for the future.

On 14 February 2017 the Group announced that following the sale of Vislink Communication Systems notice of termination of his service contract was served on John Hawkins, who ceased, with immediate effect, to carry out the role of Executive Chairman.

Details of the directors' service contracts and letters of appointment are given in the Remuneration Report on pages 28 to 32. 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.

# DIRECTORS' REPORT

The Group's share capital comprises one class of ordinary shares and as at 28 April 2017 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 28 April 2017.

	Number of shares	per cent
The Bank of New York (Nominees) Limited	14,978,442	12.02
HSBC Global Custody Nominee (UK) Limited (944287)	10,900,000	8.75
HSBC Global Custody Nominee (UK) Limited (813934)	9,407,680	7.55
Barclayshare Nominees Limited	7,684,860	6.17
SCM Nominees Limited (Custody)	6,740,595	5.41
Goldman Sachs Securities (Nominees) Limited	4,005,835	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 unit within the Group has lines of communication in place to ensure that employees are consulted with and kept informed of issues relevant to them. Staff notices, emails and staff meetings are used to communicate immediate issues to them.

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

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

Applications for employment by disabled persons are always fully considered bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person, so far as possible, be identical with 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 2016 the Employee Share Ownership Plan (ESOP) held 626,496 shares (2015: 626,496) in the Company representing 0.5 per cent of the issued share capital (2015: 0.5 per cent). The ESOP has waived its rights to receive dividends.

During the year the Group VCP Scheme was cancelled.

### 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).

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 12 Horizon Business Village, 1 Brooklands Road, Weybridge, KT13 0TJ on Tuesday 20 June 2017 at 11.00 am. Share capital resolutions will be proposed at the Annual General Meeting to renew for a further year the directors' authority to allot equity securities for cash other than to existing shareholders on a pro rata basis and to authorise purchases by the Company of its own shares.

## STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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

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

## CORPORATE GOVERNANCE

The Group's statement on corporate governance can be found in the Corporate Governance Statement on pages 22 to 27 of these financial statements. The Corporate Governance Statement forms part of this Directors' Report and is incorporated into it by its cross-reference.

## GOING CONCERN BASIS

The directors are required to make an assessment of the Group's ability to continue to trade as a going concern. In 2016 Vislink Communication Systems underperformed and, as previously announced, the Group have been in conversations with its bankers.

At 31 December 2016 net debt was £14.5 million (net cash £0.5 million and bank debt of £15.0 million). In addition there was an overdraft of £1.0 million which was fully utilised. In January 2017, net debt increased further to £17.0 million.

On 2 February 2017 the Group sold the trade and assets of the Vislink Communication Systems division to xG Technology Inc., which has reduced the net debt of the Group to £12.0 million. The Group forecasts that it will be in breach of its banking covenants for the foreseeable future meaning it is reliant on the ongoing support of its bankers.

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 and these have been reviewed by the Board.

Whilst conditions remain challenging, as announced in February 2017, management have commenced a strategic review of the options for the Group, which could include a sale of the Group.

In reaching their decision that the financial statements should be prepared on the going concern basis, the Board has considered the forecast covenant breaches. If the Group is not in compliance with its financing arrangements, the lender can immediately call for repayment of the loan, and the Group have insufficient cash to repay the secured loan without securing additional funding. However, the Group remains in constructive discussions with its bankers.

The condition identified above regarding the ongoing support of the Group's bankers indicates the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

The consolidated financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

## INDEPENDENT AUDITORS

The independent auditors, PricewaterhouseCoopers LLP, have indicated their 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  
28 April 2017

# CORPORATE GOVERNANCE STATEMENT

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

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

## THE ROLE OF THE BOARD BOARD COMPOSITION AND OPERATION

On 14 February 2017, a cost reduction plan was announced to align the cost structure of the business with its reduced scale. John Hawkins ceased to be the Executive Chairman. The Board currently consists of the following Board members:

John Varney – Non-Executive Chairman;  
Robin Howe, – Non-Executive Director;  
and  
Oliver Ellingham – Non-Executive Director.

John Varney has been a director of Pebble Beach Systems since July 2014 and has been directly involved in preparing management information for the trading subsidiary since this time. As a result, his practical knowledge of reporting procedures, systems and controls of the ongoing operation of the Group are considered to be extensive.

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. As part of the Strategic Review announced on 23 February 2016, the Board considered that the current governance arrangements are suitable for the period until a sale of the Group is completed. Each Board meeting has 3 Non-Executive Directors present together with the Company Secretary, Group Financial Controller and the Chief Operating Officer of Pebble Beach Systems. 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 that 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).

The Board met ten times during the year, excluding ad hoc meetings convened solely to deal with procedural matters. Attendance at Board and Committee meetings during 2016, expressed as the number of meetings attended compared to the number entitled to attend, was as follows:

	JOHN VARNEY	ROBIN HOWE	OLIVER ELLINGHAM	JOHN HAWKINS	IAN DAVIES (up to 12 October 2016)
Board No. Attended	10/10	10/10	10/10	10/10	8/8
Audit No. Attended	2/2	2/2	2/2	2/2	2/2
Remuneration No. Attended	3/3	3/3	3/3	N/A	N/A

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

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

### APPOINTMENT AND ELECTION OF DIRECTORS

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

Robin Howe retires from office by rotation and offers himself for reappointment by shareholders. Biographical information for each of the directors are set out on page 18. 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 continue to perform effectively, and subject to shareholder approval will be reappointed for a further three years.

### EXECUTIVE CHAIRMAN

Following a cost reduction strategy resulting in the closure of the Head Office function, the Executive Chairman, John Hawkins, was served notice of termination of his service contract and ceased with immediate effect on 14 February 2017 to carry out the role of Executive Chairman.

### NON-EXECUTIVE CHAIRMAN

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

### 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 Chairman.

### THE NON-EXECUTIVE DIRECTORS

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

# CORPORATE GOVERNANCE STATEMENT

## THE COMPANY SECRETARY

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

## RESPONSIBILITY FOR RISK AND INTERNAL CONTROL

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

The directors confirm that the internal control framework is consistent with the revised Turnbull Guidance, that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Group, which is regularly reviewed by the Board, and that this process was in place throughout the year ended 31 December 2016 and up to the date of this report.

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

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

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

### CONTROL ENVIRONMENT

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

### IDENTIFICATION AND EVALUATION OF RISKS AND CONTROL OBJECTIVES

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

## FINANCIAL REPORTING

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

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

## MAIN CONTROL PROCEDURES AND MONITORING SYSTEMS USED BY THE BOARD

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

The Group finance function consolidates the Group results monthly, and a full financial review is presented at each Board meeting, accompanied by appropriate Key Performance Indicators for the Group. Each Group entity compiles forecasts of profits and cash flows reflecting their current expectations, which are also monitored by the Board. Reviews of the performance and financial position of the Group are included in the Non-Executive Chairman's Statement and the Strategic Report on pages 3 to 5 and 7. The Board uses these, together with the Directors' Report on pages 19 to 21, to present a balanced and understandable assessment of the Group's position and prospects.

During the year the finance function of the Vislink Communication Systems division was relocated to head office. This resulted in improved cash collection.

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 have 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 2016.

#### **COMPUTER SYSTEMS**

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

#### **INSURANCE**

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

#### **INTERNAL AUDIT**

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

#### **BOARD PERFORMANCE EVALUATION**

The directors confirm that they have conducted an evaluation of the performance and effectiveness of the Board for 2016. The directors met and discussed matters of performance, structure, objectives and process of the Board and its individual members.

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

#### **THE AUDIT COMMITTEE MEMBERSHIP AND DUTIES**

The Audit Committee is chaired by Oliver Ellingham. As a qualified Chartered Accountant, Oliver has the relevant financial experience as required by the NVQ Code. John Varney and Robin Howe served on the Committee throughout the year.

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

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

# CORPORATE GOVERNANCE STATEMENT

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

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

The Audit Committee confirms that it has conducted an assessment of the external auditors and determined that adequate policies and safeguards are in place to ensure that their independence and objectivity has not been impaired. Audit partners are rotated at least every five years.

## ACTIVITIES OF THE AUDIT COMMITTEE

The Audit Committee met twice during the year and twice up to the date of this report in 2017 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 2015, 31 December 2016 and the 2016 interim results prior to approval by the Board;
- considered and reviewed the 2015 and 2016 annual reports and financial statements and the 2016 interim report, paying particular attention to critical areas of management judgement, together with the external auditors' reports;
- considered and discussed the audit plan with the external auditors for the 2016 audit;
- considered and recommended to the Board the reappointment of the auditors which will be put to shareholders for approval at the AGM;
- reviewed and considered reports from internal control visits and the external auditors on the effectiveness of the system of internal control, and reported to the Board on the results of the review;
- reviewed the reports from management on the Group's main risks and the assessment and mitigation of those risks;
- approved the statutory audit fee for 2016, and reviewed non-audit fees paid to the external auditors to ensure they were in accordance with the Group's policy;
- monitored the independence and undertook an evaluation of the effectiveness of the external auditors;
- reviewed restructuring proposals and the disposal of Vislink Communication Systems
- 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.

## THE NOMINATION COMMITTEE

John Varney chairs the Nomination Committee. Oliver Ellingham and Robin Howe served on the Committee throughout the year. 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 no 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 28 to 32.

## 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, it is the intention of the Board to incorporate a presentation reviewing the Group's objectives and strategy, followed by a question and answer session with members of the Board at the next AGM on 20 June 2017. The notice of the AGM is sent to shareholders 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. The notice of the AGM separately accompanies the annual report. 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  
28 April 2017

# REMUNERATION REPORT

This report is on the activities of the Remuneration Committee for the year to 31 December 2016, and sets out the Remuneration Committee's approach to directors' remuneration. The Remuneration Committee's main responsibility is to ensure that payments to executives are appropriate and aligned with shareholder interests, producing sustainable value creation through the delivery of our business strategy.

## COMMITTEE ACTIVITIES

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

Robin Howe chairs the Committee, and is assisted by John Varney and Oliver Ellingham, who have served on the Committee throughout the year.

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

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

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

During 2016, base salary was not increased. There has been no increase since 2011. Further there were no bonuses for the Executive Chairman or the Group Finance Director during 2016.

## 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 2017.

The following table sets out the main elements of the remuneration policy for the year ended 31 December 2017. 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.

<b>COMPONENT</b>	<b>PURPOSE AND LINK TO STRATEGY</b>	<b>HOW OPERATED</b>	<b>MAXIMUM POTENTIAL VALUE</b>	<b>PERFORMANCE MEASURES</b>
<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. The targets applying to financial measures are based on a sliding scale.</p> <p>Paid in cash.</p> <p>Not pensionable.</p>	Up to 100% of base salary.	<p>Adjusted operating profit (defined as profit before net finance costs, amortisation of acquired intangibles, non-recurring items and taxation) (75%).</p> <p>Cash (25%).</p> <p>There were no bonuses for the Executive Chairman or the Group Finance Director during 2016.</p>
<b>PENSIONS</b>	<p>To aid retention and remain competitive in the marketplace.</p>	<p>For Executive Directors, an annual pension allowance of up to 20 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 14 February 2017, following notice of termination of his service contract being served on John Hawkins, he ceased, with immediate effect, to carry out the role of Executive Chairman.
- Prior to that, John Hawkins had been appointed as a Non-Executive Director of the Company by way of a letter of appointment dated 17 November 2010. John Hawkins was appointed as Chief Executive pursuant to a separate agreement for services dated 13 May 2011. His employee service contract for the role of Executive Chairman provides for termination upon 12 months' prior notice in writing. The basic salary is £360,000 per year which comprises £260,000 for the executive's duties as Chief Executive and £100,000 for his role as Chairman.
- The former Group Financial Director, Ian Davies, had a service contract dated 25 April 2012 which provided for a notice period of six months' written notice. On 12 October 2016 Ian Davies resigned with immediate effect for personal health-related reasons. No payments or outstanding incentive awards were due to Mr Davies at the time of resignation.
- On 14 February 2017 John Varney was appointed Non-Executive Chairman.
- Robin Howe has a service contract dated 1 June 2006, which provides for a notice period of one month's written notice. On 1 June 2011 his appointment was extended for a second term of five years. On 1 June 2016 his appointment was extended for a third term of five years.
- Oliver Ellingham has a service contract dated 1 October 2007, which provides for a notice period of one month's written notice. On 6 April 2011 his appointment was extended for a second term of five years. At the AGM on 20 May 2016, Oliver Ellingham indicated to the Board his intention to stand down at the end of the financial year 2016. However, in light of the events of 2016 and with the sale of the hardware division Vislink Communications Systems, he agreed to an extension of contract which has been further extended following the Group Restructuring announcement on 14 February 2017, and the Statement re Strategic Review announcement on 23 February 2017.
- 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 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 2015 and 2016 is made up as follows:

### AGGREGATE DIRECTORS' REMUNERATION (AUDITED)

Directors' emoluments and pension contributions for the year ended 31 December 2016 were as follows:

	Basic salary and fees £	Performance related bonus £	Benefits £	Emoluments before pension contributions £	Pension contributions £	2016 Total £	2015 Total £
<b>Executive Directors</b>							
John Hawkins	360,000	–	30,524	390,524	72,000	<b>462,524</b>	461,654
Ian Davies (to 12 October 2016)	132,310	–	12,087	144,397	35,796	<b>180,193</b>	227,132
<b>Non-executive Directors</b>							
Robin Howe	40,000	–	–	40,000	–	<b>40,000</b>	40,000
Oliver Ellingham	40,000	–	–	40,000	–	<b>40,000</b>	40,000
John Varney	40,000	–	–	40,000	–	<b>40,000</b>	40,000
	612,310	–	42,611	654,921	107,796	<b>762,717</b>	808,786

#### BENEFITS

Benefits for the Executive Directors include the provision of a car allowance and personal fuel expenditure, life assurance, private medical insurance and permanent health insurance. The individual benefits are not deemed to be significant and are therefore not analysed in any further detail.

#### PERFORMANCE RELATED BONUS

No bonus was paid to the Executive Directors during 2016.

#### TOTAL PENSION ENTITLEMENTS

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

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

#### PAYMENT TO PAST DIRECTORS

There were no payments or monies or other assets made during the year ended 31 December 2016 to any person who was a former director of the Company.

#### PAYMENT FOR LOSS OF OFFICE

There were no payments or monies or other assets for loss of office made during the year ended 31 December 2016 to any person who was a current or former director of the Company.

# REMUNERATION REPORT

## DIRECTORS' INTEREST IN SHARE AWARD SCHEMES

### A) LONG TERM INCENTIVE PLAN (LTIP)

The Vislink plc 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. On 28 July 2016 John Hawkins exercised the £2.0 million vested shares which were awarded to him on 28 March 2012 under the LTIP scheme. These shares were awarded at nil cost therefore taking into account the market price on the day of exercise, being 17.25 pence, John Hawkins realised a net gain of £0.3 million.

All awards made to Ian Davies have lapsed and all remaining awards made to John Hawkins will lapse when his employment ceases.

No LTIP awards were made to Executive Directors in the year ended 31 December 2016.

### 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.

### D) VCP

The Group VCP was cancelled in 2016. This resulted in an acceleration of the accounting charge in 2016. There is a £1.3 million charge included in Central costs in 2016 in relation to the Group VCP Scheme (2015: £0.2 million). This is a non-cash cost.

## 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 2015	At 31 December 2016
<b>Executive Directors</b>		
John Hawkins	309,279	<b>3,669,365</b>
Ian Davies (to 12 October 2016)	150,000	<b>150,000</b>
<b>Non-Executive Directors</b>		
Robin Howe	1,232,578	<b>1,232,578</b>
Oliver Ellingham	167,000	<b>167,000</b>
John Varney	62,229	<b>62,229</b>

The following changes took place in the interests of the directors between 31 December 2015 and 31 December 2016:

- John Hawkins purchased 360,086 shares at an average price of 27.75 pence per share on 22 March 2016.
- John Hawkins purchased 1,000,000 shares at an average price of 13.35 pence per share on 19 July 2016.
- Additionally, John Hawkins exercised 2,000,000 nil cost options in relation to the Vislink 2002 Employees Share Trust and the grant made in 2012 under the 2008 Long Term Incentive Plan on 19 July 2016.

## STATEMENT OF VOTING AT GENERAL MEETING

At the last AGM held on 20 May 2016, 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 2015.

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 28 April 2017 and signed on its behalf by:



Robin Howe  
Senior Non-Executive Director,  
and Chairman  
of the Remuneration Committee  
28 April 2017

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Directors' Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and 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 the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group 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. They are also responsible for safeguarding the assets of the Company and the Group 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 Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed on page 18 confirm that, to the best of their knowledge:

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

By order of the Board



John Varney  
Non-Executive Chairman  
28 April 2017

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PEBBLE BEACH SYSTEMS GROUP PLC (FORMERLY KNOWN AS VISLINK PLC)

## REPORT ON THE GROUP FINANCIAL STATEMENTS

### OUR OPINION

In our opinion, Pebble Beach Systems Group plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### EMPHASIS OF MATTER – GOING CONCERN

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the consolidated financial statements concerning the Group's ability to continue as a going concern and the uncertainty regarding the ongoing support of the Group's bankers. This condition, along with the other matters explained in note 2 to the Consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

### WHAT WE HAVE AUDITED

The financial statements, included within the Annual Report & Financial Statements (the "Annual Report"), comprise:

- the consolidated Group statement of financial position as at 31 December 2016;
- the consolidated Group income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated Group statement of cashflows for the year then ended;
- the consolidated statement of changes in shareholders' equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

### OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION ADEQUACY OF INFORMATION AND EXPLANATIONS RECEIVED

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

### DIRECTORS' REMUNERATION

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

### OUR RESPONSIBILITIES AND THOSE OF THE DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

### WHAT AN AUDIT OF FINANCIAL STATEMENTS INVOLVES

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

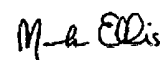
We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

### OTHER MATTER

We have reported separately on the company financial statements of Pebble Beach Systems Group plc for the year ended 31 December 2016. That report includes an emphasis of matter.



Mark Ellis (Senior Statutory Auditor)  
for and on behalf of  
PricewaterhouseCoopers LLP  
Chartered Accountants  
and Statutory Auditors  
Bristol  
28 April 2017

# CONSOLIDATED GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	Restated 2015 £000
Revenue	5	10,879	10,949
Cost of sales		(2,924)	(2,523)
Gross profit		7,955	8,426
Sales and marketing expenses		(3,052)	(2,580)
Research and development expenses		(1,596)	(1,075)
Administrative expenses		(4,945)	(3,933)
Foreign exchange gains		1,840	561
Other expenses	6	(2,100)	(1,959)
<b>Operating loss</b>	6	<b>(1,898)</b>	<b>(560)</b>
Operating loss is analysed as:			
Adjusted operating profit		202	1,399
Amortisation and impairment of acquired intangibles		(1,422)	(1,419)
Non-recurring items	6	(678)	(540)
Finance costs	8	(331)	(226)
Finance income	8	2	6
<b>Loss before tax</b>		<b>(2,227)</b>	<b>(780)</b>
Tax	9	(729)	(398)
<b>Loss for the year being loss attributable to owners of the parent</b>		<b>(2,956)</b>	<b>(1,178)</b>
Net result from discontinued operations	17	(52,358)	275
<b>Net result for the year</b>		<b>(55,314)</b>	<b>(903)</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		(2.4)p	(0.9)p
From discontinued operations		(42.6)p	0.2p
<b>From loss for the year</b>	11	<b>(45.0)p</b>	<b>(0.7)p</b>
<b>Diluted (loss)/earnings per share</b>			
From continuing operations		(2.4)p	(0.9)p
From discontinued operations		(42.6)p	0.2p
<b>From loss for the year</b>	11	<b>(45.0)p</b>	<b>(0.7)p</b>

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £000	2015 £000
Loss for the financial year	(55,314)	(903)
Other comprehensive income/(expenses) - items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of overseas operations		
– continuing operations	2,593	416
– discontinued operations	(2,230)	(10)
<b>Total loss for the year attributable to owners of the parent</b>	<b>(54,951)</b>	<b>(497)</b>

# CONSOLIDATED GROUP STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	2016 £000	2015 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	12	8,216	42,291
Property, plant and equipment	13	467	2,201
Deferred tax assets	23	-	4,461
<b>Total non-current assets</b>		<b>8,683</b>	<b>48,953</b>
<b>Current assets</b>			
Inventories	14	206	12,696
Trade and other receivables	15	5,436	18,751
Current tax assets	19	254	-
Cash and cash equivalents	16	2,044	3,251
		<b>7,940</b>	<b>34,698</b>
Assets of disposal Group and non-current asset classified as held for sale	17	15,177	-
<b>Total current assets</b>		<b>23,117</b>	<b>34,698</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Financial liabilities - borrowings	20	16,587	9,000
Trade and other payables	18	8,933	13,554
Current tax liabilities	19	-	239
Provisions for other liabilities and charges	22	391	272
		<b>25,911</b>	<b>23,065</b>
Liabilities of disposal Group classified as held for sale	17	5,014	-
<b>Total current liabilities</b>		<b>30,925</b>	<b>23,065</b>
<b>Net current (liabilities)/assets</b>		<b>(7,808)</b>	<b>11,633</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	23	1,174	5,714
Provisions for other liabilities and charges	22	733	420
<b>Total non-current liabilities</b>		<b>1,907</b>	<b>6,134</b>
<b>Net (liabilities)/assets</b>		<b>(1,032)</b>	<b>54,452</b>
<b>Equity attributable to owners of the parent</b>			
Ordinary shares	24	3,115	3,066
Share premium		6,800	6,800
Capital redemption reserve		617	617
Merger reserve		32,448	32,448
Translation reserve		5,206	4,843
Retained earnings		(49,218)	6,678
<b>Total (deficit)/equity</b>		<b>(1,032)</b>	<b>54,452</b>

The financial statements on pages 36 to 75 were approved by the Board of Directors on 28 April 2017 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 2016

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Translation reserve £000	Retained earnings £000	Total £000
At 1 January 2015	3,066	6,800	617	32,448	4,437	9,459	56,827
Retained loss for the year	-	-	-	-	-	(903)	(903)
Exchange differences on translation of overseas operations	-	-	-	-	406	-	406
Share based payments: Value of employee services	-	-	-	-	-	(43)	(43)
Adjustment in respect of Employee Share Ownership Plan	-	-	-	-	-	(5)	(5)
Dividends payable (note 10)	-	-	-	-	-	(1,830)	(1,830)
At 31 December 2015	3,066	6,800	617	32,448	4,843	6,678	54,452
At 1 January 2016	<b>3,066</b>	<b>6,800</b>	<b>617</b>	<b>32,448</b>	<b>4,843</b>	<b>6,678</b>	<b>54,452</b>
Retained loss for the year	-	-	-	-	-	(55,314)	(55,314)
Exchange differences on translation of overseas operations	-	-	-	-	363	-	363
Share based payments: Value of employee services	-	-	-	-	-	1,247	1,247
Issue of shares	49	-	-	-	-	-	49
Dividends payable (note 10)	-	-	-	-	-	(1,829)	(1,829)
<b>At 31 December 2016</b>	<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>

# CONSOLIDATED GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	2015 £000
<b>Cash flows from operating activities</b>			
Cash generated from operations	25	(1,235)	605
Interest paid		(351)	(248)
Taxation paid		(174)	(918)
<b>Net cash from operating activities</b>		<b>(1,760)</b>	<b>(561)</b>
<b>Cash flows from investing activities</b>			
Interest received		2	8
Proceeds from sale of property, plant and equipment		80	338
Proceeds from sale of intangibles		–	61
Purchase of property, plant and equipment	13	(301)	(605)
Expenditure on capitalised development costs	12	(4,261)	(3,582)
<b>Net cash used in investing activities</b>		<b>(4,480)</b>	<b>(3,780)</b>
<b>Cash flow from financing activities</b>			
Net new bank loans raised		6,000	1,000
Dividend paid	10	(1,829)	(1,830)
Issue/(purchase) of shares		49	(5)
<b>Net cash from/(used in) financing activities</b>		<b>4,220</b>	<b>(835)</b>
<b>Net decrease in cash and cash equivalents and overdrafts</b>		<b>(2,020)</b>	<b>(5,176)</b>
Effect of foreign exchange rate changes		(774)	47
Cash and cash equivalents and overdrafts at 1 January		3,251	8,380
<b>Cash and cash equivalents and overdrafts at 31 December</b>	16	<b>457</b>	<b>3,251</b>
Net debt comprises:			
Cash and cash equivalents and overdrafts		457	3,251
Borrowings		(15,000)	(9,000)
<b>Net debt at 31 December</b>		<b>(14,543)</b>	<b>(5,749)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. GENERAL INFORMATION

Pebble Beach Systems Group plc (formerly Vislink 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 also provided secure video communications for surveillance and public safety applications such as law enforcement and homeland security. Following the post year end sale of Vislink Communication Systems, the continuing Group employs over 80 people worldwide with offices in the UK and USA. The Group has net liabilities of £1.0 million and continuously invests in innovation.

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 Chilton House, Charnham Lane, Hungerford, Berkshire RG17 0EY.

The registered number of the Company is 04082188.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### BASIS OF ACCOUNTING

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

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

During the current reporting year there were no new standards or amendments which had a material impact on the net assets of the Group. In addition, standards or amendments issued but not yet effective are not expected to have a material impact on the net assets of the Group.

### GOING CONCERN

In 2016 Vislink Communication Systems underperformed and, as previously announced, the Group have been in conversations with its bankers.

At 31 December 2016 net debt was £14.5 million (cash £0.5 million and bank debt of £15.0 million). In addition there was an overdraft of £1.0 million which was fully utilised. In January 2017, net debt increased further to £17.0 million.

On 2 February 2017 the Group sold the trade and assets of the Vislink Communication Systems division to xG Technology Inc., which has reduced the net debt of the Group to £12.0 million. The Group forecasts that it will be in breach of its banking covenants for the foreseeable future meaning it is reliant on the ongoing support of its bankers.

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 and these have been reviewed by the Board.

Whilst conditions remain challenging, as announced in February 2017, management have commenced a strategic review of the options for the Group, which could include a sale of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

In reaching their decision that the financial statements should be prepared on the going concern basis, the Board has considered the forecast covenant breaches. If the Group is not in compliance with its financing arrangements, the lender can immediately call for repayment of the loan, and the Group have insufficient cash to repay the secured loan without securing additional funding. However, the Group remains in constructive discussions with its bankers.

The conclusion identified above regarding the ongoing support of the Group's bankers, indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

The consolidated financial statements do not include the adjustments that would result if the Group was unable to continue as 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 2016. Control is achieved when the Company:

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

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

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

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

### BUSINESS COMBINATIONS

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

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

Group management are focused on developing global revenue growth from the Broadcast market. Segmental reporting is therefore also 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.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (B) ACQUIRED INTANGIBLES

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

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

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

### (C) RESEARCH AND DEVELOPMENT COSTS

Research expenditure is written off as incurred.

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

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

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

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

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

### PROPERTY, PLANT AND EQUIPMENT

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

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

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

**LEASES**

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

**INVENTORIES**

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

**TRADE RECEIVABLES**

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

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

**CASH AND CASH EQUIVALENTS**

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

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

**SHARE CAPITAL**

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

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

**TRADE PAYABLES**

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED 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 evaluates 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 deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### EMPLOYEE BENEFITS

#### (A) PENSION OBLIGATIONS

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

#### (B) SHARE BASED COMPENSATION

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

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

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

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

**(C) EMPLOYEE SHARE OWNERSHIP PLAN**

The Group's Employee Share Ownership Plan (ESOP) is a separately administered trust. The Company guarantees liabilities of the ESOP, and the assets of the ESOP mainly comprise shares in the Company. The assets, liabilities, income and costs of the ESOP have been included in the Group financial statements.

**PROVISIONS**

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

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

**REVENUE RECOGNITION****(A) SALE OF GOODS**

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

**(B) CONSTRUCTION CONTRACTS**

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

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

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

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

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

**(C) SALES OF SERVICES**

Revenue from service contracts that are not accounted for as construction contracts under IAS 11 is recognised in line with the delivery of service to the customer. For sales of services, revenue is recognised in the accounting period in which the services are rendered by reference to stage of completion of the specific transaction 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. Costs incurred in relation to the completion of the next stage are recognised as an asset provided it is probable that they can be recovered and included in work in progress.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### INTEREST INCOME

Interest income is recognised on a time apportionment basis.

### DIVIDEND DISTRIBUTION

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

In view of the results for the year the directors do not recommend payment of a final dividend for the year ended 31 December 2016.

### 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.

### PRIOR YEAR ADJUSTMENT

As a result of the reclassification of some expenses in 2015, the prior year income statement has been restated and therefore £0.6 million of expenses has been transferred from Research and Development expenses to cost of sales.

## 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 whilst the central treasury function provides specific policy guidance for the operating units in terms of managing market risk, credit risk and cash and liquidity management.

#### (A) MARKET RISK

##### (i) FOREIGN EXCHANGE RISK

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

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

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

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

Rate compared to £ sterling	Average rate 2016	Average rate 2015	Year end rate 2016	Year end rate 2015
US dollar	1.354	1.529	1.230	1.482

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 2015 had been translated at the 2016 average rate then the translation impact would be to increase prior year revenue by £2.6 million and increase the loss before tax by £0.5 million.

#### (ii) CASH FLOW INTEREST RATE RISK

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

#### (B) CREDIT RISK

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

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

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

In addition, please refer to note 4 in relation to the specific debtor of £1.6 million (\$2.0 million) which is held in trade receivables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 3. FINANCIAL RISK MANAGEMENT CONTINUED

### (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.

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

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 2016:</b>				
Bank loans (secured)	15,000	–	–	15,000
Trade and other payables *	8,433	–	–	8,433
<b>At 31 December 2015:</b>				
Bank loans (secured)	9,000	–	–	9,000
Trade and other payables *	13,251	–	–	13,251

\* Included within trade and other payables is accrued interest on the RCF facility of £12,279 (2015: £14,121).

### 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 £13.5 million at 31 December 2016 (2015: £60.2 million).

### FAIR VALUE ESTIMATION

The carrying value of trade receivables (less impairment provision) and financial liabilities are assumed to approximate to their fair value.

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

##### ACCOUNTING FOR LONG TERM CONTRACTS

Amounts recognised in the income statement on long term contracts are a function of both the state of progress on contracts and the margins that are expected to be recognised for the completed contract. Accordingly, recognition of work in progress and margins on contracts that have not yet been completed requires management to make a careful estimate of the final costs, any expected increases as well as delays, extra costs and penalties that could reduce the expected margin.

The amounts recognised in the financial statements represent management's best estimate of these key considerations at the reporting date.

##### 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 £3.9 million (note 12) (2015: £7.2 million).

##### IMPAIRMENT OF GOODWILL

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

##### RESEARCH AND DEVELOPMENT COSTS

Development costs are amortised over the estimated useful life of the products with which they are associated. If a product becomes unusable the deferred development costs are written off. As at 31 December 2016 all capitalised development costs in respect of the Vislink Communication Systems division have been impaired.

##### DEFERRED TAX ASSETS

The carrying value of deferred tax assets is dependent on sufficient taxable profits being generated in certain territories in future periods. The carrying amount of net deferred tax liabilities at the reporting date was £1.2 million (note 23) (2015: £1.3 million). In addition, there were £16.1 million of deferred tax assets not recognised (2015: £8.0 million).

##### PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Included within the statement of financial position are warranty provisions amounting to £0.2 million (2015: £0.2 million) and onerous property lease provisions of £1.0 million (2015: £0.5 million) (note 22). Management believe that the warranty provisions are adequate to cover the future risk of product warranty claims based on historic claims history applied to the current revenue levels.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

The movement in the onerous property lease provision in the year relates to the increase in the property provision at the Vislink International Hemel Hempstead site arising from the sale of Vislink Communication Systems. Property provisions have been made in respect of the vacated lease premises and represent the future liabilities associated with the property to the end of the lease, net of anticipated income from subletting. In the current economic environment we cannot be certain that this provision will be sufficient to cover the total future liabilities associated with the property and the requirement for provision will be reassessed annually. The total liability for future rent, rates and other costs on the vacated lease properties, excluding any potential benefit from subletting are £nil for the Gigawave property and £1.0 million over an aggregate period of three years for the Hemel Hempstead property.

### IMPAIRMENT OF TRADE RECEIVABLES

The carrying amount of trade receivables at the year end was £3.4 million (2015: £16.7 million), against which there was an impairment provision of £0.1 million (2015: £0.6 million) (note 15). 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. Management believe that the provision is adequate to cover the risk of bad debts. Included within trade receivables is a specific debtor of £1.6 million (\$2.0 million) which was retained following the sale of Vislink Communication Systems post year end. The Group continues to work with xG Technology Inc., to fulfil this contract and recover the trade debtor. Management expect this debtor to be fully recovered.

### INVENTORY PROVISIONS

The carrying amount of inventory at the year end was £0.2 million (2015: £12.7 million) after a provision for excess and obsolete inventory of £nil (2015: £5.5 million).

The carrying amount of inventory held for sale at the year end was £5.2 million which management believes to be recoverable through normal course of trade or realised from the sale of Vislink Communication Systems post year end.

### SHARE BASED PAYMENTS

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

## 5. SEGMENTAL REPORTING

The segment information provided to the Board for the reportable continuing segments for the year ended 31 December 2016 is as follows:

Segmental reporting by division	Pebble Beach Systems £000	Central £000	Total £000
<b>Year ended 31 December 2016</b>			
<b>Income statement:</b>			
Broadcast	10,879	–	<b>10,879</b>
Total revenue	10,879	–	<b>10,879</b>
Adjusted operating profit/(loss)	2,337	(2,135)	<b>202</b>
Amortisation of acquired intangibles	(1,422)	–	<b>(1,422)</b>
Non-recurring items	–	(678)	<b>(678)</b>
Finance costs	–	(331)	<b>(331)</b>
Finance income	69	(67)	<b>2</b>
Profit/(loss) before taxation	984	(3,211)	<b>(2,227)</b>
Taxation	342	(1,071)	<b>(729)</b>
<b>Profit/(loss) for the year being profit/(loss) attributable to owners of the parent</b>	<b>1,326</b>	<b>(4,282)</b>	<b>(2,956)</b>
<b>Segment assets</b>			
Non-current assets	8,555	128	<b>8,683</b>
Current assets	5,642	2,298	<b>7,940</b>
Total assets	14,197	2,426	<b>16,623</b>
Total liabilities	(3,957)	(23,861)	<b>(27,818)</b>
Total net assets/(liabilities)	10,240	(21,435)	<b>(11,195)</b>
Assets of disposal group held for sale			<b>15,177</b>
Liabilities of disposal group held for sale			<b>(5,014)</b>
<b>Total net liabilities</b>			<b>(1,032)</b>
<b>Other segment items</b>			
Capital expenditure	187	2	<b>189</b>
Capitalised development expenditure	1,098	–	<b>1,098</b>
Depreciation	175	22	<b>197</b>
Amortisation of intangibles	1,781	–	<b>1,781</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.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 5. SEGMENTAL REPORTING CONTINUED

Segmental reporting by division	Vislink Communication Systems £000	Pebble Beach Systems £000	Central £000	Total £000
<b>Year ended 31 December 2015</b>				
<b>Income statement - continuing business:</b>				
Broadcast	–	10,949	–	<b>10,949</b>
Total revenue	–	10,949	–	<b>10,949</b>
Adjusted operating profit/(loss)	–	3,255	(1,856)	<b>1,399</b>
Amortisation and impairment of acquired intangibles	–	(1,419)	–	<b>(1,419)</b>
Non-recurring items	–	–	(540)	<b>(540)</b>
Finance costs	–	–	(226)	<b>(226)</b>
Finance income	–	78	(72)	<b>6</b>
Profit/(loss) before taxation	–	1,914	(2,694)	<b>(780)</b>
Taxation	–	(863)	465	<b>(398)</b>
<b>Profit/(loss) for the year being profit attributable to owners of the parent</b>	–	<b>1,051</b>	<b>(2,229)</b>	<b>(1,178)</b>
<b>Segment assets</b>				
Non-current assets	38,307	9,318	1,328	<b>48,953</b>
Current assets	29,064	5,050	584	<b>34,698</b>
Total assets	67,371	14,368	1,912	<b>83,651</b>
Total liabilities	(14,862)	(5,558)	(8,779)	<b>(29,199)</b>
<b>Total net assets/(liabilities)</b>	<b>52,509</b>	<b>8,810</b>	<b>(6,867)</b>	<b>54,452</b>
<b>Other segment items:</b>				
Capital expenditure	–	121	107	<b>228</b>
Capitalised development expenditure	–	365	–	<b>365</b>
Depreciation	–	99	22	<b>121</b>
Amortisation of intangibles	–	1,536	–	<b>1,536</b>

### GEOGRAPHIC EXTERNAL REVENUE ANALYSIS

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

	2016 £000	2015 £000
<b>By market:</b>		
UK and Europe	<b>5,360</b>	3,759
North America	<b>2,032</b>	2,768
Latin America	<b>1,122</b>	668
Middle East and Africa	<b>2,104</b>	2,763
Asia/Pacific	<b>261</b>	991
	<b>10,879</b>	10,949

Non-current assets, other than financial instruments and deferred tax, located in the UK are £8.6 million (2015: £31.9 million) and rest of world £0.1 million (2015: £12.6 million).

## 6. OPERATING LOSS

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

	2016 £000	Restated 2015 £000
Depreciation of property, plant and equipment	197	121
Amortisation of acquired intangibles	1,422	1,419
Operating lease rentals	437	437
Exchange gains credited to the income statement	(1,840)	(561)
Research and development expenditure expensed in the year	1,596	1,075
which includes:		
- Amortisation of capitalised development costs	359	117

### OTHER EXPENSES

Other expenses comprise:

	2016 £000	2015 £000
Amortisation of acquired intangibles	1,422	1,419
Non-recurring items	678	540
	<b>2,100</b>	<b>1,959</b>

### 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:

	2016 £000	2015 £000
Liquidity advice and other costs	176	199
Increase in onerous property provision	502	341
	<b>678</b>	<b>540</b>

The Group incurred £66,000 of aborted acquisition costs and £110,000 in professional advice in relation to the Group's liquidity position during 2016 (2015: £199,000 in respect of aborted acquisition costs).

In 2016 the Group incurred £502,000 (2015: £341,000) of costs in relation to the increase of onerous property provisions as part of the disposal of Vislink Communication Systems.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 6. OPERATING LOSS CONTINUED

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

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

	2016 £000	2015 £000
Analysis of fees payable to PricewaterhouseCoopers LLP		
Audit of the parent company and consolidated financial statements	70	58
Audit of the Company's subsidiaries	89	96
Audit related assurance services	37	15
Other assurance services	344	–
	<b>540</b>	169
Taxation compliance services	32	42
Taxation advisory services	21	19
Corporate finance services	314	68
	<b>907</b>	298

A description of the work of the Audit Committee is set out in the corporate governance statement on pages 22 to 27 and includes an explanation of how the auditors' objectivity and independence is safeguarded when non-audit services are provided by the auditors.

## 7. DIRECTORS AND EMPLOYEES

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

	2016 £000	2015 £000
Wages and salaries	5,765	5,133
Social security costs	573	446
Other pension costs - defined contribution plans (note 27)	226	262
Share based payments (note 24)	1,361	47
	<b>7,925</b>	5,888

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

	2016 Number	2015 Number
Average monthly number of employees		
Broadcast sales and marketing	10	9
Technology	44	33
Logistics	26	23
General and Admin	14	15
	<b>94</b>	80

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 2016 was 96 (2015: 84).

Key management compensation for the continuing business:

	2016 £000	2015 £000
Short term employee benefits - including salaries, social security costs and non-monetary benefits	1,320	1,332
Post-employment benefits - defined contribution pension plans	135	132
Share-based payments (note 24)	851	24
	<b>2,306</b>	<b>1,488</b>

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 28 to 32.

On 28 July 2016 John Hawkins exercised the £2.0 million vested shares which were awarded to him on 28 March 2012 under the LTIP scheme. These shares were awarded at nil cost therefore taking into account the market price on the day of exercise, being 17.25 pence, John Hawkins realised a net gain of £0.3 million.

## 8. FINANCE COSTS – NET

	2016 £000	2015 £000
Finance costs	331	226
Finance income	(2)	(6)
Finance costs – net	<b>329</b>	<b>220</b>

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

	2016 £000	2015 £000
Current tax		
UK corporation tax	(64)	325
Foreign tax - current year	–	182
Adjustments in respect of prior years	(67)	62
Total current tax	<b>(131)</b>	<b>569</b>
Deferred tax		
UK corporation tax	900	(38)
Impact of change in tax rate	(40)	(162)
Adjustments in respect of prior years	–	29
Total deferred tax	<b>860</b>	<b>(171)</b>
Total taxation	<b>729</b>	<b>398</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 9. INCOME TAX EXPENSE CONTINUED

### B) FACTORS AFFECTING TAX CHARGE FOR YEAR

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

	2016 £000	2015 £000
Loss before tax on continuing operations	(2,227)	(780)
Tax at the UK corporation tax rate of 20.0% (2015: 20.25%)	(445)	(156)
Adjustments in respect of prior years	(68)	91
Permanent differences	708	724
Enhanced R&D tax relief	(274)	(92)
Derecognition of deferred tax asset	10	–
Group relief	(604)	–
Depreciation of NQAs	3	–
Underwater share options	5	108
Current year losses not recognised	1,011	–
Brought forward losses used in the year	–	(12)
Additional losses now recognised	–	(200)
Effect of changes in UK tax rate	(40)	(162)
Effects of different tax rates of subsidiaries operating in other jurisdictions	423	97
<b>Total taxation</b>	<b>729</b>	<b>398</b>

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 21 per cent to 20 per cent from 1 April 2015.

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.

## 10. DIVIDENDS AND RETURNS TO SHAREHOLDERS

	2016 £000	2015 £000
Final dividend paid of 1.5 pence per share (2015: 1.5 pence per share)	1,829	1,830

In view of the results for the year the directors do not recommend payment of a final dividend for the year ended 31 December 2016.

## 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.

	2016			2015		
	Earnings £000	Weighted average number of shares 000s	Earnings per share pence	Earnings £000	Weighted average number of shares 000s	Earnings per share pence
<b>Basic and diluted loss per share</b>						
Loss attributable to continuing operations	(2,956)		(2.4)p	(1,178)		(0.9)p
(Loss)/profit attributable to discontinued operations	(52,358)		(42.6)p	275		0.2p
<b>Basic and diluted loss per share</b>	<b>(55,314)</b>	<b>122,804</b>	<b>(45.0)p</b>	(903)	121,910	(0.7)p

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

### ADJUSTED EARNINGS

The directors believe that adjusted operating profit, adjusted profit before tax, adjusted earnings and adjusted earnings per share provide additional useful information on underlying trends to shareholders. These measures are used by management for internal performance analysis and incentive compensation arrangements. The term "adjusted" is not a defined term under IFRS and may not therefore be comparable with similarly titled profit measurements reported by other companies. The principal adjustments are made in respect of the amortisation of acquired intangibles and non-recurring items and their related tax effects.

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

	£000	2016 Pence	£000	2015 Pence
<b>Reported loss per share – continuing operations</b>	(2,956)	<b>(2.4)p</b>	(1,178)	(0.9)p
Amortisation of acquired intangibles after tax	1,166	<b>1.0p</b>	1,186	1.0p
Non-recurring items after tax	542	<b>0.4p</b>	431	0.4p
<b>Adjusted (loss)/earnings per share – continuing operations</b>	<b>(1,248)</b>	<b>(1.0)p</b>	439	0.5p

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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 2015	40,833	17,400	8,439	1,726	22,270	90,668
Additions	99	–	–	–	3,582	3,681
Disposals	–	–	(61)	–	–	(61)
Exchange adjustment	560	93	–	38	676	1,367
At 1 January 2016	41,492	17,493	8,378	1,764	26,528	95,655
Additions	–	–	–	–	4,261	4,261
Disposals	(99)	–	–	–	–	(99)
Transferred to disposal Group classified as held for sale	(39,612)	(14,551)	(5,028)	(1,916)	(30,498)	(91,605)
Exchange adjustment	1,437	1,551	–	152	1,320	4,460
<b>At 31 December 2016</b>	<b>3,218</b>	<b>4,493</b>	<b>3,350</b>	<b>–</b>	<b>1,611</b>	<b>12,672</b>
<b>Accumulated amortisation</b>						
At 1 January 2015	16,201	12,286	4,857	812	12,829	46,985
Charge for the year	–	1,134	1,096	174	3,224	5,628
Exchange adjustment	244	95	–	28	384	751
At 1 January 2016	16,445	13,515	5,953	1,014	16,437	53,364
Charge for the year	–	943	671	92	2,844	4,550
Impairment	22,319	633	274	677	10,928	34,831
Transferred to disposal Group classified as held for sale	(39,612)	(14,551)	(5,028)	(1,916)	(30,498)	(91,605)
Exchange adjustment	848	1,551	–	133	784	3,316
<b>At 31 December 2016</b>	<b>–</b>	<b>2,091</b>	<b>1,870</b>	<b>–</b>	<b>495</b>	<b>4,456</b>
<b>Net book value</b>						
<b>At 31 December 2016</b>	<b>3,218</b>	<b>2,402</b>	<b>1,480</b>	<b>–</b>	<b>1,116</b>	<b>8,216</b>
At 31 December 2015	25,047	3,978	2,425	750	10,091	42,291
At 1 January 2015	24,632	5,114	3,582	914	9,441	43,683

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

The amortisation of development costs is included in research and development expenses in the Consolidated Group Income Statement. Within development costs there are £nil (2015: £11.8 million) 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 goodwill relating to the Surveillance and Public Safety market was fully written down in 2010. The goodwill relating to the Broadcast market (excluding Pebble Beach Systems) and Amplifier Technology has been fully written down in the year (see note 17). The carrying value of goodwill at 31 December 2016 is £3.2 million (2015: £25.0 million) which relates solely to Pebble Beach Systems.

The carrying value of Pebble Beach Systems (including goodwill) has been assessed with reference to value in use over a projected period of four 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 2016 and the discount rate applied. The forecast business performance assumes an average growth rate of 15 per cent each year over the next five years. This is expected to be realised through increased traction in the US market, along with additional revenue anticipated as customers continue to transition to IP-based products.

The cash flow projections have been discounted to present value using a pre-tax discount rate of 14.6 per cent (2015: 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 2016

## 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 2015	1,039	1,920	10,932	13,891
Additions	7	24	574	605
Disposals	(508)	–	(366)	(874)
Exchange adjustment	11	48	550	609
At 1 January 2016	549	1,992	11,690	14,231
Additions	4	49	248	301
Transferred to disposal Group classified as held for sale	(437)	(1,839)	(11,276)	(13,552)
Exchange adjustment	–	93	553	646
<b>At 31 December 2016</b>	<b>116</b>	<b>295</b>	<b>1,215</b>	<b>1,626</b>
<b>Accumulated depreciation</b>				
At 1 January 2015	305	1,385	9,536	11,226
Charge for the year	22	124	615	761
Disposals	(169)	–	(366)	(535)
Exchange adjustment	2	35	541	578
At 1 January 2016	160	1,544	10,326	12,030
Charge for the year	15	132	554	701
Impairment	–	340	749	1,089
Transferred to disposal Group classified as held for sale	(146)	(1,839)	(11,276)	(13,261)
Exchange adjustment	–	69	531	600
<b>At 31 December 2016</b>	<b>29</b>	<b>246</b>	<b>884</b>	<b>1,159</b>
<b>Net book value</b>				
<b>At 31 December 2016</b>	<b>87</b>	<b>49</b>	<b>331</b>	<b>467</b>
At 31 December 2015	389	448	1,364	2,201
At 1 January 2015	734	535	1,396	2,665

## 14. INVENTORIES

	2016 £000	2015 £000
Raw materials and consumables	137	7,678
Work in progress	69	414
Finished goods and goods for resale	–	4,604
	<b>206</b>	<b>12,696</b>

During the year the Group consumed £10.3 million (2015: £25.8 million) of inventories of which £2.2 million (2015 £2.1 million) related to continuing operations.

Inventories of £5.2 million are included in the assets of the disposal group and are classified as held for sale.

## 15. TRADE AND OTHER RECEIVABLES

	2016 £000	2015 £000
Current:		
Trade receivables	3,446	16,749
Less: provision for impairment	(138)	(643)
Trade receivables - net	3,308	16,106
Other receivables	176	170
Prepayments and accrued income	1,952	2,475
	<b>5,436</b>	<b>18,751</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 2016 trade receivables of £0.4 million (2015: £4.2 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), 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:

	2016 £000	2015 £000
Up to three months	164	2,197
Three to six months	100	803
Over six months	99	1,228
	<b>363</b>	<b>4,228</b>

At 31 December 2016 trade receivables of £0.1 million (2015: £0.6 million) were impaired and provided for in whole or in part. The provision of £0.1 million (2015: £0.6 million) is set against specific customer debts. The ageing of these receivables is as follows:

	2016 £000	2015 £000
Three to six months	118	-
Over six months	20	643
	<b>138</b>	<b>643</b>

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

	2016 £000	2015 £000
Pounds sterling	1,342	7,857
US dollars	2,062	8,299
Euros	42	593
	<b>3,446</b>	<b>16,749</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 15. TRADE AND OTHER RECEIVABLES CONTINUED

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

	2016 £000	2015 £000
At 1 January	643	962
Provision for receivable impairment	118	16
Receivables written off during the year as uncollectable	(26)	(349)
Transferred to disposal Group classified as held for sale	(597)	–
Exchange adjustment	–	14
At 31 December	138	643

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

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

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

## 16. CASH AND CASH EQUIVALENTS AND OVERDRAFTS

	2016 £000	2015 £000
Cash and bank balances	457	3,251
<b>Cash and cash equivalents and overdrafts at 31 December</b>	<b>457</b>	<b>3,251</b>

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

	2016 £000	2015 £000
Cash and cash equivalents and overdrafts	2,044	3,251
Bank overdrafts (note 20)	(1,587)	–
Cash and cash equivalents	457	3,251

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.

	2016 £000	2015 £000
Credit rating (S&P)		
A-1+	253	1,183
A-1	123	1,943
A-2	81	120
B	–	5
Total	457	3,251

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

	2016			2015		
	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	3,251	(9,000)	(5,749)	8,380	(8,000)	380
Cash flow for the year before financing	(6,240)	–	(6,240)	(4,346)	–	(4,346)
Proceeds on issue of shares	49	–	49	–	–	–
Movement in borrowings in the year	6,000	(6,000)	–	1,000	(1,000)	–
Dividend paid	(1,829)	–	(1,829)	(1,830)	–	(1,830)
Exchange rate adjustments	(774)	–	(774)	47	–	47
<b>Cash and cash equivalents and overdrafts at 31 December</b>	<b>457</b>	<b>(15,000)</b>	<b>(14,543)</b>	<b>3,251</b>	<b>(9,000)</b>	<b>(5,749)</b>

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

### (A) VISLINK COMMUNICATIONS SYSTEMS

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

#### (i) ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

	2016 £000	2015 £000
Inventory	5,241	–
Trade and other debtors	9,645	–
<b>Total assets</b>	<b>14,886</b>	<b>–</b>

#### (ii) LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

	2016 £000	2015 £000
Trade and other payables	5,008	–
Provisions	6	–
<b>Total liabilities</b>	<b>5,014</b>	<b>–</b>

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

On reclassification as held for sale, in accordance with IFRS 5, the remaining assets and liabilities for the Vislink Communication Systems disposal group were measured against the fair value less costs to sell. This led to an additional impairment of £1.6 million. See note 29 for the disclosure of the balance sheet post disposal of the Vislink Communication Systems business.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

	2016 £000	2015 £000
Revenue	31,667	46,862
Expenses	(85,077)	(47,076)
Loss before tax of discontinued operations	(53,410)	(214)
Tax	1,052	489
(Loss)/profit after tax of discontinued operations	(52,358)	275

Included within expenses above are impairments of goodwill of £22.3 million, intangible assets of £12.5 million, tangible fixed assets of £1.1 million, and inventory of £8.3 million.

(iv) CASH FLOW

	2016 £000	2015 £000
Operating cash flows	(2,173)	3,774
Investing cash flows	(3,194)	(3,594)
Total cash flows	(5,367)	180

### (B) TANGIBLE FIXED ASSETS

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

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

	2016 £000	2015 £000
Property, plant and equipment	291	–
Total assets	291	–

## 18. TRADE AND OTHER PAYABLES

	2016 £000	2015 £000
Payments received on account	1,472	1,778
Trade payables	3,771	7,984
Accruals	3,190	3,489
Other taxes and social security costs	500	303
	8,933	13,554

**19. CURRENT TAX ASSETS/(LIABILITIES)**

	<b>2016</b>	2015
	<b>£000</b>	£000
UK corporation tax	<b>20</b>	(45)
Foreign corporation tax	<b>234</b>	(194)
<b>Current tax assets/(liabilities)</b>	<b>254</b>	(239)

**20. FINANCIAL LIABILITIES – BORROWINGS**

	<b>2016</b>	2015
	<b>£000</b>	£000
Current:		
Bank loans (secured)	<b>15,000</b>	9,000
Bank overdrafts	<b>1,587</b>	–
<b>Total</b>	<b>16,587</b>	9,000

**BANK BORROWING FACILITIES**

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

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

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

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

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:

	<b>2016</b>	2015
Bank overdraft	<b>3.25%</b>	3.25%
Bank borrowings	<b>2.40%</b>	2.40%

The Group had net debt at 31 December 2016 of £14.5 million (2015: £5.7 million). The Group was using the available net overdraft facility.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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>2016 Loans and receivables £000</b>	2015 Loans and receivables £000
<b>Assets as per statement of financial position at 31 December</b>		
Trade and other receivables excluding prepayments and accrued income	<b>3,484</b>	16,276
Cash and cash equivalents	<b>2,044</b>	3,251
<b>Total</b>	<b>5,528</b>	19,527

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

	<b>2016 Other financial liabilities at amortised cost £000</b>	2015 Other financial liabilities at amortised cost £000
<b>Liabilities as per statement of financial position at 31 December</b>		
Trade and other payables excluding payments received on account and social security liabilities	<b>6,961</b>	11,473
Borrowings	<b>16,587</b>	9,000
<b>Total</b>	<b>23,548</b>	20,473

### FINANCIAL INSTRUMENTS BY CATEGORY – DISCONTINUED OPERATIONS

	<b>2016 Loans and receivables £000</b>	2015 Loans and receivables £000
<b>Assets as per statement of financial position at 31 December</b>		
Trade and other receivables excluding prepayments and accrued income	<b>8,770</b>	–
<b>Total</b>	<b>8,770</b>	–

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

	<b>2016 Other financial liabilities at amortised cost £000</b>	2015 Other financial liabilities at amortised cost £000
<b>Liabilities as per statement of financial position at 31 December</b>		
Trade and other payables excluding payments received on account and social security liabilities	<b>4,020</b>	–
<b>Total</b>	<b>4,020</b>	–

## 22. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Warranty provisions £000	Property provisions £000	Total £000
At 1 January 2016	188	504	692
Additional provision in the year	37	666	703
Utilised during the year	(72)	(53)	(125)
Exchange adjustment	17	–	17
Transferred to disposal Group classified as held for sale	–	(163)	(163)
<b>At 31 December 2016</b>	<b>170</b>	<b>954</b>	<b>1,124</b>

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

	2016 £000	2015 £000
Current	391	272
Non-current	733	420
At 31 December	<b>1,124</b>	<b>692</b>

Warranty provisions are made in respect of the expected future warranty costs in certain businesses based on historical actual costs. Warranty periods on products are generally between one and two years. Other than a warranty provision of £0.1 million (2015: £0.1 million) all provisions are denominated in sterling. The warranty provision is reassessed annually based on the warranty claim experience of the previous 12 months relative to the aggregate outstanding warranty period at the year end.

The onerous property provision movement in the year relates to the increase in the vacant property provision at the Vislink 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 2016	2,525	3,189	–	–	5,714
Credit to profit or loss	(2,640)	(2,270)	–	–	(4,910)
Exchange adjustment	203	167	–	–	370
<b>At 31 December 2016</b>	<b>88</b>	<b>1,086</b>	<b>–</b>	<b>–</b>	<b>1,174</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 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 2016	–	–	2,287	2,174	4,461
Charge to profit or loss	–	–	(2,435)	(2,371)	(4,806)
Exchange adjustment	–	–	148	197	345
<b>At 31 December 2016</b>	–	–	–	–	–

	Accelerated tax depreciation £000	Intangible assets £000	Losses £000	Other £000	Total £000
<b>Deferred tax liabilities</b>					
At 1 January 2015	2,283	3,055	–	–	5,338
Charge to profit or loss	131	50	–	–	181
Exchange adjustment	111	84	–	–	195
<b>At 31 December 2015</b>	2,525	3,189	–	–	5,714

	Accelerated tax depreciation £000	Intangible assets £000	Losses £000	Other £000	Total £000
<b>Deferred tax assets</b>					
At 1 January 2015	–	–	2,371	1,341	3,712
(Charge)/credit to profit or loss	–	–	(163)	743	580
Exchange adjustment	–	–	79	90	169
<b>At 31 December 2015</b>	–	–	2,287	2,174	4,461

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

	2016 £000	2015 £000
Net deferred tax liability at 1 January	(1,253)	(1,626)
Charged in the year – continuing business	104	399
Exchange adjustment	(25)	(26)
<b>Net deferred tax liability at 31 December</b>	<b>(1,174)</b>	<b>(1,253)</b>

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

	2016 £000	2015 £000
Losses	16,139	8,021
	16,139	8,021

## 24. ORDINARY SHARES

	Number '000s	2016 £000	Number '000s	2015 £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	122,603	3,066	122,603	3,066
Share issues	2,000	49	–	–
<b>At 31 December</b>	<b>124,603</b>	<b>3,115</b>	<b>122,603</b>	<b>3,066</b>

## 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 2016 (2015: 2,896,000).

Certain senior executives hold options to subscribe for shares in the Company at prices ranging from 29.0 pence to 86.3 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	2016 Number '000s	2015 Number '000s
13 April 2006	53.5p	13/04/09 – 12/04/16	–	54
27 April 2007	86.3p	27/04/10 – 26/04/17	50	50
29 March 2012	29.0p	29/03/15 – 28/03/22	100	100
14 May 2015	54.0p	01/04/18 – 13/05/25	1,184	2,090
25 June 2015	59.5p	25/06/18 – 24/06/25	636	726
30 September 2015	40.9p	30/09/18 – 29/09/25	80	80
			<b>2,050</b>	<b>3,100</b>

On the sale of Vislink Communication Systems on 2 February 2017 530,000 of the above options lapsed as they had not vested and a further 150,000 options will lapse if not exercised within six months of the sale of Vislink Communication Systems.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 24. ORDINARY SHARES CONTINUED

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

	Number '000s	2016 Weighted average exercise price	Number '000s	2015 Weighted average exercise price
Outstanding at beginning of year	3,100	54.7p	620	38.4p
Forfeited during the year	(996)	54.5p	(66)	53.5p
Lapsed during the year	(54)	53.5p	–	–
Exercised during the year	–	–	(350)	29.0p
Issued during the year	–	–	2,896	55.0p
Outstanding at the end of the year	2,050	54.8p	3,100	54.7p
Exercisable at the end of the year	150	48.1p	204	49.5p

No options were exercised in 2016 (2015: 350,000). The options outstanding at 31 December 2016 had a weighted average exercise price of 54.8 pence (2015: 54.7 pence) and a weighted average remaining contractual life of 8.1 years (2015: 9.0 years).

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

### B) LONG TERM INCENTIVE PLAN (LTIP)

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

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

No new LTIP options were granted during the year.

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

Date of grant	Share price at award date	Vesting date	2016 Number '000s	2015 Number '000s
28 March 2012	29.5p	28 March 2015	200	2,200
15 December 2012	26.0p	15 December 2015	–	404
12 November 2013	48.5p	12 November 2016	2,681	3,481
03 June 2014	45.1p	03 June 2017	500	600
			<b>3,381</b>	<b>6,685</b>

On the sale of Vislink Communication Systems on 2 February 2017 600,000 of the above options lapsed as they had not vested.

When John Hawkins' employment ceases, 2 million of the above share options will lapse.

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

	Number '000s	2016 Weighted average share price at the date of grant	Number '000s	2015 Weighted average share price at the date of grant
Outstanding at beginning of year	6,685	40.6p	6,754	40.6p
Forfeited during the year	(1,304)	41.2p	(69)	48.5p
Exercised during the year	(2,000)	29.5p	–	–
Outstanding at the end of the year	3,381	46.8p	6,685	40.6p

There were 200,000 LTIP options that were exercisable at the end of the year (2015: 2,604,000).

The weighted average contractual life remaining on the LTIP options outstanding at 31 December 2016 is 6.9 years (2015: 7.5 years).

At 31 December 2016 the trustee of the Employee Share Ownership Plan (ESOP) held 626,496 shares (2015: 626,496) with a market value of £0.1 million (2015: £0.2 million). The net book value of these shares was £0.1 million (2015: £0.2 million) and was deducted from equity.

During the year 1,304,000 LTIP shares were forfeited as a result of employees leaving the Group.

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

The Group recognised total expenses of £1,775,857 (2015: £403,330) related to equity-settled share based payment transactions in the income statement in the year.

During the year the Group cancelled the Group VCP Scheme which resulted in an acceleration of the accounting charge into 2016. £1.3 million of cost was included in the 2016 income statement in respect of the Group VCP Scheme, with the remainder of the £1.8 million cost being attributable to other share schemes.

## 25. CASH FLOW GENERATED FROM OPERATING ACTIVITIES

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

	2016 £000	2015 £000
Loss before tax	(55,637)	(994)
Depreciation of property, plant and equipment	701	761
Loss on disposal of property, plant and equipment	1,009	–
Amortisation and impairment of development costs	13,772	3,224
Amortisation and impairment of acquired intangibles	25,609	2,404
Share based payment expense/(income)	1,247	(43)
Finance income	(2)	(8)
Finance costs	351	248
Decrease in inventories	7,249	557
Decrease/(increase) in trade and other receivables	3,670	(2,411)
Increase/(decrease) in trade and other payables	376	(3,261)
Increase in provisions	420	128
Net cash (used in)/generated from operating activities	(1,235)	605

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 26. CONTINGENT LIABILITIES AND COMMITMENTS – CONTINUING OPERATIONS

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

	<b>2016</b> <b>Land and</b> <b>buildings</b> <b>£000</b>	2015 Land and buildings £000
Not later than one year	<b>462</b>	437
Later than one year and not later than five years	<b>1,017</b>	1,350
Later than five years	<b>910</b>	1,015
	<b>2,389</b>	2,802

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 (2015: £0.4 million) of operating lease payments were recognised in the consolidated Group income statement.

## 27. PENSIONS

### DEFINED CONTRIBUTION PLANS

The Group currently operates a Group Personal Pension Plan and funds are invested with Standard Life plc. UK employees are entitled to join the plan to which the Company contributes varying amounts subject to status. In addition the Group operates a stakeholder pension scheme in the UK. In the US, the Group contributes to a 401K plan on behalf of employees up to US\$2,500 (£1,545) per employee. The total Group pension charge for the year was £0.2 million (2015: £0.3 million).

The Group has no unfunded pension liabilities.

## 28. RELATED PARTY TRANSACTIONS

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

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

Pebble Beach Systems Limited, a wholly owned subsidiary of Vislink Group Holdings Limited, leases two properties owned by the Denton Trust. Ian Cockett (a director of Pebble Beach Systems Limited) and Peter Hajittofi (a non-executive director of Pebble Beach Systems Limited) are trustees in the Denton Trust. The first property (Unit 12 Horizon Business Village) is rented from the trust for £105,000 per annum. The second property (Unit 15 Horizon Business Village) is rented from the trust for £65,000 per annum. As at 31 December 2016 the Company owed £51,100 to the Denton Trust (2015: £19,763).

Included within other receivables is a balance of £125,729 owed by John Hawkins, a director of the Company (2015: £125,729). It is anticipated that the full amount will be recovered during this year.

Included within accruals is an accrual for £nil for consultancy work carried out by Maximum Clarity, a company in which John Varney, the Non-Executive Chairman of the company has a controlling interest (2015: £18,000).

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 2016, are provided in the entity financial statements of Pebble Beach Systems Group plc.

There are no material related parties other than Group companies.

## 29. EVENTS AFTER THE REPORTING PERIOD

The Company announced on 20 October 2016 that it had entered into a Business Purchase Agreement to sell the assets of Vislink Communication Systems ("VCS"), the hardware division of the Company, for the consideration of \$16.0 million to xG Technology, Inc. ("xG Technology"). The disposal was conditional on approval of shareholders of the Company under Rule 15 of the AIM Rules which was received 9 January 2017. Subsequently on 16 January 2017 it was announced that it had been agreed to revise the specific terms of the transaction subject to shareholder approval. The headline consideration remained at \$16.0 million but was now to be satisfied by an amount of initial consideration of \$6.5 million (c. £5.5 million) and an amount of deferred consideration of \$9.5 million (c. £8.0 million), it was also agreed that the Company would retain the right to any sums received in future in respect of an outstanding debtor subject to a maximum sum of \$2.0 million (refer to note 4 in respect of the recoverability of this amount).

The shareholders' approval was received on 2 February 2017 and the transaction completed.

Subsequently, on 23 February 2017, it was announced that \$3.0 million of the deferred consideration had been settled through xG Technology taking on liability for settling \$3.0 million of VCS trade creditors, which under the revised and original Business Purchase Agreement had remained as liabilities of the Group. On the 7 March 2017 it was announced that a further \$1.6 million of the deferred consideration had been settled through xG Technology taking on liability for settling a further \$1.6 million of VCS trade creditors.

Subsequent to the announcement of 7 March 2017, on 20 March 2017, agreement was reached with xG Technology whereby the outstanding deferred consideration of \$4.9 million due from xG Technology had been settled in full by a cash payment of \$2.0 million and the release of the \$125,000 in escrow from the Initial Payment.

Consequently, the initially agreed consideration was reduced from \$16.0 million to \$13.1 million.

As at the transaction date of 2 February 2017 the net assets of the disposal group were being carried at the fair value less costs to sell the disposal group being £10.2 million. Accordingly, no further significant gain or loss in respect of the sale of this disposal group is anticipated for the year ending 31 December 2017.

On 15 March 2017 the Group sold Marlborough House, a building owned by Vislink Holdings Limited for £0.5 million. The anticipated gain on disposal of this building is £0.2 million.

In accordance with the announcement on 23 February 2017, the Company is now carrying out a strategic review of options for the business, which could include a sale of the Group.

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PEBBLE BEACH SYSTEMS GROUP PLC (FORMERLY KNOWN AS VISLINK PLC)

## REPORT ON THE COMPANY FINANCIAL STATEMENTS

### OUR OPINION

In our opinion, Pebble Beach Systems Group plc's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### EMPHASIS OF MATTER – GOING CONCERN

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the Company financial statements concerning the Company's ability to continue as a going concern and the uncertainty regarding the ongoing support of the Group's bankers. These conditions, along with the other matters explained in note 2 to the Consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

### WHAT WE HAVE AUDITED

The financial statements, included within the Annual Report & Financial Statements (the "Annual Report"), comprise:

- the company statement of financial position as at 31 December 2016;
- the company income statement for the year then ended;
- the company statement of cashflows for the year then ended;
- the company statement of changes in shareholders' equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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.
- In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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

#### ADEQUACY OF ACCOUNTING RECORDS AND INFORMATION AND EXPLANATIONS RECEIVED

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

## DIRECTORS' REMUNERATION

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

### OUR RESPONSIBILITIES AND THOSE OF THE DIRECTORS

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

## WHAT AN AUDIT OF FINANCIAL STATEMENTS INVOLVES

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

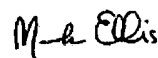
We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

## OTHER MATTER

We have reported separately on the Group financial statements of Pebble Beach Systems Group plc for the year ended 31 December 2016. That report includes an emphasis of matter.



Mark Ellis  
(Senior Statutory Auditor)  
for and on behalf of  
PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory  
Auditors  
Bristol  
28 April 2017

# COMPANY INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Administrative expenses		(2,298)	(1,472)
Other expenses		(13,300)	(199)
<b>Operating loss</b>		<b>(15,598)</b>	<b>(1,671)</b>
Operating loss is analysed as:			
Adjusted operating loss		(2,298)	(1,472)
Non-recurring items		(13,300)	(199)
Finance costs		(480)	(449)
Finance income		529	473
<b>Loss before tax</b>		<b>(15,549)</b>	<b>(1,647)</b>
Tax	G	(224)	367
<b>Loss for the year being loss attributable to shareholders</b>	R	<b>(15,773)</b>	<b>(1,280)</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 2016

	Note	2016 £000	2015 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	I	128	148
Investments in subsidiaries	J	21,507	26,507
Deferred tax assets	O	4	119
<b>Total non-current assets</b>		<b>21,639</b>	<b>26,774</b>
<b>Current assets</b>			
Trade and other receivables	K	11,982	18,336
Current tax assets	N	-	1,560
Cash and cash equivalents	L	31	297
<b>Total current assets</b>		<b>12,013</b>	<b>20,193</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	M	19,076	16,085
<b>Total current liabilities</b>		<b>19,076</b>	<b>16,085</b>
<b>Net current (liabilities)/assets</b>		<b>(7,063)</b>	<b>4,108</b>
<b>Total assets less current liabilities</b>		<b>14,576</b>	<b>30,882</b>
<b>Net assets</b>		<b>14,576</b>	<b>30,882</b>
<b>Equity attributable to shareholders</b>			
Ordinary shares	Q	3,115	3,066
Share premium	R	6,800	6,800
Capital redemption reserve	R	617	617
Merger reserve	R	4,552	4,552
Retained earnings	R	(508)	15,847
<b>Total equity</b>		<b>14,576</b>	<b>30,882</b>

The financial statements on pages 78 to 95 were approved by the Board of Directors on 28 April 2017 and were signed on its behalf by:



John Varney  
Non-Executive Chairman

**Company  
Registration  
Number:  
04082188**

# COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 January 2015	3,066	6,800	617	4,552	15,005	30,040
Adjustment in respect of Employee Share Ownership Plan	-	-	-	-	(5)	(5)
Loss for the financial year	-	-	-	-	(1,280)	(1,280)
Value of employee services	-	-	-	-	(43)	(43)
Income from shares in Group undertakings	-	-	-	-	4,000	4,000
Dividends paid	-	-	-	-	(1,830)	(1,830)
<b>At 31 December 2015</b>	<b>3,066</b>	<b>6,800</b>	<b>617</b>	<b>4,552</b>	<b>15,847</b>	<b>30,882</b>
At 1 January 2016	3,066	6,800	617	4,552	15,847	30,882
New share issue	49	-	-	-	-	49
Loss for the financial year	-	-	-	-	(15,773)	(15,773)
Value of employee services	-	-	-	-	1,247	1,247
Dividends paid	-	-	-	-	(1,829)	(1,829)
<b>At 31 December 2016</b>	<b>3,115</b>	<b>6,800</b>	<b>617</b>	<b>4,552</b>	<b>(508)</b>	<b>14,576</b>

# COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
<b>Cash flow from operating activities</b>			
Cash used in operations	S	(6,409)	(3,730)
Interest paid		(480)	(449)
Taxation paid		1,630	(905)
<b>Net cash used in operating activities</b>		<b>(5,259)</b>	<b>(5,084)</b>
<b>Cash flow from investing activities</b>			
Interest received		529	473
Purchase of property, plant and equipment	I	(2)	(107)
Income from shares in Group undertakings	H	-	4,000
<b>Net cash generated from investing activities</b>		<b>527</b>	<b>4,366</b>
<b>Cash flow from financing activities</b>			
New bank loans		6,000	1,000
Dividend paid	H	(1,829)	(1,830)
Proceeds on issue/(purchase) of shares		49	(5)
<b>Net cash generated from/(used in) financing activities</b>		<b>4,220</b>	<b>(835)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(512)</b>	<b>(1,553)</b>
Cash and cash equivalents at 1 January		297	1,850
<b>Cash and cash equivalents at 31 December</b>	L	<b>(215)</b>	<b>297</b>

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## A GENERAL INFORMATION

Pebble Beach Systems Group plc (formerly Vislink 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 also provided secure video communications for surveillance and public safety applications such as law enforcement and homeland security. Following the post year end sale of Vislink Communication Systems, the continuing Group employs over 80 people worldwide with offices in the UK and USA. The Group has net liabilities of £1.0 million and continuously invests in innovation.

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 Chilton House, Charnham Lane, Hungerford, Berkshire RG17 0EY.

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

As set out in note 2 of the Consolidated Group Financial Statements there is a significant doubt about the Group's ability to continue as a going concern. The circumstances and conditions that apply to the Group also apply to the Company, and therefore there is also the same material uncertainty that may cast doubt about the Company's ability to continue as a going concern.

### INVESTMENTS

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

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

### PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

**DEFERRED TAXATION**

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

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

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

**FOREIGN CURRENCIES**

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

**SHARE-BASED PAYMENTS**

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

**DIVIDENDS**

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

**PENSIONS**

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

**NON-RECURRING ITEMS**

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

**CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Please refer to section 4 of the Group Financial Statements.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## C SERVICES PROVIDED BY THE COMPANY'S AUDITOR

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

	2016 £000	2015 £000
Analysis of fees payable to PricewaterhouseCoopers LLP		
Fees payable to the Company's auditor for the audit of the Company's financial statements	70	58
Fees payable to the Company's auditor for other services:		
Audit-related assurance services	37	15
Other assurance services	344	-
	<b>451</b>	73
Taxation compliance services	32	17
Taxation advisory services	21	19
Services relating to corporate finance transactions	314	68
	<b>818</b>	177

A description of the work of the Audit Committee is set out in the Corporate Governance Statement on pages 22 to 27 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

## D DIRECTORS AND EMPLOYEES

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

	2016 £000	2015 £000
Wages and salaries	823	1,264
Social security costs	138	82
Other pension costs - defined contribution plans (note 27)	124	168
Share based payments (note Q)	798	27
	<b>1,883</b>	1,541

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

	2016 Number	2015 Number
Average monthly number of employees		
General and Admin	8	8
	<b>8</b>	8

The average number of employees has been calculated on a pro rata basis. The average number of employees includes directors with service contracts. The total number of employees at 31 December 2016 was 7 (2015: 8).

Key management compensation for the continuing business:

	2016 £000	2015 £000
Short term employee benefits - including salaries, social security costs and non-monetary benefits	605	581
Post-employment benefits - defined contribution pension plans	108	107
Share-based payments (note Q)	851	24
	<b>1,564</b>	<b>712</b>

The analysis of key management compensation above includes Executive Directors. Key management is defined as the senior management team. Details of directors' emoluments are included in the remuneration report on pages 28 to 32.

## E OPERATING LOSS

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

	2016 £000	2015 £000
Depreciation of property, plant and equipment (note I)	22	13
Exchange gains credited to profit and loss	(908)	(473)

	2016 £000	2015 £000
<b>OTHER EXPENSES</b>		
Other expenses comprise:		
– Non-recurring items	13,300	199

### 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:

	2016 £000	2015 £000
Liquidity advice and other costs	1,090	199
Impairment of investment	5,000	–
Write off of intercompany loans not recoverable	7,210	–
	<b>13,300</b>	<b>199</b>

The Company incurred £66,000 of aborted acquisition costs, £110,000 in professional advice in relation to the Group's liquidity position, and £914,000 of costs in relation to the sale of the Vislink Communication Systems division.

In addition, in light of the disposal of Vislink Communication Systems and related Group restructuring, a £5.0 million impairment was recognised on the Company's investment in its subsidiary, Vislink Group Holdings Limited, and £7.2 million of intercompany loans were written off as unrecoverable.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## F FINANCE INCOME – NET

	2016 £000	2015 £000
Finance costs	480	449
Finance income	(529)	(473)
Finance income – net	(49)	(24)

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

	2016 £000	2015 £000
Current tax		
UK corporation tax	–	(354)
Adjustments in respect of prior years	109	4
Total current tax	109	(350)
Deferred tax		
UK corporation tax	127	(31)
Impact of change in tax rate	(12)	14
Total deferred tax	115	(17)
Total taxation	224	(367)

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

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

	2016 £000	2015 £000
Loss before tax on continuing operations	(15,549)	(1,647)
Tax at the UK corporation tax rate of 20.0% (2015: 20.25%)	(3,110)	(334)
Adjustments in respect of prior years	109	4
Permanent differences	2,608	41
Underwater share options	5	108
Additional losses now recognised	–	(200)
Current year losses not recognised	624	–
Effect of changes in UK tax rate	(12)	14
Total taxation	224	(367)

**H INCOME FROM SHARES IN GROUP UNDERTAKINGS**

	<b>2016</b>	2015
	<b>£000</b>	£000
Income from shares in Group undertakings	–	(4,000)
Final dividend paid of 1.5 pence per share (2015: 1.5 pence per share)	<b>1,829</b>	1,830

In view of the results for the year the directors do not recommend payment of a final dividend for the year ended 31 December 2016.

**I PROPERTY, PLANT AND EQUIPMENT**

	Plant and computer equipment £000
<b>Cost</b>	
At 1 January 2015	445
Additions	107
<b>At 1 January 2016</b>	<b>552</b>
Additions	2
<b>At 31 December 2016</b>	<b>554</b>
<b>Accumulated depreciation</b>	
At 1 January 2015	391
Charge for the year	13
<b>At 1 January 2016</b>	<b>404</b>
Charge for the year	22
<b>At 31 December 2016</b>	<b>426</b>
<b>Net book value</b>	
<b>At 31 December 2016</b>	<b>128</b>
At 31 December 2015	148
At 1 January 2015	54

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

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## J INVESTMENTS IN SUBSIDIARIES

	Investments in subsidiaries' unlisted shares £000
<b>Cost</b>	
At 1 January 2016	<b>26,507</b>
Additions	–
Disposals	–
<b>At 31 December 2016</b>	<b>26,507</b>
<b>Provision for impairment</b>	
At 1 January 2016	–
Additions	5,000
Disposals	–
<b>At 31 December 2016</b>	<b>5,000</b>
<b>Net book value</b>	
<b>At 31 December 2016</b>	<b>21,507</b>
At 31 December 2015	26,507

As at 31 December 2016, following the Group restructuring activities and disposal of Vislink Communication Systems post year end, the carrying value of the investment in Vislink Group Holdings Limited has been impaired by £5.0 million.

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

## K TRADE AND OTHER RECEIVABLES

	2016 £000	2015 £000
Amounts owed by Group undertakings	<b>11,768</b>	18,063
Other debtors	<b>160</b>	138
Prepayments and accrued income	<b>54</b>	135
	<b>11,982</b>	18,336

Amounts owed by Group undertakings includes loans of £11.8 million (2015: £17.6 million) that bear interest at 2.75 per cent, and loans of £nil (2015: £0.5 million) that bear interest at 5 per cent, both of which are repayable on demand.

There are no receivables that are either past due or impaired.

## L CASH AND CASH EQUIVALENTS

	2016 £000	2015 £000
Cash and bank balances	(215)	297
<b>Cash and cash equivalents at 31 December</b>	<b>(215)</b>	<b>297</b>

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

	2016 £000	2015 £000
Cash and cash equivalents	31	297
Bank overdrafts (note M)	(246)	-
<b>Cash and cash equivalents at 31 December</b>	<b>(215)</b>	<b>297</b>

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.

	2016 £000	2015 £000
Credit rating (S&P)		
A-1	(215)	297
Total	(215)	297

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

	2016			2015		
	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	297	(9,000)	(8,703)	1,850	(8,000)	(6,150)
Cash flow for the year	(4,683)	-	(4,683)	(723)	-	(723)
Movement in borrowings in the year	6,000	(6,000)	-	1,000	(1,000)	-
Dividend paid	(1,829)	-	(1,829)	(1,830)	-	(1,830)
<b>Cash and cash equivalents at 31 December</b>	<b>(215)</b>	<b>(15,000)</b>	<b>(15,215)</b>	<b>297</b>	<b>(9,000)</b>	<b>(8,703)</b>

## M TRADE AND OTHER PAYABLES

	2016 £000	2015 £000
Bank loans and overdrafts (note P)	15,246	9,000
Trade creditors	867	227
Amounts owed to Group undertakings	1,506	6,299
Taxation and social security costs	232	39
Accruals and deferred income	1,225	520
	<b>19,076</b>	<b>16,085</b>

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## N CURRENT TAX (LIABILITIES)/ASSETS

	2016 £000	2015 £000
UK corporation tax	(179)	1,560
	<b>(179)</b>	<b>1,560</b>

## O DEFERRED TAXATION

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

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

	Accelerated tax depreciation £000	Losses £000	Other £000	Total £000
At 1 January 2016	6	88	25	119
Charge to profit or loss	(2)	(88)	(25)	(115)
<b>At 31 December 2016</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>4</b>

## P BANK LOANS

	2016 £000	2015 £000
Current:		
Bank loans and overdrafts (secured)	<b>15,246</b>	9,000

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

	2016 Loans and receivables £000	2015 Loans and receivables £000
<b>Assets as per statement of financial position at 31 December</b>		
Trade and other receivables excluding prepayments and accrued income	<b>160</b>	138
Cash and cash equivalents	<b>31</b>	297
<b>Total</b>	<b>191</b>	<b>435</b>

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

	<b>2016 Other financial liabilities at amortised cost £000</b>	2015 Other financial liabilities at amortised cost £000
<b>Liabilities as per statement of financial position at 31 December</b>		
Trade and other payables excluding payments received on account and social security liabilities	<b>2,092</b>	747
Borrowings	<b>15,246</b>	9,000
<b>Total</b>	<b>17,338</b>	9,747

## Q CALLED UP SHARE CAPITAL

	<b>Number '000s</b>	<b>2016 £000</b>	Number '000s	2015 £000
Authorised ordinary shares of 2.5 pence each at 31 December	<b>200,000</b>	<b>5,000</b>	200,000	5,000
Allotted and fully paid:				
31 December	<b>124,603</b>	<b>3,115</b>	122,603	3,066

## POTENTIAL ISSUE OF SHARES

The Company has the following share based payment schemes:

### A) EXECUTIVE SHARE OPTION SCHEMES

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

No executive options were granted during 2016 (2015: 2,896,000).

Certain senior executives hold options to subscribe for shares in the Company at prices ranging from 29.0 pence to 86.3 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	<b>2016 Number '000s</b>	2015 Number '000s
13 April 2006	53.5p	13/04/09 – 12/04/16	–	54
27 April 2007	86.3p	27/04/10 – 26/04/17	<b>50</b>	50
29 March 2012	29.0p	29/03/15 – 28/03/22	<b>100</b>	100
14 May 2015	54.0p	01/04/18 – 13/05/25	<b>1,184</b>	2,090
25 June 2015	59.5p	25/06/18 – 24/06/25	<b>636</b>	726
30 September 2015	40.9p	30/09/18 – 29/09/25	<b>80</b>	80
			<b>2,050</b>	3,100

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## Q CALLED UP SHARE CAPITAL CONTINUED

On the sale of Vislink Communication Systems on 2 February 2017 530,000 of the above options lapsed as they had not vested and a further 150,000 options will lapse if not exercised within six months of the sale of Vislink Communication Systems.

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

	Number '000s	2016 Weighted average share price at the date of grant	Number '000s	2015 Weighted average share price at the date of grant
Outstanding at beginning of year	3,100	54.7p	620	38.4p
Forfeited during the year	(996)	54.5p	(66)	53.5p
Lapsed during the year	(54)	53.5p	–	–
Exercised during the year	–	–	(350)	29.0p
Issued during the year	–	–	2,896	55.0p
Outstanding at the end of the year	2,050	53.2p	3,100	54.7p
Exercisable at the end of the year	150	48.1p	204	49.5p

No options were exercised in 2016 (2015: 350,000). The options outstanding at 31 December 2016 had a weighted average exercise price of 54.8 pence (2015: 54.7 pence) and a weighted average remaining contractual life of 8.1 years (2015: 9.0 years).

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

## B) LONG TERM INCENTIVE PLAN (LTIP)

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

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

No new LTIP options were granted during the year.

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

Date of grant	Share price at award date	Vesting date	2016 Number '000s	2015 Number '000s
28 March 2012	29.5p	28 March 2015	200	2,200
15 December 2012	26.0p	15 December 2015	–	404
12 November 2013	48.5p	12 November 2016	2,681	3,481
03 June 2014	45.1p	03 June 2017	500	600
			3,381	6,685

On the sale of Vislink Communication Systems on 2 February 2017, 600,000 of the above options lapsed as they had not vested.

When John Hawkins' employment ceases, 2 million of the above share options will lapse.

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

	Number '000s	2016 Weighted average exercise price	Number '000s	2015 Weighted average exercise price
Outstanding at beginning of year	6,685	40.6p	6,754	40.6p
Forfeited during the year	(1,304)	41.2p	(69)	48.5p
Exercised during the year	(2,000)	29.5p	-	-
Outstanding at the end of the year	3,381	46.8p	6,685	40.6p

There were 200,000 LTIP options that were exercisable at the end of the year (2015: 2,604,000).

The weighted average contractual life remaining on the LTIP options outstanding at 31 December 2016 is 6.9 years (2015: 7.5 years).

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

The Group recognised total expenses of £1,775,857 (2015: £403,330) related to equity-settled share based payment transactions in the year.

## R RESERVES

	Called up share capital £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Retained earnings £000
At 1 January 2016	3,066	6,800	617	4,552	15,847
Issue of share capital	49	-	-	-	-
Loss for the financial year	-	-	-	-	(15,773)
Value of employee services	-	-	-	-	1,247
Dividends paid	-	-	-	-	(1,829)
<b>At 31 December 2016</b>	<b>3,115</b>	<b>6,800</b>	<b>617</b>	<b>4,552</b>	<b>(508)</b>

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## S CASH FLOW FROM OPERATING ACTIVITIES

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

	2016 £000	2015 £000
Loss before tax	(15,549)	(1,647)
Depreciation of property, plant and equipment	22	13
Impairment of investment	5,000	–
Share based payment expense	1,247	(43)
Finance income	(529)	(473)
Finance costs	480	449
Decrease/(Increase) in trade and other receivables	6,354	(2,376)
(Decrease)/increase in trade and other payables	(3,434)	347
<b>Net cash used in operating activities</b>	<b>(6,409)</b>	<b>(3,730)</b>

## T CONTINGENT LIABILITIES AND COMMITMENTS

The Company is party to a cross guarantee to secure bank borrowings and facilities for credit cards, bonds and guarantees to certain members of the Group. At 31 December 2016 there was £15.0 million of bank borrowings outstanding (2015: £9.0 million).

The Company has no capital expenditure contracted for but not provided at 31 December 2016 (2015: £nil).

## U RELATED PARTY TRANSACTIONS

Included within accruals is an accrual for £nil for consultancy work carried out by Maximum Clarity, a company in which John Varney, a non-executive director of the company has a controlling interest (2015: £18,000).

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
Vislink Group Holdings Limited*	83.3%	Management holding company	UK	Chilton House, Charnham Lane, Hungerford, Berkshire, RG17 0EY, England
Vislink International Limited (incorporating the business of Advent Communications, Link Research and Gigawave)	100%	Design and manufacture of wireless camera systems satellite uplink and downlink equipment	UK	Chilton House, Charnham Lane, Hungerford, Berkshire, RG17 0EY, England
Vislink, Inc. (Incorporating the businesses of Microwave Radio Communications, Pacific Microwave Research and Western Technical Services)	100%	Design and manufacture of microwave radio transmission equipment	USA	300 Delaware Avenue, 9th Floor, DE5403, Wilmington, Delaware, USA
Amplifier Technology Limited	100%	Design and manufacture of amplifiers	UK	Chilton House, Charnham Lane, Hungerford, Berkshire, RG17 0EY, England

Pebble Beach Systems Limited	100%	Software service video capture and playout provider for the broadcast industry	UK	Unit 12, Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ, England
Pebble Broadcast Systems, Inc.	100%	Software service video capture and playout provider for the broadcast industry	USA	2095 West 6th Avenue, Suite 200, Broomfield, Colorado, 80020, USA
Vislink Holdings Limited	100%	Management holding company	UK	Chilton House, Charnham Lane, Hungerford, Berkshire, RG17 0EY, England
Continental Microwave Limited	100%	Broadcast transmission systems integration and project management	UK	Chilton House, Charnham Lane, Hungerford, Berkshire, RG17 0EY, England
Vislink Holdings, Inc.	100%	Management holding company	USA	300 Delaware Avenue, 9th Floor, DE5403, Wilmington, Delaware, USA
Vislink Technology Limited	100%	Dormant Company**	UK	Chilton House, Charnham Lane, Hungerford, Berkshire, RG17 0EY, England
Link Research Limited	100%	Dormant Company**	UK	Chilton House, Charnham Lane, Hungerford, Berkshire, RG17 0EY, England
Vislink Communications Limited	100%	Dormant Company**	UK	Chilton House, Charnham Lane, Hungerford, Berkshire, RG17 0EY, England
Advent Communications Limited	100%	Dormant Company**	UK	Chilton House, Charnham Lane, Hungerford, Berkshire, RG17 0EY, England
Multipoint Communications Limited	100%	Dormant Company**	UK	Chilton House, Charnham Lane, Hungerford, Berkshire, RG17 0EY, England
Vislink Limited	100%	Dormant Company**	UK	Wilton Park House, Wilton Place, Dublin 2, Ireland
Gigawave Limited	100%	Dormant Company**	UK	Chilton House, Charnham Lane, Hungerford, Berkshire, RG17 0EY, England
Vislink (Singapore) Pte Limited	100%	Dormant Company**	SGP	17 Changi Business Park, Central 1, #05-01/02 Honeywell Building, Singapore 486073

\* Owned directly by the Company

\*\* Unaudited

# ANALYSIS OF SHAREHOLDERS

AS AT 31 DECEMBER 2016

Holding size range	Number of shareholders	Percentage of total shareholders	Number of shares (000)	Percentage of issued share capital
0–1,000	3,565	58.0	1,581	1.27
1,001–5,000	1,942	31.6	4,406	3.54
5,001–10,000	306	5.0	2,309	1.85
10,001–100,000	245	4.0	7,345	5.89
Over 100,000	87	1.4	108,962	87.45
	6,145	100.0	124,603	100.0

## WARNING TO SHAREHOLDERS: BOILER ROOM SCAMS

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

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

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

# SHAREHOLDER INFORMATION

## BOARD OF DIRECTORS

**JOHN VARNEY**  
Independent Non-Executive Chairman

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

**OLIVER ELLINGHAM**  
Independent Non-Executive Director  
Audit Committee Chairman

**SECRETARY**  
Alison Unitt

**REGISTERED OFFICE**  
Chilton House  
Charnham Lane  
Hungerford  
Berkshire  
RG17 0EY

**COMPANY REGISTRATION NUMBER**  
04082188

**AUDITORS**  
**PRICEWATERHOUSECOOPERS LLP**  
2 Glass Wharf  
Bristol  
BS2 0FR

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

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

**REGISTRARS COMPUTERSHARE INVESTOR  
SERVICES PLC**  
The Pavilions  
Bridgwater Road  
Bristol  
BS99 6ZZ

**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 BS99 6ZZ 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 & 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).