24 May 2017

PhotonStar LED Group Plc

Full year results

PhotonStar LED Group Plc (AIM: PSL, "PhotonStar" or "the Group"), the British designer and manufacturer of smart LED lighting solutions, announces its audited results for the year ended 31 December 2016.

Financial Performance and operational highlights in 2016

- Reported loss before tax reduced to £1.43m (2015: loss £3.03m);
- Basic loss per share reduced to 0.6p (2015: basic loss per share 1.9p);
- Net debt reduced to £0.61m (2015: Net debt of £0.84m);
- Revenue fell 23% to £5.32 million (2015: £6.90m);
- Gross profit fell 29% to £1.76m (2015: £2.49m);
- Adjusted EBITDA* loss increased to £0.70m loss (2015: loss £0.24m);

* 'Adjusted EBITDA' is defined as EBITDA before share option charge and exceptional items.

- Focus in 2016 of the successful delivery of the Halcyon™ product range to customers for one off projects and paid for trials;
- The transition of Halcyon™ into a software solutions business continued;
- Completed development work on hardware for Halcyon™ lighting and environmental monitoring solutions during the fourth quarter of 2016 which should reduce research and development expenditure by approximately £0.15m p.a. from the first quarter of 2017; and
- Raised £1.00m (before expenses) of additional capital in February 2016 to further expand the Halcyon™ software and services offering.

Post year end

- halcyon CloudBMS product commercially available from 1 April 2017. The new HalcyonPRO2™ adds 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;
- On 27 April 2017, the Group announced a letter of intent regarding the proposed roll out of the halcyonPRO2™ and its halcyon CloudBMS platform; and
- Raised £0.46m (before expenses) of additional capital in May 2017 to fund the proposed roll out of the halcyonPRO2™ and its halcyon CloudBMS platform and to provide the Group with additional working capital.

James McKenzie, CEO of PhotonStar, said:

"In 2016, steady progress was made 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 sectors.

The traditional lighting business has been placed under significant pressure with deteriorating economic conditions in the Middle East, significant competitor price reductions and uncertainty due to Brexit in the second half of 2016. This resulted in a decline in revenues and increased pressure on profit margins. Costs savings have been made however and the Group is now a leaner business.

The Group experienced challenging trading conditions during the second half of 2016, which continued during the first quarter of 2017 but following the Company's recent participation at the IBM InterConnect 2017 Conference management have felt more confident about the market potential for the halcyonPRO2™ and its halcyon CloudBMS platform. In addition, I was pleased to announce on 27 April 2017 the receipt of a letter of intent from a leading manager and developer of student accommodation in the UK about the proposed roll out of this platform with the proposed installation of approximately 50,000 of the Group's Halcyon™ devices.

I am very grateful for the continuing support that the Company's existing shareholders have shown over the last 18 months and look forward to providing further updates regarding the proposed roll out of Halcyon as 2017 progresses."

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 and cloud based 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

2016 was a year when the Group concentrated on 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. The installation and monitoring of trials has been an on-going process that has generated significant feedback to us which has allowed us to improve the offering. The process has taken longer than we originally anticipated as a consequence of us undertaking various upgrades to the offering and also due to the customers wanting to trial a variety of different applications, reflecting the flexibility of Halcyon and the wide range of building management issues that can be addressed. We are however delighted to have been able to announce since the end of the financial year under review that we have received a Letter of Intent regarding the proposed roll out of the halcyonPRO2 and its halcyon CloudBMS platform. This was received from a leading manager and developer of student accommodation in the UK following a 9 month trial period that commenced in July 2016.

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.

The Group's proprietary technology Halcyon™ is a scalable, secure wireless IoT ("Internet of Things") platform for retrofit into commercial buildings, for energy reduction, asset monitoring & control, and near real time environmental, behavioral and energy insights. The ability of the system to gather and report near 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. In addition, PhotonStar attended the IBM Interconnect Conference in February 2016, where the Group 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 and the concept of seamlessly integrating to IBMs Maximo asset management package.

The Group has also been working hard to ensure that our more traditional businesses are modified in order to reflect the ever increasing competitiveness of the markets in which they operate in. This has meant that during the year under review we have cut a significant amount of overheads out of the business. 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 33.1% for first six months of 2016, and to 34.4% for the second half of 2016. 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 meant that our costs of imported goods became harder to forecast.

On 25 February 2016 it was announced that the Group had 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 Group's full year revenue for 2016 was £5.3m (2015: £6.9m). This reduction in revenue, when compared with the previous year, is due to the continued price pressure in the more traditional area of the Group's business (light fixtures), the on-going emphasis by the Group on transitioning itself away from light fixtures and into intelligent lighting solutions and building control systems and market uncertainty following the UK's "Brexit" referendum which has had a negative impact on existing and potential customers. As a result PhotonStar experienced challenging trading conditions in the second half of 2016 and as such the Group's results for the year ended 31 December 2016 were lower than we anticipated at the half year.

These factors impacted Group revenues strongly during the fourth quarter of 2016 and the first quarter of 2017. However revenues so far generated in the second quarter of 2017 are improved and the current pipeline of projects for which we anticipate receiving firm orders suggests that the remainder of the second quarter and the third quarter of 2017 will continue to show improvement. The Group made an adjusted EBITDA (as defined Note 7 to these results) loss in 2016 of £0.70m (2015: loss £0.24m) and a loss after tax for the year of £1.17m (2015: loss £2.77m).

Included in the loss after tax is an investment by the Group into its Halcyon™ system of approximately £0.58m (2015: £0.70m), whilst revenue generated by the installation of Halcyon™, primarily as trial systems that are expected to result in much larger projects, was approximately £0.5m. Overheads for the year 2016 were £3.26m, which compares favourably to £3.57m for 2015, and is a reflection of the cost saving measures that the Group implemented during the year. At 31 December 2016 the Group held cash balances of £0.23m (2015: £0.20m) and had borrowings of £0.83m (2015: £1.04m). Included within borrowings the Group had drawn down £0.69m of invoice financing debt out of its total maximum facility of £1.65m.

Customers are still evaluating paid for trials for Halcyon™ and halcyon CloudBMS™, which includes several new trials that were being installed during Q4 2016. Overall Halcyon™ revenues slowed slightly and were lower than management had forecast, as the trials indicated that certain software features and upgrades were needed to improve the performance of large systems. Additional features have now been identified and have been added so that further roll outs are now being considered.

We are pleased to report that we completed the development work on hardware and IoT device firmware for lighting control during the fourth quarter of 2016, which will reduce R&D expenditure by approximately £0.15m p.a. from the first quarter of 2017. The focus of the R&D effort by the Group is now on platform and cloud software development for the Halcyon™ platform and halcyon CloudBMS™.

PhotonStar's key strategic focus for 2017 is the further development of Halcyon™ as the Group progresses towards the roll out stage, and the completion of its transition into becoming a designer and manufacturer of intelligent lighting and building control solutions.

Chief Executive Officer's Statement

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

In 2016 the Halcyon IoT and LED light engines revenues were up 16.3% to £0.59m (2015: £0.50m). The Group was restructured during the first quarter of 2016 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 included a second major trial with a company that is responsible for a large amount of student accommodation. The Halcyon™ IoT team is now focused on ensuring that the installed trials are completed successfully in anticipation of a further roll out across the customers' entire property estate.

During the period under review we also installed Halcyon™ into a number of other buildings in a variety of different industry sectors, including offices, hospitals, care homes, hotels and student accommodation. These trials have shown the customer how Halcyon provides significant financial and property usage benefits with many of the trials providing the customer with a pay back on investment period of less than 12 months. Many of the trials that we have now installed are in buildings that form a part of significant property portfolios owned or managed by the customer which means that if the customer is convinced by the benefits then the roll out across their estate will be material for the Group. 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 service based 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.

It is expected that the combination of the retrofittable hardware and sensor inputs and the developments in 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 anticipates that as the systems are installed the service revenue component will strengthen the Group's gross margin.

PhotonStar LED Ltd - LED lighting fixtures business

LED lighting focused on the new build market
In 2016 LED Lighting Fixtures revenues were £3.08m which represents a 24% decrease from 2015 revenues of £4.04m with adjusted EBITDA loss of £0.11m (2015: Loss £0.06m). Adjusted EBITDA is explained and calculated in Note 7 to these results. 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 Adjusted EBITDA basis during fourth quarter of 2016.

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 2016 including:

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

House-builder sales exceeded forecast in the first half of 2016, but then fell back slightly in the second half of 2016 due to Brexit related uncertainty in the housing market. The Group benefits from an exclusive contract with a leading UK house-builder, initially announced in September 2012. The Group subsequently announced in June 2016 that this major house-builder contract was been extended for another year.

Camtronics Vale Ltd – Contract Manufacturing

Contract electronics manufacturing business
Camtronics Vale Limited undertakes critical LED and electronic assembly operations for the Group's manufacture of its lighting fixtures. Camtronics Vale also contracts electronics manufacturing for third party customers. Contract manufacturing revenues were down 30% to £1.66m (2015:£2.36m) with an adjusted EBITDA (see Note 7) loss of £0.03m (2015: profit £0.27m). This company experienced a material fall in revenue during the final quarter of 2015 and the first quarter of 2016. 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 back towards to the historic levels that we have benefited from in previous periods. This growth in revenues and reduction in costs meant that this company made a positive contribution to the Group's profits in the second half of 2016.

Financial overview

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 2016 revenues decreased by 22.8% to £5.32m (2015: £6.90m) with a gross profit margin of 33% (2015: 36%).

Administrative expenses in 2016 decreased by a further £0.30m to £3.26m (2015: £3.56m), due to downsizing and continuing tight control on costs.

Adjusted EBITDA (adjusted for share based payments) loss was £0.70m (2015: loss £0.24m).
The Group reported a pre-tax loss of £1.43m (2015: loss £3.03m) and loss per share for the year was 0.6p (2015: loss per share 1.9p). At 31 December 2016, the Group's unused aggregate tax losses are approximately £10m.

Group net borrowings debt at 31st December 2016 was £0.61m (2015: £0.85m). Group capital expenditure was £0.91m (2015: £0.81m), relating 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™ system.

Current Trading and Outlook

The Group entered 2017 as a much leaner business with a significantly reduced cost base. 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, cloud service models, 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 second quarter of 2017 which, together with the cost savings already in place, means that adjusted EBITDA profitability is expected on a monthly basis in Q2 2017. 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.

At 31 December 2016 the Group held cash balances of £0.23m (2015: £0.20m) and had borrowings of £0.83m (2015: £1.04m). Included within borrowings the Group had drawn down £0.69m of invoice financing debt out of its total maximum facility of £1.65m.

Post Year End

CloudBMS

The Group announced the commercial availability of the Halcyon CloudBMS product from 1 April 2017. This new solution is built on the second generation of its low cost retrofit-able wireless monitoring and control platform, halcyonPRO2™. The new HalcyonPRO2™ adds 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 a capable, scalable and secure Building Management System as a Service (BMaaS™) solution at a price point that enables owners of small to medium sized businesses to reduce energy and operating costs and realise new insights into their operations. One of the key features of CloudBMS™ is the sharing of device data with Asset Management software packages such as IBM asset management packages Tririga and Maximo.

Halcyon roll out letter of intent

On the 27 April 2017 the Group announced a letter of intent (LoI) regarding the proposed roll out of the halcyonPRO2™ and its halcyon CloudBMS platform. This was received from a leading manager and developer of student accommodation in the UK (the "Customer") following a 9 month trial period that commenced in July 2016. During the trial period the Company's Halcyon IoT platforms were installed to evaluate the use of Halcyon™ in reducing the operating costs of the accommodation buildings for the Customer. The initial trial incorporated 139 flats on one site and demonstrated significant maintenance savings to the Customer.

Pursuant to the LoI, it is proposed that approximately 50,000 of the Company's Halcyon™ devices will be installed. The Customer has multiple sites in 24 UK cities which will now be surveyed to assess the individual requirements for each site. It is envisaged that the installations will begin during the summer months when the student accommodation is vacant. The benefits of the reduced operational costs come from cloud based monitoring rather than the traditional engineer site visit approach, with maximum benefit for the Customer being derived from the connection of the accommodation sites to the halcyon cloudBMS system.

Due to the practicalities of this roll out it is intended that each site will have its own purchase order issued to the Company and there will not be a single large formal contract which covers all the installations. The Company will provide further announcements regarding the installations as appropriate.

Post Year End (continued)

In addition, the Customer is currently carrying out an estate wide survey to understand where networked controls and IoT systems would be applicable in their existing buildings and how the Company's Halcyon™ solutions can be incorporated.

Placing to support proposed roll out and additional working capital
On the 3 May 2017 the Group announced a fundraising round of £465,000 (before expenses) via the placing of 37,200,000 new ordinary shares with existing investors and Directors of the Company at a price of 1.25p per share. Up to and including the closing price of 2.85p on 2 May 2017, the placing price represents a 64.7% premium to the Company's average 30 day closing price. The net proceeds of the Placing will be used to fund the proposed roll out of the halcyonPRO2™ and its halcyon CloudBMS platform as per the announcement of 28 April 2017. The net proceeds will also provide the Company with additional working capital.

Sales for the first quarter of 2017 are broadly in line with management expectations with the traditional businesses continuing to see increased pressure on revenue and profit margins but with our new business, the Halcyon CloudBMS, having been validated by the recently received recent letter of intent we see a path to increasing revenues and profit margins. We believe that the Group's future growth will be driven by a combination of hardware sales and services in lighting, heating, cooling, ventilation and critical asset monitoring.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2016

	2016	2015
	£'000	£'000
Revenue	**5,319**	6,901
Cost of sales	**(3,555)**	(4,416)
Gross profit	**1,764**	2,485
Administrative expenses (excluding exceptional item)	**(3,263)**	(3,567)
Exceptional item (administrative expenses)	**-**	(1,983)
Total administrative expenses	**(3,263)**	(5,550)
Other income	**116**	74
Operating loss before exceptional item	**(1,383)**	(1,008)
Operating loss after exceptional item	**(1,383)**	(2,991)
Financial expense	**(50)**	(34)
Loss before income tax	**(1,433)**	(3,025)
Income tax credit	**266**	258
Loss and total comprehensive income for the year attributable to the equity shareholders of the parent	**(1,167)**	(2,767)
Loss per ordinary share (pence) attributable to the equity shareholders of the parent		
Basic and diluted	**(0.6p)**	(1.9p)

Consolidated Statement of Financial Position
As at 31 December 2016

	2016 **£'000**	2015 £'000
Non-current assets		
Property, plant and equipment	**394**	214
Intangible assets	**1,898**	1,811
	2,292	2,025
Current assets		
Inventories	**774**	874
Trade and other receivables	**1,039**	1,637
Current tax assets	**160**	360
Cash and cash equivalents	**225**	197
	2,198	3,068
Total assets	**4,490**	5,093
Equity		
Capital and reserves attributable to equity holders of the company		
Ordinary shares	**1,879**	1,477
Share premium	**7,776**	7,271
Share capital reduction reserve	**10,081**	10,081
Share option reserve	**641**	599
Reverse acquisition reserve	**(8,843)**	(8,843)
Accumulated losses	**(9,347)**	(8,180)
Total equity	**2,187**	2,405
Liabilities		
Current liabilities		
Trade and other payables and deferred income	**1,413**	1,595
Borrowings	**831**	1,042
Provisions	**44**	36
	2,288	2,673
Non-current liabilities		
Deferred tax liabilities	**15**	15
Total liabilities	**2,303**	2,688
Total equity and liabilities	**4,490**	5,093

Consolidated Statement of Cash Flows for the year ended 31 December 2016

	2016	2015
	£'000	£'000
Cash flows from operating activities		
Loss before tax	**(1,433)**	(3,025)
Exceptional item – impairment	**-**	1,983
Depreciation	**94**	133
Amortisation	**546**	584
Movement in share option reserve	**42**	3
Movement in provisions	**8**	5
Grant income	**(62)**	(74)
Receipt of grants	**24**	41
Profit on Sale of Plant, Property & Equipment	**(53)**	-
Change in inventories	**100**	185
Change in trade & other receivables	**598**	(63)
Change in trade & other payables	**(144)**	(406)
Cash used in operations	**(280)**	(634)
Tax received	**466**	64
Net cash used in operating activities	**186**	(570)
Cash flows from investing activities		
Proceed on disposal of Plant, Property & Equipment	**53**	-
Purchase of property, plant and equipment	**(274)**	(51)
Purchase of intangible assets	**(633)**	(758)
Net cash used in investing activities	**(854)**	(809)
Cash flows from financing activities		
Proceeds from the issue of ordinary shares (net of issue costs)	**907**	122
New bank facilities	**-**	872
Repayment of previous bank facilities	**-**	(872)
Change in borrowings	**(211)**	317
Net cash generated from financing activities	**696**	439
Net (decrease)/increase in cash and cash equivalents	**28**	(940)
Cash and cash equivalents at the start of the year	**197**	1,137
Cash and cash equivalents at the end of the year	**225**	197

Consolidated Statement of Changes in Equity for the year ended 31 December 2016

	Ordinary share capital	Share premium	Share capital reduction reserve	Share option reserve	Reverse acquisition reserve	Retained losses	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2015	**1,438**	**7,188**	**10,081**	**596**	**(8,843)**	**(5,413)**	**5,047**
Issue of new shares (net of issue costs)	39	83	-	-	-	-	122
Share option charge	-	-	-	3	-	-	3
Loss and total comprehensive income for the year	-	-	-	-	-	(2,767)	(2,767)
Balance at 31 December 2015	**1,477**	**7,271**	**10,081**	**599**	**(8,843)**	**(8,180)**	**2,405**
Issue of new shares (net of issue costs)	402	505	-	-	-	-	907
Change in share option reserve	-	-	-	42	-	-	42
Loss and total comprehensive income for the year	-	-	-	-	-	(1,167)	(1,167)
Balance at 31 December 2016	**1,879**	**7,776**	**10,081**	**641**	**(8,843)**	**(9,347)**	**2,187**

1. GENERAL INFORMATION

PhotonStar LED Group ("the Group") comprises PhotonStar LED Group PLC ("the Company") and its subsidiary undertakings. The Company is a public limited liability company incorporated and domiciled in the United Kingdom. The Company's registered number is 06133765 (England and Wales) and its registered office is at Unit 8 Westlink, Belbins Business Park, Cupernham Lane, Romsey SO51 7JF. This announcement was approved by the Board of Directors for issue on 23 May 2017.

2. FINANCIAL INFORMATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted in the European Union and as applied in accordance with the provisions of the Companies Act 2006. On 23 May 2017 the consolidated financial statements and this final audited results announcement were authorised for issue in accordance with a resolution of the directors and will be delivered to the Registrar of Companies following the Company's Annual General Meeting. Statutory accounts for the year ended 31 December 2015 have been filed with the Registrar of Companies. The auditor's reports on the financial statements for the years ended 31 December 2016 and 31 December 2015 are unqualified and do not contain any statement under Section 498 (2) or (3) of the Companies Act 2006. The auditor's reports on the 31 December 2016 and 31 December 2015 financial statements contain an emphasis of matter statement with respect to

2. FINANCIAL INFORMATION (continued)

going concern given the dependence of the Group on achieving its anticipated growth in sales and meeting its cash flow forecasts.

The annual financial information presented in this final results announcement for the year ended 31 December 2016 is based, and is consistent with, that in the Group's audited financial statements for the year ended 31 December 2016. This audited results announcement does not constitute statutory accounts of the Group within the meaning of Section 435 of the Companies Act 2006. Whilst the information included in this audited results announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement does not in itself contain sufficient information to comply with IFRS.

3. GOING CONCERN

The directors have adopted the going concern basis in preparing the financial statements for the year to 31 December 2016. 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 2018.

Current funding

The Group's cash balance as at 31 December 2016 was £225,000 and the drawdown of borrowing was £831,000 against bank facilities at that date of £1,790,000. 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 transformation of the Group into a retrofit connected lighting and building management business through its Halcyon and CloudBMS platforms.

In order to progress these plans after the year end, in May 2017 new shares were issued in the Company for a consideration of £465,000.

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 Overview and Business Review. In particular, the forecasts include assumptions about the sales of the Group's Halcyon product range. This is a relatively new product range and therefore there is more uncertainty inherent in forecasting the timing and quantum of sales since there is not yet a mature market for this product range.

The Group has incurred a net loss of £1,167,000 in the year (2015: £2,767,000) and has been loss making since incorporation. The projections reflect the directors' expectation that the Group will be monthly adjusted EBITDA (as calculated in Note 7) positive in 2017. 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 which in turn depends on the Group being able to exploit the market for the new product range. Growth needs to be sufficient for the Company and the Group to be able to operate within their cash resource and borrowing facilities.

3. GOING CONCERN (continued)

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in preparing the financial information were the same as applied in preparing the Company's statutory accounts for the year ended 31 December 2015 in accordance with International Financial Reporting Standards as adopted by the EU.

5. EARNINGS PER SHARE

Basic loss per share	**2016**	2015
Loss attributable to ordinary shareholders	**£(1,167,000)**	£(2,767,000)
Weighted average number of ordinary shares	**187,958,220**	144,042,465
Basic loss per share	**(0.6p)**	(1.9p)

Diluted earnings per share is calculated by dividing the profit or loss 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 years ended 31 December 2016 and 31 December 2015 are a loss, 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 and the calculation has not been included.

As at 31 December 2016, there were share options outstanding over 23,547,995 shares (2015: 17,442,390 shares), which could potentially have a dilutive impact in the future.

6. EXCEPIONAL ITEM

	2016	2015
	£'000	£'000
Impairment losses	**-**	1,983
Total exceptional item	**-**	1,983

As a result of the change in strategic direction by the Company towards transitioning into a Group that increasingly focuses on being a retrofit connected lighting and building management business, the Board reviewed, in conjunction with the annual review of goodwill, the value of certain historic assets on the balance sheet but which are related to non-strategic areas of the Group. The result of this review is that we have concluded that there should be a no impairment charge to the balance sheet (2015: £1,983,000).

6. EXCEPIONAL ITEM (continued)

The impairment loss in 2015 consists of the following:

Group	2016	2015
	£'000	£'000
Goodwill	-	1,626
Capitalised development costs	-	189
Inventories	-	125
Property, Plant and Equipment	-	43
Total impairment loss	-	1,983

7. SEGMENTAL INFORMATION

The directors consider that for the year ended 31 December 2016 the Group has operated in three business segments, LED Lighting Fixtures, LED Light Engines and Contract Manufacturing. The Group's principal activities consisted of the design, development, manufacture and sale of LED Lighting Fixtures and of LED Light Engines and Contract Manufacturing, as follows:

Year ended 31 December 2016	**LED Lighting Fixtures £'000**	**Halcyon & Light Engines £'000**	**Contract Manufacturing £'000**	**Total £'000**
Revenue;				
UK	2,819	585	1,659	5,063
Rest of World	256	-	-	256
Total Revenue	3,075	585	1,659	5,319
Adjusted EBITDA for reportable segments	(111)	(353)	(27)	(491)
Depreciation and Amortisation	(214)	(377)	(49)	(640)
Interest Expense	(20)	(1)	(29)	(50)
Taxation Credit	70	196	-	266
Total Assets	1,243	1,916	895	4,054
Total Liabilities	616	364	396	1,376
Additions to Non-current assets in the year	62	587	258	907

Year Ended 31 December 2015 (restated*)	**LED Lighting 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
Additions to Non-current assets in the year	124	667	18	809

7. SEGMENTAL INFORMATION (continued)

'Adjusted EBITDA for reportable segments' above is defined as EBITDA before share option charge and corporate expenses, and 'Adjusted EBITDA' below is defined as EBITDA before share option charge and exceptional item. The relevant amounts are disclosed below. Corporate expenses consist mainly of certain expenses of the parent undertaking such as legal, professional and consultancy costs related to the Group's listing on AIM and other central costs not allocated to business segments. Adjusted EBITDA, rather than the traditional EBITDA measure, is used as an alternative performance measure because it is a fairer approximation of operating cash flows.

* Prior year figures have been restated to reflect revised managerial reporting responsibilities

A reconciliation of the adjusted EBITDA to the loss before tax is as follows:

	Total 2016 £'000	Total 2015 £'000
Adjusted EBITDA for reportable segments	**(491)**	(66)
Corporate expense	**(210)**	(170)
Adjusted EBITDA	**(701)**	(236)
Depreciation and amortisation	**(640)**	(717)
Share option charge	**(42)**	(55)
Interest expense	**(50)**	(34)
Exceptional item	**-**	(1,983)
Loss before tax	**(1,433)**	(3,025)

8. INCOME TAX CREDIT

Group	**2016 £'000**	2015 £'000
Current taxation; research and development tax credits		
UK corporation tax on loss for the year	**(161)**	(182)
Adjustment in respect of prior periods	**(105)**	(76)
	(266)	(258)
Deferred tax	**-**	-
Income tax credit	**(266)**	(258)

9. AVAILABILITY OF DOCUMENT

Copies of this announcement (and the Company's statutory accounts for the year ended 31 December 2016 when available) may be obtained from the Company Secretary, PhotonStar LED Group PLC, Unit 8 Westlink, Belbins Business Park, Cupernham Lane, Romsey SO51 7JF. A copy of the annual report and accounts will be sent to shareholders shortly.

This announcement can also be viewed on the Group's website: www.photonstarled.com