

PhotonStar LED Group Plc

Half year results

PhotonStar LED Group Plc (AIM: PSL, "PhotonStar" or "the Group"), the British designer and manufacturer of smart LED lighting solutions, announces its half year results for the six months ending 30 June 2016.

Operational and strategic overview

- Paid for trials for Halcyon™ and halcyon cloudBMS™, which are expected to lead to larger roll out opportunities, now installed and customer planning Phase 2 roll out discussions are taking place.
- The first Phase 2 Halcyon order secured from an NHS Hospital following a successful three month on-site trial;
- Participated at IBM Interconnect in February 2016 and previewed cloudBMS™, which delivers Internet of Things ("IoT") Building Management System as a Service (BMaaS™)
- Secure commissioning patent granted - Targeted at IoT lighting, sensors, actuators and other devices employed where security vulnerabilities must be safeguarded
- Established a new Halcyon IoT team to better deliver 'turnkey' IoT lighting and cloudBMS™ solutions to customers, with additional staffing being satisfied through outsourcing arrangements
- Business restructuring during Q1 2016 has resulted in a significantly leaner organisation with an annualised cost saving on overheads of approximately £0.5m

Financial overview

- Raised £1.00m (before expenses) of additional capital from new and existing shareholders in March 2016 to further expand the Halcyon™ software and services offering
- Revenues down 22% to £2.53m (H1 2015: £3.26m)
- Gross profit margin down to 33% (H1 2015: 37%)
- Administrative expenses down 4% to £1.76m (H1 2015: £1.83m)
- Adjusted EBITDA loss increased to £0.54m (H1 2015: loss £0.20m)
- Pre-tax loss of £0.91m (H1 2015: loss £0.59m)
- Loss per share of 0.4p (H1 2015: loss per share 0.4p)
- At 30 June 2016, net debt £0.68m (H1 2015: net debt £0.67m)
- H1 2016 Segmental revenue analysis
 - Lighting Fixtures revenues down 21% to £1.59m (H1 2015:£2.00m)
 - Contract manufacturing revenues down 32% to £0.68m (H1 2015:£1.00m)
 - Halcyon / Light engines up 6% to £0.26m (H1 2015:£0.25m)
- Segmental Adjusted EBITDA analysis
 - Lighting Fixtures loss of £0.25m (H1 2015: loss £0.09m)
 - Contract manufacturing loss of £0.05m (H1 2015: profit £0.10m)
 - Halcyon / Light engines loss of £0.10m (H1 2015: loss £0.06m)

James McKenzie, Chief Executive of PhotonStar, said:

"In H1 2016, we made good progress in transitioning the Group into becoming a retrofit connected lighting and building management business. We have installed a number of trials in a variety of different industry sectors and have just received our first Phase 2 order from these trials. We are therefore very pleased with the significant progress in this area of the business.

The traditional lighting business continues to be affected by significant competitor price reductions, resulting in a decline in revenues and increased pressure on profit margins. We have restructured the Group in order for this area of the business to be profitable at the lower revenue levels now experienced and to better deliver upon the growth opportunities afforded by Halcyon IoT projects and paid for trials which we hope will lead to the roll out of significant new contracts.

Key technical demonstrations of halcyonPRO2™ and cloudBMS™ products at IBM interconnect 2016 point the way to the future of the group and its future growth."

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) 596/2014.

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About PhotonStar LED Group Plc

PhotonStar LED Group Plc is a leading British designer and manufacturer of intelligent lighting and building control solutions. The Group's proprietary technology Halcyon™ is a scalable, secure wireless IoT platform for retrofit into commercial buildings, for energy reduction, asset monitoring & control, and real time environmental, behavioural and energy insights.

PhotonStar is based in Romsey, Hampshire with a manufacturing facility in Wales.

Overview

The Group has been concentrating upon the successful delivery of the Halcyon™ product range to customers for both one off projects and also for paid for trials. The express intention by both PhotonStar and its paid for trial customers is that such trials are expected to lead to material roll outs across numerous sites in many locations. We are, therefore, very pleased to be able to report that following a trial lasting three months the first of these Phase 2 orders has now been received from a NHS hospital located in the North of England. This order is the first of what is expected to become a roll out across the trusts hospital estate with an initial order value of £60,000. We are in active discussions with our other paid for trial customers about moving to Phase 2 with them as well and so anticipate further large scale roll outs over the coming months.

In order to achieve the delivery of successful trials followed by large scale roll outs across multiple sites we have re-organised the Group from one that has been more traditionally set up to deliver standard lighting solutions through standard lighting sales channels into one that delivers Halcyon™ directly to customers with sub-contractors in place to carry out the work and customer liaison and training being organised by PhotonStar. We have achieved this by creating a small team of directly employed key staff who work with a network of sub-contractors. This means that we are able to be highly flexible in terms of the technicians that are needed for a particular installation without incurring substantial fixed costs and overheads that would come with these highly trained people being directly employed. The initial paid for trials that are now installed and are being monitored by ourselves and the relevant customer cover a wide cross section of industries and also a range of project sizes. We anticipate that in future these trials will also act as reference sites for new customers so that we are able to move more quickly from the project design phase into full scale project delivery rather than having to install a trial project as an interim step.

PhotonStar remains heavily focused on further expanding its Halcyon™ product range and to use this range to transition itself into a Group that increasingly focuses on being a retrofit connected lighting and building management business, which offers the potential to address a broad range of significant future business opportunities and markets.

The Group's proprietary technology Halcyon™ is a scalable, secure wireless IoT platform for retrofit into commercial buildings, for energy reduction, asset monitoring & control, and real time environmental, behavioural and energy insights. The ability of the system to gather and report real time data has created significant interest from a wide range of industry sectors which regard this ability as a key part of their future needs requirements.

The Board is pleased with the on-going collaboration with IBM and anticipates that this will lead to some further project work within IBM premises and also as a result of the steady flow of introductions by IBM to a variety of potential customers where IBM have identified a customer requirement for cloudBMS™. This started at the beginning of the year with the test installation at IBM's Hursley House offices, then developed into a demonstration of the Halcyon™ intelligent wireless lighting system operating with the IBM Watson IoT Cloud platform to IBM® clients and partners at IBM's Global Watson IoT Headquarters in Munich, Germany and also attendance by PhotonStar at the IBM Interconnect Conference in February 2016, where PhotonStar previewed its cloudBMS™, the new cloud based solution that delivers an IoT Building Management System as a Service (BMaaS™). The new solution is built on the second generation of its low cost retrofittable wireless monitoring and control platform, halcyonPRO2™. PhotonStar also demonstrated the automated shading solution feature of halcyonPRO2™ at the event. This solution taps into the IBM Watson IoT Platform, taking environmental and occupancy data from the Halcyon™ sensor network, geolocation information per room and real time weather and forecast data from The Weather Company, an IBM Business, to optimise window shade use to deliver maximum energy savings thus reducing HVAC costs by intelligently using or preventing solar heat gain and optimizing thermal, daylight and visual comfort for building occupants. PhotonStar demonstrated with IBM the retrofittable asset monitoring feature of halcyonPRO2™ and cloudBMS™, providing device health and key asset performance indicator information seamlessly to IBMs Maximo asset management package.

The initial development of Halcyon™ is now largely complete with current and future development work concentrating on improvements to Halcyon™ and the expansion of cloud services.

We have also been working to ensure that our more traditional businesses are changed in order to reflect the ever increasing competitiveness of the markets that they operate in. This has meant that during the period under review we have cut a significant amount of overheads out of the business. The full financial benefit of this work will be seen from October 2016 but we expect that the saving on overheads for the second half of 2016 will be approximately £0.25m and the full year saving next year will be approximately £0.5m. Alongside the huge effort in reducing our cost base we have also re-organised the sales efforts of the businesses in order to ensure that we

successfully generate revenue and at the same time to ensure that our gross profit margins recover from the poor levels that we have endured in the period under review. We are starting to see the impact of these efforts, with gross margins in all business segments now increasing again from a low for the Group of approximately 24% in January 2016 to 40% in June 2016 alongside revenue growth. There is no doubt that the traditional lighting markets have continued to be highly competitive with constant downward pressure on prices. In addition the recent increased volatility of exchange rates has meant that our costs of imported goods have become harder to forecast. We do believe however that we are much better placed to generate positive results in terms of increased revenues, better gross margins and a positive contribution to the EBITDA result in the second half of this year and into 2017.

On 25 February 2016 it was announced that the Group had conditionally raised gross proceeds of £1.00m (before expenses) by way of a placing of 38,000,000 ordinary shares of 1p each and a subscription of 2,000,000 ordinary shares of 1p each at a price of 2.5p per share. The funds raised have been used to complete the Halcyon™ development work and to provide the capital required for on-going software and product expansion together with Halcyon™ channel and brand development. The Board welcomes the new shareholders and thanks existing shareholders for their continued support to the Company. The net funds raised will also be used to capitalise on the significant investment that has already been made into the Company and will, it is anticipated, transform PhotonStar into a retrofit connected lighting and building management business with hardware sales and a recurring revenue base.

Business review

PhotonStar Technology Ltd -Halcyon IoT and LED light engines ("PST")

Focused on retrofitting existing buildings with lighting, environmental monitoring and cloud based building management services

The Group was restructured during the period under review to create a new Halcyon IoT team to better deliver 'turnkey' IoT lighting and cloudBMS™ solutions and services to customers. The team became operational in April 2016 and since then has made solid progress in delivering projects and trials with customers which had a positive effect on revenues. This trend continued after the period end with £0.1m of revenue being recorded in July 2016 alone following the installation of a second major trial with a company that is responsible for a large amount of student accommodation. The Halcyon™ IoT team are now focused on ensuring that the installed trials are completed successfully in anticipation of a further roll out across the customers' entire property estate.

In January 2016, Halcyon™ was selected by the Royal Bank of Scotland Group plc ("RBS"), the international banking and financial services company, to install Halcyon into one part of Trinity House, the RBS commercial office building in Bristol. This trial has been funded by RBS as part of its initiative to source innovative solutions to address a range of environmental challenges. We are pleased to be able to report that we have now successfully installed Halcyon™ and it is being monitored to assess its effectiveness to help reduce the energy consumption and environmental impact of the office building. This trial installation is now being evaluated by RBS and ourselves in order to gain further insight into how the system operates and the information and cost savings that it delivers.

During the period under review we have also installed Halcyon™ into a number of other buildings in a variety of different industry sectors. We expect that we will experience significant financial and property usage benefits from the Halcyon™ system. Many of the trials that we have now installed are part of significant property portfolios. Management's expectation is that these trials will provide compelling information and confirmation of the benefits of installing the Halcyon™ system. Due to the fact that Halcyon™ has been designed as a retrofit system the payback on installation costs for the customer are usually less than 12 months so management are confident that the results of the trials will help convince the customer that a full scale roll out is both desirable and affordable.

The new halcyonPRO2™ is an extended version of the original Halcyon™ system and adds the regulation of heating and cooling, shading and power management to the proven lighting control and environmental sensor network already in use in the first Halcyon™ product. cloudBMS™, halcyonPRO2™ and cloud based analytics combine to deliver an extremely capable, scalable and secure BMaaS™ solution at a price point and low entry cost that enables owners of small to medium sized businesses to reduce energy and operating costs and realise new insights into their operations.

The combination of the retrofittable hardware and sensor inputs, cloud analytics, visualisation and the connectivity options to asset management software will lower operating expenses for owners of multiple facilities by reducing manual compliance tests, manual monitoring and inspection of assets, and enable smart predictive and preventative maintenance.

In March 2016 the Company announced the grant of the first of its IoT patents on secure commissioning. The secure commissioning patent is a critical element of the Halcyon™ and halcyonPRO2™ wireless network technology. The out-of-band secure commissioning patent is targeted at IoT lighting, sensors, actuators and other devices employed particularly in commercial applications where security vulnerabilities at the commissioning stage must be safeguarded. The commissioning approach provides multiple novel options to securely join wireless devices of different types to a network without the need to be in physical contact or in proximity of the device, while not compromising the network security keys. The protocol also benefits from its ability to commission devices at any time, even following installation, without the need for special commissioning time windows. This lends itself to commercial installation practices where phased installation and commissioning may take place.

The Board anticipates that PST's revenue growth will be driven by a combination of hardware sales and services in lighting, heating, cooling, ventilation and critical asset monitoring. Management anticipate that as the systems are installed the service revenue component will strengthen the Group's gross margin.

PhotonStar LED Ltd - LED fixtures business

LED lighting focused on the new build market

During the period under review LED Lighting Fixtures revenues fell by 21% to £1.59m (with EBITDA losses of £0.25m) compared to the first half of 2015 when revenues were £2.00m and which generated an EBITDA loss of £0.09m. The export specification business came under significant pressure with revenues falling significantly due to economic conditions deteriorating in the Middle East. In addition the unexpected increase in demand from house builders meant that we experienced stock shortages in house-builder and wholesale product lines so that we were unable to meet the full demand that we experienced and some of the fulfillment of this demand that we did satisfy was through the use of airfreight product and parts which impacted margins. We resolved these issues during the second quarter so that revenues for that period improved. The resolution of these issues and the reduced cost base moved the fixtures business back into profitability on an EBITDA basis during June 2016 and we expect this trend to continue in the second half of the year.

The lighting market continues to transition towards LED lighting, with colour-tuneable and Circadian LED lighting becoming a significant subsector. The market in Europe alone is estimated to be worth up to €2.3bn per year by 2020 (Source: Lighting Europe 2013, 'Human Centric Lighting'). The company has installed a number of such projects in H1 2016 including:

- Derriford Hospital, Glenborne wing (Phase 2); and
- The Royal Mint visitor centre

House builder sales exceeded forecast in 2015 and H1 2016. The Group benefits from an exclusive contract with a leading UK house builder, initially announced in September 2012. The company subsequently announced in June 2016 that its major house builder contract has been extended for another year. Management are monitoring the housing sector closely with regards to the future demand for its lighting products as it remains unclear what effect, if any, the Brexit vote will have on the new build housing sector.

Camtronics Vale Ltd

External customer contract electronics manufacturing business

Camtronics Vale Limited, a subsidiary of the Company, undertakes critical LED and electronic assembly operations for the Group's manufacture of its lighting fixtures. Camtronics Vale also contracts electronics manufacturing for some third party customers. Contract manufacturing revenues were down 32% to £0.68m (H1 2015:£1.00m) with a loss of £0.05m (H1 2015: profit £0.10m). This company experienced a material fall in revenue during the final quarter of 2015 and the first quarter of the period under review. The fall in revenue was due to a number of factors including a key customer deciding to source its product from overseas and a new customer placing a very large assembly order but then entering receivership. We have reduced the cost base of this company and increased our sales effort so that the revenues are now growing again and we expect will be back to the historic levels that we have benefited from by the fourth quarter of the current year. This growth in revenues and reduction in costs means that we expect that this company will make a positive contribution to the Group's revenues in the second half of 2016.

Financial review

The Group is making good progress in transitioning from its traditional LED product markets into becoming a retrofit connected lighting and building management business. Meanwhile, focus continues on maximizing its traditional revenues and maintaining its margins, and investing in the enhancement of its Halcyon product range and its building management services.

The Group's half year revenues decreased by 22% to £2.53m (H1 2015: £3.26m) with a gross profit margin of 33% (H1 2015: 37%).

Administrative expenses decreased by a further £0.07m to £1.76m (H1 2015: £1.83m), due to downsizing in 2014, 2015 and 2016, and continuing tight control on costs (whilst maintaining the substantial investment in R&D and product development).

Adjusted EBITDA (adjusted for share based payments) loss was £0.54m (H1 2015: loss £0.20m).

The Group reported a pre-tax loss of £0.91m (H1 2015: loss £0.59m) and loss per share for the half year was 0.4p (H1 2015: loss per share 0.4p). The Group's unused aggregate tax losses are approximately £9m.

Group net borrowings debt at 30 June 2016 was £0.68m (H1 2015: £0.67m).

Group capital expenditure was £0.59m (H1 2015: £0.49m), related to the purchase of the latest equipment for contract manufacturing, and to the continuing investment in product development and the patent portfolio, in particular the development of the Halcyon™ lighting systems.

Current Trading and Outlook

The Group enters the second half of 2016 as a much leaner business and with a significantly reduced cost base. We anticipate that the final cost savings benefit from the work already undertaken will be reflected in the accounts from October 2016. The research and development work that we have undertaken over the last three years for the creation of Halcyon™ and halcyonPRO2™ is now largely complete with current and future development work concentrating on improvements, new solutions and markets for Halcyon™ rather than the creation of the system itself.

Trading continues to be difficult in the traditional LED and contract assembly businesses, with competitive price pressure remaining. However, further revenue improvement in all business units is being seen in the current period of Q3 2016 which, together with the cost savings already in place, means that although trading is currently below market expectations when considering the results for the first half of 2016 on an annualised basis, we expect that the second half of 2016 will provide a positive contribution to the results for the full year.

The Group has targeted Halcyon™ sales and marketing efforts into the retrofit market and we continue to see good growth in this market. This combined with the fact that our development work for this industry leading product is now complete means that the Board views the future with increased optimism.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016

		6 Months Ended 30 June 2016 Unaudited £'000	6 Months Ended 30 June 2015 Unaudited £'000	Year Ended 31 December 2015 Audited £'000
	Notes			
Revenue	2	2,532	3,256	6,901
Cost of Sales		(1,696)	(2,056)	(4,416)
Gross Profit		836	1,200	2,485
Administrative Expenses		(1,762)	(1,834)	(3,567)
Other Income		35	46	74
Operating Loss before exceptional item		(891)	(588)	(1,008)
Exceptional item	2	-	-	(1,983)
Operating loss after exceptional item	2	(891)	(588)	(2,991)
Financial Expense		(23)	(14)	(34)
Loss Before Income Tax		(914)	(602)	(3,025)
Taxation Credit	3	130	136	258
Loss and total comprehensive income for the period attributable to the Equity Shareholders of the Parent		(784)	(466)	(2,767)
Loss per share Basic and diluted	4	(0.4)p	(0.4)p	(1.9)p

**Consolidated Statement of Financial Position
as at 30 June 2016**

	30 June 2016 Unaudited £'000	30 June 2015 Unaudited £'000	31 December 2015 Audited £'000
Non-Current Assets			
Property, Plant & Equipment	435	296	214
Intangible Assets	1,848	3,623	1,811
Total Non-Current Assets	2,283	3,919	2,025
Current Assets			
Inventories	956	1,244	874
Trade & Other Receivables	1,139	1,610	1,637
Current Tax Assets	311	302	360
Cash & Cash Equivalents	247	158	197
Total Current Assets	2,653	3,314	3,068
Total Assets	4,936	7,233	5,093
Equity			
Ordinary Share Capital	1,877	1,438	1,477
Share premium	7,773	7,188	7,271
Share capital reduction reserve	10,081	10,081	10,081
Share option reserve	617	626	599
Reverse acquisition reserve	(8,843)	(8,843)	(8,843)
Profit and Loss	(8,964)	(5,879)	(8,180)
Equity	2,541	4,611	2,405
Liabilities			
Current Liabilities			
Trade & Other Payables	1,416	1,758	1,595
Borrowings	930	825	1,042
Provisions	34	24	36
Total Current Liabilities	2,380	2,607	2,673
Non-Current Liabilities			
Deferred Tax Liabilities	15	15	15
Total Liabilities	2,395	2,622	2,688
Total Equity and Liabilities	4,936	7,233	5,093

**Consolidated Statement of Cash Flows
For the six months ended 30 June 2016**

	6 Months Ended 30 June 2016 Unaudited £'000	6 Months Ended 30 June 2015 Unaudited £'000	Year Ended 31 December 2015 Audited £'000
Cash Flows from Operating Activities			
Operating Loss	(891)	(588)	(3,025)
Exceptional item – impairment	-	-	1,983
Depreciation	49	69	133
Amortisation	278	290	584
Share Option Charge	18	30	3
Movement in Provisions	(2)	(7)	5
Grant Income	(35)	(26)	(74)
Receipt of grants	25	-	41
Change in Inventories	(82)	(60)	185
Change in Trade & Other Receivables	498	(36)	(63)
Change in Trade & Other Payables	(169)	(249)	(406)
Cash Generated from/(Used in) Operations	(311)	(577)	(634)
Interest Paid	(23)	(14)	-
Tax Received	179	-	64
Net Cash Generated from/(Used in) Operating Activities	(155)	(591)	(570)
Cash Flows From Investing Activities			
Proceeds on disposal of Plant, Property & Equipment	-	1	-
Purchase of Property, Plant and Equipment	(270)	(27)	(51)
Purchase of Intangible Assets	(315)	(461)	(758)
Net Cash Used in Investing Activities	(585)	(487)	(809)
Cash Flows from Financing Activities			
Proceeds from the issue of ordinary shares	902	-	122
New bank facilities	-	-	872
Repayment of previous bank facilities	-	-	(872)
Increase/(Decrease) in borrowings	(112)	99	317
Net Cash (Used in)/Generated from Financing Activities	790	99	439
Net (Decrease)/Increase in Cash and Cash Equivalents	50	(979)	(940)
Cash and Cash Equivalents at the Start of the Period	197	1,137	1,137
Cash and Cash Equivalents at the End of the Period	247	158	197

**Consolidated Statement of Changes in Equity
For the six months ended 30 June 2016 (unaudited)**

	Ordinary Share Capital £'000	Share Premium £'000	Share capital reduction reserve £'000	Share Option Reserve £'000	Reverse Acquisition Reserve £'000	Retained Losses £'000	Total £'000
At 1 January 2016	1,477	7,271	10,081	599	(8,843)	(8,180)	2,405
Issue of New Shares	400	502	-	-	-	-	902
Share Option Charge	-	-	-	18	-	-	18
Comprehensive Loss for the Period	-	-	-	-	-	(784)	(784)
At 30 June 2016	1,877	7,773	10,081	617	(8,843)	(8,964)	2,541

For the six months ended 30 June 2015 (unaudited)

	Ordinary Share Capital £'000	Share Premium £'000	Share capital reduction Reserve £'000	Share Option Reserve £'000	Reverse Acquisition Reserve £'000	Retained Losses £'000	Total £'000
At 1 January 2015	1,438	7,188	10,081	596	(8,843)	(5,413)	5,047
Share Option Charge	-	-	-	30	-	-	30
Comprehensive Loss for the Period	-	-	-	-	-	(466)	(466)
At 30 June 2015	1,438	7,188	10,081	626	(8,843)	(5,879)	4,611

For the year ended 31 December 2015 (audited)

	Ordinary Share Capital £'000	Share Premium £'000	Share capital reduction Reserve £'000	Share Option Reserve £'000	Reverse Acquisition Reserve £'000	Retained Losses £'000	Total £'000
Balance at 1 st January 2015	1,438	7,188	10,081	596	(8,843)	(5,413)	5,047
Issue of new shares	39	83	-	-	-	-	122
Share Option Charge	-	-	-	3	-	-	3
Comprehensive Loss for the Period	-	-	-	-	-	(2,767)	(2,767)
At 31 December 2015	1,477	7,271	10,081	599	(8,843)	(8,180)	2,405

Notes to the financial statements

For the six months ended 30 June 2016 (unaudited)

1. Basis of preparation

These interim financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively "Adopted IFRS").

The principal accounting policies used in preparing these interim financial statements are those expected to apply to the Group's Consolidated Financial Statements for the year ending 31 December 2016 and are unchanged from those disclosed in the Group's Annual Report for the year ended 31 December 2015.

The financial information for the six months ended 30 June 2016 and 30 June 2015 is unaudited and does not constitute statutory financial statements for those periods.

The comparative financial information for the year ended 31 December 2015 is not statutory accounts within the meaning of s434 of the Companies Act 2006 but has been derived from the audited statutory financial statements for that year. The statutory accounts for the year ended 31 December 2015 have been reported on by the Company's auditor, delivered to the Registrar of Companies and have been sent to the shareholders.

The Auditor's opinion on the Group's statutory financial statements for the year ended 31 December 2015 included the following:

"Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2015 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 2.2 to the financial statements concerning the directors' assessment of the ability of the Company and the Group to continue as going concerns. The ability of the Company and the Group to continue as going concerns is dependent on the Group achieving the sales and profits growth projected by the directors in their current forecasts. The Directors are confident of being able to meet these forecasts, however, there can be no guarantee that these will be met within the necessary timeframe. These conditions indicate the existence of material uncertainty which may cast significant doubt about the ability of the Company and the Group to continue as going concerns. The financial statements do not include the adjustments that would result if the Group and the Company was unable to continue as going concerns."

The directors' disclosures made in note 2.2 to the financial statements remain valid and are reproduced in full below:

"The directors have adopted the going concern basis in preparing the financial statements for the year to 31 December 2015. In reaching this conclusion, the directors have considered for both the Company and the Group, current trading and the current and projected funding position for the period of just over 12 months from the date of approval of the financial statements through to 31 May 2017.

Current Funding

The Group's cash balance at 31 December 2015 was £197,000 and the drawdown of borrowings was £1,041,000 against bank facilities of £1,650,000. Since then the Group has continued to execute its business plan by:

- investing in the continuing growth of its Lighting fixtures business and the development of new product ranges,
- continued further investment in expanding its Halcyon range, and
- continued transition of the Group into a retrofit connected lighting and building management business through its Halcyon™ and cloudBMS™ platforms.

Projected Funding

Subject to the continued growth in Halcyon™ sales, the cash flow projections show that the Group can continue to operate for a period of 12 months from the date the financial statements were signed.

The achievement of these projections is subject to uncertainties described below.

The projections include assumptions on the amount and timing of revenue and gross margin that the Group expects to achieve during the period of the projections. These assumptions are subject to both market and other uncertainties, as discussed in the Chief Executive Officer's Statement and the Strategic Report.

The Group has incurred a net loss of £2,767,000 in the year (2014: £1,332,000) and has been loss making since incorporation. The projections reflect the directors' expectation that the Group will be monthly adjusted EBITDA positive in 2016. To the extent there is a shortfall in revenue and/or gross margin, it is likely to be at least partially offset by a reduction in working capital requirements. Nevertheless, the ability of the Company and the Group to continue as going concerns is dependent on the ability of the Group to achieve the growth in sales of its products projected by the directors in their current forecasts. Growth needs to be sufficient for the Company and the Group to be able to operate within their cash resource and borrowing facilities.

Conclusion

It is acknowledged that the achievement of these projections is subject to market and other uncertainties as outlined above and consequently there is a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concerns. Nevertheless, after taking account of the Group's current funding position, its cash flow projections and the risks and uncertainties associated with these, the directors have a reasonable expectation that the Group and Company have access to adequate resources to continue in operational existence for the foreseeable future. For these reasons they continue to prepare the financial statements on a going concern basis. These financial statements do not include any adjustments that would result from the going-concern basis of preparation being inappropriate."

2. Segmental Information

The Group's reportable segments are currently LED Light Fixtures, Halcyon and LED Light Engines and Contract Manufacturing. Prior period results have been restated to reflect the revised management reporting responsibilities from the beginning of 2016.

Six Months Ended 30 June 2016 (unaudited)	LED Lighting Fixtures £'000	Halcyon & Light Engines £'000	Contract Manufacturing £'000	Total £'000
Revenue;				
UK	1,495	263	600	2,358
Rest of World	97	-	77	174
Total Revenue	1,592	263	677	2,532

Adjusted EBITDA for reportable segments	(252)	(95)	(49)	(396)
Depreciation and Amortisation	(129)	(173)	(25)	(327)
Interest Expense	(8)	-	(15)	(23)
Taxation Credit	35	95	-	130
Total Assets	1,736	1,891	802	4,429
Total Liabilities	684	277	408	1,369

Six Months Ended 30 June 2015 (unaudited, restated)

	LED Light Fixtures £'000	Halcyon & Light Engines £'000	Contract Manufacturing £'000	Total £'000
Revenue				
UK	1,586	247	822	2,655
Rest of World	419	-	182	601
Total Revenue	2,005	247	1,004	3,256
Adjusted EBITDA for reportable segments	(86)	(63)	99	(50)
Depreciation and Amortisation	(162)	(176)	(21)	(359)
Interest Expense	(8)	-	(6)	(14)
Taxation Credit	42	94	-	136
Total Assets	2,149	1,845	880	4,874
Total Liabilities	733	242	522	1,497

Year Ended 31 December 2015 (audited, restated)	LED Light Fixtures £'000	Halcyon & Light Engines £'000	Contract Manufacturing £'000	Total £'000
Revenue;				
UK	3,648	503	1,699	5,850
Rest of World	387	-	664	1,051
Total Revenue	4,035	503	2,363	6,901
Adjusted EBITDA for reportable segments	(55)	(284)	273	(66)
Depreciation and Amortisation	(292)	(384)	(41)	(717)
Interest Expense	(19)	-	(15)	(34)
Taxation Credit	59	199	-	258
Total Assets	1,964	1,891	808	4,663
Total Liabilities	676	348	511	1,535

Adjusted EBITDA for reportable segments is defined as EBITDA before Share Option Charge and Corporate Expense allocation.

Reconciliation of Adjusted EBITDA to Loss Before Tax

	6 Months ended 30 June 2016 Unaudited £'000	6 Months Ended 30 June 2015 Unaudited £'000	Year Ended 31 December 2015 Audited £'000
Adjusted EBITDA for Reportable Segments	(396)	(50)	(66)
Corporate Expense	(150)	(149)	(170)
Adjusted EBITDA	(546)	(199)	(236)
Share Option Charge	(18)	(30)	(55)
Depreciation and Amortisation	(327)	(359)	(717)
Interest Expense	(23)	(14)	(34)
Exceptional Item*	-	-	(1,983)
Loss before Tax	(914)	(602)	(3,025)

* The exceptional item related to a non-cash impairment provision arising from the Group's change in strategic direction transitioning towards a Group increasingly focused on being a retrofit connected lighting and building management business. The impairment charge was made against non-strategic areas of the Group, mainly the remaining goodwill on the Balance Sheet from the reverse transaction with Enfis in 2010.

Reconciliation of Reportable Segment Assets to Total Assets

	30 June 2016 Unaudited £'000	30 June 2015 Unaudited £'000	31 December 2015 Audited £'000
Segment Assets for Reportable Segments	4,429	4,874	4,663
Unallocated:			
Cash at Bank	247	158	197
Impaired Assets*	-	1,983	-
Other	260	218	233
Total Assets per the Statement of Financial Position	<u>4,936</u>	<u>7,233</u>	<u>5,093</u>

Reconciliation of Reportable Segment Liabilities to Total Liabilities

	30 June 2016 Unaudited £'000	30 June 2015 Unaudited £'000	31 December 2015 Audited £'000
Segment Liabilities for Reportable Segments	1,369	1,497	1,535
Unallocated:			
Borrowings	930	825	1,042
Other	96	300	111
Total Liabilities per the Statement of Financial Position	<u>2,395</u>	<u>2,622</u>	<u>2,688</u>

3. Income Tax Credit

The income tax credit of £130,000 for the six months ended 30 June 2016, (6 months ended 30 June 2015: £136,000; year ended 31 December 2015: £258,000) represents estimated research and development tax credit receivable for that period. Excluding these matters, the effective tax rate for the Group for the year ended 31 December 2016 is expected to be zero, reflecting the availability of estimated brought forward tax losses at 31 December 2015 of about £9m.

4. Earnings per share

	6 months ended 30 June 2016	6 months ended 30 June 2015	Year ended 31 December 2015
Loss attributable to ordinary shareholders	£(784,000)	£(466,000)	£(2,767,000)
Weighted average number of ordinary shares	184,042,465	124,868,624	144,042,465
Basic and diluted loss per share	(0.4p)	(0.4p)	(1.9p)

Diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding after adjusting these amounts for the effects of dilutive potential ordinary shares.

As the results for the six months ended 30 June 2016 and 30 June 2015 and for the year ended 31 December 2015 are losses, any exercise of share options would have an anti-dilutive effect on earnings per share. Consequently earnings per share and diluted earnings per share are the same as potentially dilutive share options have been excluded from the calculation.

5. Copies of Interim Report

Copies of this interim report are available upon request to members of the public from the Company's registered office, Unit 8 Westlink, Belbins Business Park, Cupernham Lane, Romsey, Hampshire SO51 7JF. This interim report can also be viewed on the Group's website: www.photonstarled.com.