LUCECO

ANNUAL REPORT AND
FINANCIAL STATEMENTS
2018

Welcome to the Luceco plc
Annual Report 2018

Luceco is a manufacturer and distributor of high quality and innovative LED lighting products, wiring accessories and portable power products for a global customer base.

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www.luceco.com

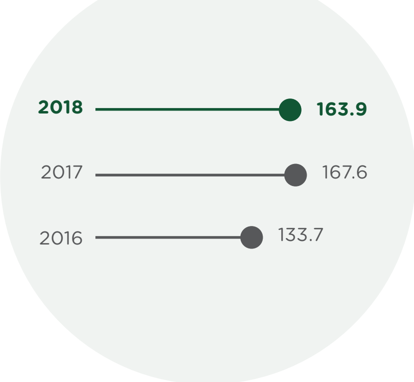
Strategic Report

Corporate Governance

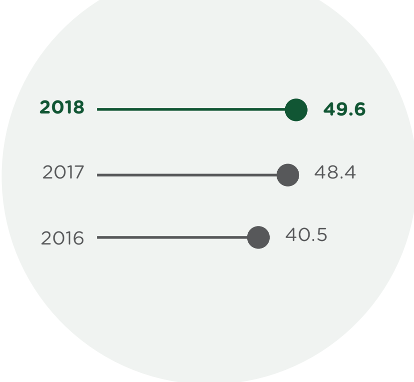
Financial Statements

Highlights

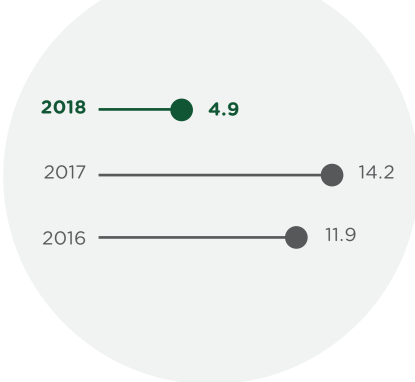
Revenue
(£m)



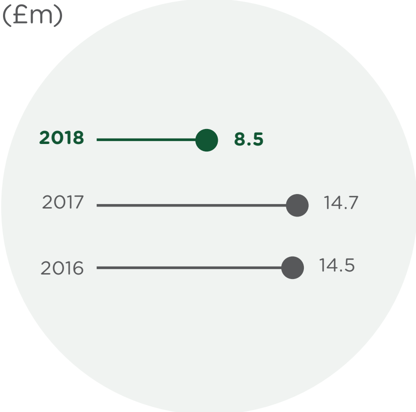
Gross profit
(£m)



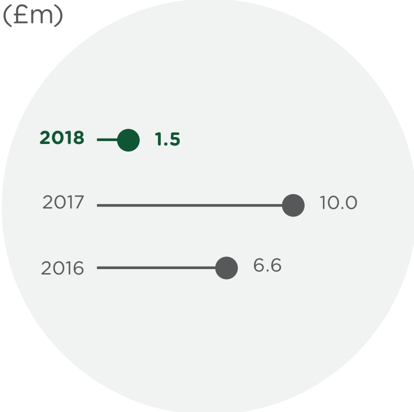
Operating profit
(£m)



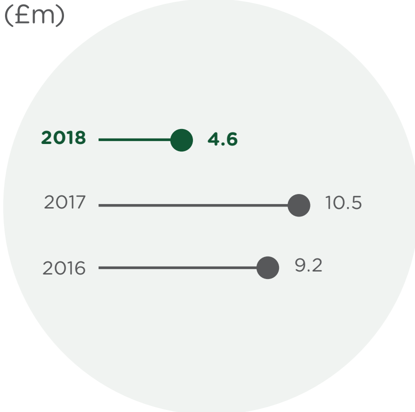
Adjusted[1] operating profit
(£m)



Profit for the year
(£m)



Adjusted[1] profit for the year
(£m)



Operating and strategic highlights

- Profitability rebuilt in H2 after a challenging H1:
  - Continuing strategic shift toward higher margin sales
  - Pricing amended
  - Overheads controlled
  - Loss-making US operations exited
  - Confident of return to historic peak margins over time
- Strong financial position:
  - Net debt reduced
  - Currency and commodity hedging improved
  - Long-term funding secured
  - Working capital efficiency improved
  - Finance function strengthened
- Recommending 2018 dividend of 0.6 pence per share

1. The definitions of the adjustments made to the statutory figures can be found in note 1 of the consolidated financial statements on page 90.

At a Glance

Head office in London with UK offices in Telford and Mansfield and global offices in China, Mexico, Germany, France, Spain, the United Arab Emirates and South Africa.

LED Lighting

Revenue
£51.8m
(2017[1]: £44.8m)

32% of Group
(2017[1]: 27%)

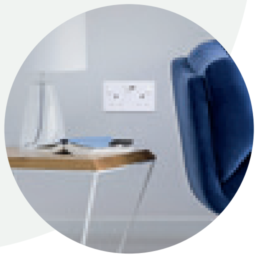
Find out more on pages 34 and 35

Wiring Accessories

Revenue
£65.8m
(2017[1]: £71.8m)

40% of Group
(2017[1]: 43%)

Find out more on pages 36 and 37



With over 70 years' experience, the brands of Luceco, Kingfisher, BG, Masterplug and Ross are market leaders in key electrical categories.

Customers across **73** countries

Number of employees c.**1,600**

R&D[2] staff **76**

Number of product innovations 2018 **89**

Number of customers c.**2,300**

1. Prior year segmental comparatives have been restated, see note 1a of the consolidated financial statements for more information.
2. Research and Development.

Portable Power

Revenue
£41.1m
(2017[1]: £45.2m)

25% of Group
(2017[1]: 27%)

Find out more on pages 38 and 39

Ross

Revenue
£5.2m
(2017[1]: £5.8m)

3% of Group
(2017[1]: 3%)

Find out more on pages 40 and 41

Chairman's Statement

Performance rebuilt through decisive action

GILES BRAND
Chairman

Review of the year

- Weak performance from H2 2017 was carried into H1 2018, leading to a challenging start to the year
- Robust action taken throughout the year to improve performance, manage liabilities and lower risk, contributing to significantly improved results in H2 2018
- A new CFO was appointed and the finance function strengthened
- Business in substantially better shape than at the start of 2018, leaving us cautiously optimistic for 2019

Performance

I first became involved with the Group in 2005, when our revenue of £40m was derived overwhelmingly from producing Portable Power and Wiring Accessories products in the UK and selling them to the UK.

In the thirteen years since then, the Group has profitably grown its revenue at an average annual growth rate of 11% to £163.9m. Its share of the UK Wiring Accessories and Portable Power markets has grown to 16% and 43% respectively. It has built a c.£50m revenue LED business in five years. It was one of the first in the industry to source its products from China in 2008 and now owns a 52,500m^2 industry-leading manufacturing facility there. It has gained a hard-won reputation for developing high quality, affordable products and bringing them to market quickly. It has successfully opened nine international businesses in the face of stiff local competition. It has done all this by fostering a culture of customer-focus, innovation, entrepreneurial agility and teamwork.

This impressive record of continuous improvement made the challenging events of late 2017, as reported to you in my last Chairman's Statement, all the more sobering.

But I am pleased to report the Group responded to these events with typical resolution and speed. We endured two successive halves of uncharacteristically weak performance, ending in June 2018, but had largely restored performance to previous levels by the end of the year. This has been a significant blot on the Group's otherwise impressive copybook, but we exit what has undoubtedly been a challenging year far stronger as a business and with renewed cautious optimism for the future.

Episodes such as this are trying but offer important lessons for our open-minded and developing business.

The entire team acted decisively, reviewing key areas of risk in detail and mitigating them. We hedged against movements in key currencies and copper prices, improved production efficiency, updated selling prices, enhanced our control functions and management reporting, and took the difficult but correct decision to close our loss-making US operation. We also improved our working capital management, resulting in increased cash generation and reduced net debt. In addition, we negotiated new banking facilities, which better suit the needs of the business, and have put in place a prudent capital structure policy that requires us to maintain conservative gearing (see the Financial Review for more information).

The outcome was a much-improved performance in the second half, achieved against a backdrop of challenging conditions in the UK market. Following a breakeven position in the first half, the Group delivered an Adjusted Operating Profit of £8.5m in the second half, 49% more than the same period in 2017.

At the same time, we generated a good net cash inflow in the second half and reduced net debt to £32.2m at the year end from £37.2m at the end of 2017. This stands us in good stead for the future.

Purpose and strategy

Successful businesses typically have a well-defined purpose. Ours is to provide best-in-class electrical products and related services profitably worldwide.

Approving the strategy and overseeing its effective implementation is one of the Board's primary responsibilities. Our strategy is to provide differentiated products and services that exceed our customers' expectations by harnessing the Group's strengths of innovation, agility, market knowledge and teamwork.

Our strategic objectives are to:

- Increase sales to professionals, particularly those relating to LED projects
- Increase sales to international customers and improve international profitability
- Enter new attractive product markets that are synergistic with our existing business
- Maximise manufacturing efficiency and effectiveness and continue to be a market leader in new product development
- Maximise shareholder return through focus on return on capital, capital discipline and by seeking targeted acquisitions
- Maintain best practice corporate governance

We have continued to make good progress in delivering this strategy. Project LED sales grew by 23.8% and International sales grew by 17.8%. We launched 89 new products in the year. We delivered significant manufacturing savings at our Chinese factory. We lowered inventory by 25.8% and net debt by £5.0m (13.4%). Our Kingfisher Lighting acquisition performed well. We invested in our governance processes across the business.

These successes mean that we are confident that the broad strategy of operating in the LED, wiring accessories and portable power markets is the right one.

Chairman's Statement continued

Board and people

We appointed Matt Webb as Chief Financial Officer in February 2018. He has made a substantial contribution to the business and I want to thank him and his team for turning around the finance function.

2018 saw the completion of the Group's first Employee Survey. The invaluable input we received from this has not only helped us to develop a people strategy incorporating the all-important views of our team, but also to clarify the culture we are trying to create at Luceco and the values we expect to be upheld by all Luceco employees.

I also want to thank the Board and all of our people for their dedication and their considerable efforts during the year, as they pulled together to help turn our business performance around. Luceco's success depends on attracting and retaining a high-quality team and we continue to invest in our people, to help them achieve their potential.

During its annual evaluation process, the Board considered its composition, succession planning and procedures. Board composition and succession planning will remain an area of focus in 2019.

Dividend

Given the Group's performance in the first half of the year, the Board did not declare an interim dividend in 2018. In light of the improved performance in the second half, the Board has recommended a final dividend of 0.6 pence per share, which is in line with our policy of paying out 20% of the Group's Adjusted Profit After Tax and underlines the Board's confidence in the long-term success of the business. The Board intends to continue to apply a progressive dividend policy in future.

Conclusion

The work we have done this year to enhance our systems, policies and processes, release cash from working capital and reduce net debt gives us a strong platform from which to grow. Luceco has significant strengths: our market-leading positions, customer relationships, and the quality of both the management team and the Board. The Group continues to demonstrate the ability to innovate, thereby remaining at the forefront of the market. While conditions in our core UK market remain uncertain for all in the near term, the Board believes the Group has a sound platform for future growth.

GILES BRAND
Chairman

9 April 2019

Investment Case

The Group possesses a unique combination of valuable attributes. The key aspects of its investment case are as follows:

Leadership positions

Luceco has strong positions in its markets. We have an excellent position in wiring accessories, with 16% of the UK market and we are the UK market leader in portable power, with a 43% share. The Luceco LED Lighting brand is established in the UK and has increasing penetration.

Fully integrated model

Luceco is differentiated by having an owned manufacturing facility in China. This gives us increased control over our operations, when compared with using third-party manufacturers, helping us to make high-quality products at lower cost.

Innovative and entrepreneurial culture

We have a strong track record of developing new products and rapidly bringing them to market. This ensures that our products remain relevant for customers and helps to maintain our leadership positions.

Growth opportunity in LEDs

The LED market presents attractive opportunities for long-term growth around the world, with users attracted by energy efficiency, long product lives and reducing costs. The adoption of LED lighting will continue for a significant period of time, due to varying penetration rates across different applications and regions.

Sound platform for future growth

We have a revitalised platform coupled with a strong balance sheet which allows us to pursue both organic and acquisition opportunities. Our strategy is to complement our historic strength in retail markets with more higher-margin professional sales. Our international businesses also present strong opportunities for top-line growth further diversifying the business.

Chief Executive Officer's Review

A sound platform for future profitable growth

JOHN HORNBY
Chief Executive Officer

Strategy

Our strategic objectives are to:

- Increase sales to professionals, particularly LED
- Increase sales to international customers and improve profitability
- Enter new product segments that are synergistic with our existing business
- Maximise manufacturing efficiency and effectiveness
- Maximise return on capital
- Seek targeted acquisitions
- Maintain best practice corporate governance

Restored performance

Revenue for the year was £163.9m, down 2.2% on 2017. This was primarily due to destocking by UK retail customers and adverse foreign exchange movements in the first half. Both of these headwinds dissipated as the year progressed. The top line was also held back in the second half by more hesitant demand from UK professional customers in the face of increasing economic uncertainty. International revenue rose by 17.8%, with particularly strong performances in Spain, Ireland, Mexico and Asia.

LED sales increased by 15.6% to £51.8m, while Wiring Accessories, Portable Power and Ross/Other saw revenue declines. As a result, LED Lighting now accounts for 32% of Group revenue. Within this segment, we have increasingly focused on specification and technical project-based sales to the professional channel rather than the increasingly commoditised consumer residential market. LED Project sales were up strongly and, including Kingfisher Lighting, now account for 45% of our LED revenue. We acquired Kingfisher in September 2017 and it performed broadly in line with expectations, adding a further £8.5m to the Group's revenue in 2018. This was partially offset by the previously announced closure of the loss-making US operation, which reduced revenue by £1.3m.

Adjusted Gross Margin increased by 200 basis points to 30.9% (2017: 28.9%). In the first half, the margin was affected by adverse currency movements and increased commodity prices, principally copper and plastic resin. Second half margins benefited from our continuing strategic shift toward the higher-margin professional channel, pricing changes, a better utilised factory and a more favourable input cost environment, aided by our currency hedging programme.

After breaking even at the Adjusted Operating Profit level in the first half, we successfully delivered a second half Adjusted Operating Profit of £8.5m at an operating margin of 9.6%. This result was £2.8m ahead of the second half of 2017. Whilst seasonality always results in higher second half operating margins this performance bodes well for future earnings. It reflects the rebuilding of gross margins outlined above, as well as cost savings made in the second half through rigorous control of overheads and losses avoided following the US closure. This improvement gives the Board confidence that the Group will in due course return to peak operating margins.

More information on our performance during the year can be found in the Financial Review on pages 12 to 17.

A sound platform for future growth

In addition to restoring the Group's profitability, we took action during the year to make our performance more sustainable. The Group ended the year with a substantially stronger balance sheet. We sharply reduced inventory days which, combined with rebuilt profitability, produced a net cash inflow of £9.2m in the second half. As a result, net debt was £32.2m at 31 December 2018, down from £41.4m at the half year and £37.2m at the previous year end. Year end net debt was equivalent to 2.0 times Adjusted EBITDA (31 December 2017: 1.9 times) and we expect to further reduce net debt and leverage in 2019.

Chief Executive Officer's Review continued

A sound platform for future growth
continued

Following Matt Webb's appointment as CFO in February 2018, we have invested in the finance function. He has infused the team with greater public company experience, automated previously manual processes, sharpened our policies and processes and improved our decision making with much more detailed and timely management information.

Matt also led the refinancing of the business during the year. This has improved our liquidity by reducing our reliance on invoice financing in favour of more traditional bilateral bank lending and has also extended the maturity of our main banking facilities to 31 December 2021.

Continued strategic progress

We continued to progress our strategy during 2018.

In recent years, we have progressively supplemented our profitable heritage in the consumer-facing retail market with faster growth in professional markets, particularly with LED lighting. Professional customers' greater emphasis on product performance, reliability, availability and service gives the Group a strong competitive advantage in this segment. We have also used our product knowledge and existing manufacturing capacity to progressively diversify internationally.

As a result, we have not only built profitable new businesses and enriched our gross margin but made ourselves more resilient to a downturn in any one segment. Without this progress, the downturn we experienced in the UK consumer-facing retail market in the first half would have had a greater impact.

To illustrate the progress made, professional LED sales have increased from 13% to 23% of total UK revenue in just two years. Likewise, international revenue has increased from 14% to 21% of the Group total over the same time period. Both segments generate gross margins above the Group average.

After several years of high levels of investment in product development, we now offer a comprehensive range of commercial LED products that provide professional customers with the superior performance they require at a competitive price. Our outdoor lighting offer has been bolstered by the acquisition of Kingfisher Lighting. We have invested heavily in our branding, commercial footprint and in-house lighting design capability and are now well positioned to achieve further market share gains.

Our growth overseas was initially focused on international markets that share the British Standard for wiring accessories. The Group's entry into the lighting market, which enjoys far greater global commonality of product, has accelerated this progress. We now have sales teams based in nine overseas countries serving both domestic and regional customers. Our strategy is to continue to increase our international market share by maximising growth and payback from the businesses we already have before entering new markets. Our decision to close our US operations shows our willingness to make tough choices and allows us to focus on maturing our businesses in markets where we believe we can win. We continue to profitably serve US customers through third-party distribution.

New product development has been and will remain a core strength of our business. Over the past five years we have invested £9.0m in this area, to ensure we are first to market with exciting new ranges. In 2018, we introduced 67 wiring accessories and portable power products and 22 LED lighting products. Having now developed a compelling professional LED range, our more recent product development has focused on more technical and higher margin range extensions that can be sold through existing channels, such as "smart" wiring accessories and professional LED luminaires and electric vehicle ("EV") charging points for residential use.

We are pleased with the performance of Kingfisher Lighting whose double-digit operating margin represents an aspiration for the Group as whole. We have strengthened Kingfisher's management team, invested in its product range, brought a number of its products into our supply chain and begun to deliver commercial synergies. Acquisitions similar to Kingfisher remain part of our strategy.

Looking forward, we are increasing our focus on improving our customers' experience of dealing with us. We have great products and want our customers to receive them with as much ease and speed as possible, through whichever channel they choose. We are investing in new ways to engage with and serve our customers digitally. We are also working with our distribution partners to better understand the needs of their end users to enable us to better serve them.

People

Luceco employs many skilled and talented people, who are fundamental to our ability to deliver for our customers. I want to thank them all for their hard work and steadfast commitment to Luceco's long-term success in 2018.

We saw the benefit this year of our previous investments in our UK professional and international sales teams. Our focus now is on adding to our technical expertise, to sustain future growth in LED projects and high-end trade sales, by enhancing the support we can offer to customers. We are also investing in our digital team, to improve the way we market our products using digital media and to help our retail customers improve their online content relating to our products.

During the year, we conducted our first employee survey, to ensure that we continue to put our people at the centre of our strategy as we grow. It highlighted the reasons why talented people work for us, namely that we are a fast-growing, successful, agile and meritocratic business. But it also highlighted opportunities for us to improve, namely bringing more formality to the way in which we develop our people to ensure we have the skills we need to be successful in the future and ensuring we communicate more clearly with them, which we are addressing in 2019. More information on how we manage our people can be found on page 44.

Outlook

We have made considerable progress addressing the issues that we faced at the start of the year and ended 2018 in a much stronger position, both operationally and financially. We have successfully improved our competitive position, bolstered our systems and processes, and expect to make further progress reducing leverage in the year ahead. This gives us a sound platform for future profitable growth.

We currently have a strong order book and revenue growth is running in line with expectations. Our strategic shift towards the professional channel is yielding improved margins, which should, in time, return to historic peak levels.

With most of our business focused on the UK market, we are mindful of the macroeconomic uncertainty, including Brexit. However, we are confident of reporting Adjusted Operating Profit comfortably ahead of current market expectations.

JOHN HORNBY
Chief Executive Officer
9 April 2019

Financial Review

Simplifying and sustaining our successful business

MATT WEBB
Chief Financial Officer

Use of alternative performance measures

The commentary in the Financial Review uses alternative performance measures, which are described as "Adjusted". Definitions of these measures can be found in note 1 of the consolidated financial statements on page 90. The measures provide additional information for users on the underlying performance of the business, enabling consistent year-on-year comparisons.

Overview

Group revenue declined by £3.7m (2.2%) to £163.9m. The primary drivers are shown below:

Group revenue bridge

	£m	Change %
2017 Revenue	167.6	
Kingfisher Lighting (full year effect)	8.5	5.1
Closure of US operations	(1.3)	(0.8)
Currency movements	(3.0)	(1.8)
Like-for-like decline	(7.9)	(4.7)
Total movement	(3.7)	(2.2)
2018 Revenue	**163.9**	

The like-for-like decline above of £7.9m included a £11.9m reduction from UK consumer-facing retail customers. Sales to this segment, which represents approximately 25% of total Group revenue, were particularly strong in the second half of 2017 due to new listings and stock building by customers. Following a difficult Christmas in 2017, retailers destocked from early 2018 onwards, which had a significant impact on our order intake in the first half. High-profile failures on the high street underline the difficult conditions created in 2018 by weak consumer confidence and the gradual shift of non-food sales online. It is a testament to our capital discipline that we emerged from this period without incurring any significant credit losses. Retail ordering patterns had returned to normal by the end of the year. Our sales to pure-play online retailers grew in the year and now represent 3.4% of Group revenue.

Like-for-like revenue growth across the rest of the Group, excluding UK consumer-facing retail, totalled £4.0m or 2.4%. Like-for-like revenue growth in excess of 20% in both our international markets and UK LED Projects was largely offset by increasingly hesitant demand from UK professional customers as Brexit approached. The profit impact of the latter was successfully mitigated by market share gains and improved margins in the professional channel representing a payback on earlier investment in the product range, particularly LED.

Revenue by geographical location of customer

	2018 £m	2017 £m	Change %
UK	**130.1**	138.9	(6.3)
Europe	**15.5**	9.6	61.5
Middle East and Africa	**9.1**	8.8	3.4
Asia Pacific	**5.3**	3.9	35.9
Americas	**3.9**	6.4	(39.1)
Total revenue	**163.9**	167.6	(2.2)

We grew in all of our continuing international markets. Revenue in Europe grew by 61.5%, with all countries contributing. Growth in Spain and Ireland was particularly strong, and the German business grew in double digits and ended the year well. The French market has been harder to penetrate and we are keeping this market under close review, in the expectation of better results in 2019. We made further progress in the Middle East and Africa and our business in Asia continued to perform well, with 35.9% growth during the year. In the Americas, Mexico was another highlight, driven by growth in LED projects, although the closure of the US business resulted in £1.3m of lost revenue compared with the prior year. The full year effect on revenue of the US closure is expected to be £2.5m.

The Adjusted Gross Margin for the year was 30.9% (2017: 28.9%). The Group experienced two successive halves of weak gross margin performance – namely H2 2017 and H1 2018 – due to adverse, unhedged movements in currency and an increase in commodity costs, particularly copper, as shown below:

	H1 2017	H2 2017	H1 2018	H2 2018
Adjusted Gross Margin %	31.9%	26.4%	27.3%	33.9%
Average currency rates:				
USD:GBP	1.26	1.32	1.37	1.31
RMB:GBP	8.70	8.79	8.74	8.88
Average copper price $ (tonne)	5,740	6,462	6,919	6,258

Financial Review continued

Overview continued

As can be seen, gross margins were restored by the second half of 2018 due to a combination of margin improvements in the professional channel as explained above and a more favourable commodity and currency environment. Improved currency rates were secured by an expanded hedging programme, which is explained in more detail below. In addition, most of the Group's copper purchases are now bought six months forward to enable selling prices to be aligned accordingly. Manufacturing efficiency also contributed to the improvement, as evidenced by a 26% reduction in Group average headcount versus last year.

Adjusted Operating Costs were £8.4m or 24.9% higher than last year, reflecting the full year effect of costs added in 2017. The largest components of this were Kingfisher Lighting (£2.5m), depreciation and amortisation (£2.1m), investment in global sales and marketing resources (£1.7m) and additional investment in the finance function (£0.7m). We took rigorous action to control overheads during 2018, freezing headcount recruitment at the start of the year and achieving savings in the UK totalling £0.8m on an annualised basis.

As a result of the movements discussed above, Adjusted Operating Profit for the year was £8.5m, down 42.2% (2017: £14.7m). All of the Adjusted Operating Profit was earned in the second half, with the Group breaking even in the first half. The Adjusted Operating Profit margin was 9.6% in the second half of the year, an increase of 340 basis points compared with the comparable period in 2017.

Group Operating Profit for the year was £4.9m (2017: £14.2m). Group Profit for the year was £1.5m (2017: £10.0m).

Impact of foreign exchange movements

The table below summarises the impact of foreign currency movements on key lines in the Consolidated Income Statement. Current year balances have been translated at the prior year's average exchange rates (see note 19 of the consolidated financial statements).

	2018 Actual	Currency impact		2018 at constant currency	Constant currency variance to 2017		2017 Actual
	£m	£m	%	£m	£m	%	£m
Revenue	163.9	(3.0)	(1.8)%	166.9	(0.7)	(0.4)%	167.6
Adjusted cost of sales	(113.3)	1.7	(1.5)%	(115.0)	4.2	(3.5)%	(119.2)
Adjusted gross profit	**50.6**	**(1.3)**	**(2.5)%**	**51.9**	**3.5**	**7.2%**	**48.4**
Adjusted gross margin %	30.9%		(20) bps	31.1%		220 bps	28.9%
Adjusted operating costs	(42.1)	0.1	(0.2)%	(42.2)	(8.5)	25.2%	(33.7)
Adjusted operating profit	**8.5**	**(1.2)**	**(12.4)%**	**9.7**	**(5.0)**	**(34.0)**	**14.7**
Adjusted operating margin %	5.2%		(60) bps	5.8%		(300) bps	8.8%

Foreign currency movements reduced revenue by £3.0m or 1.8% and adjusted operating profit by £1.2m or 12.4%. This impact was predominantly in the first half of the year, when the weak dollar reduced the sterling value of revenue from our dollar-denominated sales, which account for approximately 41% of our revenue. This impact was partially offset by a reduction in first half costs, as a result of the Chinese Renminbi weakening against sterling. In light of the currency fluctuations in the first half, we implemented a revised currency hedging strategy. This enabled us to hedge around 90% of our currency exposure for the second half of 2018 and at the start of 2019 we had hedged approximately 80% of 2019 exposure, at rates that were more favourable than those prevailing in the first half of 2018.

Operating segment review

LED Lighting

	Adjusted[1]			Reported	
	2018	2017[2]	Change	**2018**	2017[2]
Revenue	**£51.8m**	£44.8m	15.6%	**£51.8m**	£44.8m
Operating profit/(loss)	**£0.5m**	£(1.0)m	n/a	**£(1.6)m**	£(1.5)m
Operating margin %	**1.0%**	(2.2)%	+320 bps	**(3.1)%**	(3.3)%

1. Further details of Adjustments are in note 2 of the consolidated financial statements.
2. The methodology used to segment the businesses has changed. Further details are in note 1a of the consolidated financial statements.

LED Lighting revenue increased by £7.0m (15.6%). Kingfisher Lighting, which we acquired in September 2017, delivered incremental revenue of £8.5m (or 19.0%) in 2018. Revenue in the existing business therefore declined by £1.5m (3.4%) of which 0.4% was due to adverse currency movements.

Revenue in LED Lighting was affected by the weak UK retail market, with retail customers reducing inventory levels. Sales to UK professional customers were also held back by the uncertain economic environment. UK project sales and international sales grew strongly, with particularly fast growth in European markets and Mexico.

Whilst the full year adjusted operating margin of 1.0% was disappointing, the segment generated adjusted operating profit of £1.9m from revenue of £27.6m in the second half of 2018, representing a margin of 6.9% which is more representative of its potential. We have yet to fully leverage previous investments made in this segment.

Wiring Accessories

	Adjusted[1]			Reported	
	2018	2017[2]	Change	**2018**	2017[2]
Revenue	**£65.8m**	£71.8m	(8.4)%	**£65.8m**	£71.8m
Operating profit	**£6.5m**	£12.1m	(46.3)%	**£6.2m**	£12.1m
Operating margin %	**9.9%**	16.9%	-700 bps	**9.4%**	16.9%

1. Further details of Adjustments are in note 2 of the consolidated financial statements.
2. The methodology used to segment the businesses has changed. Further details are in note 1a of the consolidated financial statements.

Wiring Accessories saw revenue decline by 8.4% of which 1.7% was due to adverse currency movements. This was due to lower sales to UK retail customers and adverse currency movements in the first half. Pricing changes and our revised currency hedging policy helped profitability more than double in the second half of the year. Sales to UK professional customers rose in 2018 and there was also good growth in a number of international markets, particularly due to market share gains in Ireland and other Continental European countries following recent range expansion.

Portable Power

	Adjusted[1]			Reported	
	2018	2017[2]	Change	**2018**	2017[2]
Revenue	**£41.1m**	£45.2m	(9.1)%	**£41.1m**	£45.2m
Operating profit	**£1.5m**	£4.1m	(63.4)%	**£0.3m**	£4.1m
Operating margin %	**3.6%**	9.1%	-550 bps	**0.7%**	9.1%

1. Further details of Adjustments are in note 2 of the consolidated financial statements.
2. The methodology used to segment the businesses has changed. Further details are in note 1a of the consolidated financial statements.

The Portable Power business had a difficult year, reflecting its relatively high exposure to the UK retail market in comparison with LED Lighting and Wiring Accessories. Revenue declined by 9.1% of which 2.8% was due to adverse currency movements, with the UK retail channel responsible for almost all of the decline. International sales growth offset some of the UK revenue reduction, with progress particularly strong in Asia Pacific.

Ross

	Adjusted[1]			Reported	
	2018	2017[2]	Change	**2018**	2017[2]
Revenue	**£5.2m**	£5.8m	(10.3)%	**£5.2m**	£5.8m
Operating profit/(loss)	**£nil**	£(0.5)m	n/a	**£nil**	£(0.5)m
Operating margin %	**nil%**	(8.6)%	+860 bps	**nil%**	(8.6)%

1. Further details of Adjustments are in note 2 of the consolidated financial statements.
2. The methodology used to segment the businesses has changed. Further details are in note 1a of the consolidated financial statements.

Sales for Ross declined by 10.3%. This was a combination of a fall in sales in the UK retail channel, partially offset by growth in a number of international markets, in particular Asia Pacific.

Nevertheless, product and overhead cost savings delivered a small profit in the second half ensuring the business returned to breakeven for the year as a whole.

Net finance expense

Adjusted Net Financing Expense increased to £2.2m (2017: £1.9m), reflecting the higher average net debt during the year, which was largely due to the Kingfisher Lighting acquisition in September 2017. The Group finished the year with lower net debt than at the end of 2017 and introduced a new capital structure policy, which should result in a reduction in interest costs in 2019.

Taxation

The tax charge for the year was £1.5m (2017: £2.3m), representing an effective tax rate of 50.0% (2017: 18.7%). The increase in effective rate was a consequence of no relief being available on US Closure Costs incurred in the period and a 9.0% increase in effective tax rate applicable to Adjusted Profit Before Tax to 27.0% (2017: 18.0%). The latter was caused by the non-recurrence of one-off tax benefits last year (which lowered the 2017 rate by 2.3%) and the increasing influence on the Group of overseas profits taxed at a marginal rate above the Group average.

Financial Review continued

Dividend

The Group prudently elected not to pay an interim dividend for 2018 in response to the Group's challenging first half.

Having returned to profit in the second half, the Board recommends a final dividend of 0.6 pence per share, reflecting a resumption of its policy of paying out 20% of Adjusted Profit After Tax. Further progression in the dividend is expected in future.

At the year end, the Company had distributable reserves of £6.0m (31 December 2017: £0.9m).

Balance sheet

Non-current assets

Non-current assets stood at £44.8m at the year end (31 December 2017: £47.2m).

Intangible assets decreased by £0.4m during the year. Capitalised development expenditure reduced to £1.7m (2017: £3.0m) with the prior year boosted by significant investment to fill out the LED product range.

We maintained tight control of expenditure on property, plant and equipment, with additions in the year totalling £3.2m (2017: £5.9m). Discretionary expenditure was limited throughout the year without affecting growth.

The Group wrote down £1.0m of tooling assets following a review of their remaining useful life.

Working capital

Rigorous control of working capital was a key feature of our work to simplify and sustain the success of the business.

- **Inventory**
  We sharply reduced inventory during the year, from £44.2m at 31 December 2017 to £32.8m at the end of 2018. Inventory days declined to 112 days (31 December 2017: 135 days) without any adverse impact on customer service. A further, more modest, reduction in days is targeted for 2019.
- **Trade and other receivables**
  Historically, the Group presented trade debtors on the balance sheet net of customer rebates payable. From half year 2018 onwards, the Group improved its disclosure by showing trade debtors gross of rebates, with the latter being moved to "Trade and other payables" on the balance sheet. Comparative figures for 2017 have been restated accordingly. Versus the restated comparatives, trade debtors were reduced by £2.5m (6%) to £39.5m (31 December 2017 (restated): £42.0m). At 31 December 2018, the Group utilised non-recourse debt factoring of £12.4m (31 December 2017: £9.0m), which it aims to reduce in 2019. The definition of debtor days was amended in the period to now include off balance sheet non-recourse debt factoring. Debtor days employing this new definition increased marginally by four days to 91 days at the year end (31 December 2017 (restated): 87 days). The absence of significant bad debts in the period despite challenging market conditions underlines the emphasis placed on cash management.
- **Trade and other payables**
  Trade and other payables declined from £57.2m at the end of the previous year to £43.6m at 31 December 2018. Most of this reduction arose from more timely payments to suppliers. The Group's historic emphasis on extending supplier payment terms has in some cases prevented it from reaping full benefit from its supplier relationships. It has also added funding uncertainty and organisational complexity. Therefore, the Group took the strategic decision in 2018 to bring its supplier payment terms more in line with industry norms, funded by cash liberated from reduced inventory. Creditor days therefore reduced to 88 (31 December 2017: 111 days).

Cash flow

Free cash flow	2018 £m	2017 £m
Adjusted operating profit[1]	**8.5**	14.7
Adjusted depreciation and amortisation[1]	**6.5**	4.4
Adjusted EBITDA[1]	**15.0**	19.1
Adjusted changes in working capital[1]	**1.3**	2.1
Other items	**(0.4)**	(0.7)
Adjusted cash generated from operations	**15.9**	20.5
Operating cash conversion[2]	**106%**	107%
Cash flow from Adjustments	**(2.3)**	(0.2)
Net capital expenditure	**(4.7)**	(10.0)
Interest paid	**(2.2)**	(1.9)
Tax paid	**(1.3)**	(3.1)
Free cash flow	**5.4**	5.3

1. A reconciliation of the reported to adjusted results is shown within note 1 of the consolidated financial statements.
2. Operating cash conversion is defined as operating cash flow divided by EBITDA.

We maintained a high level of operating cash conversion, at 106% (2017: 107%) despite challenging conditions in the first half. Cash generation was particularly strong in the second half due to the working capital improvements and tighter control over capital expenditure, as explained above.

Funding and covenants

The robust cash performance in the second half of 2018 enabled us to reduce net debt during the year, as described in the Chief Executive Officer's Statement on page 9.

The year end net debt of £32.2m (31 December 2017: £37.2m) was equivalent to 2.0x our Adjusted EBITDA for 2018 (2017: 1.9x). Adjusted EBITDA in this case excludes losses incurred in the period by our now closed US operations, in accordance with our loan agreements. The 0.5x reduction in net debt to Adjusted EBITDA in the second half of 2018 illustrates the Group's ability to bring leverage down into this range during 2019.

Prior to the year end, we extended the maturity of our main banking facilities to 31 December 2021, on similarly favourable terms to previous deals. Importantly, we changed the structure of the facilities to reduce our reliance on invoice financing and increase the proportion of traditional bank lending. The previous facilities comprised a £20m revolving credit facility ("RCF") and a £30m UK invoice financing facility. The Group now has a £30m RCF and a £20m invoice financing facility, giving us the right structure and quantum of facilities to fund the Group in the medium term. We complied with our covenant requirements throughout the year. Further details are provided in note 20 to the consolidated financial statements.

Capital Structure Policy

The Board approved the following capital structure policy in the period:

- Maintain a Net Debt : Adjusted EBITDA ("Leverage Ratio") within a target range of 1.0 to 2.0 : 1, averaging 1.5 across each economic cycle.
- Maintain Adjusted EBITDA : Net Finance Expense ("Interest Cover Ratio") of at least 4.0 : 1.
- Apply a progressive dividend policy with a payout rate of 20% to 30% of Adjusted Profit After Tax.
- Provided it is in compliance with its Leverage Ratio, Interest Cover Ratio and Dividend Policy, reinvest cash generated by the business in organic and acquisition growth opportunities that generate shareholder value.
- If insufficient opportunities to reinvest cash exist, the Group will seek to return cash to shareholders in a manner that maximises shareholder value.

Going concern and viability statement

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and as such has applied the going concern principle in preparing the Annual Report and Financial Statements. The Group's Going Concern statement can be found on page 72.

The Group's Viability Statement can be found on page 29 to 31.

MATT WEBB
Chief Financial Officer

9 April 2019

Business Model

We have a vertically integrated business model, allowing us to offer customers an attractive combination of high-quality branded products at competitive prices, along with rapid product innovation, commercial support and flexible distribution.

Inputs

People
The Group employs almost 1,600 people worldwide, who play a critical role in delivering for our customers.

Physical assets
Our business is underpinned by its physical infrastructure, in particular our facilities in China and Telford, UK.

Specialist knowledge
We have deep knowledge and experience across our business, helping us to develop and sell new products that keep us at the forefront of our markets.

Customer relationships
We have strong relationships with our customers and look to provide the highest standards of service.

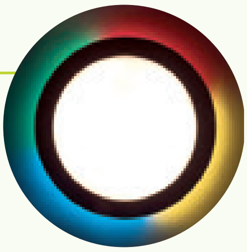
Financial resources
The Group has a strong balance sheet and robust cash generation, helping us to invest for the future.

How we operate

- **Develop new products**
- **Manufacture high-quality products at competitive prices**
- **Employ flexible distribution**
- **Treat people ethically**
- **Offer lighting as a solution**

We mainly develop new products at our Chinese site, where we have a team of product developers and engineers. This in-house development and proximity to our Chinese factory allow us to respond quickly to market trends, start manufacture and rapidly bring the product to market.

Our investment in our Chinese manufacturing facility offers a number of advantages, compared with using third-party manufacturers on fixed-term contracts. It gives us certainty of supply; increased control over raw materials sourcing, manufacturing processes and quality control; and enables us to invest in automation, process engineering and other cost reduction activities. This allows us to manufacture high-quality products at lower cost. Our UK facility capitalises on the supply channels used by our Chinese operation. In total, we manufacture approximately half of our products in-house.



We operate under the commercial arrangements that best suit each customer. Our large retail customers tend to source directly from China on a Freight on Board ("FOB") basis. This means the customer takes ownership of the stock when it ships. Our dedicated customer support team in China supports these customers. We offer fixed-price contracts for major customers, which typically last for around six months.

For smaller customers and wholesalers, we import products from the Chinese factory and warehouse them in the relevant territory, before supplying them directly to the customer.

We insist on treating all of our people fairly and ethically. As well as being the right thing to do, certain customers will only work with partners who can demonstrate ethical behaviour. We encourage our customers to visit our Chinese operation, where they can witness the team's working conditions throughout the process. We aim to develop our people, so they can achieve their potential, and provide working conditions that protect their health and safety. Our suppliers are also required to maintain high ethical, environmental and safety standards.

To help drive demand for LED lighting, our specialist Projects sales teams target customers with significant lighting requirements. This allows them to offer these customers lighting planning, drawing on our in-house team of lighting designers, and return-on-investment consultancy, to encourage them to adopt LED technology. The orders generated are fulfilled through our Trade Distribution customers, helping to reinforce relationships in that route to market.

Outcomes

Shareholders
We aim to provide competitive returns on our shareholders' investments.

Customers
Customers benefit from products and services that offer value in terms of price and quality, and that meet high health, safety and environmental standards.

Employees
Our people are able to progress their careers, in a dynamic and fast-moving company.

Suppliers
Our suppliers are able to grow their businesses alongside our own.

Society
Society benefits from the energy efficiency of our LED lighting, reducing demand for power generation and the emission of greenhouse gases.

Our Strategy

Sustaining future profitable growth by fully leveraging our core strengths.

Strategic priorities	Objectives
Increase sales to professionals, particularly LED	• Complement historic strength in UK consumer-facing retail by gaining share of sales to professional customers • Leverage route to market provided by Wiring Accessories to sell other products via trade distribution, e.g. LED lighting, smart devices and EV charging • Sell products as part of a solution • Thereby increase Group gross margin %
Increase sales to international customers and improve profitability	• Fully leverage previous investments in existing international markets • Sell existing 'borderless' products globally (e.g. LED lighting) • Leverage manufacturing capacity globally • Sell to international subsidiaries of existing UK customers • Increase profitability of existing international markets to the Group average
Enter new product segments that are synergistic with our existing business	• Sell adjacent products to existing customers • Sell international variants of existing UK products • Maximise payback/minimise risk of new product development • Maximise capital efficiency of future growth
Maximise manufacturing efficiency and effectiveness	• Optimise use of own/third-party manufacturing • Optimise landed cost relative to product performance • Optimise inventory
Maximise return on capital	• Prioritise growth that leverages existing capital invested • Optimise working capital • Apply capital structure policy
Seek targeted acquisitions	• Gain share in existing markets • Acquire presence in adjacent product markets • Fund whilst maintaining capital structure policy
Maintain best practice corporate governance	• Simplify and sustain • Improve quality of decision making • Retain agility

Key to principal risks

1. Disruption to operating activities
2. Technology, information systems
3. Business relationships
4. Strategy – acquisitions
5. Macroeconomic, political and environmental
6. Legal and regulatory
7. Finance and treasury
8. Team members

Measurement	Link to principal risks	Link to remuneration

• UK professional revenue growth %
• Gross margin %
	1 3 5 7 8	• Annual bonus:
		  • Free cash flow
		  • Adjusted profit after tax
		• Performance Share Plan:
		  • EPS measure

• International revenue growth %	1 3 5 7 8	• Annual bonus:
		  • Free cash flow
		  • Adjusted profit after tax
		• Performance Share Plan:
		  • EPS measure

• Number of new products launched	3 4 8	• Annual bonus: • Free cash flow

• Gross margin %	1 8	• Annual bonus:
		  • Free cash flow
		  • Adjusted profit after tax
		• Performance Share Plan:
		  • EPS measure

• Return on capital invested	4 8	• Annual bonus: • Free cash flow
• Acquisitions completed	4 8	• Annual bonus: • Individual strategic objectives
• Board effectiveness assessments • Employee surveys	2 5 6 7 8	• Annual bonus: • Individual strategic objectives

Key Performance Indicators

The Board uses key performance indicators to measure its progress against the Group's strategic priorities.

Revenue

(£m)

	£m
2018	**163.9**
2017	167.6
2016	133.7

Definition

- Revenue from sales stated net of rebates and discounts

Link to remuneration

- Annual bonus and Performance Share Plan are linked to growth
- Read more in the Remuneration Committee Report on pages 60 to 69

Link to strategy

Link to risk

1 3 4 5 7 8

Gross profit

(£m)

	£m
2018	**49.6**
2017	48.4
2016	40.5

Definition

- Revenue from sales (net of rebates and discounts) less cost of goods sold

Link to remuneration

- Annual bonus and PSP are linked to growth
- Read more in the Remuneration Committee Report on pages 60 to 69

Link to strategy

Link to risk

1 3 4 7 8

Gross margin

%

	%
2018	**30.3**
2017	28.9
2016	30.3

Definition

- Revenue from sales (net of rebates and discounts) less cost of goods sold, divided by revenue, expressed as a percentage

Link to remuneration

- Annual bonus and PSP are linked to growth
- Read more in the Remuneration Committee Report on pages 60 to 69

Link to strategy

Link to risk

1 3 5 7 8

Adjusted operating profit

(£m)

	£m
2018	**8.5**
2017	14.7
2016	14.5

Definition

- Operating profit is calculated as profit before interest and tax
- Adjusted operating profit excludes costs, that are not regarded as being part of the ongoing nature of the business, from operating profit to provide a better understanding of the underlying performance of the business

Link to remuneration

- Annual bonus and PSP are linked to growth
- Read more in the Remuneration Committee Report on pages 60 to 69

Link to strategy

Link to risk

1 3 4 5 7 8

Key to strategy:

- Increase sales to professionals, particularly LED
- Increase sales to international customers and improve profitability
- Enter new product segments that are synergistic with our existing business
- Maximise manufacturing efficiency and effectiveness
- Maximise return on capital
- Seek targeted acquisitions
- Maintain best practice corporate governance

Adjusted operating margin

(%)

2018	**5.2**
2017	8.8
2016	10.8

Definition

- Operating margin is calculated as operating profit divided by revenue, expressed as a percentage
- Adjusted operating margin excludes costs, that are not regarded as being part of the ongoing nature of the business, from operating profit to provide a better understanding of the underlying performance of the business

Link to remuneration

- Annual bonus and PSP are linked to growth
- Read more in the Remuneration Committee Report on pages 60 to 69

Link to strategy

Link to risk

1 3 4 5 7 8

Adjusted profit for the year

(£m)

2018	**4.6**
2017	10.5
2016	9.2

Definition

- Profit after tax is calculated as profit after charging all expenses, including interest and tax
- Adjusted profit after tax excludes costs, that are not regarded as being part of the ongoing nature of the business, from profit after tax to provide a better understanding of the underlying performance of the business

Link to remuneration

- Annual bonus and PSP are linked to growth
- Read more in the Remuneration Committee Report on pages 60 to 69

Link to strategy

Link to risk

1 3 4 5 7 8

UK professional revenue growth

%

2018	**19.5**
2017	35.6
2016	17.9

Definition

- Revenue growth attributable to UK Trade, Projects and Kingfisher Lighting

Link to remuneration

- Annual bonus and PSP are linked to growth

Link to strategy

Link to risk

1 3 5 7 8

International revenue growth

%

2018	**17.8**
2017	51.1
2016	15.6

Definition

- Total growth in revenue by location of customer, excluding that attributable to the UK

Link to remuneration

- Annual bonus and PSP are linked to growth

Link to strategy

Link to risk

1 3 5 7 8

Return on capital invested

%

2018	**9.9**
2017	18.4
2016	17.5

Definition

- Adjusted operating profit divided into the average capital invested in the last two years, as a percentage
- Capital invested is the sum of Net Assets, Net Debt and non-recourse debt factoring

Link to remuneration

- Annual bonus linked to Free Cash Flow which will improve with Return on Capital Invested

Link to strategy

Link to risk

4 8

Key to principal risks:

1. Disruption to operating activities
2. Technology, information systems
3. Business relationships
4. Strategy – acquisitions
5. Macroeconomic, political and environmental
6. Legal and regulatory
7. Finance and treasury
8. Team members

Principal Risks and Uncertainties

The Board is responsible for identifying, reviewing and managing business and operational risk. It is also responsible for determining the level of risk it is prepared to take in the ordinary course of business to achieve the Group's strategic objectives and to ensure that appropriate and sufficient resource is allocated to the management and mitigation of risk.

In addition to the risk management framework, the Board has delegated responsibility to the Audit Committee for reviewing the overall process of assessing business risks and managing the impact on the Group as described on pages 57 to 58. The Group's risk management process is set out below.

The principal risks identified and actions taken to minimise their potential impact are included on pages 25 to 28. This is not an exhaustive list but those the Board believes may have an adverse effect on the Group's cash flow and profitability.

In determining whether it is appropriate to adopt the going concern basis in the preparation of the financial statements, the Directors have considered these principal risks and uncertainties. The Viability Statement on pages 29 to 31 considers the prospects of the Group should a number of these risks crystallise together.

Risk management process

The senior management team maintains a register of identified business risks (financial and non-financial) which it categorises in terms of probability of occurrence and the potential impact on the Group should the risk crystallise. Mitigating actions undertaken and recommendations for further reduction of risk are also included. Recommended actions are put forward to the Executive Directors for consideration.

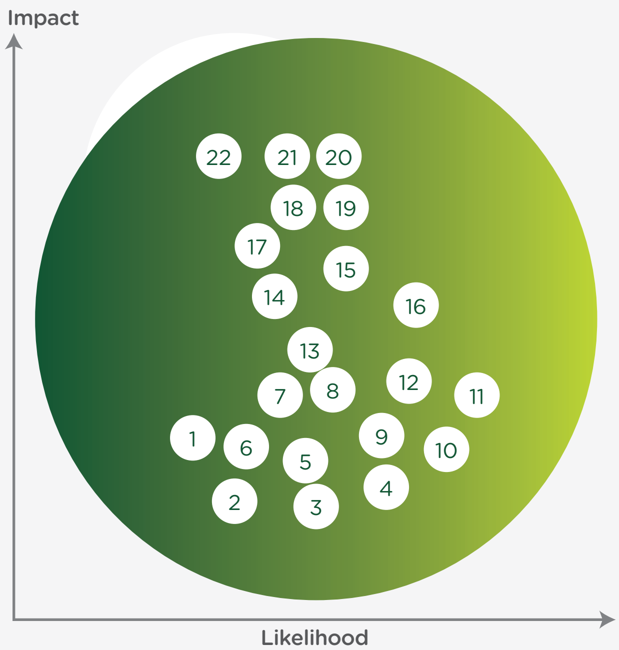
The Executive Directors review and challenge the content of the risk register and the recommendations. Risk mitigation actions are agreed, and a plan is created. Each action is assigned an owner who is responsible for carrying out the required action within an agreed timescale. The Executive Directors review the progress made against any actions that have been carried forward.

The Audit Committee regularly reviews risk management and is provided an update in respect of progress made in the reduction of existing risks, summary of newly identified risks and the actions agreed to reduce them to an acceptable level.

These risks are reviewed in conjunction with the Audit Committee's other responsibilities including the internal control framework, external audit process and financial reporting.

The Audit Committee provides an update and appropriate recommendation to the Board, where required, for the Board to consider in conjunction with the strategic objectives of the Group.

Heatmap



1. China supply chain
2. Poor quality of supplied or shipped goods
3. Loss or inappropriate release of data
4. Transfer pricing
5. Talent
6. Laws and regulations
7. Intellectual property protection
8. Currency exposures
9. Misappropriation of Group assets
10. M&A underperformance
11. Erosion of customer base
12. Increase in input costs
13. Reporting error
14. Disruption to key supplier facility
15. Disruption to non-China facility
16. UK macroeconomy
17. Fail to innovate/market shift
18. Supply and transportation disruption
19. Loss of key customer
20. Disruption to production facility in China
21. Liquidity
22. Public health issue

Senior management	Executive Directors	Audit Committee	The Board
Reviews and updates the risk register for new risks, identifies mitigations in place and recommends actions to reduce risk.	Review and challenge the risks identified and the actions proposed to mitigate them; approve and monitor agreed actions.	Monitors and reviews the risks in conjunction with the internal control framework, audit process and financial reporting.	Holds overall responsibility for effective internal control and risk management.

Principal risks

Disruption to operating activities

The Group's key manufacturing operation, and major suppliers are based in China. Any change to China's current political situation could impact the Group's ability to manufacture its products. The Group is reliant on the UK and Chinese sites remaining fully operational at all times.

Impact	Mitigation	Link to Strategy
The Group's Chinese operation and supply chain could be adversely affected if there is any disruption to legal, political, economic or social conditions in China. If the key operational and supplier sites went offline for any reason or period of time, it would have a material adverse effect upon the Group's ability to manufacture and bring its products to market, severely impacting its business, financial position and future prospects.	The Board and senior management team are in regular liaison with their Chinese counterparts and aware of any changing dynamics in the country. The Group has an IT strategy and a disaster recovery plan in place to protect its operations. The Chinese factory comprises separate buildings, reducing disruption. Appropriate precautions are taken in all factories and warehouses to safeguard against theft and fire. Operational sites are regularly asked to assess the quality of their continuity planning with action plans produced to address any weaknesses. The Group has long-standing relationships with its key suppliers and executives regularly visit. Luceco Quality Control colleagues operate on site at our key suppliers. The Group owns its own tooling and patents and production could be transferred to other sites.	Increase sales to professionals, particularly LED. Increase sales to international customers and improve profitability. Maximise manufacturing efficiency and effectiveness.

Technology, information systems

The Group is reliant on its IT systems to ensure its operations function efficiently. Any loss of data could adversely impact the business.

Impact	Mitigation	Link to Strategy
Release of commercially sensitive or personal data could impact on competitiveness, damage reputation and lead to criminal and civil sanction. Applies to paper records as well as electronic data.	The Group has an IT strategy and security policy and a disaster recovery plan in place to protect its operations. Operational sites are regularly asked to assess the quality of their IT security with action plans produced to address any weaknesses.	Maintain best practice corporate governance.

Principal Risks and Uncertainties continued

Business relationships

Raw materials represent a significant cost to the Group. The Group faces risks from copper price volatility as well as other key raw materials and is reliant on third parties to supply some of its products and components. The Group has a large number of customers but there is significant concentration within the customer base. This concentration presents a risk should one or more of the customers cease purchasing from the Group. Customer agreements are typically for a 6 to 12 month period. The Group could lose market share through the loss of one or more of its major customers with whom it does not have long-term contracts, or through erosion if it is unable to maintain its innovative edge, particularly in the competitive LED lighting market.

Impact	Mitigation	Link to Strategy
Suppliers may increase product prices as a result of copper or other commodity price fluctuations, reducing profit margins. Tariffs may change following the UK's departure from the EU. Profitability will be negatively impacted if the Group is unable to pass rapid price fluctuations on to its customers or there is a time lag in achieving a price increase. Suppliers may not fulfil order requirements or products may be of poor quality, negatively impacting the Group's reputation, financial position and contractual commitments. LED technology is constantly changing and customer demand rapidly evolving, giving risk of product obsolescence. A significant proportion of the Group's trade is with a small number of customers that are not committed to purchasing the Group's products on a long-term basis. Customers could cease trading or cease to purchase from the Group at relatively short notice, negatively impacting trading and working capital as there would be a lag in adjusting manufacturing volume.	Hedging strategy is regularly reviewed by management. Additional management and reporting of copper prices to the senior management team to help track input costs. Price fluctuations are passed on to customers as soon as practicable. The Group has long-term relationships, and some exclusive arrangements, with its suppliers who reliably fulfil orders to the required standard. Continued international expansion will lessen reliance on any particular economy or customer. Quality control teams are in place at all key operational locations to ensure quality of supply. The Group invests heavily in R&D to remain at the forefront of capturing and delivering changing customer requirements and market trends. The Group registers its designs with the design and patent office in the country of the market the product is sold in. The Group has long-standing relationships with many of its customers and works closely with them to meet their requirements. Rebate arrangements are used to increase the likelihood of customer retention. The Group's ability to rapidly embrace new consumer trends and its distribution flexibility make it a valued supplier. Dedicated customer support teams in all key trading locations maintaining excellent customer service. We closely monitor our competitors' product ranges.	Enter new product segments that are synergistic with our existing business. Increase sales to professionals, particularly LED. Increase sales to international customers and improve profitability.

Team members

The business is reliant on key employees.

Impact	Mitigation	Link to Strategy
Loss of key executives could result in damage to ongoing business relations or loss of knowledge. Failure to identify skills required in the future and/or develop these skills would lead to competitive disadvantage.	Senior executive remuneration packages are reviewed regularly by the Remuneration Committee. SIP/LTIP schemes promote retention.	Increase sales to professionals particularly LED. Increase sales to international customers and improve profitability. Enter new product segments that are synergistic with our existing business. Maximise manufacturing efficiency and effectiveness. Maximise return on capital. Seek targeted acquisitions. Maintain best practice corporate governance.

Strategy – acquisitions

The acquisition strategy may incur substantial expense and divert management attention from the day-to-day business. The ability to pursue such a strategy is dependent upon the retention of key personnel to ensure that there is no disruption to the Group's operations.

Misjudging key elements of an acquisition or failing to integrate it in an efficient and timely manner would disrupt existing operations.

Impact	Mitigation	Link to Strategy
The cost and integration of an acquisition may reduce profit and increase indebtedness in the short term. Management are distracted.	Costs are tightly controlled and cash flow is monitored daily. Detailed integration plan and dedicated integration teams in place prior to acquisition. Regular communication on progress highlighting variations and remedial action taken. The Board closely monitors the strategy and the resources required to deliver it. The Group has an experienced senior management team in place to ensure that the day-to-day activities of the Group's business are managed effectively.	Seek targeted acquisitions. Maximise return on capital. Enter new product segments that are synergistic with our existing business.

Macroeconomic, political and environmental

Most of the Group's revenue is generated from the UK and profitability is directly influenced by the UK economic climate. Supply chain links to China are important for the business.

Impact	Mitigation	Link to Strategy
The Group's international supply chain could be disrupted owing to geopolitical factors including Brexit. Any downturn in the UK economy could adversely impact the Group's financial position if demand for its products reduces and there are limitations on its ability to increase or maintain its prices. The Group's third-party supply chain in China may not meet the Group's ethical resourcing standards, compromising its reputation.	Many of our products are essentials and have a 'defensive' quality against slow macroeconomic growth. The economies and markets of all the Group's operations are reviewed regularly by the Board with mitigating action taken. Continued international expansion will lessen reliance on any particular economy or customer. An increasingly diversified customer and product base in the UK market reduces risk. The Group's funding arrangements can accommodate temporary shortfalls in cash. The Group has long-standing relationships with its suppliers and the Executive Directors frequently visit their operations. We have Luceco colleagues based on site at our key supplier sites. Our stock levels in the EU have increased ahead of the UK's departure from the EU. The impact of Brexit is mitigated as we are able to ship direct from China to overseas businesses or transfer goods by air.	Increase sales to professionals, particularly LED. Increase sales to international customers and improve profitability. Maintain best practice corporate governance.

Principal Risks and Uncertainties continued

Legal and regulatory

The risk of regulatory non-compliance is increasing as the Group is expanding rapidly into new territories, each with its own laws and regulations. Keeping up to date with changing laws and regulations is also a risk that the Group faces with its current operations.

Impact	Mitigation	Link to Strategy
Any defence or claim against infringement of intellectual property ("IP") rights could be costly to instigate and pursue. Infringement of third-party IP would limit the Group's product offering and ability to compete. Changes in the laws and regulations in the countries the Group operates in could result in incurring costs and adversely impact its reputation should it be found to be non-compliant with any aspect. Loss of ISO Accreditation/Change in Product Standards. The Group's transfer pricing arrangements may be potentially challenged by local tax authorities, which could lead to increasing tax liabilities particularly in respect of its customer contracts, product movement between the Group's Chinese factory and performance of its sales operations. Innovative technologies (e.g. LED lighting) may have unforeseen public health implications.	The Group registers its designs with the design and patent office in the country of the market the product is sold in. The Group participates in industry associations to ensure IP is respected. The Group has long-standing relationships with many of its customers and works closely with them to meet their requirements. The Board monitors the changing landscape of laws and regulations in the jurisdictions in which it operates. The Board seeks appropriate advice before setting up operations in new territories and setting internal transfer prices. We have corporate policies to ensure ongoing compliance with legal obligations (e.g. anti-bribery policy, employee and supplier codes of conduct). Management closely monitor research into potential health issues associated with our products.	Maintain best practice corporate governance.

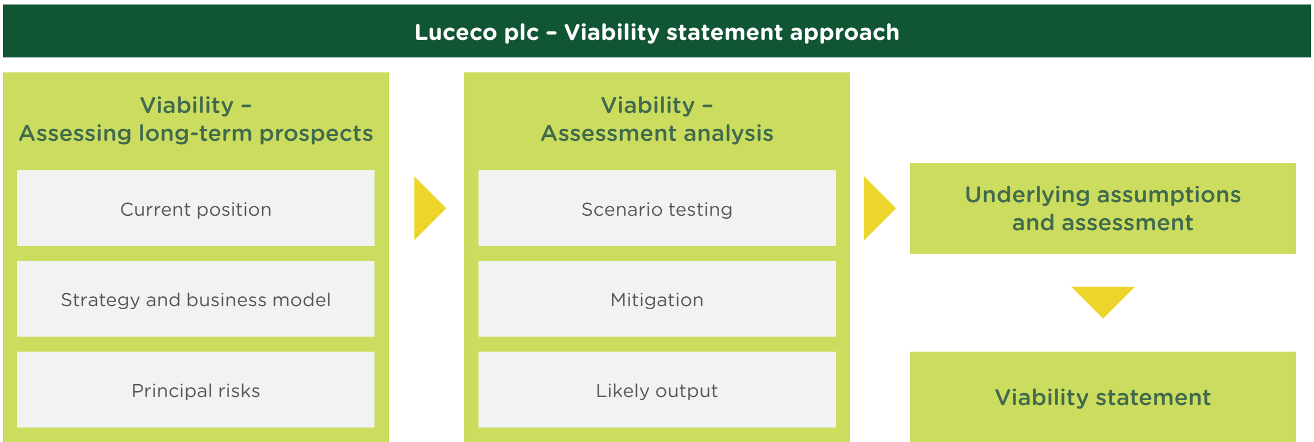
Finance and treasury

A significant proportion of the Group's revenue is invoiced in US Dollars and the majority of costs are paid in RMB, exposing the Group to currency fluctuations. The UK's decision to leave the EU also presents a risk to the business. In the short term, the Group is managing the associated currency volatility but the longer-term risks of this decision are not yet clear. The Board continues to monitor the position closely.

The business also faces financial risk relating to liquidity, fraud and reporting error.

Impact	Mitigation	Link to Strategy
The Group's funding arrangements include an invoice finance facility applicable to UK customers only. A downturn in UK sales may reduce funding liquidity. Any weakening of Sterling relative to the RMB, or strengthening relative to the USD could adversely affect profit. External or management reporting error may result in poor management decisions or misleading financial statements. Physical property may be stolen by an employee. Money may be stolen, for example through Treasury or Accounts Payable fraud.	The Group has set a prudent Capital Structure Policy to accommodate this risk. The Group recently extended the maturity of its main banking facilities to 31 December 2021 on terms which have allowed the Group to improve its liquidity position by reducing reliance on invoice financing in favour of more committed and dependable traditional bilateral bank lending. The Group is targeting a further reduction in net debt in 2019. Currency fluctuations mitigated by hedging policy; pricing action is undertaken when appropriate. New finance leadership team has been recently recruited. Luceco Finance Manual was recently relaunched with associated compliance mechanisms strengthened. We continue to invest in finance systems.	Increase sales to professionals, particularly LED. Increase sales to international customers and improve profitability. Maintain best practice corporate governance.

Viability Statement



Viability Statement – Assessing Long-Term Prospects

Current Position:

- The Group has a significant share of the UK market, particularly for Wiring Accessories and Portable Power products. It has expert market knowledge, long-established customer relationships and a broad product offering. Its large share of this market generates significant economies of scale.
- The Group has successfully penetrated the rapidly growing LED market. Its competitive range of high quality, affordable products should sustain future market share gains.
- The Group is using its product experience to build profitable businesses internationally.
- The Group has a successful track record of new product development.
- The Group's own manufacturing facility in China allows high quality products to be brought to market quickly and cost-efficiently.
- The Group's policy is to operate with net debt between 1 and 2 times Adjusted EBITDA to ensure the Group has sufficient cash to reinvest in growth and respond to changing circumstances.

Strategy and Business Model:

- Increase sales to professionals, particularly LED
- Increase sales to international customers and improve profitability
- Enter new product segments that are synergistic with our existing business
- Maximise manufacturing efficiency and effectiveness
- Maximise return on capital
- Seek targeted acquisitions
- Maintain best practice corporate governance

Principal risks to Strategy and Business Model (in order of impact on viability)

Disruption to operating activities

- **Disruption to manufacturing operations** in China due to an event such as a fire, flood, power outage, pandemic or IT failure.

Macroeconomic, political and environmental

- **UK macroeconomic downturn** could adversely affect the demand for our products and there could be limitations on its ability to increase or maintain prices.
- **Loss of a key customer** would result in a short-term shortfall in profit and cash whilst sales were replaced by growth elsewhere.

Disruption of operating activities

- **Shipping and transportation disruption** between the Group's end markets and its sources of product supply which are overwhelmingly in China.

Viability Statement continued

Viability Statement – Assessment Analysis

Viability Principal Risk (ranked in order of importance)	**Mitigation**	**Scenario Test**	**Likely Output**
1st Risk – Disruption to operating activities: Disruption to manufacturing operations (own or third party sourced)	• The Board and senior management are in regular liaison with Chinese management and aware of changing dynamics in the country. • The Group has an IT strategy and disaster recovery plan in place. • The Group's China facility comprises separate buildings, reducing risk. • Assessment and precautions are in place for all factories to safeguard against theft and fire. • Inventory held in the UK mitigate loss of supply from China. • The Group has Business Interruption insurance.	• Management have run a scenario in which the Group loses all of its sales of products sourced from China for which no inventory buffer is held outside of China for two months whilst alternative sourcing arrangements are made. • The scenario also allows for a 5% reduction in gross margin for two months after alternative sourcing commences.	• Management have completed this scenario test and this would not impact compliance with its financial covenants or viability.
2nd Risk – Macroeconomic, political and environmental: Loss of key customer or UK Macroeconomic downturn	• An increasingly diversified customer and product base leaves the Group less exposed to changes in individual UK market segments. • Continued diversification and expansion in international markets means less reliance on a particular economy or customer. • Relatively low market share in some UK segments such as LED provides an opportunity gain market share to mitigate any market decline. • Conservative approach to borrowing can accommodate temporary shortfalls in cash. • The Group is funded exclusively with committed facilities. • Slower sales would mean less need to invest in working capital, mitigating the impact on cash. • Our products benefit from repair/replacement demand that is less likely to be impacted by an economic downturn.	• Management have modelled the following two scenarios: 1. Total loss of the Group's largest customer for six months (whilst its sales are replaced). 2. 20% reduction in UK sales and gross profit for six months.	• Management have completed this scenario test and this would not impact compliance with its financial covenants or viability.
3rd Risk – Disruption to operating activities: Shipping and transportation disruption	• Brexit may disrupt our supply chain but some goods are shipped directly from China to subsidiaries without passing through the UK. • Airfreight option available. • UK business holds >100 days of inventory. • Stock levels have been increased in some locations to safeguard against disruption associated with a hard Brexit.	• Management have modelled the impact of a 15% reduction in Group sales for six months as a result of shipping and transportation disruption.	• Management have completed this scenario test and this would not impact its financial covenants or viability.

Viability Statement – Underlying Assumptions

The Viability Statement is dependent on the following process and assumptions:

Process

- The financial forecast on which the viability statement is based is aligned with the annual corporate plan for 2019-21 completed in autumn 2018 and approved by the Board in December 2018 with input from the Group's entire senior management team.
- Progress against financial budgets and key objectives are reviewed on a monthly basis to determine progress and identify any changes to the original detailed plan.

Assumptions

- Future organic growth assumptions are consistent with those recently achieved by each of the Group's businesses.
- Improved margins delivered by the business in the second half of 2018 are broadly maintained in future periods.
- Working capital as a percentage of revenue is held broadly flat.
- Capex broadly equal to depreciation.
- Dividends reinstated in line with the Group's existing policy.
- No additional investment in acquisitions (since these are discretionary and within the control of management).

The Viability Statement

- The Board carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity.
- The Board considers that it is a reasonable expectation that the Company will be able to meet its liabilities as they fall due over a three year period to 31 December 2021.
  This assessment has been chosen for the following reasons:
  - A full assessment of prospects and assessment has been completed.
  - The financial and strategic planning period is aligned with that used internally by the Board.
  - The Company has secured banking facilities over that period, expiring on 31 December 2021.

Our Operations

Overview

The Group has a global spread and an expanding international footprint

The Group has a global spread. Our key sites are the manufacturing, product development and customer support facility in Jiaxing, China; the UK assembly, distribution warehouse and business operations in Telford; and our head office in London, where our executive function is based.

UK operations

Our operation in Telford is 30 miles from Birmingham and has good transport links for receiving goods and for onward distribution. The facility has 10,000m² of floor space and provides customers with immediate access to our product range. The Telford site also houses our UK sales, accounting and support functions, as well as a portion of our R&D function, which works closely with the R&D teams in China.

We also have a site in Mansfield, Nottinghamshire, which is home to Kingfisher Lighting. Its operations are well positioned to serve the needs of its customers, as well as the Group's wider customer base.

Our UK operations primarily import products from China by ship, through Felixstowe. To mitigate the risk that Felixstowe is subject to delays post-Brexit, if shipping is diverted away from Dover, we have begun to bring products in through other ports as well, notably Southampton.

Chinese operations

Our wholly owned manufacturing, product development and customer support facility is approximately 60 miles from Shanghai. We opened the facility in 2008 and expanded it in 2011 and 2016, taking it from 12,500m² to its current 52,500m².

The facility allows us to benefit from low-cost manufacturing in China and gives us increased control over cost, quality and the ethical treatment of employees, compared to using subcontractors. This has enabled us to respond quickly to market trends, developing high quality, innovative products at a reasonable cost, and to become a key supply partner to trade and retail customers.

In addition to manufacturing, the Chinese operation houses product development staff and engineers. Through their work, we have established a track record of successful product launches, rapid speed to market and delivery at low cost.

The factory's strategic location near Shanghai allows our larger retail customers to source directly from us on an FOB basis. Our Chinese customer support team is also of considerable value to customers.

Our other international operations

The Group has opened a network of international sales offices, allowing us to build market share in new territories and leverage our manufacturing and product development facilities in China. Our international offices are a mix of well-established locations and those still at an early stage of development.

When our sales office and distribution warehouse in Dubai opened in 2003, it focused on selling wiring accessories, as certain Gulf states and African countries have common wiring standards with the UK. The office now also offers UK-assembled Luceco LED products.

We have sales offices and distribution warehouses in France, Germany and Spain and a sales office in Ireland. These offices acquire new customers locally and help to develop our existing relationships with international retailers, through a European presence.

Our sales office in Mexico aims to build market share as the country transitions to LED lighting. We also have a sales office in Hong Kong, to target the buying offices of global retailers based in the Far East, and a distribution warehouse in South Africa.

We primarily supply our international businesses directly from our facility in China. This means that our European operations should not be affected by the imposition of tariffs or delays at the UK border, as a result of Brexit. We have also prudently increased the amount of inventory held within the EU to mitigate any unforeseen disruption.

Our Operations

LED Lighting

We provide commercial and domestic lighting solutions, using energy saving and environmentally friendly LED lighting.

Overview

- Established in 2013, to address the rapidly growing LED lighting market
- Comprehensive product range, following organic investment and the acquisition of Kingfisher Lighting in 2017
- Distributed through the Group's established channels
- Projects channel drives additional demand for LED lighting

Group Revenue

32%

(2017: 27%)

UK Market share

3.1%

(2017[1]: 3.0%)

1. 2017 market share estimate has been restated to reflect a change in the definition of the addressable market following the acquisition of Kingfisher Lighting.

We established the Luceco brand of LED lighting to take advantage of the transition from legacy lighting technologies to LED. The growth in the market is being powered by the need for greater energy efficiency and the corresponding cost savings that LEDs offer.

The market

Approximately three quarters of the Group's LED sales are made to UK customers. The UK Lighting (including LEDs) market is valued at approximately £2.4bn, representing 1.5% of total UK construction output. The UK LED Lighting market is valued at £1.4bn, of which the Group had a 3.1% share in 2018 (2017 (restated): 3.0%). Over the last five years, the UK LED Lighting market has grown over six times faster than overall UK construction activity due to improvements in technology, purchase economics and regulatory changes. LED now represent just under 60% of the total UK Lighting market, with further penetration expected in the coming years, which should sustain future growth despite uncertainty in the wider UK economy.

The Global LED Lighting market is valued at approximately US$50bn. Penetration of LED into the lighting market is typically less overseas than it is in the UK which, when combined with the Group's low share in these markets, illustrates the opportunity presented to the Group by overseas LED growth.

Our product range

The product range has grown organically and through the acquisition of Kingfisher, and now consists of:

- Interior lighting, including panels, downlights, battens and high bay
- Exterior lighting, including floodlights, bulkheads, road lanterns and bollards
- Retrofit lamps and tubes, including replacement bulbs and tubes for existing light fixtures

Supply chain and routes to market

We assemble the majority of our LED products in-house, at our Chinese and Telford facilities.

The product range is sold through retailers, trade wholesalers and distributors, as well as through the Projects sales team, which is a relatively new route to market.

New product development

Product development in LED Lighting is led by a team of UK-based product engineers and managers and implemented by a development team in China.

Our recent product development focus in LED Lighting has had two main principles, the first being the business commitment to continue to launch new product ranges, broadening the product offering to our customers and the second being to focus on the specification of existing ranges, ensuring their performance is still relevant to the market. We have also moved some Kingfisher Lighting OEM ranges to in-house manufacturing, improving quality and performance.
During 2018, we added new products across all product categories, notably the strengthening of our Industrial category with Eris and Eco Lowbay, along with our Downlight category seeing further developments in our fire rated offerings. We also invested in improvements to Kingfisher's products and began manufacturing a number of them in our Chinese factory, helping to achieve quality enhancements.

Having now built a comprehensive product range, our focus going forward will be on managing the product life cycle and enhancing existing products, for example to improve their ease of installation, continue to increase their energy efficiency and reduce the product size. We will also look to introduce innovative new products that maximise the potential of LEDs and smart technology and are differentiated from the competition.

Demonstrating product safety and energy efficiency

As part of our product development and quality processes, our luminaires are tested to ENEC standards.

The stringent testing process is conducted by an independent European test house and involves the inspection and audit of our manufacturing facility. ENEC approval demonstrates that our products meet all the relevant safety standards, both when they are introduced and on an ongoing basis, as the products and audits are re-examined biannually.

In addition, Luceco is a Carbon Trust Accredited Supplier. The Carbon Trust is a world-leading organisation, helping businesses, governments and the public sector to accelerate the move to a sustainable, low-carbon economy through carbon reduction, energy-saving strategies and commercialising low-carbon technologies. Accredited Suppliers must meet or exceed the Carbon Trust's criteria, which examine their ability to deliver thoughtful, well-designed, energy efficient and renewable energy systems. The accreditation provides independent validation of a supplier's skills and services and is a much-needed quality standard in a crowded and fast-growing marketplace.

Supporting the adoption of LED lighting

Building Information Modelling ("BIM") is a collaborative way of working used to capture and manage information about a building throughout its life cycle. To help our customers incorporate LED lighting into their design process, we have created BIM files covering our range of luminaires, using the Revit software package. This allows customers to download the information they require, as they create their Building Information Models.

Incentives for using energy saving equipment

In the UK, the Enhanced Capital Allowance ("ECA") scheme is a key part of the government's programme to manage climate change. It offers enhanced tax relief to businesses investing in equipment that meets defined energy saving criteria. We offer a wide range of products that meet these criteria. Using ECA-compliant luminaires can drastically improve return on investment.

Our Operations

Wiring Accessories

BG is a wiring accessory brand, serving the professional electrical trade and specialists.

Overview

- Long-established trade brand, with a UK leadership position
- Comprehensive product range, supported by ongoing product development
- Products combine modern styling with ease of use for installers, and are manufactured to high quality and reliability standards
- High levels of customer service, care and support

Group Revenue

40%

(2017: 43%)

UK Market share

16%

(2017[1]: 19%)

1. 2017 market share estimate has been restated to reflect a change in the definition of the addressable market.

BG was established in 1941 and is a well-respected brand and leader in the UK market. The business's growth is driven by product innovation, range expansion and activity levels in the construction and house-building markets.

The market

Whilst the Group has enjoyed healthy growth overseas recently, the overwhelming majority of the Group's wiring accessory sales continue to be in the UK market.

The Group has a healthy 16% share of its addressable UK wiring accessory market, consisting of a 29% share of wall sockets and switches demand and a more modest 7% share of low-voltage circuit protection demand, the latter representing a clear growth opportunity.

This market segment is relatively mature, certainly more so than LED, meaning that UK market growth is expected to broadly mirror that of overall UK construction output. However, opportunities exist for participants who are able to develop differentiated products with value-adding features such as integrating "smart" technology or improving ease of installation.

Our product range

The BG product range consists of:

- Wiring accessories, comprising a range of switches and sockets in both plastic and decorative metal finishes, including USB charging sockets and exterior or weatherproof accessories
- Circuit protection, comprising consumer units (fuse boxes) and industrial switches
- Cable management and other accessories

Supply chain and routes to market

The BG product range is manufactured and assembled in our facilities in China.

We distribute BG products through retailers, UK and international trade wholesalers and distributors, including members of wholesaler buying groups and hybrid trade distributors.

Sales are primarily in the UK. International sales had been mainly in countries with British electrical standards, including certain Gulf States, African and Asian countries. However, the Group has recently launched wiring accessories for European markets.

New product development

Innovative products are critical for driving demand in wiring accessories. For example, we have recently introduced sockets that include Wifi extenders, to eliminate signal dead spots. In addition, we have developed a range to provide on-desk and under-desk power, such as wireless charging for mobile devices, which is targeted at furniture manufacturers and office fit-out companies. Other innovations include smart sockets and electric vehicle ("EV") charging points. Demand for EV charging is set to grow rapidly, not least because all new homes in the UK must now include an EV point as standard. We have also done work to improve the ease of manufacture of more commoditised products, for example by designing them to increase the use of automation in production.

In circuit protection, the 18th edition of the Wiring Regulations is creating more demand for value-added products that meet the new standard.

Demonstrating product quality and reliability

All BG products for markets with UK electrical standards are manufactured to the latest edition of those standards. Many of our products also have ASTA approval. ASTA standards provide a benchmark for products when there is no appropriate national, European or IEC standard. In addition, the Company is approved to ISO 9001:2015, the international standard for quality management systems.

Our Operations

Portable Power

Masterplug is the UK market leader in portable power, serving retailers and trade wholesalers.

Overview

- Masterplug is one of the world's most recognisable brands in portable power
- More than 75 years of sales, distribution and manufacturing expertise
- Product range offers solutions for home, garden, DIY, office and commercial

Group Revenue

25%

(2017: 27%)

UK Market share

43%

(2017: 45%)

The Masterplug brand was founded in 1988 and is the UK market leader. We also offer a sub-range under the Pro-XT trademark and supply a limited number of unbranded products to major customers.

The market

The Group enjoys a leading position in the UK portable power market, which it largely supplies through its consumer-facing retail distribution customers. Range extension into different wiring standards has also allowed it to gain an increasing foothold overseas, where substantial growth opportunities remain.

Our product range

The Group's portable power product range includes cable reels, extension leads, surge protection devices, timers and travel adapters, for indoor and outdoor applications.

Supply chain and route to market

The Masterplug product range is primarily manufactured by a third-party supplier in China, under an exclusive arrangement. Our relationship with this supplier dates back nearly 20 years.

We distribute Masterplug products through retailers, selected trade wholesalers and online retailers. We have a well-diversified blue-chip customer base, with many long-standing relationships.

New product development

Analysis of market trends, combined with our global design teams, position us to drive our product categories. We use in-house production engineering, rapid tool-making and on-site prototyping to deliver timely and ongoing product development and improvements to the market.

We are adding products to our added value ranges of Pro-XT cable reels, targeting professional DIYers and our Gloss range with surge protection and USB charging.

Ensuring product quality and reliability

As one of the world's leading manufacturers, our products are made to the highest quality standards. We consider our corporate social responsibility at each step, to bring security and peace of mind.

Our on-site ISO 9001 certified laboratory ensures that all our products are manufactured to the relevant internationally recognised quality standards. Ongoing mass production testing and pre-shipment inspections ensure our products leave our facilities in the best possible condition.

Our Operations

Ross

Ross is a range of audio-visual products. This includes TV wall mounts, desk mounts and TV/audio interconnecting cables.

Overview

- **Quality Assurance – Full BSI accreditation and corporate social responsibility bring security and peace of mind when purchasing Ross products. Our factory has been audited and approved by many of Europe's top retailers.**
- **Production development – in-house production engineering, product design and tool making deliver rapid product development to market.**
- **Cost control – We ensure the best value to customers, by driving down third-party costs and by manufacturing mostly in-house.**

Group Revenue

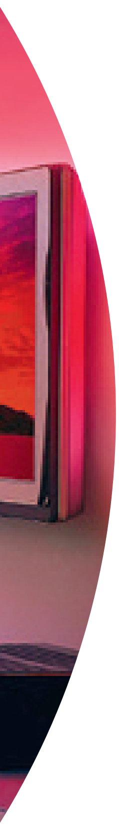
3%

(2017: 3%)

UK Market share

4.8%

(2017: 5.0%)



The market

The audio-visual accessories market in the UK has been adversely affected in 2018 by weak consumer confidence, resulting in consumers cutting their discretionary spending.

The business has responded to these challenges by developing its TV mount ranges that have been well received worldwide. All our mounts are attractively designed and have a host of premium design features, come pre-assembled and are simple to install.

Our product range

The product range varies from TV mounts, indoor aerials, SCART and HDMI leads to TV interconnect accessories.

- **Connection:** HDMI, SCART, USB Charging and audio cables
- **Fixing:** TV wall mounts
- **Reception and distribution:** Indoor aerials

Supply chain and routes to market

Flexible production and stock holding offers improved lead times and service to our customers. We can supply direct from our factory in China, or from warehouse stock in the UK.

New product development

Ongoing development to our TV accessories ranges allows us to continuously compete in this fast-paced product area.

Corporate Social Responsibility

Being a responsible business contributes to our ability to create value for shareholders and our other stakeholders. We look to behave safely and ethically in our relationships with our employees, customers and suppliers, to reduce the environmental impact of our activities and to contribute to our local communities.

The environment

We have an excellent long-term record of addressing environmental issues that affect our business and developing products that protect the environment. LED lights in particular have significant environmental benefits, due to their energy efficiency. We have an ISO 14001 accredited environmental management system at our manufacturing facility to measure, control and reduce our environmental impacts.

Environmental policy

Our approach to managing our environmental responsibilities is set out in our Code of Conduct. This requires us to seek to protect the environment, by preventing or minimising the environmental impact of our activities and products through appropriate design, manufacturing, distribution and disposal practices. More information about the Code of Conduct can be found in the Ethical Business section on page 45.

We expect all employees to play a role in protecting the environment. If an employee becomes aware of any violation of environmental law, or any action that may appear to conceal such a violation, they should immediately report the matter to their manager or, if required, to the Board via the complaints procedure. No such issues were raised during the year.

The Group also has a Supplier Code of Conduct. This requires suppliers to:

- comply with all applicable legal environmental requirements
- continuously monitor, and disclose to us, their energy and natural resource usage, emissions, discharges, carbon footprint and disposal of waste
- take a progressive approach to minimising their environmental impact on the environment

Reducing our environmental impact

Minimising our environmental footprint helps us to manage our costs and supports our customers' sustainability requirements.

As far as possible, we use recycled materials for packaging our products. During the year, we worked to reduce the quantity of packaging we use and to minimise the amount of single-use plastic in our packaging.

FOB sales significantly reduce the miles over which our products travel to customers. In stocking the UK warehouse, we ship goods in large quantities to reduce the environmental impact and use air freight only as a last resort. Our Chinese facility generates electricity using solar panels and we continue to look for other ways to reduce the factory's energy use. We also keep in contact with customers using modern methods of communication, to reduce the number of business miles incurred by our sales teams.

> During my four years at Luceco, I have been very proud to be a part of this ever-evolving business that is at the forefront of technology. Our forward thinking, ability and desire to be the best in class manufacturer of electrical and LED products means we always have new ideas, concepts and solutions for our retail partners.
>
> **MATT MORRIS**
>
> Customer Account Manager

Greenhouse gas ("GHG") emissions

The Group is committed to reducing its carbon footprint. The Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013 requires the Group to disclose its annual 'GHG' emissions. The Group's emissions have been independently calculated by its carbon consultants, using the operational control approach in accordance with the GHG Protocol. GHG emission factors published by the UK Government, the International Energy Agency and the World Resources Institute have been used.

The table below shows the Scope 1 and 2 GHG emissions for the Group for the year ended 31 December 2018. The figures provided for 2017 have been restated to reflect updated overseas electricity emission factors and a recalculation of natural gas emissions. Under GHG reporting guidelines, Scope 1 and 2 emissions are the key mandatory areas to report, illustrating the Group's environmental impact for activities where we have direct control, namely operation of our sites and vehicles.

		Total GHG tCO_2e		
	Source	**2018**	2017	Change (%)
Scope 1	Natural gas	**776**	449	72.8
	HFCs (refrigerants)	**95**	406	(76.6)
	Company-owned vehicles	**478**	541	(11.7)
Scope 2	Electricity (location based)	**3,388**	3,504	(3.3)
	Electricity (market based)	**3,368**	3,435	(1.9)
Total Scope 1 and Scope 2 (location based)		**4,736**	4,900	(3.3)
tCO_2e per £m revenue		**28.90**	29.07	(0.6)

Having been with the Company for the past three years, the growth and increase in brand awareness I have seen during this short time has been incredible. The investment into staffing and new products has enabled my division to establish itself as a leading player within lighting specification.

SEAN WRIGHT
Luceco LED Projects Manager

Corporate Social Responsibility continued

The environment continued

Greenhouse gas ("GHG") emissions continued

Absolute GHG emissions have fallen by 3.3% compared to last year. Natural gas emissions have increased, as the paint shop at the main manufacturing facility has been operational for a full 12 months, whereas in 2017 it was operational for six months. HFC emissions have fallen as there have been fewer refrigerant top-ups during the reporting period. Emissions from Company-owned vehicles have fallen as there was less business mileage across the Group during 2018. Emissions from electricity consumption (location-based) have fallen by 3.3% as the Group has invested significantly in energy efficiency at the main manufacturing facility. Initiatives include the generation of electricity from solar PV, upgrading lighting to LED, improvement of controls on injection moulding machines and investment into new air compressors. The Group has improved relative emissions performance compared to turnover by 0.6% over the period which saw turnover decline by 2.2%

The table below shows the proportion of energy use (electricity, natural gas and company vehicles) that occurs in the United Kingdom and non-UK countries. In 2018, 39% of the Group's energy consumption and 22% of carbon emissions arose from UK operations.

	Energy Use 2018		Carbon Emissions 2018	
Area	**kWh**	**%**	**tCO_2e**	**%**
UK	4,651,165	39%	1,026	22%
Non-UK	7,315,839	61%	3,710	78%
Total	**11,967,004**	**100%**	**4,736**	**100%**

People

We aim to recruit and retain people who are passionate about innovation and customer service, and to recognise and reward outstanding performance.

People policies

The Group's primary people-related policy is its Equality and Diversity Policy. This policy reflects our commitment to:

- developing an ethos which respects and values all individuals equally.
- eliminating all forms of discrimination.
- ensuring there are no barriers which limit or discourage access to promotion, recruitment or training.
- ensuring that all aspects of employment avoid stereotyping based upon colour, culture, ethnicity, race, religion, disability, gender, sexuality or age.
- promoting good understanding of cultural, racial, ethnic and religious diversity, good race relations, disability, gender and age equality.
- taking positive action to encourage the development of a more diverse workforce.

The policy is made available to all employees in their own language and is issued to all new starters, who are expected to subscribe to it at the time we appoint them. The policy is reviewed on an ongoing basis and a full review takes place at least annually.

We do not tolerate behaviour which breaches the policy and encourage staff to use our grievance procedure to report any actual or suspected breaches. We are not aware of any breaches during the year.

Being part of the Luceco LED team for the last four years has been hugely rewarding. The Company is fast paced with a new and refreshing feel, fully committed to innovation and its people. I believe that Luceco has given me a great platform to continue my career development with a good balance between being supportive and providing me freedom to work without too many restrictions.

SIMON SHENTON
Head of LED Product Development

Gender diversity

The table below shows the gender diversity of our workforce at the year end:

	2018		2017	
	Male	**Female**	Male	Female
Board	**5**	**1**	5	1
Senior managers	**7**	**2**	7	1
Other employees	**733**	**842**	1,040	1,080
Total	**745**	**845**	1,052	1,082

Employee involvement

We recognise the importance of good internal communication. The Board communicates the strategy to employees each year and we provide regular updates on progress and any changes taking place in the business. Employees are invited to contribute product or operational ideas and are supported by their line managers and HR department if they have any concerns.

Health and safety

Our health and safety policy sets out our approach to providing attractive working conditions for our people. We aim to prevent harm to, and promote the health of, all employees, by applying health and safety programmes, rules and regulations at all of our sites. All employees are responsible for complying with health and safety regulations and we have a health and safety champion in each operating unit, who is responsible for ensuring compliance with best practice and all local regulations.

Our health and safety policy is made available in local languages and all new starters must confirm that they have read and understood it. The policy is reviewed in full at least annually and more regularly if required.

We continually monitor our health and safety performance to ensure compliance and to enable us to take any corrective action if issues are identified. During the year, there were 19 minor accidents reported in our Telford facility (2017: 17) and one major accident (2017: none). In China five minor accidents were reported (2017: five).

Ethical business

We require our people to act fairly in their dealings with fellow employees, customers, suppliers and business partners. Our global Code of Conduct applies to all Group employees and our external business partners. It aims to ensure that Luceco maintains consistently high ethical standards across the globe, while recognising that our businesses operate in markets and countries with cultural differences and practices. The Code of Conduct is available on our intranet and is issued to all new employees, who must confirm that they have read and understood it.

Anti-bribery and corruption policy

Our Anti-bribery and Corruption Policy sets out our zero-tolerance approach, which extends to all business dealings and transactions in which we are involved. The policy is widely publicised across all our operations and provided to new starters, who must confirm they have read and understood it. It includes a prohibition on offering or receiving inappropriate gifts or making undue payments to influence the outcome of business dealings. We routinely review our policy and guidance in this area.

We maintain a log of all hospitality and gifts offered to and by our people, whether or not the hospitality or gifts are accepted. The policy also makes clear how our people can raise concerns or report any issues, which should be raised with the Commercial Group Sales Director or the Chief Financial Officer as soon as possible. No concerns were reported during the year.

Whistleblowing

We encourage an open culture, so any issues can be raised and handled at a local business level. However, we recognise that there may be times when it is uncomfortable or inappropriate for our people to raise a concern through line management. We therefore have a whistleblowing policy (‘Speak Up’), which is available on the corporate intranet. The policy is widely publicised across all of our operations worldwide and sets out clearly how colleagues should report whistleblowing concerns.

Whistleblowing contacts are initially received by an independent specialist company then passed to a nominated Non-Executive Director for further investigation as necessary. The Board routinely reviews the whistleblowing process and the reports arising from its operation, and ensures that arrangements are in place for the proportionate and independent investigation of such matters and for follow-up action. There were no reports that required follow up in the year.

Corporate Social Responsibility continued

Human rights

One of our business principles is that we will support fundamental human rights, in line with the legitimate role of business. Our Code of Conduct sets out our policies in respect of a range of human rights and related issues, including child labour, forced labour, the right to organise, collective bargaining and participation in political life.

The Group's operations in high-risk countries must perform self-assessments, to make sure they are aware of the human rights impact of their operations. If a negative impact seems possible or likely, they are encouraged to take precautions or find solutions that are beneficial for employees and the communities in which they operate.

Among our international operations, China is the location where people's rights could be most at risk. By owning the facility in China, we can directly control the environment and conditions in which our employees live and work, to ensure they are treated fairly and in accordance with our policies. The Directors regularly visit China and routinely invite customers to the facility, so they can witness the working and living conditions of our employees. This helps our customers to fulfil their own responsibility agendas. During 2018, the CEO and CFO visited our Chinese facility four times.

The UK Modern Slavery Act 2015 requires us to outline the steps we take to identify and prevent modern slavery within our organisation and supply chain. The latest statement is available on our website, www.luceco.com. During 2019, we will be rolling out Modern Slavery Act training to senior management across the Group, to ensure our managers understand their responsibilities and consider the Act in their operations.

Supply chain

The Group wants to do business with partners who endorse our values and our social and environmental standards. We regard the application of our business principles as being of prime importance in deciding whether to enter into or to continue relationships with suppliers and contractors. Our Supplier Code of Conduct is designed to ensure that all of our business partners, suppliers and manufacturing meet our basic expectations of doing business related to legal requirements, ethical practices, human rights and environmental management. These standards are based on well-respected and recognised international standards, including the International Labour Organisation, United Nations Universal Declaration of Human Rights and industry best practices.

We source raw materials and certain products from suppliers in close proximity to the factory in China. The Executive Directors visit suppliers periodically, to inspect their operations and ensure they are satisfied by how the supply process is managed, the quality of products produced and the working environment of the employees.

Communities

The Group does not have a separate policy on social matters or its interactions with local communities, as these are not material issues for us. However, we are keen to contribute to the communities we operate in and our Code of Conduct encourages our people to actively participate and to propose projects to site management or site committees.

In Jiaxing, China, we are heavily involved with the local university, establishing a "Nexus class" where students were selected to receive weekly lectures for three terms. These are led by our managers or technical experts and aim to provide students with greater business sense and awareness, career advice and preparation for entering the work environment, with exposure to marketing, management, product knowledge and development and project management.

A scholarship programme has also been in place since 2013 to support talented but disadvantaged students at Jiaxing University. The Company has granted six scholarships to date.

The Strategic Report on pages 1 to 47 was approved by the Board of Directors on 9 April 2019.

JOHN HORNBY
Chief Executive Officer

MATT WEBB
Chief Financial Officer

Working for Luceco is very rewarding, exciting and challenging all rolled into one. My role within the Company allows me to work with a variety of different people across a huge range of different work streams. One of the key successes of the business is the talented people within it.

LYNDSEY MARTIN
EMEA Operations Manager

Non-financial information statement

The table below sets out where stakeholders can find information in our Strategic Report that relates to non-financial matters detailed under Section 414CB of the Companies Act 2006.

Reporting requirement	Where to read more in this report	Page
Environmental matters	Corporate Social Responsibility Statement – Environmental policy, environmental impact and greenhouse gas information	42 to 44
Employees	Corporate Social Responsibility Statement – People policies, gender diversity, employee involvement, health and safety	44 and 45
	Chief Executive Officer's Review	8
	Principal risks and uncertainties – Team members	26
Human Rights	Corporate Social Responsibility Statement – Ethical business, supply chain, human rights	45 and 46
Social matters	Corporate Social Responsibility Statement – Communities	46
Anti-bribery and corruption	Corporate Social Responsibility Statement – Anti-bribery and anti-corruption	45
Business model	Business model	18 and 19
Principal risks	Principal risks and uncertainties	24 to 28
Non-financial KPIs	Key performance indicators	23

Chairman's Introduction

Corporate governance provides the structure to enable the Board of Directors to effectively execute the Group's strategy within a framework that ensures it is well controlled and mitigates undue risk.

Dear Shareholder,

I am pleased to present the Corporate Governance Report for the year ended 31 December 2018.

Good corporate governance is fundamental to the success of our business. The Board and its Committees have a key role in our governance framework by providing external and independent support and challenge, understanding the views of shareholders and stakeholders, and ensuring that a culture of good governance is promoted across the business. Our continuing aim is to promote and maintain an environment of openness, transparency, accountability and responsibility.

This section of the Annual Report describes our corporate governance structures and processes and how they have been applied throughout the year ended 31 December 2018.

The UK Corporate Governance Code 2016 (the "Code")

As a company incorporated in the UK and listed on the main market of the London Stock Exchange, Luceco is required to comply with the Code, the Listing Rules, the Disclosure, Guidance and Transparency Rules and the Companies Act 2006. Although the Group is outside the FTSE 350, the Group is keen to apply best practice wherever possible to uphold strong governance, evidenced by securing a premium listing with the London Stock Exchange. I am pleased to report that we have complied with the principles and provisions of the Code in all material respects during the 2018 financial year. The Board will ensure that the Company continues to fulfil its obligations in accordance with the revised 2018 UK Corporate Governance Code, effective from 1 January 2019.

My role as Chairman

My role is to ensure that the Luceco Board operates effectively in delivering the long-term success of the Company. In fulfilling this role I seek to ensure that Board proceedings are conducted in such a way as to allow all Directors to have the opportunity to express their views openly and that, in particular, the Non-Executive Directors are able to provide constructive support and challenge to the senior management team.

Compliance statements

This report sets out how the Company has adhered to the principles of the Code and how the provisions have been applied in 2018. It explains the composition of the Board, its responsibilities and the structure within which it, and its Committees, operates and includes reports from the Chairs of the Board's Committees. The Group's approach to risk management and internal control is set out on page 57. The Directors confirm that they consider the Annual Report and Financial Statements, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance. Luceco's business model is set out on pages 18 and 19 and an explanation of the strategy and longer-term objectives of the Company are contained within the Strategic Report on pages 20 and 21.

Board and Committee evaluation

We regard regular Board and Committee evaluation as a valuable tool in maintaining and improving Board effectiveness. This year I conducted a thorough evaluation process, which was discussed in detail by the Board. Board composition and succession planning were considered, including the requisite experience and competencies to be sought from future executive and non-executive appointments. The composition of the Board, and its strategic priorities, will remain under review throughout 2019. More detail about the Board evaluation and some of the major matters considered by the Board and its Committees during the year can be found on pages 53 to 56.

The year ahead

The FRC published its revised UK Corporate Governance Code in July 2018, and since then the Board has taken steps to ensure compliance with the updated principles and provisions of the Code from its effective date. We are committed to ensuring that our corporate governance framework remains robust and effective and will continue to monitor, assess, and seek ways to underpin and improve our governance further throughout 2019.

GILES BRAND

Chairman

9 April 2019

Board Composition

Independence
The Luceco Board, excluding the Chairman, comprises two Executive Directors and three independent Non-Executive Directors. Over half the Board are considered independent.

Giles Brand | Chairman

Chairman of the Board since 2 October 2016
Responsible for leadership and governance of the Board.

There is a clear division of responsibilities between the Chairman, who runs the Board, and the CEO, who runs the business.

40% Executive Directors
Day-to-day management of the Company

John Hornby | Chief Executive Officer

Matt Webb | Chief Financial Officer

60% Independent Non-Executive Directors
To constructively challenge the executives and represent the interests of the shareholders

John Barton
Senior Independent Director

Caroline Brown
Non-Executive Director

Tim Surridge
Non-Executive Director

Board diversity
It is the Group's aim to have the appropriate level of diversity on the Board, to reflect the diverse nature of the Group's operations and provide a wider perspective to decision making.

The current gender split of the Board is one female and five males. For further details on gender diversity please see page 45.

Board skills
The Board reflects a good balance of skills and experience from financial, operational, sector-specific and general business backgrounds.

Board culture
Directors are highly committed with 100% attendance.

Board of Directors

The Board of Directors has overall responsibility for the Group. Its aim is to represent all stakeholders and to provide leadership and control in order to ensure the growth and development of a successful business.

GILES BRAND
Non-Executive Chairman

Skills and experience

Giles is the founder and Managing Partner of EPIC Private Equity LLP, an independent investment manager, advisory and placement agent and administrator. EPIC Private Equity LLP is the investment adviser to EPIC Investments LLP, whose affiliates are the Company's largest shareholder. Since 2001, Giles has led over 30 buyout, turnaround, distressed and growth capital transactions. Many of these transactions have made multiple bolt-on acquisitions in the UK and overseas.

Other roles

Giles is currently the Non-Executive Chairman of Whittard of Chelsea and a Non-Executive Director of the Reader Organisation, a not-for-profit educational charity.

N D

JOHN HORNBY
Chief Executive Officer

Skills and experience

John was appointed Chief Executive Officer of the Group in 2005 having originally joined Luceco in 1997. John led the original management buyout of Luceco from a listed plc in 2000 and led the secondary buyout with EPIC Private Equity LLP in 2005. Since then, John has led the development of the Group's Chinese operations. John began his career with Knox D'Arcy Management Consultants following his graduation from The University of Oxford with a degree in Economics.

Other roles

John holds no other listed or non-listed directorships.

D

MATT WEBB
Chief Financial Officer

Skills and experience

Matt joined the Group as Chief Financial Officer on 19 February 2018. Matt joined from FTSE 100 listed multinational building materials distribution company Ferguson plc, where he most recently spent five years as Finance Director for its market-leading US Blended Branches business, based in the USA. Prior to that, Matt held other senior Group roles at Ferguson, including Group Financial Controller and Strategic Planning Manager. Matt qualified as a Chartered Accountant with KPMG LLP and holds a degree in Engineering Science from The University of Oxford.

Other roles

Matt holds no other listed or non-listed directorships.

D

Key R Remuneration Committee A Audit Committee N Nomination Committee D Disclosure Committee Committee Chair

JOHN BARTON
Senior Independent
Non-Executive Director

Skills and experience
John joined the Group as Senior Independent Non-Executive Director on 27 September 2016. John has previously served as Chairman of Next plc, Cable and Wireless Worldwide plc, Brit Holdings plc and Wellington Underwriting plc and has served as Senior Independent Director of WHSmith plc, Hammerson plc and SSP Group plc. John was also the Chief Executive of insurance broker JIB Group plc from 1984 to 1997 and after JIB's merger with Lloyd Thomson in 1997, he became Chairman of the combined group, Jardine Lloyd Thompson Group plc, until 2001. John is a qualified chartered accountant and received an MBA from Strathclyde University.

Other roles
John is currently Chairman of easyJet plc and is a Non-Executive Director of Matheson & Company Limited.

A N R

CAROLINE BROWN
Independent
Non-Executive Director

Skills and experience
Caroline joined the Group as an independent Non-Executive Director and Chair of the Audit Committee on 27 September 2016. Caroline has managed divisions of FTSE 100 groups and AIM businesses with international industrial and technology operations and has worked as a corporate finance adviser to governments and corporations with Merrill Lynch, UBS and HSBC. She has chaired audit committees of several other listed companies and is a Fellow of the Chartered Institute of Management Accountants. Caroline holds a first-class degree and PhD in Natural Sciences from the University of Cambridge and a Master of Business Administration from the Cass Business School, University of London.

Other roles
Caroline is currently a Non-Executive Director of three other public companies: NAHL Group plc (Chair), Georgia Capital plc and Earthport plc.

A N R

TIM SURRIDGE
Independent
Non-Executive Director

Skills and experience
Tim joined the Group as an independent Non-Executive Director on 27 September 2016. Previously, Tim has served as Group Chief Financial Officer at Olive Group Capital Limited, a Dubai-based security solution provider, and as Chief Financial Officer and an Executive Director at Dangote Cement plc, Nigeria's largest cement producer. Tim joined KPMG LLP UK in 1991 and became a partner in the firm's Transactional Services business in 2006. Tim has considerable accounting and advisory experience including stock market listings, reverse takeovers, management buyouts and acquisitions. Tim is a qualified chartered accountant and an Associate of the Institute of Chartered Accountants in England and Wales.

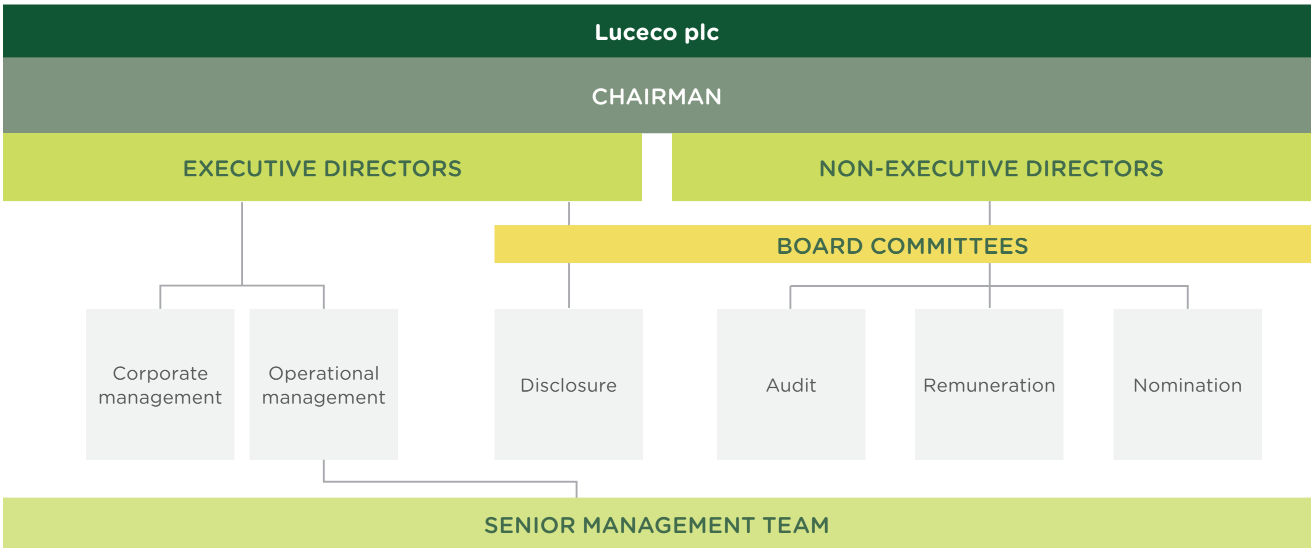
Other roles
Tim is currently a Principal at NM Capital.

A R

Key R Remuneration Committee A Audit Committee N Nomination Committee D Disclosure Committee Committee Chair

Corporate Governance Report

The Board is fully accountable to the shareholders for the performance and conduct of the business and recognises the importance of maintaining an open dialogue, keeping them informed of the Group's strategy, progress and prospects.



Compliance with the Code

Governance has always been considered key to the control and management of the business, given the significant proportion of external private equity ownership. At the date of this report, the Board has complied with all provisions of the 2016 edition of the UK Corporate Governance Code (the "Code"), which was the applicable standard for the 2018 financial year.

In response to the publication of the revised Code in July 2018, the Board carried out a formal assessment of its compliance with the principles and provisions of the revised Code. The Board will continue to ensure that the revised Code is fully embedded in Board practice and culture in 2019.

A copy of the Code is available at **www.frc.org.uk**

Chairman Giles Brand	The Chairman is Non-Executive and is responsible for the leadership and governance of the Board, organising, planning and setting the agenda of Board meetings (in conjunction with the Chief Executive Officer) and communicating information to shareholders. The Chairman maintains regular contact with the independent NEDs to discuss and address any issues or concerns outside of formal Board meetings. The Chairman also provides support to the Executive Directors where required.
Chief Executive Officer ("CEO") John Hornby	The CEO has delegated responsibility for the management of the Group's day-to-day operations, including product development, quality control, sourcing of raw materials, customer and supplier relations, distribution and health and safety. The CEO also prepares and communicates the strategy of the Group and the detailed underlying operational plans to deliver it.
Chief Financial Officer ("CFO") Matt Webb	The CFO works closely with the CEO to ensure that strategic plans are underpinned by strong financials and that they deliver growth in shareholder value. The CFO is responsible for producing budgets and forecasts to deliver and measure against the strategy and assessing the benefit of new investment opportunities. He is also responsible for internal control and risk management, in conjunction with the Audit Committee.
Senior Independent Director ("SID") John Barton	In addition to the responsibilities of an independent NED, the SID is available to shareholders should they have concerns which contact through the Chairman or other Board members has failed to resolve or for which such contact is inappropriate. The SID is also responsible for conducting the annual performance evaluation of the Chairman, in conjunction with the other independent NEDs. All Board members who wish to deal in the Company's securities must seek approval from the SID.
Non-Executive Directors ("NEDs") Caroline Brown Tim Surridge	The NEDs are independent and contribute to the strategic direction of the Group, providing an independent sounding board to the Chairman and Executive Directors. The independent NEDs are also members of the Board Committees, with the exception of the Disclosure Committee, with responsibility for the oversight of audit, financial control and risk management, composition and remuneration of the Board.

Leadership

Board composition, roles and independence

The Board comprises the Chairman, two Executive Directors and three independent Non-Executive Directors ("NEDs"). The key responsibilities of the members of the Board, including the division of responsibilities between the Chairman and CEO, are set out below.

The Board reflects a good balance of skills and experience from financial, operational, sector-specific and general business backgrounds, as described in the Directors' biographies on pages 50 and 51. At least half the Board, excluding the Chairman, consists of NEDs whom the Board considers to be independent.

The independent NEDs have been appointed for the knowledge and expertise they can bring to the Group, promoting healthy debate and challenge to the Executive Directors and senior management team. The three independent NEDs are considered by the Board to be independent of the Company's executive management and free from any business or other relationship that could affect their ability to exercise independent judgement. The letters of appointment of the Chairman and independent NEDs are available for inspection at the Company's registered office.

Each Directors' other commitments are disclosed and, for additional listed appointments, approved by the Board prior to their appointment. The Board reviews a schedule of Directors' interests at each Board meeting. The Board is satisfied that the other commitments of the Chairman and the independent NEDs do not prevent them from devoting sufficient time to the Company. The Executive Directors work solely for the Group; neither John Hornby nor Matt Webb have any other directorships.

Board responsibilities and procedures

The Board is collectively responsible for leading and controlling all activities of the Group, with overall authority for overseeing the management and conduct of the Group's business, strategy and development. The Board sets the Group's strategic direction and approves strategic projects, policy and investment decisions. These decisions are underpinned by financial reporting and a robust approach to risk management. The Board is responsible for ensuring appropriate resources are in place to enable the senior management team to deliver the strategic objectives and enact their policies and decisions.

The Board keeps a formal schedule of matters specifically reserved for its decision. These include the approval of the annual and half-yearly results and associated announcements, recommendation of dividends, convening of shareholder meetings, Board appointments, strategic plans and budgets, significant capex proposals, acquisitions, systems of internal control and risk management and corporate governance arrangements. No one Board member has the power to make a decision without the sanction of the other members.

The Board has formally delegated specific responsibilities for audit, risk management and financial control, public announcements, Board composition and remuneration to various committees, namely the Audit Committee, Disclosure Committee, Nomination Committee and Remuneration Committee. These Committees are all chaired by the Chairman or an independent NED, enabling them to take an active role in influencing and challenging the work of the Executive Directors and senior management team. Details of the composition, responsibilities and activities of these Committees, are set out below.

The terms of reference of these Committees, explaining their role and the authority delegated to them by the Board, are reviewed annually and are available for inspection at the Company's registered office and on its website. The Board may, in future, create further Committees to approve specified processes as required. The Board is supported by a dedicated and experienced senior management team, in the delivery and execution of its objectives. The Board is fully accountable to the shareholders for the performance and conduct of the business.

In accordance with the revised Code, the Board appointed Tim Surridge as the designated Non-Executive Director for workforce engagement. A report on the activities regarding workforce engagement will be included in the 2019 Annual Report.

In advance of its meetings, the Board is provided with an agenda and all relevant documentation and financial information in a timely manner to assist it in the discharge of its duties and ensuring that decisions are well informed and made in the best interests of the Group. If any member is unable to attend a Board meeting, they have the opportunity to discuss any agenda items with the Chairman before the meeting.

All Directors have access to the advice and services of the Company Secretary. The Directors are able to take independent, professional advice to assist them, if necessary, at the Company's expense.

The Group maintains Directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. In addition, third-party qualifying indemnity provisions (as defined in s234 of the Act) for its Directors and officers were in force during the year ended 31 December 2018 and remain in force. There were no qualifying pension scheme indemnity provisions.

Corporate Governance Report continued

Leadership continued

Board Committee responsibilities

Audit Committee

The Audit Committee assists the Board in discharging its responsibilities with regard to monitoring the integrity of the financial statements, reviewing risk and controls and compliance with applicable laws and regulations, the external audit process (including review of independence, appointment, terms of engagement, remuneration and oversight of the work of the external auditor) and the provision of non-audit services.
The Audit Committee is chaired by Caroline Brown and its other members are John Barton and Tim Surridge. The Board considers that Caroline Brown and Tim Surridge have recent and relevant financial experience. The report of the Audit Committee is on pages 57 and 58.

Nomination Committee

The Nomination Committee assists the Board in satisfying its responsibilities relating to the composition and make-up of the Board and its Committees. It is also responsible for periodically reviewing the Board's structure, succession planning and identifying potential candidates to be appointed as a Director or Committee member, and makes appropriate recommendations to the Board.
The Nomination Committee is chaired by Giles Brand and its other members are John Barton and Caroline Brown. The report of the Nomination Committee is included on page 59.

Remuneration Committee

The Remuneration Committee assists the Board in fulfilling its responsibility for setting remuneration for all Executive Directors. The Remuneration Committee also monitors the level and structure of remuneration of senior management.
The Remuneration Committee is chaired by Tim Surridge and its other members are John Barton and Caroline Brown.
The Remuneration Committee Report is on pages 60 to 69.

Disclosure Committee

The Board has delegated responsibility to the Disclosure Committee to oversee the Company's compliance with the FCA's Listing Rules, the Disclosure, Guidance and Transparency Rules and the Market Abuse Regulation, in respect of the disclosure and control of inside information directly concerning the Company.
The Committee meets as appropriate and met four times during the year. The Disclosure Committee is chaired by Giles Brand and its other members are John Hornby and Matt Webb.
The Disclosure Committee is responsible for:

- The design, implementation and periodic evaluation of the procedures and controls for the identification, treatment and disclosure of inside information
- Reviewing the requirement for announcements and determining whether information submitted and reviewed by the Committee requires disclosure
- Reviewing and advising on the scope, content and appropriateness of any disclosure and arranging for such disclosure to be made

Effectiveness

Board evaluation

During the year, an internal performance evaluation of the Board, committees and individual directors was undertaken by way of a questionnaire. The performance evaluation considers the composition, balance of skills, experience, knowledge and collaboration on the Board, including any other factors relevant to its effectiveness.
The Chairman presented the results of the evaluation to the Board, which included individual recommendations made by directors. The Board discussed the outcomes and it was agreed that the main areas of focus for the Board in 2019 were succession planning, the timeliness and quality of board reporting and risk management. In addition, the Board discussed and agreed its top five strategic priorities for 2019.

The Chairman was appraised by the independent NEDs, under the leadership of the SID. All Directors were individually appraised, including evaluation of their contribution and commitment to the role.

Board activity

The Board agenda focuses on the themes of driving strategy, monitoring risk, and execution of the strategy through regular business, financial and departmental updates, together with corporate governance and regulatory matters. A summary of the activity of the Board during the year is set out below:

Strategy

Reviewed:

- The strategy of the business and setting its objectives, including setting preliminary questions for senior management to consider as part of their strategic discussions.

Financial performance

- Considered the financial performance of the business and key performance targets, including a review of the monthly management accounts during each Board meeting.

- Approved the budget.
- Monitored the performance against budget through regular presentations from the CFO.
- Reviewed the half-year and annual results and presentations to analysts and approved the Annual Report.
- Approved the refinancing of the Company's debt structure.

Governance, stakeholders and shareholders

Reviewed:

- The outcome of the Board evaluation.
- The Company's compliance with the Code and key developments in corporate governance, including the Company's current level of compliance with the 2018 UK Corporate Governance Code.
- Reports on the upcoming regulatory and governance changes that impact the Group.
- Feedback from institutional shareholders and analysts, following the annual and interim results.
- The terms of reference of the Board Committees.
- Company policies.

Internal control and risk management

- Reviewed the approach to risk management and carried out a robust assessment of the Company's principal risks.
- Approved the Company's risk appetite, which is the level of risk that the Company is willing to take in pursuit of its objectives.
- Reviewed the recommendations of the internal control questionnaire and implemented the actions, as a result of the conclusions drawn. Reviewed the role of the Internal Controls Manager prior to their appointment.
- Reviewed the Company's hedging arrangements and strategy.
- Reviewed and approved the contents of the Company's Finance Manual.

Board meetings and attendance during the year

Name	Board	Audit Committee	Nomination Committee	Remuneration Committee
Giles Brand	8/8	n/a	2/2	n/a
John Hornby	8/8	n/a	n/a	n/a
Matt Webb	8/8	n/a	n/a	n/a
John Barton	8/8	6/6	2/2	4/4
Caroline Brown	8/8	6/6	2/2	4/4
Tim Surridge	8/8	6/6	n/a	4/4

Leadership and people

- Discussed the composition of the Board and its Committees.
- Discussed the development of the people strategy, which included the implementation of a clear reward strategy, a focus on development and ensuring good team leaders.
- Reviewed the results of the Employee Survey, and discussed any areas identified for improvement.

New appointments, development and support

During the year, Matt Webb was appointed as a Director on 19 February 2018 and Link Company Matters Limited was appointed as Corporate Secretary on 20 February 2018. Newly appointed Directors receive a tailored induction to introduce them to the Company's business, operations and governance arrangements. This has included visits to the Group's key locations in London, Telford and China, provision of strategic, financial, product and market information and meetings with members of the senior management team.

During 2018 the Board undertook a second visit since IPO to the Company's manufacturing facilities in Jiaxing. The Board also visited Telford, the site of the Company's warehouse and where most of the Company's UK employees are located. During 2019, the Board will receive presentations relating to Kingfisher Lighting to further develop their knowledge of this part of the business. The Company will provide any further training deemed necessary at the direction of any Board member.

The Company Secretary is responsible for advising the Board on matters of governance and any relevant legal or regulatory changes that arise and arranging appropriate training where applicable.

Succession planning

The Board recognises the importance of maintaining succession plans for the long term success of the Group. Responsibility for setting and overseeing these plans is delegated to the Nomination Committee. As described in the Nomination Committee report on page 59, it had been expected that succession planning would be a particular focus during the year. However, activity in 2018 was concentrated on strengthening the support functions of the Group through interim and permanent appointments, including a new CFO. An annual review of the Company's succession arrangements was undertaken in 2018, during which leadership needs and senior management roles across the Group were considered.

Corporate Governance Report continued

Re-election of Directors

In accordance with the Code and the Company's Articles of Association ("Articles"), all Directors are subject to election by the shareholders. The Articles require all Directors appointed since the last AGM to retire and put themselves forward for election. In line with best practice corporate governance, all Directors will seek re-election at the 2019 AGM. Non-Executive Directors are initially appointed for a three-year term and, subject to review by the Nomination Committee and continued election by shareholders, can serve up to a maximum of three such terms. The biography for each Director detailing their contribution, and the skills and experience they bring to the Company, is included on pages 50 and 51.

Accountability

Risk management

The Board has overall responsibility for ensuring that the Group maintains a sound system of risk management and internal control, in accordance with the Code. The system of risk management and internal control is kept under review by the Audit Committee, which reports to the Board on its findings. The Board considers and determines the principal risks faced by the Company, which are set out on pages 25 to 28, and also conducts an annual review of the effectiveness of the risk management and internal control systems.

During 2018, a review of the Company's key risks was undertaken, and the findings of the review were presented to the Board. Risk management will be a key focus area for the Board in 2019.

Financial reporting

The Board is responsible for reviewing and approving the Annual Report and Financial Statements and the interim financial information, and for ensuring that these reports, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Drafts of these reports are provided to the Board in a timely manner and Directors' feedback is discussed and incorporated where appropriate, prior to publication. In addition, the Board ensures that controls over the financial reporting process and preparation of the consolidated accounts include extensive reviews by qualified and experienced individuals, to ensure that all elements of the financial statements and appropriate disclosures are considered and accurately stated.

Whistleblowing procedures

The Group operates a whistleblowing policy, which allows all employees to raise concerns to senior management in strict confidence about any unethical business practices, fraud, misconduct or wrongdoing. During 2018, the Audit Committee was responsible for reviewing any concerns raised in accordance with the whistleblowing policy and reporting these to the Board. Following the implementation of the 2018 UK Corporate Governance Code, the responsibility for reviewing whistleblowing concerns now lies with the Board.

A review of the Company's whistleblowing policy was concluded during the year. The policy was updated, with an external provider put in place, and Caroline Brown appointed as the designated Non-Executive Director for whistleblowing, to provide employees with an independent point of contact to voice any concerns.

Shareholder engagement

The Board, led by the Chairman, is committed to maintaining an open and constructive dialogue with shareholders, to ensure there is a common understanding of the strategic objectives, governance and performance of the Group. The CEO and the CFO undertake investor roadshows following the release of financial results, with the presentations made available on the Company's website. Any feedback gained from a roadshow is reported to the Board, to enable Directors to understand the views of shareholders. Where appropriate, the Company consults with shareholders on significant issues. During 2018, the major shareholders were offered the opportunity to meet the Chairman, CEO and CFO to discuss Luceco's strategy and governance arrangements. In addition, the Company has appointed financial public relations advisers and corporate brokers to gather investor and analyst feedback, which is presented to and reviewed by the Board.

Annual General Meeting

The Chairman actively encourages the participation of all Directors at the AGM, which is the principal forum for dialogue with shareholders. A presentation is also given at the AGM outlining recent developments in the business, and a question and answer session follows, to enable shareholders to ask about specific areas or the business in general. All Committee Chairs attend the AGM to answer any questions that shareholders may have on specific matters within the relevant Committee's remit. The 2019 AGM will take place at 12.00pm on 24 May 2019 at the offices of Numis Securities Limited, The London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT. The notice of AGM and any related documents will be sent to shareholders within the prescribed timescales.

GILES BRAND

Chairman

9 April 2019

Audit Committee Report

We have overseen the enhancement of the finance function and a programme of development of internal controls, which will continue throughout 2019.

Audit Committee
Chair: Caroline Brown
Other members: John Barton and Tim Surridge

Key responsibilities

The Committee's main responsibilities, as outlined in its terms of reference, are:

- Overseeing the Group's internal financial controls and risk management systems
- Recommending the half and full year financial results to the Board
- Monitoring the integrity of all formal reports and announcements relating to the Group's financial performance
- Overseeing the relationship with the external auditor and reporting the findings and recommendations of the auditor to the Board

The Committee's terms of reference are available on the Company's website.

Internal financial controls and risk management systems

The Board is responsible for the risk management framework and the Committee has been delegated responsibility for reviewing the overall process of assessing business risks and managing the impact on the Group. The Board retains overall responsibility for the level of risk the Group is willing to take and for allocating sufficient resource to the management of business risk. The risk management process is detailed on page 24.

The Group operates its system of internal control by using the following key elements:

- Regular review meetings of various groups, including business functions, senior management, sub-committees and the Board, to discuss key issues
- A detailed business planning process, combining top-down and bottom-up approaches, with outputs reviewed by the Directors
- A system of financial controls, including preventative controls and a review process
- Ongoing dialogue with Directors, including financial reports and trading updates

The Committee on behalf of the Board, has reviewed the effectiveness of the internal control systems and risk management processes in place during the year, taking account of any material developments since the year end. Systems and processes were put in place to mitigate a reccurrence of the inventory valuation and inter-company issues, which were reviewed and approved by the Committee. The Committee has continued to monitor the effectiveness of these processes throughout the year.

The Committee has overseen the steps taken by the CFO during the year to infuse the Group finance function with increased public company experience and more clearly defined the Group's controls and processes via the re-launch of the Luceco Finance Manual.

Review of half and full year financial results

The Board is ultimately responsible for reviewing and approving the Annual Report and Financial Statements and the half yearly reports. At the Board's request, the Committee has reviewed the Annual Report and Financial Statements and is satisfied that the information contained therein is fair, balanced and understandable and provides shareholders with the necessary information to assess the Group's position and performance, business model and strategy.

Significant issues considered

The key judgement considered by the Committee was research and development capitalisation.
The significant estimates that have been considered by the Committee are the amortisation of intangible costs and inventory valuation. See note 1 of the consolidated financial statements for further information on key judgements and significant estimates. The Committee also considered rebates which was a significant estimate in 2017.

The Group operates in a technological industry and there is a risk of stock becoming obsolete as trends and customer requirements change. The Group makes provision for obsolete and slow-moving stock in the valuation of its inventory and judgement is exercised in determining the level of provision required.

KPMG LLP has set out its audit approach and the work it performed to satisfy its audit requirements in these areas in its audit report on pages 76 to 85.

Audit Committee Report continued

Significant issues considered continued

The principal risks and uncertainties of the Group and their mitigation are included on pages 25 to 28. The crystallisation of these risks has been considered in the Viability Statement on pages 29 to 31 and Going Concern assessment on page 72.

The Committee has considered the impact of Brexit as part of the ongoing assessment of the business's risk and uncertainties.

The Committee has reviewed forthcoming changes in International Financial Reporting Standards ("IFRS"), notably IFRS 16 Leases, and the Committee is satisfied that the Group is compliant from the implementation date.

The Committee is satisfied that the presentation of the financial statements is appropriate and in accordance with the Group's accounting policies.

The Group received a letter from the Financial Reporting Council's ("FRC") Corporate Governance and Reporting Division in relation to the Group's 2017 Annual Report and Accounts. The Group responded to the FRC's satisfaction. The review carried out by the FRC provides no assurance that the Annual Report and Financial Statements were correct in all material respects. The FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The Group has enhanced its disclosures in a number of areas in 2018.

External auditor

KPMG LLP has been the Group's auditor since 2014 and the senior statutory auditor is Michael Froom. The Committee intends to comply fully with the FRC Audit Committee Guidance, to carry out an audit tender every ten years and mandatory rotation at least every 20 years.

The Committee regularly considers the independence and objectivity of the auditor, taking into consideration relevant UK professional and regulatory requirements.

The Committee reviews an annual statement from the auditor detailing its independence policies and safeguards and confirming its independence, taking into account the Group's non-audit services policy and relevant ethical guidance regarding the provision of non-audit services by the external auditor.

The Committee has considered and approved the terms of engagement and fees of the external auditor for the year ended 31 December 2018. Audit fees payable by the Group to KPMG LLP in 2018 totalled £0.5m (2017: £0.2m). There were no contingent fee arrangements. The Committee reviewed the level of non-audit services and fees provided by KPMG LLP. For the year ended 31 December 2018, these were nil (2017: £0.1m). Costs incurred in 2017 related to the Kingfisher Lighting acquisition.

The Committee is required to consider and review the effectiveness of the external audit on an annual basis and report its findings and recommendations to the Board. This review was undertaken by reviewing the external auditor's plan for the 2018 audit, discussing the results of the external auditor testing (including its views on material accounting issues and key judgements and estimates) and its audit report.

Internal audit

The Group did not have an internal audit function during the year. During 2018, the Committee reviewed the processes that had been put in place by the CFO and the role to be undertaken by the Internal Controls Manager, and concluded that at this time an internal audit function was not required.

The Committee will continue to review on an ongoing basis whether the Group's size and activities are such that an internal audit function should be established and, if so, determine its remit and make a recommendation to the Board.

Compliance

During 2018, the Committee was responsible for monitoring and periodically reviewing the Group's whistleblowing, anti-bribery and anti-fraud policies. The CFO, Matt Webb, is the Group's Compliance Officer. In accordance with the revised 2018 UK Corporate Governance Code, effective from 1 January 2019, responsibility for these policies will now be a matter for the Board.

During the year, a thorough review of each policy was undertaken and updated as required. A designated Non-Executive Director for whistleblowing was appointed, to provide an alternative communication channel for employees to raise concerns. The Committee, and the Board, is satisfied that sufficient arrangements are in place to assist in the prevention of fraud and enable employees to report irregularities confidentially and allow appropriate investigation and follow-up action to be taken.

Priorities for 2019

During the forthcoming year the Committee will continue to oversee the work of embedding a system of robust internal controls throughout the business and strengthening the skills and capabilities of the finance team (with full backing of the Board).

The Committee recognises that at the 2018 AGM there was a significant vote against the reappointment of the Auditor. The Committee has worked closely with KPMG during the year to maximise the effectiveness of the audit process, to the Committee's satisfaction.

I will be available at the AGM to answer any questions about the work of the Committee.

CAROLINE BROWN
Audit Committee Chair

9 April 2019

Nomination Committee Report

We have focused on ensuring Luceco has a strong, experienced and diverse Board and senior management team in place to provide a platform for the Company to achieve its long term potential.

Nomination Committee
Chairman: Giles Brand
Other members: John Barton and Caroline Brown

Key responsibilities

The Committee's main responsibilities, as outlined in its terms of reference, are:

- Reviewing the size, structure and composition of the Board and its Committees
- Identifying and nominating candidates to fill Board vacancies as the need arises
- Ensuring adequate succession planning is in place for Directors and members of the senior management team
- Reviewing the results of the Board performance evaluation process

The Committee's terms of reference are available on the Company's website.

Board composition

The Committee has reviewed the size, composition and capabilities of the Board during 2018 and concluded that there was an appropriate mix of skills and experience to provide strong and effective leadership.
The composition of the standing Board Committees was considered and it was agreed that the composition of each was appropriate and balanced.

The Committee believes diversity is important when considering the composition of the Board. It is the Group's aim to have the appropriate level of diversity on the Board, to reflect the diverse nature of the Group's operations and provide a wider perspective to decision making. We remain committed to ensuring that recruitment and promotion of individuals throughout the Group, including those at Board and senior management level, always considers relevant skills, experience, knowledge, ability, gender and ethnicity. The Committee has not set any measurable objectives in respect of this policy. More information on the Group's gender profile is included in Corporate social responsibility report on page 45.

Appointments

During the year, Matt Webb was appointed as Chief Financial Officer and Director of the Company.
In accordance with the agreed process for Board appointments, the Committee, led by the Chairman and in conjunction with the Chief Executive Officer, led the selection process, including the production of a role description which considered the knowledge and experience required for the role. Independent external search consultants, Spencer Stuart, were engaged to ensure consideration of the widest and most diverse pool of potential candidates for the role. Spencer Stuart has no other connection with the Group, other than providing services of this type.

Where the Committee deals with the appointment of a successor for the Chairmanship, John Barton as Senior Independent Director would lead this process.

During the year, two interim and two new appointments were made to the senior management team and the Committee oversaw this process.

Succession planning

Currently, all the independent Non-Executive Directors have been appointed for less than six years. Non-Executive Directors are typically expected to serve an initial six-year period but may be invited by the Board to serve an additional period. The Committee has identified the experience and knowledge that it believes the Non-Executive Directors as a whole require in order to effectively perform their duties and these will inform succession planning considerations in the future.

In last year's Annual Report, we reported that succession planning for the Executive Directors and senior management would be a particular focus for the Committee in 2018. Following the discovery of the accounting issues in 2017 and early 2018, the primary focus during the year was appointing employees into senior leadership roles in the finance function.

In 2019, the Committee will oversee the promotion and appointment of individuals into senior management roles across the rest of the business as part of the implementation of Luceco's strategy. The succession plans for the key senior roles have been reviewed by the Committee and a wider review of succession planning for senior managers and their direct reports will be undertaken during the year.

Annual evaluation of the Nomination Committee

As part of the Board evaluation process, as described in the Corporate Governance Report on page 54, the performance of the Nomination Committee was reviewed. There were no areas of concern highlighted, and it was concluded that the Committee was operating effectively.

Directors' performance

The Directors' biographies are set out on pages 50 and 51.
The Committee has considered the performance of each Director and concluded that they continue to demonstrate the necessary knowledge and commitment to contribute effectively to the Board.

Priorities for 2019

During the forthcoming year, the Committee will focus on a broader review of senior management succession planning and the development of a diverse pipeline of talent within the business.

I will be available at the AGM to answer any questions about the work of the Committee.

GILES BRAND
Nomination Committee Chair
9 April 2019

Remuneration Committee Report

We are committed to operating a Remuneration Policy that recognises and rewards performance to support the Group achieve its strategic objectives and generate long-term value for shareholders.

Remuneration Committee
Chairman: Tim Surridge
Other members: John Barton and Caroline Brown

Dear Shareholder,

On behalf of the Board, I am pleased to present the Remuneration Committee's report on remuneration for the year ended 31 December 2018.

Remuneration paid for 2018

For 2018 the annual bonus for the CEO and CFO was based 30% on Adjusted Profit After Tax performance, 50% on free cash flow performance and 20% on individual strategic objectives.

Adjusted Profit After Tax achieved for 2018 was £4.6m which was below the threshold bonus target and therefore no portion of this element paid out. Free Cash Flow performance of £5.4m was above the maximum target set reflecting the steps that the Company has taken during the year to strengthen the underlying cash performance and position the business for sustainable future performance. The Committee determined that it was appropriate that this element should payout in full. For the financial element of the bonus therefore 50% out of a maximum of 80% was awarded.

The CEO performed strongly against his personal objectives set during the year refinancing the business, delivering production cost savings and taking steps to improve revenue performance. Based on this performance the Committee judged that his personal objectives had been met in full. The CFO also performed strongly against his personal objectives working to resolve the accounting issues, setting a clear capital structure policy and improving management information and governance and controls. Based on this performance the Committee judge that the individual strategic measures had been met in full.

This performance against targets set therefore resulted in an overall bonus of 70% of maximum.

The Committee carefully considered this outcome and notwithstanding the progress made during the year in light of the business challenges at the start of the year decided that it was appropriate that the bonus payment in respect of 2018 would be limited to 50% of maximum for the CEO and 60% of maximum for the CFO. The CEO and CFO supported this decision. This resulted in a payment of £162,500 for the CEO and £156,000 for the CFO.

The first Performance Share Plan ("PSP") award was granted in 2017 and therefore will be reported on in the 2019 report. There was no PSP award vesting based on performance in 2018.

Implementation of Remuneration Policy for 2019

From 1 January 2018 the CEO accepted a reduction in his salary of £25,000 to £325,000 in response to the Group's performance at that time. Given the improvement in the Group's performance during the year and the role the CEO has played in this, the Committee determined that it was appropriate that his salary revert to its previous level of £350,000 from 1 January 2019. Notwithstanding the CFO's exceptional contribution to date, the Committee determined that, as he joined during the year, the CFO's salary will not be increased from 1 January 2019 and will therefore remain at £300,000.

The maximum annual performance bonus remains at 100% of base salary for both the CEO and CFO. For 2019 the annual bonus will continue to be based 30% on Adjusted Profit After Tax and 50% on Free Cash Flow, with 20% being based on the achievement of personal objectives linked to operational and strategic business objectives.

An award of 100% of salary will be made under the PSP in 2019 to the CEO and CFO. These awards are subject to meeting stretching EPS and Total Shareholder Return performance targets over a three-year period.

For 2019 PSP awards, EPS targets have been set as absolute pence targets for the year ending 31 December 2021 in light of the low base year and to provide a clear focus for management on the required level of performance. The EPS target range has been set at 8.6p at target (25% vesting) and 10.6p at maximum (100% vesting). The Committee set targets taking into account internal and external expectations of performance and the Committee believes that these targets are appropriately stretching.

UK Corporate Governance Code

A key focus for the Committee over the next 12 months will be considering the application of the 2018 UK Corporate Governance Code ("the Code") which it will be reporting on in full in the 2019 Directors Remuneration Report ("DRR").

All-employee reward

The Board feels strongly that the employees should be given the opportunity to share in the success of the business. During 2017, the Group therefore implemented a Share Incentive Plan under which eligible UK employees were awarded free shares in the Group. Employees were also able to purchase further shares in the business and may receive matching shares.

I look forward to receiving your support for our Annual Remuneration Report at the AGM on 24 May 2019.

TIM SURRIDGE
Remuneration Committee Chairman

9 April 2019

Annual Remuneration Report

The Remuneration Report that follows has been prepared in accordance with the provisions of the 2016 UK Corporate Governance Code ("Code"), the Listing Rules, the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Companies Act 2006. It will be subject to an advisory shareholder vote at the 2019 AGM on 24 May 2019.

Summary of Remuneration Policy and implementation for 2019

Our Remuneration Policy for Directors ("Policy") was put to shareholders for approval at the AGM on 25 May 2017 and applies to payments made from this date. The following provides a summary of the Policy along with details of how the Policy will be implemented during 2019. For full details of the Policy approved by shareholders please refer to the 2016 Annual Report and Accounts which can be found at https://www.luceco.com/investors/results#annual-reports.

Overview	Maximum opportunity	Performance measures	Implementation for 2019
Base salary			
Normally reviewed annually. Any increases are normally effective from 1 January.	No maximum but increases will normally be in-line with the typical increases awarded to other employees in the Group other than in exceptional circumstances.	n/a	From 1 January 2018 the CEO accepted a reduction in his salary of £25,000 to £325,000 in response to the Group performance at that time. Given the improvement in the Group's performance during the year and the role the CEO has played in this the Committee determined that it was appropriate that his salary revert to its previous level of £350,000 from 1 January 2019. Notwithstanding, the CFO's exceptional performance to date the Committee determined that, as he joined during the year, the CFO's salary will not be increased from 1 January 2019 and will therefore remain at £300,000.
Pension			
Executives generally receive a defined pension contribution or cash allowance in lieu of pension.	Maximum contribution/ allowance of 8.5% of salary.	n/a	The CEO does not participate in any pension arrangement. The CFO receives a pension contribution of 5% of salary.
Benefits			
Benefits currently include: car allowance (£9,000 p.a.) or a company car, mobile phone, life insurance, private medical and critical illness cover. Executive Directors may also participate in all employee share plans on the same terms as other employees.	No maximum level of benefit.	n/a	No change.

Overview	Maximum opportunity	Performance measures	Implementation for 2019
Annual bonus			
Normally paid in cash following the year end. The Committee may adjust the bonus award if it does not consider that it reflects underlying Group performance. Clawback and malus provisions apply.	Maximum 100% of base salary.	For 2019 performance measures are as follows: • 30% on Adjusted Profit After Tax. • 50% on Free Cash Flow. • 20% on individual strategic objectives. The Committee believes the balance of these measures incentivises executives to continue to grow the business and improve profit performance, to focus on operational efficiencies and the generation of cash to fund growth and to achieve specific operational and strategic objectives. 50% of the bonus pays out for target performance with full payout for achieving stretching performance targets. Bonus targets are commercially sensitive and therefore have not been disclosed. It is intended that targets will be disclosed in full in the 2019 DRR.	No change.
Performance Share Plan			
Award of shares vesting based on performance over a three year period. Awards may also be granted in conjunction with a tax-advantaged Company Share Option Plan ("CSOP") up to the HMRC limits (currently £30,000) as an "Approved PSP Award". The vesting of an Approved PSP Award will be scaled back to take account of any gain made on exercise of the associated CSOP option. An Approved PSP Award will enable the Executive Director and the Group to benefit from tax advantaged treatment on part of their PSP award without increasing the pre-tax value delivered to the Executive Director or cost to the Group. The Committee has the discretion to adjust the final level of vesting if it does not consider that it reflects the underlying performance of the Group. Clawback and malus provisions apply.	Maximum award of 150% of salary. For 2019 PSP Awards for the CEO and CFO will be 100% of base salary.	For 2019 performance measures are as follows: • 50% based on total shareholder return ("TSR") relative to the FTSE Small Cap index excluding investment trusts. 25% of this portion vests for median TSR with 100% vesting for upper quartile TSR. • 50% based on adjusted earnings per share growth. 25% of this portion vests for EPS of 8.6p for the 2021 year end with 100% vesting for EPS of 10.6p for the 2021 year end. There will be straight-line vesting between each point. The Committee believes these measures incentivise executives to achieve excellent profit growth while generating above market returns for shareholders compared to our peers.	For 2019 PSP awards, EPS targets have been set as absolute pence targets for the year ending 31 December 2021 rather than EPS growth in light of the low base year and to provide a clear focus for management on the required level of performance.

The Company also has a Company Share Option Plan in place. It is not intended that awards will be made to Executive Directors under this plan during the life of the Policy.

Malus and clawback provisions

Annual bonus payments may be clawed back for a period of three years from the date of payment. Malus and clawback provisions apply under the PSP from award to the fifth anniversary of the grant date. The circumstances in which malus/clawback may apply are a material misstatement of financial results, an error in assessing performance or in the information/assumptions used, a material failure of risk management, serious reputational damage, serious misconduct by the participant, or any other similar circumstances.

Executive Directors' service contracts

The service contract of John Hornby is dated 14 October 2016. Matt Webb's service contract is dated 19 February 2018. These are rolling service contracts with no fixed expiry date.

The service contract of the CEO is terminable on nine months' written notice by either party. The service contract of the CFO is terminable on six months' written notice by either party. For new appointments, notice will normally be limited to nine months on either side.

In the event of early termination of employment, a payment in lieu of notice may be made based on base salary, pension and contractual benefits only for the outstanding notice period. Payments in lieu of notice will be paid at the Committee's discretion, either in monthly instalments or in a lump sum. Payments will be subject to mitigation by the Executive Director being required to take reasonable steps to find an alternative position.

Details of the treatment of incentive payments in the event of termination of employment are set out in the Policy.

External appointments

Executive Directors are permitted to hold Non-Executive Director positions in other companies where it is considered appropriate and subject to approval by the Board. Disclosure of any such earnings is required to be made to the Board, to shareholders and in the Annual Report and Financial Statements. For the year ended 31 December 2018, neither Executive Director held any external directorship.

Non-Executive Directors

Overview	Implementation for 2019
Fees	
Our fee policy is to pay a basic fee for membership of the Board and additional fees for the Senior Independent Director ("SID") and Chairmanship of a Committee, to take into account the additional responsibilities and time commitment of these roles. The Chairman receives a single fee. Fees are paid in cash and are reviewed at appropriate intervals.	There is no change to Non-Executive Director or Chairman's fees from 1 January 2019 and therefore fees remain at the following levels: • Chairman – £50,000. • Non-Executive Director base fee – £40,000. • SID, Audit and Remuneration Committee Chair fee – £10,000.
Benefits and expenses	
Reasonable costs in relation to travel and accommodation for business purposes are reimbursed. The Group may meet any tax liabilities that may arise on such expenses.	No changes.

Remuneration Committee Report continued

Non-Executive Director terms of appointment

The dates of appointment for the Chairman and Non-Executive Directors are shown in the table below:

Non-Executive Director	Date of appointment
Giles Brand	1 May 2010
John Barton	27 September 2016
Caroline Brown	27 September 2016
Tim Surridge	27 September 2016

The Chairman and Non-Executive Directors serve the Group on the basis of renewable letters of appointment which can be terminated by written notice by either party. The Chairman's appointment is subject to three months' notice and the other Non-Executive Directors are subject to one month's notice. No compensation is awarded on termination. In accordance with the principles of the Code, the Chairman, the Non-Executive Directors and the Executive Directors are subject to voluntary re-election by shareholders. Their appointments may be terminated in the event of them not being re-elected by shareholders or otherwise in accordance with the Articles.

Implementation of Remuneration Policy during 2018

Single figure of total remuneration (audited)

The table below sets out the single figure of total remuneration received by the Executive and Non-Executive Directors for the years ended 31 December 2018 and 2017.

Director	Year	Basic salary/fees £'000	Benefits £'000	Pension £'000	Annual bonus £'000	Long-term incentives £'000	Total £'000
John Hornby	**2018**	**325**	**16**	**—**	**163**	**—**	**504**
	2017	350	15	—	—	—	365
Matt Webb[1]	**2018**	**259**	**10**	**9**	**156**	**—**	**434**
	2017	—	—	—	—	—	—
Giles Brand	**2018**	**50**	**—**	**—**	**—**	**—**	**50**
	2017	50	—	—	—	—	50
John Barton	**2018**	**50**	**—**	**—**	**—**	**—**	**50**
	2017	50	—	—	—	—	50
Caroline Brown	**2018**	**50**	**—**	**—**	**—**	**—**	**50**
	2017	50	—	—	—	—	50
Tim Surridge	**2018**	**50**	**—**	**—**	**—**	**—**	**50**
	2017	50	—	—	—	—	50
Former Directors							
David Main[2]	**2018**	**44**	**3**	**2**	**—**	**—**	**49**
	2017	175	9	15	—	—	199

1. Matt Webb was appointed to the Board on 19 February 2018 as Chief Financial Officer. Remuneration shown is from this date.
2. On 19 February 2018 it was announced that David Main would be stepping down from the role of Chief Financial Officer effective from this date and his employment ceased on 31 March 2018, remuneration shown is to this date.

Explaining the single figure

Salary

The CEO accepted a £25,000 reduction in salary to £325,000 with effect from 1 January 2018 in response to the Group's performance at that time.

The CFO's salary was set at £300,000 per annum from 19 February 2018 the date of his appointment to the Board. David Main's salary was £175,000 per annum.

Benefits

Benefits for the year included private medical insurance, life insurance, critical illness cover and a fully expensed car or cash equivalent.

Pension

The CFO received a pension contribution of 5% of base salary during the year. This reflects the contribution levels available to other employees in the UK. The CEO does not receive a pension contribution from the Group. David Main received a pension contribution of 8.5% of base salary.

Annual bonus

For the year ended 31 December 2018, the maximum annual performance bonus was 100% of base salary. The annual bonus was based on the following measures:

Measure	Rationale	Weighting
Adjusted Profit After Tax	To incentivise executives to continue to grow the business and improve profit performance	30%
Free cash flow	To continue to focus executives on operational efficiencies and the generation of cash to fund growth	50%
Individual strategic objectives	To incentivise executives to achieve specific operational and strategic business objectives	20%
Total		100%

Performance against financial targets set was as follows:

Measure	Threshold 0% payout	Target 50% payout	Maximum 100% payout	Achievement for 2018	Percentage of bonus payable
Adjusted Profit After Tax (30% weighting)	£11.8m	£13.1m	£14.4m	£4.6m	0%
Free Cash Flow (50% weighting)	£1.9m	£2.1m	£2.3m	£5.4m	100%

The CEO performed strongly against his personal objectives set during the year refinancing the business, delivering production cost savings and taking steps to improve revenue performance. Based on this performance the Committee judged that his personal objectives had been met in full.

The CFO also performed strongly against his personal objectives working to resolve the accounting issues, setting a clear capital structure policy and improving management information and governance and controls. Based on this performance the Committee judged that the individual strategic measures had been met in full.

This performance against targets set therefore resulted in an overall bonus of 70% of maximum.

The Committee carefully considered this outcome and notwithstanding the progress made during the year in light of the business challenges at the start of the year, decided that it was appropriate that the bonus payment in respect of 2018 would be limited to 50% of maximum for the CEO and 60% of maximum for the CFO. The CEO and CFO supported this decision.

Bonus payments are therefore as follows:

CEO	CFO
£162,500	£156,000 (based on pro-rata salary from the date of joining)

The Committee considered that these payments were appropriate in the context of the underlying financial performance of the Group during 2018 and the strategic progress achieved.

Long-Term incentives

The current PSP was approved at the 2017 AGM with the first awards being made shortly after. There were no long-term incentive awards which vest based on performance to 31 December 2018.

Payments to former Directors (audited)

There were no payments made to former Directors during the year.

Payments for loss of office (audited)

Departure arrangements for David Main

David Main stepped down as Chief Financial Officer on 19 February 2018 with his employment ending on 31 March 2018. As disclosed in the 2017 Directors' Remuneration Report, his salary, car allowance and other contractual benefits continued to be paid until 31 March 2018. A payment in lieu of a six-month notice period in respect of salary was made with effect from 31 March 2018 (total payment of £102,000), as well as payment in respect of the car allowance and other benefits which would have otherwise been payable for this notice period. David Main did not receive a bonus in respect of 2017 nor for the period in which he was employed during 2018, nor for his six-month notice period. Unvested awards under the 2017 Performance Share Plan were pro-rated (as a proportion of the relevant performance period) for the period of employment to 31 March 2018 and will vest on their normal vesting date to the extent that the applicable performance conditions are met (outstanding shares under award of 30,194).

Share interests awarded during the year as long-term incentives (audited)

The following awards were granted under the PSP during the year. The CEO was granted an award of 50% of base salary during the year. He subsequently surrendered this award. As set out in last year's report, the CFO was granted awards totalling 150% of base salary during the year. An award of 100% of base salary was made in respect of joining with a further 50% awarded at the same time as other participants. The Committee considered it was appropriate that he received an aggregate award at this level to fully incentivise him to achieve the Group's long-term strategy and to create value for shareholders.

Board Directors	Role	Form of award	Date of award	Number of shares awarded	Face value of award[1]	Percentage vesting for achieving minimum performance	Performance period
John Hornby[4]	Chief Executive	Nil cost option over ordinary shares of 0.05p	27 July 2018	431,415	£162,500[1]	25%	See below
Matt Webb[5]	Chief Financial Officer		23 November 2018	729,040[3]	£300,000[2]		
			27 July 2018	398,230	£150,000[1]		

1. Calculated based on share price of £0.377 being the average of closing price for the three dealing dates preceding the date of award.
2. Calculated based on share price of £0.4115 being the average of closing price for the three dealing dates preceding the date of award.
3. On the same date Matt Webb was also awarded 72,904 market value options respectively under the HMRC tax-advantaged CSOP element of the Approved PSP with a face value of £30,000 and an exercise price of 41.15p (the average of closing price for the three dealing dates preceding the date of award). These awards are subject to the same performance conditions as outlined below for the PSP award. If the options vest they are exercisable until the tenth anniversary of grant.
4. On 27 November 2018 in light of the broader business circumstances John Hornby surrendered the award granted to him under the PSP on 27 July 2018.
5. On 21 February 2018 shortly following his appointment, the Company announced that Matt Webb had been granted an award under the PSP. This award was in the form of a nil-cost option in conjunction with a linked tax qualifying option. Due to an administrative error this award was not formally granted to Mr Webb. As the nil-cost option operates in conjunction with a linked tax qualifying option it was not possible to rectify the terms of the award. On 23 November 2018 the Company therefore made a rectificatory award under the PSP. For the avoidance of doubt, Mr Webb has no right to the PSP award that was announced on 21 February 2018. The Remuneration Committee of the Company believes that making this award to Mr Webb is in the best interests of the Company.

The awards will vest 50% subject to Group's earnings per share ("EPS") and 50% subject to total shareholder return ("TSR") performance relative to the FTSE Small Cap excluding investment trusts.

EPS

Annual compound growth in EPS over the performance period	Extent to which the EPS performance condition has been satisfied
25% or more	100%
Between 10% and 25%	On a straight-line basis between 25% and 100%
10%	25%
Less than 10%	0%

EPS growth will be assessed based on EPS performance for the year ended 31 December 2020 compared to EPS for 31 December 2017.

The TSR performance condition

Rank of the Group's TSR compared to the comparator group	Extent to which the TSR performance condition has been satisfied
Upper quartile or above	100%
Between median and upper quartile	Pro-rata between 25% and 100% on a ranking basis
Median	25%
Below median	0%

TSR performance will be assessed based on performance over a three year period from the date of grant of awards. In light of business circumstances the Committee has concluded that it is more appropriate to measure TSR from the date the shares are awarded. TSR is assessed based on the three-month average at each point.

Shareholding guidelines

The Group encourages its Directors and employees to hold shares in the Group to strengthen their commitment to the organisation in terms of delivering the strategic objectives. Executive Directors are expected to build and maintain a holding of Luceco shares equal to at least 100% of base salary. Executive Directors are expected to retain 50% of any post-tax shares that vest under any share incentive plans until this shareholding is reached.

Directors' shareholdings and share interests (audited)

The beneficial interests of the Directors in the ordinary shares of the Group are set out below. None of the Directors had any interest in the shares of any subsidiary company.

Executive Directors

Director	**Ordinary shares held at 31 March 2019**	**Ordinary shares held at 31 December 2018**	Ordinary shares held at 31 December 2017	Nil cost options subject to performance measures	Market value options subject to performance measures	Shareholding requirement (% of salary)	Shareholding at held at 31 December 2018[1]	Requirement met?
John Hornby	**32,396,634**	**32,396,634**	31,396,632	145,331	12,457	100%	3,439%	Yes
Matt Webb	**166,088**	**75,166**	—	1,127,270	72,904	100%	9%	No
Former Directors								
David Main[2]	**n/a**	**38,462**	38,462	72,665	12,457	100%	11%	No

1. Shareholding as a percentage of salary.
2. Based on the position on the date David Main stepped down from the Board on 19 February 2018.

Only shares beneficially held count towards Executive Directors' shareholding guidelines. The value of Executive Directors' shareholding has been calculated using the share price on 31 December 2018 of 34.5p.

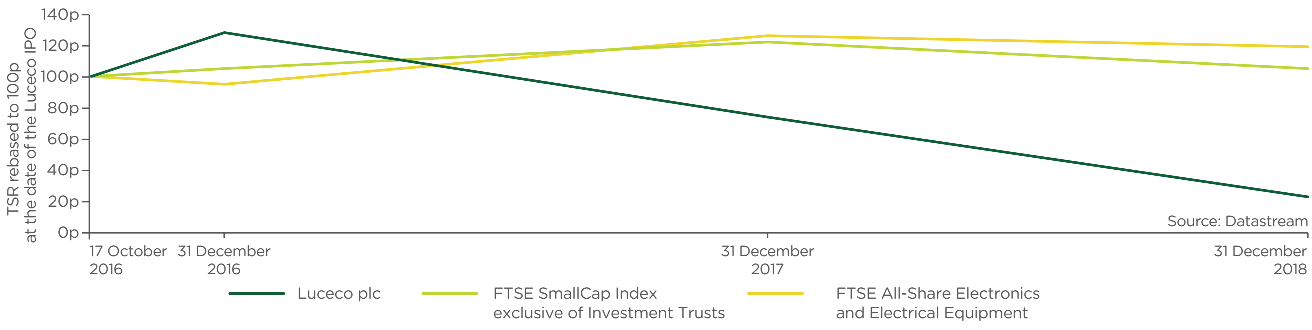
Non-Executive Directors

	Ordinary shares held at 31 March 2019	**Ordinary shares held at 31 December 2018**	Ordinary shares held at 31 December 2017
Giles Brand[1]	**9,466,919**	**9,466,919**	8,844,000
John Barton	**100,000**	**100,000**	38,462
Caroline Brown	**—**	**—**	—
Tim Surridge	**69,231**	**69,231**	19,231

1. Giles Brand is Managing Partner of EPIC Investments LLP, which owns 44,064,372 (2017: 39,081,000) shares in the Group.

Review of past performance

The graph below shows the historical Total Shareholder Return ("TSR") of the Group and the FTSE SmallCap Index exclusive of Investment Trusts and the FTSE All-Share Electronics and Electrical Equipment Index for the period from IPO on 17 October 2016 to 31 December 2018. The Group has chosen those indices to reflect its size and the key sector within which it operates.



Remuneration Committee Report continued

Performance graph and table

The table below shows the CEO's "single figure" remuneration for the seven years ended 31 December 2018. John Hornby was CEO for the full period.

	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	**2018 £'000**
Total remuneration	213	219	251	314	337	365	**504**
Annual bonus (% of max)					nil	nil	**50%**
LTIP vesting[1] (% of max)	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**

1. No LTIPs were in place during the reporting periods 2012 to 2016. The first LTIP awards post IPO were granted in 2017 vesting based on performance to 31 December 2020.

The CEO received a reduced remuneration package during the period 2012 to 2014, reflective of the financial position of the Group, having undertaken extensive investment in its Chinese manufacturing operation and LED lighting operation. His salary changed in 2015 and 2016 to better reflect the market rate of remuneration of a CEO in a similarly sized operation. With effect from 1 January 2018, the CEO accepted a reduction in salary in response to the Group's performance at that time.

Percentage change in the remuneration of the CEO

The following table sets out the change in remuneration paid to the CEO from 2017 to 2018 compared with the average percentage change for UK-based employees. The Committee considers this the most meaningful comparison as the Group does not have a harmonised salary and benefits structure across its global operations. Furthermore, the majority of its overseas employees are based in Asia where the pay structure is significantly different to that of the CEO, which does not facilitate a like-for-like comparison.

	% change 2017-2018	
	Group CEO	UK employees
Salary	(7.1)	4.5
Bonus	See below	2.6
Benefits	6.7	3.1

The CEO accepted a 7% salary reduction from £350,000 to £325,000 with effect from 1 January 2018 in response to the Group performance at the time.

The CEO did not receive a bonus in respect of 2017.

The main benefits provided include a company car or cash equivalent, medical cover and life assurance. There has been no change in the level of benefits provided to Group employees. The reduction in employee benefits is due to the mix of employees, as vacant or newly arising positions have been satisfied by the recruitment of more junior employees who are entitled to a lower level of benefits.

Relative importance of spend on pay

The table below shows the total amount paid by the Group to its employees and distributions to shareholders for 2018 and 2017.

	31 December 2018 £m	31 December 2017 £m	% change
Overall spend on pay for employees including Executive Directors[1]	**33.5**	31.6	6.0
Distributions to shareholders	**nil**	1.8	n/a

1. Figures are taken from note 4 of the consolidated financial statements.

Role of the Committee

The Committee assists the Board in determining its responsibilities in relation to the following aspects of remuneration:

- Setting the principles, parameters and governance framework to provide a transparent Remuneration Policy that aligns with the long-term strategy of the business
- Determining the individual remuneration and benefits package of each of the Executive Directors and the Company Secretary, considering the interests of relevant stakeholders
- Monitoring the level and structure of remuneration of senior management in conjunction with the Executive Directors
- Reviewing the implementation and operation of any Group share option schemes, bonus schemes and long-term incentive plans

The Committee is chaired by Tim Surridge. John Barton and Caroline Brown are also members of the Committee. There have been four meetings of the Committee during the year. The Committee has met twice since the year end and the date of issuing the Annual Report and Financial Statements to consider the Remuneration Policy and its implementation for 2019 and to agree performance targets for 2019.

The Group Chairman is invited to attend meetings. In addition, the CEO, the CFO and the HR Manager may attend meetings from time to time at the invitation of the Committee and provide information and support as requested. Directors are not present when their own remuneration is being discussed.

During the remainder of 2019, the Committee is scheduled to meet at least twice and the areas that the Committee intends to focus attention on are as follows:

- The implementation of the Remuneration Policy for 2019 as outlined in this report and feedback from the AGM on the Remuneration Policy
- Determining reward outcomes for 2019
- The implementation of a Performance Share Plan for executives
- Review and determination of the Remuneration Policy to be submitted to shareholders at the 2020 AGM
- Review of remuneration trends and governance developments including the 2018 UK Corporate Governance Code

Remuneration Committee advisers

During the year to 31 December 2018, the Committee engaged the services of external advisers Deloitte LLP ("Deloitte") in relation to the Remuneration Policy and the drafting of this report.

Deloitte is a founding member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK. The Committee is satisfied that the Deloitte engagement partner and team, which provide remuneration advice to the Committee, do not have connections with Luceco plc that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Deloitte's fees are charged on a time and materials basis. During the year Deloitte was paid £28,700 for advice provided to the Committee. Deloitte did not provide any additional services to the Group during the year.

Shareholder voting

Shareholder voting in relation to the resolution to approve the Directors' Remuneration Report (June 2018 AGM) and to approve the Remuneration Policy (May 2017 AGM) are as follows:

Resolution	Votes for	% for	Votes against	% against	Votes withheld
To approve the Directors' Remuneration Report	113,230,035	99.59%	465,706	0.41%	0
To approve the Remuneration Policy	103,327,591	99.77%	237,451	0.23%	0

TIM SURRIDGE

Remuneration Committee Chair

9 April 2019

Directors' Report and Other Statutory Disclosures

This report contains the required additional information in accordance with the Companies Act 2006 and the Listing Rules. The Corporate Governance Statement and the Strategic Report form part of the Report of the Directors.

Disclosures required under Listing Rule 9.8.4R

The information required to be disclosed under Listing Rule 9.8.4R, where applicable to the Group, can be found in the Annual Report and Financial Statements at the references provided below:

Listing Rule Requirement	Annual Report location
Interest capitalised	Not applicable
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	Page 66
Waiver of emoluments by a Director	Not applicable
Waiver of future emoluments by a Director	Page 66
Non-pre-emptive issues of equity for cash	Not applicable
Item (6) in relation to major subsidiary undertakings	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	Page 125
Provision of services by a controlling shareholder	Page 125
Shareholder waivers of dividends	Not applicable
Shareholder waivers of future dividends	Not applicable
Agreements with controlling shareholders	Page 74

Results and dividends

The Group's profit for the year ended 31 December 2018 was £1.5m (2017: £10.0m). Details are shown in the Consolidated Income Statement on page 86. The Directors recommend the payment of a final dividend of 0.6 pence per ordinary share, to be paid, subject to the approval of shareholders at the AGM, on 24 May 2019 to ordinary shareholders registered as members of the Company at the close of business on 3 May 2019.

Directors

The Directors who held office during the year were:

John Hornby
Matt Webb (appointed 19 February 2018)
Giles Brand
John Barton
Caroline Brown
Tim Surridge
David Main (resigned 19 February 2018)

Biographical details of the Directors appear on pages 50 and 51 . Information on the Directors' remuneration, employee share schemes and service contracts is given in the Remuneration Committee Report on pages 60 to 69.

Appointment and replacement of Directors

The rules about the appointment and replacement of Directors are contained in the Company's Articles. They provide that the Directors may be appointed by ordinary resolution of the shareholders or by the Board. Directors appointed by the Board may only hold office until the next AGM of the Company and are then eligible for election. The Company may remove a Director by ordinary resolution where special notice has been given and the necessary statutory procedures are complied with. In line with corporate governance best practice, all Directors will seek re-election at the AGM on 24 May 2019.

Powers of Directors

The general powers of the Directors are set out in Article 22 of the Company's constitution. This Article provides that the business of the Group shall be managed by the Board, which may exercise all the powers of the Group, subject to any limitations imposed by applicable legislation, the Articles and any Directions given by special resolution of the shareholders of the Company.

Compensation for loss of office

The Company does not have arrangements with any Director that would provide compensation for loss of office or employment resulting from a takeover.

Future developments

In accordance with s414A of the Companies Act 2006, the Group has disclosed future developments within its Strategic Report in pages 1 to 47.

Corporate governance

A report on corporate governance and the Company's compliance with the UK Corporate Governance Code is set out on pages 52 to 56 and forms part of this report by reference.

Post balance sheet events

No events have taken place in the period between the year end and the date of signing this report.

Research and development

The Directors consider that investment in R&D is critical to enable the Group to maintain its competitive advantage and continue to grow its market share. The Group has a substantial specialist R&D function in China which works alongside the UK R&D team. R&D expenditure in the year was £4.6m (2017: £4.3m), of which £1.7m (2017: £3.0m) was capitalised and amortised.

Asset values

Property, plant and equipment is disclosed in note 9 of the consolidated financial statements on page 109. The Directors do not believe there is any material difference between the carrying value and market value.

Financial instruments

An analysis of the Group's financial instruments, risk management objectives and its exposure to credit and liquidity risk are disclosed in note 19 of the consolidated financial statements.

The Group's exposure to fluctuations in foreign exchange rates and the steps it takes to mitigate them are detailed in the principal risks and uncertainties on pages 24 to 28, and the Financial Review on pages 12 to 17.

Global operations

The Group's executive head office, accounting, domestic sales and support functions are based in the UK. The Group has three UK sites in London, Telford and Mansfield. The Group's London facility serves as the Group's head office, with the executive function and certain sales and support functions based there. The Mansfield location is the primary base for Kingfisher Lighting. The Telford facility serves as the UK assembly and distribution centre and houses the remainder of the Group's UK sales, accounting and support functions, as well as a portion of the Group's R&D function.

The Group's manufacturing and product development functions are based in Jiaxing, China. The Group also has sales offices with some support functions in France, Germany, Spain, Dubai, Mexico, Hong Kong, Ireland and South Africa.

Brexit

The UK's decision to leave the EU has resulted in considerable uncertainty regarding both the terms under which the UK withdraws from, and continue to trade long-term with, the EU.

The following factors have been considered by the Board in assessing the potential impact of Brexit on the Group:

- Very little of the Group's business is conducted over a UK/EU border.
- If Brexit results in general disruption at UK ports, the significant amount of inventory the Group already holds in both the UK and EU would mitigate any impact on product supply. The Group could spread its imports across multiple UK ports and also make use of air freight.
- The overwhelming majority of the Group's products are already sourced from China under World Trade Organization ("WTO") trade rules and therefore do not currently benefit from an existing EU trade deal from which the UK would be withdrawing.
- The Group's UK business does benefit from the employment of EU citizens but is not materially dependent upon them.
- The impact of Brexit on the Group is largely limited to its potential adverse effect on general economic conditions in the UK, a market to which the Group is significantly exposed.

The Board has incorporated the potential impact of Brexit into its Viability Assessment, specifically its impact on the UK macroeconomy and on the Group's supply chain. The conclusions from this assessment are set out on pages 29 to 31. The Board is confident that it has plans in place to be able to accommodate and respond to the impact of Brexit on its business.

The Board continues to monitor the Brexit process closely.

Directors' Report and Other Statutory Disclosures

continued

Going concern

The financial statements have been prepared on a going concern basis, as set out in the Statement of Directors' Responsibilities on page 75. Having considered the ability of the Company and the Group to operate within its existing facilities and meets its debt covenants, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

In determining whether the Group and Parent Company's financial statements can be prepared on a going concern basis, the Directors considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The review also included the financial position of the Group, its cash flows, and borrowing facilities.

The key factors considered by the Directors were:

- The re-financing of the Group's debt facilities during 2018 and the extension of their maturity to 31 December 2021
- The capital structure policy and funding headroom analysis as provided in note 20 of the consolidated financial statements
- The implications of the current economic environment and future uncertainties around the Group's revenues and profits, which were assessed by undertaking forecasts and projections on a regular basis
- The impact of the competitive environment in which the Group operates
- The potential actions that could be taken in the event that revenues are worse than expected, to protect operating profit and cash flows

Viability Statement

The Viability Statement can be found in the Strategic Report on pages 29 to 31.

Political donations

No political donations were made and no political expenditure was incurred during the year (2017: nil).

Employees

Our employees are critical to the success of the Group and its ability to meet its objectives. We rely on a committed workforce and regular communication in an open environment and alignment of personal and business objectives supports this. Information on matters of concern to employees is given through bulletins and reports, to provide a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance. Employees are consulted as appropriate, to reflect their views when making decisions that are likely to affect their interests. In accordance with the revised Corporate Governance Code, the Board appointed Tim Surridge as the designated Non-Executive Director for workforce engagement.

The Group endeavours to provide supportive working conditions, to accommodate the employment of disabled people. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. If employees become disabled whilst employed by the Group, they will continue to be employed wherever practical in the same role. If this is not practicable, every effort is made to train and redeploy within the Group.

The Board is keen to ensure that employees are given the opportunity to share in the success of the business. Under the Group's Share Incentive Plan, eligible UK employees were awarded free shares in the Group and were able to purchase additional shares.

Details of the Group's employment policies and its approach to diversity and disability can be found in the corporate social responsibility section on pages 42 to 46.

Greenhouse gas emissions

Details of the Group's GHG emissions can be found in the carbon footprint section of the corporate social responsibility section on pages 42 to 46.

Directors' interests and share options

During the year ended 31 December 2018, no Director had a material interest in any significant third-party contract between the Company or any of its subsidiaries.

Directors' shareholdings are disclosed in the Remuneration Committee Report on pages 60 to 69. Details of Directors' share options are set out in note 22 of the consolidated financial statements.

Directors' conflicts of interest

In accordance with the Companies Act 2006 and its Articles, the Company has arrangements in place to consider and, where appropriate, authorise any Directors' direct or indirect interests which may conflict with those of the Group. Authorisation is only effective where the matter is put to a vote, excluding the Director who is subject to the conflict authorisation. If a Director becomes aware that they or a connected party have an interest in an existing or proposed transaction with the Group, they should notify the Company Secretary as soon as possible.
Directors have a continuing obligation to update any changes to conflicts and the Board formally reviews any such conflicts periodically. A register of conflicts or potential conflicts is maintained and available at Board meetings.

Directors' liability and indemnity insurance

The Group maintains Directors' and officers' liability insurance, which gives appropriate cover for legal action brought against its Directors. In addition, third-party qualifying indemnity provisions (as defined in s234 of the Act) for its Directors and officers were in force during the year ended 31 December 2018 and remain in force. There were no qualifying pension scheme indemnity provisions.

Articles of Association

A copy of the Articles of Association can be obtained from the Company's registered office. The Articles may only be amended by special resolution of the shareholders.

Share capital and waiver of pre-emption rights

The Group has one class of share in issue. The rights attached to each share are identical and each share carries equal rights to dividends, return of capital on the winding up of the Group and one vote at general meetings of the Group. There are no restrictions on the transfer of shares in the Group (other than following a service of notice under s793 of the Act) and there are no restrictions on any voting rights or deadlines, other than those prescribed by law. The Group is not aware of any arrangements between its shareholders which may result in the restriction on the transfer of shares or voting rights. Further details of the rights and obligations attached to the shares are set out in the Company's Articles.

At the AGM on 19 June 2018, authority was given to the Directors to allot new ordinary shares up to a nominal value of £26,800, equivalent to 33.33% of the issued share capital of the Group. In addition, authority was given to the Directors to allot further new ordinary shares up to a nominal value of £53,600, equivalent to 66.67% of the authorised share capital of the Group. These authorities expire on the conclusion of the 2019 AGM.

At 31 December 2018, the Group had 160,800,000 fully paid ordinary shares of 0.05p each in issue, which are traded on the London Stock Exchange. Details of the share capital at 31 December 2018 are disclosed in note 23 of the consolidated financial statements on page 124.

Authority for the Group to purchase its own shares

A resolution will be proposed at the 2019 AGM that the Company be authorised to purchase up to approximately 10% of its ordinary shares at the Directors' discretion. If the resolution is passed, the new authority will lapse at the conclusion of the 2020 AGM.

At the AGM on 19 June 2018, the authority was given for the Company to make market purchases of its ordinary shares, provided that the maximum aggregate number of ordinary shares that may be purchased is limited to 16.08m and the minimum price paid for each ordinary share is 0.05p. The maximum price (exclusive of expenses) which may be paid for each ordinary share shall be the higher of (i) an amount equal to 105% of the middle market quotations for an ordinary share, as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the ordinary share is purchased; and (ii) an amount equal to the higher of the price of the last independent trade of any ordinary share and the highest current independent bid for an ordinary share on the trading venue where the purchase is carried out. These authorities shall expire at the conclusion of the 2019 AGM.

Substantial shareholdings

The Group was notified of the following interests amounting to 3% or more of its issued share capital at the financial year end and at 29 March 2019 (being the last practicable date prior to the date of this report).

	At 29 March 2019		At 31 December 2018	
Shareholder	Number of shares held	% voting rights	Number of shares held	% voting rights
EPIC Investments LLP	44,064,372	27.40	44,064,372	27.40
John Hornby	32,396,634	20.15	32,396,634	20.15
Giles Brand	9,466,919	5.89	9,466,919	5.89
Ruffer LLP	7,800,000	4.85	8,060,549	5.01

Directors' Report and Other Statutory Disclosures
continued

Provision of services by substantial shareholders

Giles Brand is Luceco plc's Chairman and Managing Partner of EPIC Private Equity LLP, which controls EPIC Investments LLP. Giles Brand and EPIC Investments LLP are therefore connected parties and significant shareholders of the Company. Giles Brand is paid a monthly fee of £4,167 (£50,000 per annum) in respect of his services as Chairman.

John Hornby has a service contract with the Group, as detailed on page 63, which is available for inspection at the AGM and at the Group's registered office. Further details of his remuneration can be found in the Remuneration Committee Report on pages 60 to 69.

Significant agreements

The Group has an agreement with its significant shareholders, EPIC Investments LLP and Giles Brand ("connected parties"), who collectively exercise or control 33.29% of the voting rights. With respect to this agreement, both the Group and EPIC have complied with the independence provisions and procurement obligation as required under the Listing Rules.

The agreement remains in place until the connected parties cease to exercise or control 10% or more in aggregate of the total voting rights or if neither connected party has exercised or controlled any voting rights for at least two years. The agreement would automatically terminate if the Group's shares ceased trading on the London Stock Exchange or if the Group were to appoint an administrative receiver.

Change of control

Change of control provisions are included in the Group's banking agreements with HSBC Bank plc. Should a change of control event occur, the Group's revolving credit facility of £30.0m would be subject to immediate cancellation and the Bank may call for immediate repayment of any balance outstanding. This would also trigger a Termination Event under the £20.0m invoice discounting facility which enables the bank to cancel the facility and call for repayment of any amounts advanced.

Directors' statement regarding disclosure of information to the auditor

The Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware. The Directors also confirm that they have taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Appointment of auditor

On the recommendation of the Audit Committee, resolutions will be proposed at the 2019 AGM to re-appoint KPMG LLP as auditor of the Group and to authorise the Audit Committee to set the auditor's remuneration.

Annual General Meeting

The Group's AGM will be held on 24 May 2019. Details of the resolutions to be proposed at the AGM are set out in the Notice of Meeting, which is provided to all shareholders.

The Directors' Report was approved by the Board of Directors and authorised for issue on 9 April 2019.

By Order of the Board

MATT WEBB
Chief Financial Officer

Company registered number: 05254883

Registered office:
Luceco plc
Building E Stafford Park 1
Stafford Park
Telford TF3 3BD

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU") and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable, relevant, reliable and prudent
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- For the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements
- Assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations or have no realistic alternative but to do so

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Report and Financial Statements

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole
- The Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation, taken as a whole, together with a description of the principal risks and uncertainties that they face

We consider the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

JOHN HORNBY
Chief Executive Officer

MATT WEBB
Chief Financial Officer

9 April 2019

Independent Auditor's Report

to the members of Luceco plc

1 Our opinion is unmodified

We have audited the financial statements of Luceco plc ("the Company") for the year ended 31 December 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Balance Sheet, Company Statement of Changes in Equity and the related notes, including the accounting policies in Note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 4 December 2014. The period of total uninterrupted engagement is for the 5 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	£0.4m (2017:£0.5m) 4.7% (2017: 3.9%) of Normalised profit before tax	
Coverage	90% (2017:92%) of absolute group profit before tax[1]	
Key audit matters	**vs 2017**	
New risks:	The impact of uncertainties due to the UK exiting the European Union, on our audit	**New**
	Going concern	**New**
Recurring risks:	Valuation of Inventory	
	Capitalisation of development costs	
	Parent Company: Recoverability of parent's debt due from group entities	

1. This is the profit and losses as a percentage of total profits and losses that made up the Group profit before tax

2 Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union, on our audit Refer to page 27 (principal risks), page 30 (viability statement), page 58 (Audit Committee Report).	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described the valuation of inventory key audit matter and capitalisation of development costs key audit matter (referred to as "the key audit matters affected"), and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; • **Sensitivity analysis:** When addressing the key audit matters affected and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; and • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures the valuation of inventory and capitalisation of development costs, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** • As reported under the key audit matters affected, we found the resulting estimates and related disclosures of the key audit matters affected and disclosures in relation to going concern to be acceptable. • However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

	The risk	Our response
Going concern Refer to page 58 (Audit Committee Report) and page 91 (accounting policy) .	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and Company's available financial resources over this period were: • The loss of key customers and resultant impact on results; • Disruption to manufacturing operations in China; • UK macroeconomic downturn as a result of Brexit; There are also less predictable but realistic second order impacts, such as the impact of Brexit on shipping and transportation disruption. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: • **Funding assessment:** Assessing the current and available committed facilities to understand the financial resources available to the Group during the forecast period. Considering any related covenants requirements and the evidence available regarding whether they will be met; • **Historical comparisons:** Assessing historical forecasting accuracy, by comparing forecast cash flows to those actually achieved by the Group; • **Sensitivity analysis:** Considering sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively resulting from Brexit; and • **Assessing transparency:** Assessing the completeness and accuracy of the Going concern disclosures in the Annual Report and considering whether they reflect the position of the Group's financing and the risks associated with the Group's ability to continue as a going concern. **Our results** • We found the going concern disclosure without any material uncertainty to be acceptable

	The risk	Our response
Valuation of Inventory – Finished Goods for BG Electrical and Nexus (£13.2 million; 2017: £20.6 million) Refer to page 58 (Audit Committee Report), page 91 and 97 (accounting policy) and page 112 (financial disclosures).	**Subjective estimate:** The Group operates in an evolving industry in terms of technology, legal standards and customer demand. These factors can lead to obsolete inventory that is un-sellable or only sellable at discounted prices. Inventories are carried at the lower of cost and net realisable value with the result that the directors apply judgment in estimating the appropriate provisions for inventory based upon analysis of inventory levels, discontinued inventory and sales margins. The subjectivity in these assessments by the directors means that there is a risk that the assessment of the level of these provisions is inappropriate. The effect of these matters is that, as part of our risk assessment, we determined that valuation of inventory has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 1) disclose the sensitivity estimated by the Group.	Our procedures included: • **Control design:** Testing of the design and implementation of controls to identify slow moving or discontinued products; • **Our sector experience:** Assessing and challenging the directors assumptions behind the provision's methodology against our own knowledge of the industry and factors specific to the Group; • **Tests of detail:** Recalculate the inventory provision using the Group's policy and calculating the inventory provision using alternative methods, comparing the these results and investigating differences; and • **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision. **Our results** • As a result of our work, we consider the valuation of inventory to be acceptable (2017: acceptable).

	The risk	Our response
Capitalisation of development costs (£1.7 million capitalised in year; 2017: £3.0 million capitalised in year)	**Accounting application** The Group incurred significant research and development costs in the year, some of which were considered to meet the criteria for capitalisation as development costs. There is judgement involved in determining whether a particular project or activity has met these criteria and therefore must be capitalised. The complexity in this judgement means that there is a risk that capitalisation occurs on projects that do not meet these criteria or, that development costs meeting the criteria for capitalisation are expensed.	Our procedures included: • **Methodology choice:** Assessing the adequacy of the Group's capitalisation methodology based on our knowledge of the Group and applicable accounting standards; • **Testing application:** In order to test each project's ability to generate future earnings, we gained an understanding of the respective projects and the forecast demand for the products through inquiry with the product development director and challenged this assessment by comparison to market trends;
(£5.2 million net book value; 2017: £4.8 million net book value) Refer to page 58 (Audit Committee Report), pages 90, 91 and 96 (accounting policy) and page 110 (financial disclosures).	**Subjective estimate** The Group operates in an evolving industry in terms of technology and customer demand. These factors can affect the useful economic life of capitalised development costs. Estimation is required in assessing the useful economic life of such capitalised development expenditure. The effect of these matters is that, as part of our risk assessment, we determined that assessment of the useful economic life of development costs has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 1) disclose the sensitivity estimated by the Group.	• **Tests of detail:** Testing whether the costs incurred met the criteria for capitalisation by: obtaining the Directors' analysis of all costs incurred and those that had been capitalised; considering on which development activity the costs had been incurred; considering plans to complete the development activity; • **Tests of detail:** Testing a sample of internal staff costs capitalised against analysis of time spent and confirmed the labour rates applied to the time charged against payroll records; • **Methodology choice:** Assessing the reasonableness of management's assumptions in respect of assessing the useful economic life of individual projects; and • **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the judgements in concluding that the capitalisation criteria had been met and the degree of estimation involved in assessing the useful economic life of capitalised development costs. **Our results** • As a result of our work, we consider the capitalisation of development costs to be acceptable (2017: acceptable).

	The risk	Our response
Parent company risk: Recoverability of parent's debt due from group entities (£29.2 million; 2017: £24.2 million) Refer to page 58 (Audit Committee Report), page 128 (accounting policy) and page 130 (financial disclosures).	**Low risk, high value:** The carrying amount of the intra-group debtor balance represents 98% of the parent company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: • **Test of details:** Assessing 100% of group debtor, to identify, with reference to the relevant debtors' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those debtor companies have historically been profit-making; and • **Assessing subsidiary audits:** Assessing the work performed by the subsidiary audit team and considering the results of that work, on those net assets, including assessing the liquidity of the assets and ability of the subsidiary to obtain liquid funds and therefore the ability of the subsidiary to fund the repayment of the receivable. **Our results** • We found the Group's assessment of the recoverability of the group debtor balance to be acceptable (2017: acceptable)

We continue to perform procedures over the accuracy of inventory, recognition of revenue and related rebate liabilities and management override of controls. However, for the reasons set out below we have not assessed these risks as being one of the most significant risk in our current year audit.

The costing of inventory has been simplified therefore the accuracy of inventory is less prone to a risk of material misstatement. Recognition of revenue and related rebate liabilities are not inherently subjective and therefore are less prone to a risk of material misstatement. We have not identified any concerns in relation to the Group's controls over financial reporting which would indicate management override of controls as part of our audit procedures.

Therefore, they have not been separately identified in our report this year.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £360,000 (2017: £515,000), determined with reference to a benchmark of group profit before tax, normalised to exclude £2.0m in respect of closure costs of US operations as disclosed in Note 1, £0.8m of restructuring costs as disclosed in Note 1, the loss before tax of the US operations of £1.0m and increase in the Group's stock provision of £1.0m (of which it represents 4.7%) (2017: 3.9% of Group profit before taxation normalised to exclude £0.3m of transaction costs and £0.2m of restructuring costs).

Materiality for the parent company financial statements as a whole was set at £246,000 (2017: £250,000), determined with reference to a benchmark of company total assets, of which it represents 1% (2017: 1%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £18,000 (2017: £26,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

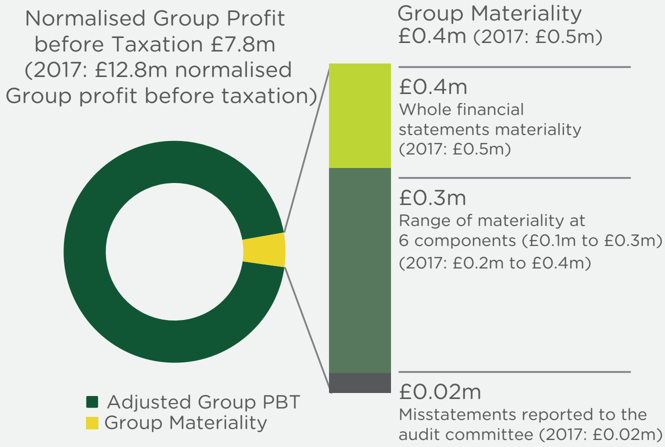
Of the Group's 21 (2017: 21) reporting components, we subjected 6 (2017: 6) to full scope audits for Group purposes and 5 (2017: 4) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require full scope audit for group purposes, but did present specific individual risks that needed to be addressed. We subjected 4 (2017: 4) components to specified risk-focused audit procedures over inventory and 1 (2017: none) to risk-focus audit procedures over expenses.

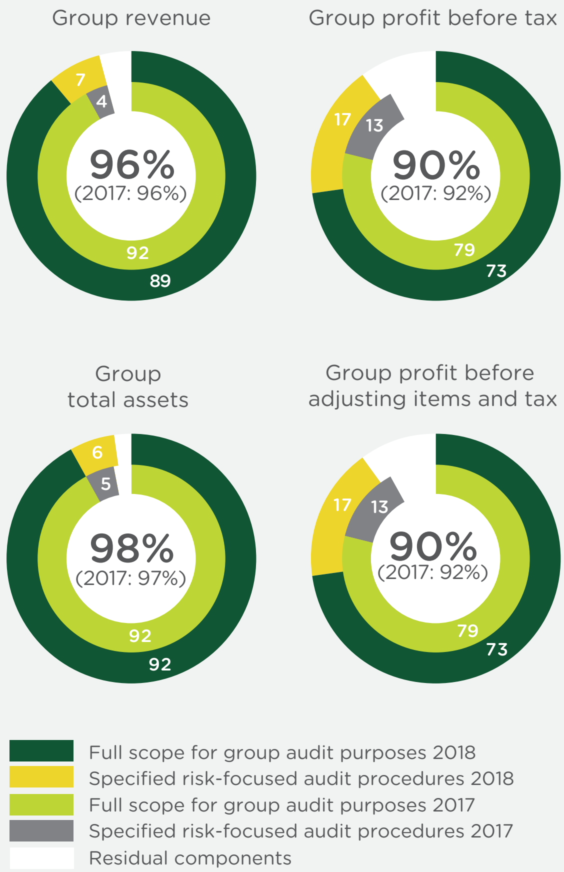
The components within the scope of our work accounted for the percentages illustrated opposite.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

The Group team approved the component materialities which ranged from £126,000 to £307,000 (2017: £250,000 to £438,000), having regard to the mix of size and risk profile of the Group across components. The work on one of the components subject to full scope audit and work on the four (2017: four) components subject to specified risk-focused audit procedures was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The group team performed procedures on the items excluded from normalised Group profit before tax.

The Group team visited 1 (2017: 1) full scope audit component location in China (2017: China) to assess the audit risk and strategy. Telephone conference meetings were also held with this component auditor. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.





4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report).

Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 75 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Statement on page 31 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

5 We have nothing to report on the other information in the Annual Report continued

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 75, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety and employment law recognising the nature of the group's activities. Auditing standards limit the required audit procedures to identify noncompliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

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

MICHAEL FROOM
Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

9 April 2019

Consolidated Income Statement

for the year ended 31 December 2018

	Note	Adjusted £m	Adjustments[1] £m	2018 £m	Adjusted £m	Adjustments[1] £m	2017 £m
Revenue	1	**163.9**	**—**	**163.9**	167.6	—	167.6
Cost of sales		**(113.3)**	**(1.0)**	**(114.3)**	(119.2)	—	(119.2)
Gross profit		**50.6**	**(1.0)**	**49.6**	48.4	—	48.4
Distribution expenses[2]		**(9.4)**	**—**	**(9.4)**	(8.8)	—	(8.8)
Administrative expenses[2]		**(32.7)**	**(2.6)**	**(35.3)**	(24.9)	(0.5)	(25.4)
Operating profit	3	**8.5**	**(3.6)**	**4.9**	14.7	(0.5)	14.2
Finance income	5	**—**	**0.3**	**0.3**	0.1	—	0.1
Finance expense	5	**(2.2)**	**—**	**(2.2)**	(2.0)	—	(2.0)
Net finance expense		**(2.2)**	**0.3**	**(1.9)**	(1.9)	—	(1.9)
Profit before tax		**6.3**	**(3.3)**	**3.0**	12.8	(0.5)	12.3
Taxation	6	**(1.7)**	**0.2**	**(1.5)**	(2.3)	—	(2.3)
Profit for the year		**4.6**	**(3.1)**	**1.5**	10.5	(0.5)	10.0
Earnings per share (pence)							
Basic	7	**2.9p**	**(2.0)p**	**0.9p**	6.5p	(0.3)p	6.2p
Fully diluted	7	**2.9p**	**(2.0)p**	**0.9p**	6.5p	(0.3)p	6.2p

1. Definition of the adjustments made to the reported figures can be found in note 1 of the consolidated financial statements on page 90.
2. The allocation of operating costs between Distribution and Administrative expenses for 2017 has been restated, see note 1a of the consolidated financial statements for further information.

The accompanying notes on pages 90 to 125 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	2018 £m	2017 £m
Profit for the year	**1.5**	10.0
Other comprehensive income – amounts that may be reclassified to profit or loss in the future		
Foreign exchange translation differences – foreign operations	**0.1**	(0.1)
Total comprehensive income for the year	**1.6**	9.9

All results are from continuing operations.

The accompanying notes on pages 90 to 125 form an integral part of these financial statements.

Consolidated Balance Sheet

at 31 December 2018

	Note	2018 £m	2017[1] £m	2016[1] £m
Non-current assets				
Property, plant and equipment	9	**21.5**	23.5	20.6
Intangible assets	10	**23.3**	23.7	12.9
Deferred tax asset		**—**	—	0.2
		44.8	47.2	33.7
Current assets				
Inventories	12	**32.8**	44.2	35.4
Trade and other receivables	13	**41.3**	45.1	36.1
Financial assets held for trading		**0.5**	0.2	—
Cash and cash equivalents	14	**4.2**	5.6	4.1
		78.8	95.1	75.6
Total assets		**123.6**	142.3	109.3
Current liabilities				
Interest-bearing loans and borrowings	15	**15.8**	42.3	21.6
Trade and other payables	17	**43.6**	57.2	39.0
Current tax liabilities		**1.5**	1.0	3.2
Other financial liabilities	16	**0.2**	0.1	0.6
		61.1	100.6	64.4
Non-current liabilities				
Other interest-bearing loans and borrowings	15	**20.0**	—	12.0
Other financial liabilities	16	**0.4**	0.4	0.1
Deferred tax liability	11	**0.9**	1.3	—
		21.3	1.7	12.1
Total liabilities		**82.4**	102.3	76.5
Net assets		**41.2**	40.0	32.8
Equity attributable to equity holders of the parent				
Share capital	23	**0.1**	0.1	0.1
Share premium	23	**24.8**	24.8	24.8
Translation reserve	23	**1.4**	1.3	1.4
Treasury reserve	23	**(1.2)**	(1.2)	—
Retained earnings		**16.1**	15.0	6.5
Total equity		**41.2**	40.0	32.8

1. The reported comparatives have been restated to reflect reclassifications detailed in note 1a of the consolidated financial statements.

The accompanying notes on pages 90 to 125 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 9 April 2019 and were signed on its behalf by:

JOHN HORNBY
Chief Executive Officer

MATT WEBB
Chief Financial Officer

Company registered number: 05254883

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital £m	Share premium £m	Translation reserve £m	Retained earnings £m	Treasury reserve £m	Total equity £m
Balance at 1 January 2017	0.1	24.8	1.4	6.5	—	32.8
Total comprehensive income						
Profit for the year	—	—	—	10.0	—	10.0
Currency translation differences	—	—	(0.1)	—	—	(0.1)
Total comprehensive income for the year	—	—	(0.1)	10.0	—	9.9
Transactions with owners in their capacity as owners						
Distribution paid[1]	—	—	—	(1.8)	—	(1.8)
Purchase of own shares	—	—	—	—	(1.2)	(1.2)
Share-based payments charge	—	—	—	0.3	—	0.3
Total transactions with owners in their capacity as owners	—	—	—	(1.5)	(1.2)	(2.7)
Balance at 31 December 2017	0.1	24.8	1.3	15.0	(1.2)	40.0
Adjustment on initial application of IFRS 9, net of tax	—	—	—	(0.5)	—	(0.5)
Restated balance at 1 January 2018	0.1	24.8	1.3	14.5	(1.2)	39.5
Total comprehensive income						
Profit for the year	**—**	**—**	**—**	**1.5**	**—**	**1.5**
Currency translation differences	**—**	**—**	**0.1**	**—**	**—**	**0.1**
Total comprehensive income for the year	**—**	**—**	**0.1**	**1.5**	**—**	**1.6**
Transactions with owners in their capacity as owners						
Share-based payments charge	**—**	**—**	**—**	**0.1**	**—**	**0.1**
Total transactions with owners in their capacity as owners	**—**	**—**	**—**	**0.1**	**—**	**0.1**
Balance at 31 December 2018	**0.1**	**24.8**	**1.4**	**16.1**	**(1.2)**	**41.2**

1. The amount paid included a £0.5m distribution retrospectively approved by shareholders in General Meeting on 1 March 2019.

The accompanying notes on pages 90 to 125 form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2018

	Note	Adjusted £m	Adjustments[1] £m	2018 £m	Adjusted £m	Adjustments[1] £m	2017[2] £m
Cash flows from operating activities							
Profit for the year		**4.6**	**(3.1)**	**1.5**	10.2	(0.2)	10.0
Adjustments for:							
Depreciation and amortisation	9,10	**6.5**	**0.7**	**7.2**	4.4	–	4.4
Financial derivatives		**–**	**–**	**–**	(0.7)	–	(0.7)
Financial income	5	**–**	**(0.3)**	**(0.3)**	(0.1)	–	(0.1)
Financial expense	5	**2.2**	**–**	**2.2**	2.0	–	2.0
Taxation	6	**1.7**	**(0.2)**	**1.5**	2.3	–	2.3
Impairment provision for credit losses		**(0.5)**	**–**	**(0.5)**	–	–	–
Share-based payments charge	22	**0.1**	**–**	**0.1**	0.3	–	0.3
Operating cash flow before movement in working capital		**14.6**	**(2.9)**	**11.7**	18.4	(0.2)	18.2
Decrease/(Increase) in trade and other receivables		**4.2**	**–**	**4.2**	(6.2)	–	(6.2)
Decrease/(Increase) in inventories		**11.5**	**0.3**	**11.8**	(7.8)	–	(7.8)
(Decrease)/Increase in trade and other payables		**(14.4)**	**0.3**	**(14.1)**	16.1	–	16.1
Cash from operations		**15.9**	**(2.3)**	**13.6**	20.5	(0.2)	20.3
Tax paid		**(1.3)**	**–**	**(1.3)**	(3.1)	–	(3.1)
Net cash from operating activities		**14.6**	**(2.3)**	**12.3**	17.4	(0.2)	17.2
Cash flows from investing activities							
Acquisition of property, plant and equipment	9	**(3.2)**	**–**	**(3.2)**	(7.2)	–	(7.2)
Acquisition of subsidiary		**–**	**–**	**–**	(9.7)	–	(9.7)
Acquisition of other intangible assets	10	**(1.7)**	**–**	**(1.7)**	(3.1)	–	(3.1)
Disposal of tangible assets		**0.2**	**–**	**0.2**	0.3	–	0.3
Net cash used in investing activities		**(4.7)**	**–**	**(4.7)**	(19.7)	–	(19.7)
Cash flows from financing activities							
Proceeds from new loans		**20.0**	**–**	**20.0**	8.7	–	8.7
Repayment of borrowings		**(25.9)**	**–**	**(25.9)**	–	–	–
Interest paid		**(2.2)**	**–**	**(2.2)**	(1.9)	–	(1.9)
Dividends paid		**–**	**–**	**–**	(1.8)	–	(1.8)
Finance lease liabilities	16	**0.1**	**–**	**0.1**	0.3	–	0.3
Purchase of treasury shares	22	**–**	**–**	**–**	(1.2)	–	(1.2)
Net cash from financing activities		**(8.0)**	**–**	**(8.0)**	4.1	–	4.1
Net increase/(decrease) in cash and cash equivalents		**1.9**	**(2.3)**	**(0.4)**	1.8	(0.2)	1.6
Cash and cash equivalents at 1 January				**5.6**			4.1
Effect of exchange rate fluctuations on cash held				**(1.0)**			(0.1)
Cash and cash equivalents at 31 December	14			**4.2**			5.6

1. The definitions of the adjustments made to the statutory figures can be found in note 1 of the consolidated financial statements.
2. The reported comparatives have been restated to reflect certain reclassifications. See note 1a of the consolidated financial statements.

The accompanying notes on pages 90 to 125 form an integral part of these financial statements.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2018

1 Accounting policies
Luceco plc (the "Company") is a company incorporated and domiciled in the UK under the Companies Act 2006. The Company's registered office is Building E Stafford Park 1, Stafford Park, Telford TF3 3BD. The Group is primarily involved in the manufacturing and distributing of high quality and innovative LED lighting products and wiring accessories to global markets.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities. The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its Parent Company financial statements in accordance with FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland and these are prepared on pages 126 to 130. On publishing the Parent Company financial statements here, together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements. These financial statements are presented in million pounds Sterling, which is the functional currency of the Group and Parent Company.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements have been reappraised and verified for 2018 and estimates with a significant risk of material adjustment in the next year are discussed below.

Key Judgements
The Group applies judgement in how it applies its accounting policies, which do not involve estimation, which could materially affect the numbers disclosed in these financial statements. The key judgements, without estimation, that could have the most significant effect on the amounts recognised in these financial statements are as follows:

Key Judgement	Detail of Judgement	Effect on Financial Statements	Alternative accounting judgement that could have been applied	Effect of that alternative accounting judgement
Research and Development Capitalisation (see note 10)	The Group is determining what Research and Development ("R&D") activity can be capitalised. The Group has to make key judgements around various aspects of the accounting standard (IAS 38 Intangible Assets) in relation to each R&D project to determine if the R&D activity can be capitalised. Specific examples of the judgements that have to be made regarding R&D are: the technical feasibility and completion of R&D activity, determining if the R&D activity will generate probable future economic benefits and be used, the availability of resource (technical and otherwise) to complete the development and the ability to reliably measure the expenditure during the development phase.	The Group has capitalised £1.7m in the year ended 31 December 2018 relating to R&D. This asset is depreciated over the useful economic life of R&D which is five years. The depreciation charge relating to the R&D additions in the year was £0.1m.	The Group could have determined that capitalisation was not appropriate due to an alternative accounting judgement. If so the Group would have expensed to the profit and loss account the R&D activity and therefore would have not capitalised or deprecated any activity in 2018.	If the Group did not capitalise £1.7m in the year then operating costs (excluding depreciation) would have increased by £1.7m and depreciation would have reduced by £0.1m, in the period.

Significant Estimates
The preparation of financial statements in conformity with adopted IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Directors consider the following to be the key estimates applicable to the financial statements, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year or in the long term:

Key Estimate	Key Assumption	Sensitivity impact of this key assumption	Potential Impact within the next financial year	Potential impact in the longer term
Amortisation of Intangible Assets (see note 10)	When we capitalise research and development activity we assess its useful economic life at that point in time. Technology in LED lighting, in particular, has been advancing rapidly. Due to this advancement in technology the Group is estimating the useful economic life at the point in time but this could accelerate if the technology advances.	If the Group changed the basis of amortisation from five years to four years, an additional amortisation charge of £0.4m would be required in the 2018 financial statements.	✓	✓
Inventory Valuation (see note 12)	The Group's valuation of inventory is impacted by the inventory provision. The Group establishes its provision as a specific, estimated percentage of inventory cost. Percentages are set taking into consideration inventory status (clearance, discontinued or slow-moving) and historic achieved margin (based on lowest achieved in the most recent one, three and twelve month periods).	The Group has an inventory provision of £2.3m which could be impacted by a change in assumptions. If the provision was based exclusively on the historic margin achieved in the most recent month, the provision would reduce by £0.5m.	✓	–

Measurement convention

The financial statements are prepared on the historical cost basis except for derivative financial instruments and financial instruments that are reported at fair value.

Going concern

The financial statements have been prepared on a going concern basis, as set out in the Statement of Directors' Responsibilities on page 72. Having considered the ability of the Company and the Group to operate within its existing facilities and meets its debt covenants, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

In determining whether the Group and Parent Company's financial statements can be prepared on a going concern basis, the Directors considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The review also included the financial position of the Group, its cash flows, and borrowing facilities.

The key factors considered by the Directors were:

- The re-financing of the Group's debt facilities during 2018 and the extension of their maturity to 31 December 2021
- The capital structure policy and funding headroom analysis as provided in note 20 of the consolidated financial statements
- The implications of the current economic environment and future uncertainties around the Group's revenues and profits, which were assessed by undertaking forecasts and projections on a regular basis
- The impact of the competitive environment in which the Group operates
- The potential actions that could be taken in the event that revenues are worse than expected, to protect operating profit and cash flows

Basis of consolidation

Subsidiaries

Subsidiaries comprise the entities controlled by the Group. Control exists when the Group has power over an entity, is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control passes to the balance sheet date.

The purchase method is used to account for the acquisition of subsidiaries.

Statutory and non-statutory measures of performance

The financial statements contain all the information and disclosures required by the relevant accounting standards and regulatory obligations that apply to the Group.

1 Accounting policies continued

Statutory and non-statutory measures of performance continued

The Group's performance is assessed using a number of financial measures which are not defined under IFRS (the financial reporting framework applied by the Group). Management uses the adjusted or alternative performance measures ("APMs") as a part of their internal financial performance monitoring and when assessing the future impact of operating decisions. The APMs disclose the adjusted performance of the Group excluding specific items, although the IFRS defined measures should also be used when users of this document assess the Group's performance. The alternative performance measures allow a year-on-year comparison and identification of core business trends by removing the impact of items occurring either outside the normal course of operations or as a result of intermittent activities such as a corporate acquisition. The Group separately reports acquisition costs and other specific items in the income statement which, in the Directors' judgement, need to be disclosed separately by virtue of their nature, size and incidence in order for users of the financial statements to obtain a balanced view of the financial information and the underlying performance of the business.

In following the guidelines on alternative performance measures issued by the European Securities and Markets Authorities, the Group has included a Consolidated Income Statement and Consolidated Cash Flow Statement that have both statutory and adjusted performance measures.

The measures used in the financial review are defined in the table below and the principles to identify adjusting items have been applied on a basis consistent with previous years.

Nature of measure	Related IFRS measure	Related IFRS source	Definition	Use/relevance
Adjusted gross profit margin	• Gross profit margin	• Consolidated Income Statement	• Based on the related IFRS measure but excluding the following adjusting items: – closure of US operations – restructuring costs – amortisation of acquired intangibles and related transaction costs	• Allows management to assess the performance of the business after removing large/ unusual items or transactions that are not reflective of the underlying business operations.
Adjusted operating profit	• Operating profit	• Consolidated Income Statement		
Adjusted profit before tax	• Profit before tax	• Consolidated Income Statement	• Based on the related IFRS measure but excluding the items excluded from adjusted operating profit re-measurable to fair value of the hedging portfolio.	
Adjusted basic EPS	• Basic EPS	• Consolidated Income Statement		
Constant currency				• Allows management to identify the relative year-on-year performance of the business by removing the impact of currency movements which are outside of management's control.
Adjusted EBITDA	• Operating profit	• Consolidated Income Statement	• Consolidated earnings before interest, tax, depreciation and amortisation and the adjusting items excluded from adjusted operating profit aside from the amortisation of acquired intangibles.	• Provides management with an approximation of cash generation from the Group's underlying operational activities.
Adjusted operating cash flow	• Cash flow from operations	• Consolidated Cash Flow Statement	• Adjusted operating cash flow is the cash from operations but excluding the cash impact of the adjusting items excluded from adjusted operating profit.	• Provides management with an indication of the amount of cash available for discretionary investment.
Free cash flow	• Net increase/ (decrease) in cash and cash equivalents	• Consolidated Cash Flow Statement	• Free cash flow is calculated as operating cash flow adjusted for cash flows in respect of investing activities, interest and taxes paid.	• Provides management with an indication of the free cash available after all investments in borrowings and capital expenditure has been incurred.
Operating cash conversion	• None	• Cash flow source • Consolidated Income Statement	• Operating cash conversion is defined as adjusted operating cash flow divided by adjusted EBITDA.	• Allows management to monitor the conversion of operating profit into cash.
Return on Capital Invested ("ROCI")	• None	• Operating profit • Net Assets	• Adjusted Operating Profit divided into the sum of Net Assets, Net Debt and non-recourse debt factoring (average for the last two years) as a percentage.	• To provide an assessment on how effective the Company's investment generates returns in the form of profitability.

A breakdown of the adjustments made in 2018 and 2017 are detailed below:

	2018 £m	Closure of US operations[1] £m	Restructuring costs[2] £m	Amortisation of acquired intangibles and related acquisition costs[3] £m	Re-measurement to fair value of hedging portfolio[4] £m	2018 Adjustments £m	2018 Adjusted £m
Revenue	**163.9**	**—**	**—**	**—**	**—**	**—**	**163.9**
Cost of sales	**(114.3)**	**1.0**	**—**	**—**	**—**	**1.0**	**(113.3)**
Gross profit	**49.6**	**1.0**	**—**	**—**	**—**	**1.0**	**50.6**
Distribution expenses	**(9.4)**	**—**	**—**	**—**	**—**	**—**	**(9.4)**
Administrative expenses	**(35.3)**	**1.0**	**0.8**	**0.8**	**—**	**2.6**	**(32.7)**
Operating profit	**4.9**	**2.0**	**0.8**	**0.8**	**—**	**3.6**	**8.5**
Finance income	**0.3**	**—**	**—**	**—**	**(0.3)**	**(0.3)**	**0**
Finance expenses	**(2.2)**	**—**	**—**	**—**	**—**	**—**	**(2.2)**
Net finance expense	**(1.9)**	**—**	**—**	**—**	**(0.3)**	**(0.3)**	**(2.2)**
Profit before tax	**3.0**	**2.0**	**0.8**	**0.8**	**(0.3)**	**3.3**	**6.3**
Taxation	**(1.5)**	**—**	**(0.1)**	**(0.1)**	**—**	**(0.2)**	**(1.7)**
Profit for the year	**1.5**	**2.0**	**0.7**	**0.7**	**(0.3)**	**3.1**	**4.6**
Gross Margin % (Gross profit/Revenue)	**30.3%**						**30.9%**

	2017 £m	Restructuring costs[2] £m	Amortisation of acquired intangibles and related acquisition costs[3] £m	2017 adjustments £m	2017 adjusted £m
Revenue	167.6	—	—	—	167.6
Cost of sales	(119.2)	—	—	—	(119.2)
Gross profit	48.4	—	—	—	48.4
Distribution expenses	(8.8)	—	—	—	(8.8)
Administrative expenses	(25.4)	0.2	0.3	0.5	(24.9)
Operating profit	14.2	0.2	0.3	0.5	14.7
Finance income	0.1	—	—	—	0.1
Finance expenses	(2.0)	—	—	—	(2.0)
Net finance expense	(1.9)	—	—	—	(1.9)
Profit before tax	12.3	0.2	0.3	0.5	12.8
Taxation	(2.3)	—	—	—	(2.3)
Profit for the year	10.0	0.2	0.3	0.5	10.5
Gross Margin % (Gross profit/Revenue)	28.9%				28.9%

1. Costs of closing US operations comprising inventory provisions (£1.0m), severance costs and asset write-downs (£0.8m) and onerous lease costs (£0.2m).
2. 2018 costs relating to one-off restructuring costs and advisory fees relating to the finance function. 2017 costs relating to severance and reorganisation costs in relation to Kingfisher Lighting which was acquired in 2017.
3. Relating to Kingfisher Lighting.
4. Relating to currency hedges.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2018

1 Accounting policies continued

Adjusted EBITDA

	2018 £m	2017 £m
Adjusted operating profit	**8.5**	14.7
Adjusted depreciation and amortisation	**6.5**	4.4
Adjusted EBITDA	**15.0**	19.1

Free cash flow

	2018 £m	2017 £m
Cash from operations (from Consolidated Cash Flow Statement)	**13.6**	20.3
Net capital expenditure (from Consolidated Cash Flow Statement)	**(4.7)**	(10.0)
Interest paid (from Consolidated Cash Flow Statement)	**(2.2)**	(1.9)
Tax paid (from Consolidated Cash Flow Statement)	**(1.3)**	(3.1)
Free cash flow	**5.4**	5.3

Operating cash conversion

	2018 £m	2017 £m
Cash from operations (from Consolidated Cash Flow Statement)	**13.6**	20.3
Adjustments to operating cash flow (from Consolidated Cash Flow Statement)	**2.3**	0.2
Adjusted operating cash flow	**15.9**	20.5
Adjusted EBITDA (from above)	**15.0**	19.1
Operating cash conversion (Adjusted Operating Cash Flow/Adjusted EBITDA)	**106.0%**	107.3%

Return on capital investment

	2018 £m	2017 £m
Net Assets	**41.2**	40.0
Net debt (see note 15)	**32.2**	37.2
Non-recourse debt factoring	**12.4**	9.0
Capital Invested	**85.8**	86.2
Average Capital Invested (from last two years)	**86.0**	79.8
Adjusted Operating Profit (from above)	**8.5**	14.7
Return on Capital Invested (Adjusted Operating Profit/Capital Invested)	**9.9%**	18.4%

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Consolidated Income Statement, except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognised directly in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's functional currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be. When a foreign operation is disposed of, such that control, joint control or significant influence (as the case may be) is lost, the entire accumulated amount in the foreign exchange translation reserve, net of amounts previously attributed to non-controlling interests, is recycled to profit or loss as part of the gain or loss on disposal.

Exchange differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign exchange translation reserve. Foreign currency differences arising on the retranslation of a hedge of a net investment in a foreign operation are recognised directly in equity, in the foreign exchange translation reserve, to the extent that the hedge is effective. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is transferred to the Consolidated Income Statement as an adjustment to the profit or loss on disposal.

Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

a) They include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group)

b) Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other-financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments in subsidiaries are carried at cost less impairment in the Parent Company financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses, so as to produce a constant rate of return over the period to the date of expected redemption. In instances where the Company has an early redemption option, the term over which financing costs are amortised is the period to the earliest date the option can be exercised, unless there is no genuine commercial possibility that the option will be exercised.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2018

1 Accounting policies continued

Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Consolidated Income Statement. Remeasurements to fair value recognised immediately in the Consolidated Income Statement are excluded from adjusted measurements as explained on page 93. However, where derivative transactions qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Property, plant and equipment

Property, plant and equipment are stated at cost or deemed cost, less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described on page 99.

Depreciation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings	over the lease term, to a maximum of 50 years
Plant and equipment	3 to 10 years
Fixtures and fittings	1 to 10 years
Motor vehicles	4 years
Tooling	2 to 5 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group’s development of new and enhanced products is recognised only if all of the following conditions are met:

- An asset is created that can be identified (such as product designs and new processes)
- It is probable that the asset created will generate future economic benefits
- The costs of developing this asset can be measured reliably

Where no internally generated intangible asset can be recognised, the expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the Consolidated Income Statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful lives of internally generated intangible assets. Goodwill is systematically tested for impairment at each balance sheet date. Other internally generated intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Patents and trademarks	10 years
Capitalised development costs	5 years

For externally generated intangible assets, amortisation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful lives as defined at the acquisition date subject to an external valuation. The estimated useful lives are as follows:

Customer relationships	10 to 12 years
Tradenames	15 years

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories, cost includes an appropriate share of overheads based on normal operating capacity.

Provision is made for slow-moving and obsolete stock by comparing the stock holding against the product sales for the financial year and applying a provision which is based on an estimation of the likely sales price with reference to one month, three month and 12 month sales profitability patterns.

Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

The company recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

The company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the company in full, without recourse by the company to actions such as realising security (if any is held); or
- the financial asset is more than 120 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

1 Accounting policies continued

Impairment excluding inventories and deferred tax assets continued

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Consolidated Income Statement.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash-generating unit" or "CGU"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to groups of CGUs which are expected to benefit from the synergies of the combination. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the Consolidated Income Statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata 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 or, in the case of interim dividends, when paid.

Share-based payments transactions

Incentives in the form of shares are provided to employees through the Company's Share Incentive Plan ("SIP") and Long-Term Incentive Plan ("LTIP") schemes. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

The grant date fair value of an equity-settled payment under the SIP is measured as the face value of the award on the date of grant.

The grant date fair value of the awards under the Group's LTIP is measured by the use of the Monte Carlo simulation for any market-related performance conditions (given the increased uncertainty around the potential vesting of share options).

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Charges made to the income statement in respect of share-based payments are credited to the reserves.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market-based vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The Company fulfils exercised options with Treasury shares the Company has purchased. The proceeds received, net of any directly attributable transaction costs, are credited to Treasury shares (nominal value) and share premium.

The Group operates an employee share benefit trust as part of its incentive plans for UK-based employees. All assets and liabilities of the trust are recorded in the balance sheet as assets and liabilities of the Company until such time as the assets are awarded to the beneficiaries. All income and expenditure of the trust is similarly brought into the results of the Company.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Consolidated Income Statement in the periods during which services are rendered by employees.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Revenue

The Group has adopted and applied IFRS 15 for the year ended 31 December 2018, using the cumulative effect method. As the cumulative effect method has been used the comparative information has not therefore been restated and continues to be reported under IAS 18 and IAS 11. The Group has quantified the effect of IFRS 15 on the reported revenue for the year ended 31 December 2017 and there are no changes in accounting treatment as a result of the adoption of IFRS 15.

IFRS 15 was effective from the 1 January 2018 and there was no effect on any financial statement item as a result of its adoption.

The following table summaries the nature, amounts and timing and uncertainty of revenue which follows our segmental splits of revenue.

Segment	Nature of revenue	Amount (as percentage of total revenue)	Timing of satisfaction of performance obligations
Wiring Accessories	Revenue from the supply of goods in the form of wiring accessories to trade and specialists	40.1%	Largely when delivered to the customer. Free on Board ("FOB") when legal title passes to the customer.
Portable Power	Revenue from the supply of goods in the form of portable power to retailers and wholesalers	25.1%	Largely when delivered to the customer. FOB when legal title passes to the customer.
LED Lighting	Revenue from the supply of commercial and domestic lighting solutions.	31.6%	Largely when delivered to the customer. FOB when legal title passes to the customer.
Ross	Revenue from the supply of audio-visual products.	3.2%	Largely when delivered to the customer. FOB when legal title passes to the customer.

The Group also has some revenue which is service related. This is a small proportion of revenue today, around 6% and is recognised when the service is delivered to the customer.

Customer rebates

Where the Group has rebate agreements with its customers, the value of customer rebates paid or payable, calculated in accordance with the agreements in place based on the most likely outcome, is deducted from turnover in the year in which the rebate is earned.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the Consolidated Income Statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Consolidated Income Statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Market support costs

Expenditure on market support, such as advertising, is charged to the Consolidated Income Statement as incurred.

1 Accounting policies continued

Expenses continued

Finance income and expenses

Finance expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in the Consolidated Income Statement using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the Consolidated Income Statement (see foreign currency accounting policy).

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Finance income comprises interest receivable on funds invested, dividend income, and the remeasurement to fair value of derivative financial instruments not considered to be in a hedging relationship.

Interest income and interest payable is recognised in the Consolidated Income Statement as it accrues, using the effective interest method. Dividend income is recognised in the Consolidated Income Statement on the date the entity's right to receive payments is established.

Research and development credits

The Group claims Research and Development Expenditure Credit ("RDEC") from the UK government on qualifying development expenditure. The RDEC is recognised as a receivable when it is possible that the credit has been complied with and there is reasonable assurance the credit will be received. The grant is credited to the Consolidated Income Statement in the same period in which the related development costs are amortised. The grant income is presented in the Consolidated Income Statement within administrative expenses with the deferred element of income presented within current liabilities.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Consolidated Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquisition. Acquisition costs incurred are expensed. The acquired identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition are recognised at their fair value at the date of acquisition, except for non-current assets that are classified as held for resale in accordance with IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after the assessment, the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Consolidated Income Statement.

Standards and interpretations issued

Standards that are effective from 1 January 2018:

- IFRS 9 Financial Instruments – Endorsed (22nd November 2016). EU effective date 1 January 2018.
- IFRS 15 Revenue from Contracts with Customers – Endorsed (22nd September 2016). EU effective date 1 January 2018.
- Clarifications to IFRS 15 Revenue from Contracts with Customers. Endorsed (31st October 2017). EU effective date 1 January 2018.
- Effective date of IFRS 15 – amendment to IFRS 15 – Endorsed (22nd September 2016). EU effective date 1 January 2018.
- Amendments to IFRS 2 Share Based Payments – Endorsed (26th February 2018). EU effective date 1 January 2018.
- Annual Improvements to IFRSs – 2014-2016 Cycle – Endorsed (7th February 2018). EU effective date 1 January 2018.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration – Endorsed (28th March 2018). EU effective date 1 January 2018.

Standards not yet effective:

- IFRS 16 Leases – Endorsed (31st October 2017). EU effective date 1 January 2019
- IFRIC 23 Uncertainty over Income Tax Treatments – Endorsed (31st October 2017). EU effective date 1 January 2019
- Amendments to IFRS 9 Financial Instruments – Endorsed (22nd March 2018). EU effective date 1 January 2019.
- Annual Improvements to IFRSs – 2015-2017 Cycle – Endorsed (14 March 2019).
- Amendments to References to the Conceptual Framework in IFRS Standards – Not yet endorsed.
- Amendment to IFRS 3 Business Combinations – Not yet endorsed.
- Amendments to IAS 1 and IAS 8 – Not yet endorsed.

Based on their initial assessments, the Directors anticipate that adoption of these Standards and Interpretations in future periods will not have a material impact of the financial statements of the Group with the exception of IFRS 16 as discussed below.

IFRS 16 Leases

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019. The new standard replaces existing leases guidance, principally IAS 17 Leases.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use ("ROU") asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short term leases of 12 months or less and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information – which provides a reduction in depreciation charge over the remaining years of the lease.

Full retrospective application in the comparative year ending 31 December 2018 is optional. However, the Group will apply the modified retrospective approach from the transitional date, adjusting opening retained earnings at 1 January 2019 and not restating comparatives. This involves calculating the right-of-use asset and lease liability based on the present value of remaining lease payments on all applicable lease contracts as at the transition date. IFRS 16 also has a number of practical expedients for first time adoption.

The Group will utilise the following practical expedients at the transition date:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Exclude initial direct costs from the measurement of the right-of-use asset on transition;
- Use hindsight to determine the term;
- Use onerous contract assessment under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before transition instead of performing an impairment review under IAS 36 Impairment;
- For leases with a remaining term of less than 12 months at 1 January 2019, the short-term lease exemption in IFRS 16 will be taken.
- Leases comprising of both an asset and a non-lease service component will not be separated and both asset and service cost will be included in the calculation of the initial asset and liability.

1 Accounting policies continued

Standards and interpretations issued continued

IFRS 16 Leases continued

Following completion of the IFRS 16 implementation assessment, management has estimated the right-of-use asset and lease liabilities. The Group expects to recognise right-of-use assets of approximately £2.0m on 1 January 2019, lease liabilities of £2.8m (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Overall net assets will be approximately £0.9m lower.

The Group expects that net profit after tax will increase by approximately £0.1m for 2019 as a result of adopting the new rules. Adjusted EBITDA is expected to increase by approximately £0.6m as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash flows will increase and financing cash flows decrease by approximately £0.6m. Repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities. Our net debt EBITDA ratio will increase by 0.1 if the additional lease debt is recognised within the net debt definition.

1a Prior year restatement

The allocation of operating costs between distribution and administrative expenses has been improved in the period. Comparative financial information has been restated to improve comparability. This restatement has no impact on operating costs or profit in total. There is no impact on the operating profit or tax charge as a result of this restatement, the impact of which is shown in the table below:

	Consolidated Income Statement for the year ended 31 December 2017		
	As previously reported £m	Reclassification of costs £m	**As restated £m**
Revenue	167.6	—	**167.6**
Cost of sales	(119.2)	—	**(119.2)**
Gross profit	48.4	—	**48.4**
Distribution expenses	(12.1)	3.3	**(8.8)**
Administrative expenses	(22.1)	(3.3)	**(25.4)**
Operating profit	14.2	—	**14.2**
Finance income	0.1	—	**0.1**
Finance expense	(2.0)	—	**(2.0)**
Net financing expense	(1.9)	—	**(1.9)**
Profit before tax	12.3	—	**12.3**
Taxation	(2.3)	—	**(2.3)**
Profit for the year	10.0	—	**10.0**

The Group has amended its presentation of customer rebates in the period and restated the comparative balance sheet and cash flow accordingly. The Group's policy had been to net the rebate accrual against Trade Receivables as it would often settle rebates by crediting a customer's account rather than by a cash payment. However, as there is no legal right of set-off then Trade Receivable customer balances should be shown gross, not net, of rebates.

Accordingly, the rebates to the value of £8.6m have been added back to Trade Receivables and Trade Payables at 31 December 2017 (31 December 2016: £6.8m). These adjustments are detailed in the table below:

	Consolidated balance sheet					
	at 31 December 2017			at 31 December 2016		
	As previously reported £m	Reclassification of rebates £m	**As restated £m**	As previously reported £m	Reclassification of rebates £m	**As restated £m**
Non-current assets						
Property, plant and equipment	23.5	—	**23.5**	20.6	—	**20.6**
Intangible assets	23.7	—	**23.7**	12.9	—	**12.9**
Deferred tax asset	—	—	**—**	0.2	—	**0.2**
	47.2	—	**47.2**	33.7	—	**33.7**
Current assets						
Inventories	44.2	—	**44.2**	35.4	—	**35.4**
Trade and other receivables	36.5	8.6	**45.1**	29.3	6.8	**36.1**
Financial assets held for trading	0.2	—	**0.2**	—	—	**—**
Cash and cash equivalents	5.6	—	**5.6**	4.1	—	**4.1**
	86.5	8.6	**95.1**	68.8	6.8	**75.6**
Total assets	133.7	8.6	**142.3**	102.5	6.8	**109.3**
Current liabilities						
Interest bearing loans and borrowings	42.3	—	**42.3**	21.6	—	**21.6**
Trade and other payables	48.6	8.6	**57.2**	32.2	6.8	**39.0**
Current tax liabilities	1.0	—	**1.0**	3.2	—	**3.2**
Other financial liabilities	0.1	—	**0.1**	0.6	—	**0.6**
	92.0	8.6	**100.6**	57.6	6.8	**64.4**
Non-current liabilities	1.7	—	**1.7**	12.1	—	**12.1**
Total liabilities	93.7	8.6	**102.3**	69.7	6.8	**76.5**
Total net assets	40.0	—	**40.0**	32.8	—	**32.8**

1a Prior year restatement continued

	Consolidated cash flow statement for the year ended 31 December 2017		
	As previously reported £m	Reclassification of rebates £m	**As restated £m**
Cash flows from operating activities			
Profit for the year	10.0	—	**10.0**
Adjustments for:			
Depreciation and amortisation	4.4	—	**4.4**
Financial derivatives	(0.7)	—	**(0.7)**
Financial income	(0.1)	—	**(0.1)**
Financial expense	2.0	—	**2.0**
Taxation	2.3	—	**2.3**
Share-based payments charge	0.3	—	**0.3**
Operating cash flow before movement in working capital	18.2	—	**18.2**
(Increase) in trade and other receivables	(4.4)	(1.8)	**(6.2)**
(Increase) in inventories	(7.8)	—	**(7.8)**
Increase in trade and other payables	14.3	1.8	**16.1**
Cash from operations	20.3	—	**20.3**
Tax paid	(3.1)	—	**(3.1)**
Net cash from operating activities	17.2	—	**17.2**
Net cash used in investing activities	(19.7)	—	**(19.7)**
Net cash from financing activities	4.1	—	**4.1**
Net increase in cash and cash equivalents	1.6	—	**1.6**

The methodology used to segment the businesses was changed during the period and the comparatives have been restated using this new methodology, as summarised below:

	Year ended 31 December 2017		
Revenue	As previously reported £m	Reclassification £m	**As restated £m**
Wiring Accessories	72.7	(0.9)	**71.8**
Portable Power	41.6	3.6	**45.2**
LED Lighting	47.4	(2.6)	**44.8**
Ross and other	5.9	(0.1)	**5.8**
	167.6	—	**167.6**

	Year ended 31 December 2017		
Operating Profit	As previously reported £m	Reclassification £m	**As restated £m**
Wiring Accessories	10.3	1.8	**12.1**
Portable Power	2.0	2.1	**4.1**
LED Lighting	1.8	(3.3)	**(1.5)**
Ross and other	0.1	(0.6)	**(0.5)**
	14.2	—	**14.2**

2 Operating segments

The Group's principal activities are in the manufacturing and supply of LED lighting, wiring accessories, portable power equipment and Ross (home entertainment products). For the purposes of management reporting to the Chief Operating Decision-Maker (the Board), the Group consists of four operating segments which are the product categories that the Group manufactures and distributes. The Board does not review the Group's assets and liabilities on a segmental basis and, therefore, no segmental disclosure is included. Inter-segment sales are not material. Revenue and operating profit are reported under IFRS 8 Operating Segments.

	Adjusted 2018 £m	Adjustments £m	Reported 2018 £m	Adjusted 2017 £m	Adjustments £m	Reported 2017[1] £m
Revenue						
Wiring Accessories	**65.8**	**–**	**65.8**	71.8	–	71.8
Portable Power	**41.1**	**–**	**41.1**	45.2	–	45.2
LED Lighting	**51.8**	**–**	**51.8**	44.8	–	44.8
Ross and other	**5.2**	**–**	**5.2**	5.8	–	5.8
	163.9	**–**	**163.9**	167.6	–	167.6
Operating profit						
Wiring Accessories	**6.5**	**(0.3)**	**6.2**	12.1	–	12.1
Portable Power	**1.5**	**(1.2)**	**0.3**	4.1	–	4.1
LED Lighting	**0.5**	**(2.1)**	**(1.6)**	(1.0)	(0.5)	(1.5)
Ross and other	**–**	**–**	**–**	(0.5)	–	(0.5)
	8.5	**(3.6)**	**4.9**	14.7	(0.5)	14.2

1. The reported comparatives have been restated to reflect a prior year adjustment, see note 1a of the consolidated financial statements.

	2018				2017		
Analysis of adjustments	**Total £m**	**Closure of US business[1] £m**	**Restructuring costs[2] £m**	**Amortisation of acquired intangibles and related costs[3] £m**	Total £m	Restructuring costs[2] £m	Amortisation of acquired intangibles and related costs[3] £m
Cost of sales							
Portable Power	**(0.5)**	**(0.5)**	**–**	**–**	–	–	–
LED Lighting	**(0.5)**	**(0.5)**	**–**	**–**	–	–	–
Gross profit	**(1.0)**	**(1.0)**	**–**	**–**	–	–	–
Administrative expenses							
Wiring Accessories	**(0.3)**	**–**	**(0.3)**	**–**	–	–	–
Portable Power	**(0.7)**	**(0.5)**	**(0.2)**	**–**	–	–	–
LED Lighting	**(1.6)**	**(0.5)**	**(0.3)**	**(0.8)**	(0.5)	(0.2)	(0.3)
Ross and other	**–**	**–**	**–**	**–**	–	–	–
Total	**(2.6)**	**(1.0)**	**(0.8)**	**(0.8)**	(0.5)	(0.2)	(0.3)
Operating profit	**(3.6)**	**(2.0)**	**(0.8)**	**(0.8)**	(0.5)	(0.2)	(0.3)
Operating profit:							
Wiring Accessories	**(0.3)**	**–**	**(0.3)**	**–**	–	–	–
Portable Power	**(1.2)**	**(1.0)**	**(0.2)**	**–**	–	–	–
LED Lighting	**(2.1)**	**(1.0)**	**(0.3)**	**(0.8)**	(0.5)	(0.2)	(0.3)
Ross and other	**–**	**–**	**–**	**–**	–	–	–
	(3.6)	**(2.0)**	**(0.8)**	**(0.8)**	(0.5)	(0.2)	(0.3)

1. Costs of closing US operations comprising inventory provisions (£1.0m), severance costs and asset write-downs (£0.8m) and onerous lease costs (£0.2m).
2. 2018 costs relating to one-off restructuring costs and advisory fees relating to the finance function. 2017 costs relating to severance and reorganisation costs in relation to Kingfisher Lighting.
3. Relating to Kingfisher Lighting.

2 Operating segments continued

Revenue by location of customer

	2018 £m	2017 £m
UK	**130.1**	138.9
Europe	**15.5**	9.6
Middle East and Africa	**9.1**	8.8
Asia Pacific	**5.3**	3.9
Americas	**3.9**	6.4
Total revenue	**163.9**	167.6

Revenues exceeded 10% or more of total revenue for one customer. This customer's revenue represents 26% of total revenue and is across all operating segments.

Non-current assets by location

	2018 £m	2017 £m
UK	**28.0**	31.3
China	**16.7**	15.5
Other	**0.1**	0.4
Non-current assets	**44.8**	47.2

3 Expenses and auditor's remuneration

Included in the Consolidated Income Statement are the following:

	2018 £m	2017 £m
Research and development costs expensed as incurred	**2.9**	1.3
Depreciation of property, plant and equipment	**5.1**	3.2
Amortisation of intangible assets	**2.1**	1.2

Auditor's remuneration:

	2018 £m	2017 £m
Audit of these financial statements	**0.4**	0.1
Amounts receivable by the auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**0.1**	0.1
Other services[1]	**—**	0.1
Total	**0.5**	0.3

1. No other services were provided in the year (2017 represents the due diligence work in respect of Kingfisher Lighting acquired during that year).

4 Staff numbers and costs

The average monthly number of employees, including the Directors, during the year was as follows:

	Number of employees	
	2018	2017
Administration and support	**425**	542
Production	**1,162**	1,594
	1,587	2,136

The aggregate payroll costs of these persons were as follows:

	2018 £m	2017[1] £m
Wages and salaries	**31.2**	29.4
Social security costs	**1.7**	1.5
Other pension costs	**0.5**	0.4
Share-based payment expense	**0.1**	0.3
Total staff costs	**33.5**	31.6

1. 2017 amounts have been restated to more accurately extract staff costs from the Group's standard manufacturing costs.

5 Net finance expense

	2018 £m	2017 £m
Finance income		
Net gain on remeasurement to fair value of financial instruments	**0.3**	0.1
Finance expense		
Interest on bank borrowings	**(2.2)**	(2.0)
Net finance expense	**(1.9)**	(1.9)

6 Taxation

	2018 £m	2017 £m
Current tax expense		
Current year – UK	**1.0**	1.6
Current year – overseas	**1.0**	0.5
Adjustment in respect of prior years	**(0.1)**	(0.4)
Current tax expense	**1.9**	1.7
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	**(0.1)**	0.5
Adjustment in respect of prior years	**(0.3)**	0.1
Deferred tax (credit)/expense	**(0.4)**	0.6
Total tax expense	**1.5**	2.3

6 Taxation continued

Reconciliation of effective tax rate

	2018 £m	2017 £m
Profit for the year	**1.5**	10.0
Total tax expense	**1.5**	2.3
Profit before taxation	**3.0**	12.3
Tax using the UK corporation tax rate of 19.00% (2017: 19.25%)	**0.6**	2.3
Effect of tax rates in foreign jurisdictions	**(0.3)**	0.1
Non-deductible expenses	**0.2**	0.1
Research and development credits	**—**	(0.1)
Adjustment in respect of previous periods	**(0.4)**	(0.3)
Deferred tax not recognised	**1.4**	0.2
Total tax expense	**1.5**	2.3

Factors which may affect future current and total tax charges

The UK corporation tax rate was reduced from 20% to 19% with effect from 1 April 2017 and a further reduction to 17% will become effective from 1 April 2020. The movement in tax rates will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2018 has been calculated based on these rates.

7 Earnings per share

Earnings per share is calculated based on the profit for the year attributable to the owners of the Group. Adjusted earnings per share is calculated based on the adjusted profit for the year, as detailed below, attributable to the owners of the Group. These measures are divided by the weighted average number of shares outstanding during the period.

	2018 £m	2017 £m
Earnings for calculating basic earnings per share	**1.5**	10.0
Adjusted for:		
Restructuring costs	**0.8**	0.2
Closure of US operations	**2.0**	–
Amortisation of acquired intangibles and related acquisition costs	**0.8**	0.3
Remeasurement to fair value of hedging portfolio	**(0.3)**	–
Income tax credit arising from restructuring costs	**(0.2)**	–
Adjusted earnings for calculating adjusted basic earnings per share	**4.6**	10.5

	2018 Number million	2017 Number million
Weighted average number of ordinary shares		
Basic	**160.3**	160.6
Dilutive effect of share options on potential ordinary shares	**0.5**	0.2
Diluted	**160.8**	160.8

	2018 Pence	2017 Pence
Basic earnings per share	**0.9**	6.2
Diluted earnings per share	**0.9**	6.2
Adjusted basic earnings per share	**2.9**	6.5
Adjusted diluted earnings per share	**2.9**	6.5

The calculation of diluted EPS has been based on the profit to ordinary shareholders and weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

8 Dividends

No interim dividend was paid to shareholders in respect of the year ended 31 December 2018. The Board is proposing a final dividend of 0.6 pence for the year ended 31 December 2018.

In respect of the year ended 31 December 2017, an interim dividend of £1.3m, 0.8 pence per share, was paid to shareholders on 27 October 2017. The Board did not propose a final dividend for that year.

9 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Fixtures and fittings £m	Motor vehicles £m	Tooling £m	Total £m
Cost						
Balance at 1 January 2017	14.1	12.1	2.7	0.1	3.6	32.6
Reclassification of opening balance[1]	—	(1.1)	—	—	1.1	—
Acquired assets[2]	—	0.2	—	—	—	0.2
Additions	0.9	2.1	0.4	—	2.5	5.9
Disposals	—	—	—	—	(0.3)	(0.3)
Effect of movements in foreign exchange	0.2	0.3	—	—	—	0.5
Balance at 31 December 2017	15.2	13.6	3.1	0.1	6.9	38.9
Additions	**0.3**	**1.0**	**0.2**	**—**	**1.7**	**3.2**
Disposals	**—**	**(0.2)**	**(0.1)**	**(0.1)**	**(0.3)**	**(0.7)**
Effect of movements in foreign exchange	**0.1**	**—**	**—**	**—**	**—**	**0.1**
Balance at 31 December 2018	**15.6**	**14.4**	**3.2**	**—**	**8.3**	**41.5**
Depreciation						
Balance at 1 January 2017	2.2	4.8	1.5	0.1	3.4	12.0
Depreciation charge for the year	0.7	0.8	0.4	—	1.3	3.2
Effect of movements in foreign exchange	—	0.2	—	—	—	0.2
Balance at 31 December 2017	2.9	5.8	1.9	0.1	4.7	15.4
Depreciation charge for the year	**0.7**	**1.8**	**0.5**	**—**	**2.1**	**5.1**
Disposals	**—**	**(0.1)**	**(0.1)**	**(0.1)**	**(0.2)**	**(0.5)**
Balance at 31 December 2018	**3.6**	**7.5**	**2.3**	**—**	**6.6**	**20.0**
Net book value						
At 1 January 2017	11.9	7.3	1.2	—	0.2	20.6
At 31 December 2017	12.3	7.8	1.2	—	2.2	23.5
At 31 December 2018	**12.0**	**6.9**	**0.9**	**—**	**1.7**	**21.5**

1. Adjustment to correct historic classification of assets from plant and equipment to tooling.
2. Assets acquired with Kingfisher Lighting.

Leased land and buildings

At 31 December 2018, the net carrying amount of leased land and buildings was £9.8m (2017: £10.0m) relating to the manufacturing facility located in China.

Borrowing costs

The Group has not included any borrowing costs within additions in 2018 (2017: nil). There were no funds specifically borrowed for this asset and the amount eligible as part of the general debt instruments pool (after applying the appropriate capitalisation rate) is not considered material.

10 Intangible assets

	Goodwill £m	Patents £m	Development costs £m	Customer relationships £m	Tradenames £m	Total £m
Cost						
Balance at 1 January 2017	9.6	0.5	4.3	—	—	14.4
Other acquisitions – externally purchased	3.6	—	—	4.1	1.2	8.9
Other acquisitions – internally developed	—	0.1	3.0	—	—	3.1
Balance at 31 December 2017	13.2	0.6	7.3	4.1	1.2	26.4
Other acquisitions – internally developed	**—**	**—**	**1.7**	**—**	**—**	**1.7**
Balance at 31 December 2018	**13.2**	**0.6**	**9.0**	**4.1**	**1.2**	**28.1**
Amortisation						
Balance at 1 January 2017	—	0.2	1.3	—	—	1.5
Amortisation for the year	—	—	1.2	—	—	1.2
Balance at 31 December 2017	—	0.2	2.5	—	—	2.7
Amortisation for the year	**—**	**0.1**	**1.3**	**0.6**	**0.1**	**2.1**
Balance at 31 December 2018	**—**	**0.3**	**3.8**	**0.6**	**0.1**	**4.8**
Net book value						
At 1 January 2017	9.6	0.3	3.0	—	—	12.9
At 31 December 2017	13.2	0.4	4.8	4.1	1.2	23.7
At 31 December 2018	**13.2**	**0.3**	**5.2**	**3.5**	**1.1**	**23.3**

Amortisation charge

The amortisation charge is recognised in administrative expenses in the Consolidated Income Statement.

Development costs

The Group has not included any borrowing costs within capitalised development costs. There were no funds specifically borrowed for this asset and the amount eligible as part of the general debt instruments pool (after applying the appropriate capitalisation rate) is not considered material.

Customer relationships and Tradenames

A fair value exercise conducted following the acquisition of Kingfisher Lighting identified customer relationship and tradename intangible assets that met the criteria for separate recognition under IFRS.

Impairment testing for cash-generating units containing goodwill

In accordance with the requirements of IAS 36 Impairment of Assets, goodwill is allocated to the Group's CGUs which are identified by the way goodwill is monitored for impairment. The Group's total consolidated goodwill of £13.2m at 31 December 2018 is allocated as follows:

	Goodwill	
	2018 £m	2017 £m
Portable Power	**2.0**	2.0
Wiring Accessories	**4.0**	4.0
LED Lighting	**7.2**	7.2
	13.2	13.2

Goodwill has not been allocated to Ross as the CGU is not considered significant. Each CGU is assessed for impairment annually and whenever there is a specific indication of impairment.

As part of the annual impairment test review, the carrying value of goodwill has been assessed with reference to value in use over a projected period of five years together with a terminal value. This reflects the projected cash flows of each CGU based on the actual operating results, the most recent Board approved budget, strategic plans and management projections.

The key assumptions on which value in use calculations are based relate to business performance over the next five years derived from the Group's Strategic Plan, long-term growth rates beyond 2023 and the discount rates applied. The key estimates are the level of revenue and operating margins anticipated and the proportion of operating profit converted into cash flow in each year. Forecasts are based on past experience and take into account current and future market conditions and opportunities.

Growth rates for the period beyond 2023 are assumed to be 2.0% (2017: 2.0%), which is considered to be a conservative assessment of long-term market trends for these CGUs.

The cash flow projections have been discounted to present value using the Group's weighted average cost of capital adjusted for economic and CGU-specific risk factors including markets and size of business. The pre-tax rates, reflecting factors such as, different geographies, expected technological change and growth opportunity risk have been used for each CGU as follows:

	2018 %	2017 %
Portable Power	**10.2**	9.8
Wiring Accessories	**11.3**	10.9
LED Lighting	**7.9**	7.6

Sensitivity of results to changes in assumptions

Whilst management believe the assumptions are realistic, it is possible that further impairment would be identified if any of the above key assumptions were changed significantly. For instance, factors which could cause an impairment are:

- Significant underperformance relative to the forecast results
- Changes to the way the assets are used or changes to the strategy for the business
- A material and unexpected deterioration in the UK economy

The impairment review calculations are based upon anticipated discounted future cash flows. All CGUs have sufficient headroom and the Directors do not envisage, reasonably, possible changes to the key operating assumptions that are sufficient to generate a different outcome to the impairment calculations undertaken.

The following specific individual sensitivities of reasonable change have been considered for each CGU resulting in the carrying amount not exceeding the recoverable amount for each CGU:

- a 10% increase in unlevered beta;
- a 200 basis point increase in the discount factor;
- a growth rate of 1% for the periods after 2023;
- a 10% reduction in cash flows forecast over the next five years in the Group's Strategic Plan.

11 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Property, plant and equipment	**(0.2)**	—	**—**	0.4	**(0.2)**	0.4
Intangible assets	**—**	—	**1.7**	1.7	**1.7**	1.7
Losses	**(0.5)**	(0.7)	**—**	—	**(0.5)**	(0.7)
Financial assets and liabilities	**(0.1)**	(0.1)	**—**	—	**(0.1)**	(0.1)
Deferred tax liability/(asset)	**(0.8)**	(0.8)	**1.7**	2.1	**0.9**	1.3

A deferred tax asset has been recognised against previously carried forward non-trading tax losses of £3.0m (2017: £5.2m) during the period as it is expected that they can be offset against future profits.

11 Deferred tax assets and liabilities continued

Movement in deferred tax liability/(asset) during the year

	1 January 2018 £m	Recognised in income £m	Acquired in business combination £m	**31 December 2018 £m**
Property, plant and equipment	0.4	(0.6)	—	**(0.2)**
Intangible assets	1.7	0.1	(0.1)	**1.7**
Losses	(0.7)	0.2	—	**(0.5)**
Financial assets and liabilities	(0.1)	—	—	**(0.1)**
	1.3	(0.3)	(0.1)	**0.9**

A deferred tax liability has been recognised from intangible assets acquired, details are contained in note 22 of the consolidated financial statements.

Movement in deferred tax (asset)/liability during the prior year

	1 January 2017 £m	Recognised in income £m	Acquired in business combination £m	31 December 2017 £m
Property, plant and equipment	0.3	0.1	—	0.4
Intangible assets	0.5	0.3	0.9	1.7
Losses	(0.9)	0.2	—	(0.7)
Financial assets and liabilities	(0.1)	—	—	(0.1)
	(0.2)	0.6	0.9	1.3

12 Inventories

	2018 £m	2017 £m
Raw materials	**2.8**	3.5
Work in progress	**2.3**	4.0
Finished goods	**27.7**	36.7
	32.8	44.2

In 2018, inventories of £125.7m (2017: £110.4m) were recognised as an expense during the year and are included in “cost of sales”.

Write downs of inventories during the year were £2.6m (2017: £0.4m) and were recognised as an expense in the profit and loss account.

Write-downs and reversals are included in “cost of sales”. No reversals of stock provision occurred in the current or prior year.

13 Trade and other receivables

	2018 £m	2017[1] £m
Trade receivables	**39.5**	42.0
Prepayments and other receivables	**1.8**	3.1
	41.3	45.1

1. The reported comparatives have been restated to reflect the reclassifications detailed in note 1a of the consolidated financial statements.

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables as at 31 December 2018.

	31 December 2018			1 January 2018		
Age overdue (days)	**Loss (%)**	**Gross Debtor (£k)**	**Loss Amount (£k)**	Loss Rate (%)	Gross Debtor (£k)	Loss Amount (£k)
Current	**0.2%**	**34,047.9**	**53.1**	0.3%	38,173.3	129.2
0-30	**3.8%**	**3,107.5**	**117.0**	14.1%	2,371.8	334.6
30-60	**7.3%**	**945.8**	**68.8**	6.5%	740.4	48.0
60-90	**10.8%**	**631.2**	**68.0**	6.1%	232.4	14.2
90-120	**14.3%**	**198.9**	**28.4**	8.0%	260.4	20.9
120+	**18.8%**	**521.9**	**98.0**	14.3%	221.3	31.7
Total	**0.7%**	**39,453.2**	**433.3**	1.3%	41,999.6	578.5

14 Cash and cash equivalents

	2018 £m	2017 £m
Cash and cash equivalents	**4.2**	5.6

15 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 19 of the consolidated financial statements.

	2018 £m	2017 £m
Non-current liabilities		
Bank term loan	**20.0**	—
	20.0	—
Current liabilities		
Bank term loan	**—**	20.0
Shareholder loan notes	**—**	0.3
Secured bank loans	**15.8**	22.0
	15.8	42.3

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	**Face value[2] 2018 £m**	**Carrying amount[2] 2018 £m**	Face value[2] 2017 £m	Carrying amount[2] 2017 £m
Shareholder loan notes	GBP	10.0%	2018	**—**	**—**	0.3	0.3
Bank term loan	GBP	2.3% + LIBOR	2021	**20.0**	**20.0**	20.0	20.0
Secured bank loan[1]	GBP	2.0%	2019	**11.2**	**11.2**	8.0	8.0
Secured bank loan[1]	USD	2.0%	2019	**4.6**	**4.6**	14.0	14.0
				35.8	**35.8**	42.3	42.3

1. The secured bank loan comprises the Group's invoice discounting facility which is given a maturity based on its availability being contingent on the Group holding qualifying receivables. The facility is committed until 31 December 2021.
2. For more information on fair value/carrying value assessment, see note 19 of the consolidated financial statements.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2018

15 Interest-bearing loans and borrowings continued

Terms and debt repayment schedule continued

Bank loans are secured by a fixed and floating charge over the assets of the Group and include funds advanced under invoice discounting arrangements of £15.8m (2017: £22.0m), which are secured by legal charges over the Group's book debts.

	2018 £m	2017 £m
Net debt as at 31 December represented by:		
Long-term debt	**20.0**	—
Cash and cash equivalents	**(4.2)**	(5.6)
Shareholder loans	**—**	0.3
Short-term debt	**15.8**	42.0
Finance leases	**0.6**	0.5
	32.2	37.2

	2018 £m	2017 £m
Net debt movement:		
As at 1 January	**37.2**	29.5
(Decrease)/increase in bank loans	**(6.2)**	9.0
Decrease in shareholder loan	**(0.3)**	(0.3)
Increase in finance leases	**0.1**	0.5
Cash inflow/(outflow)	**0.4**	(1.6)
Effect of exchange rate fluctuations on cash held	**1.0**	0.1
As at 31 December	**32.2**	37.2

16 Other financial liabilities

	2018 £m	2017 £m
Current liabilities		
Finance lease liabilities	**0.2**	0.1
Non-current liabilities		
Finance lease liabilities	**0.4**	0.4

Finance lease liabilities

Finance lease liabilities are payable as follows.

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Less than one year	**0.2**	0.1	**—**	—	**0.2**	0.1
Between one and five years	**0.5**	0.5	**(0.1)**	(0.1)	**0.4**	0.4
	0.7	0.6	**(0.1)**	(0.1)	**0.6**	0.5

17 Trade and other payables

	2018 £m	2017[1] £m
Current liabilities		
Trade payables	**26.7**	39.0
Other payables and accrued expenses	**16.9**	18.2
	43.6	57.2

1. The reported comparatives for Other payables and accrued expenses have been restated to reflect a prior year adjustment, see note 1a of the consolidated financial statements.

18 Employee benefits

Defined contribution plans

The Group operates a number of defined contribution pension plans.

UK-based employees of the Group have the option to be members of a defined contribution pension scheme managed by a third party pension provider. For each employee who is a member of the scheme the Company will contribute a fixed percentage of each employee's salary to the scheme. The only obligation of the Group with respect to this scheme is to make the specified contributions.

The total expense relating to these plans in the current year was £0.5m (2017: £0.4m).

19 Financial instruments

Financial risk management

Overview

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the reporting date was as follows:

	Carrying amount	
	2018 £m	2017 £m
Trade receivables[1]	**39.5**	42.0
Cash and cash equivalents	**4.2**	5.6
Financial assets held for trading	**0.5**	0.2
	44.2	47.8

1. The reported comparatives have been restated to reflect the change in the Group's treatment of rebate accrual as set out in note 1a of the consolidated financial statements.

19 Financial instruments continued

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed regularly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

All significant Group customers have been transacting with the Group for over three years and, whilst this creates a concentration of credit risk, no impairment losses have been recognised against these customers. In monitoring customer credit risk, customers are grouped according to their characteristics, including whether they are an independent or major multi-national company, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties.

As at 31 December 2018, the Group had an allowance for impairment of £1.2m (2017: £0.4m).

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was as follows:

	Carrying amount	
	2018 £m	2017[1] £m
Europe	**32.2**	35.6
North America	**0.4**	1.3
Rest of World	**6.9**	5.1
	39.5	42.0

1. The reported comparatives have been restated to reflect the change in the Group's treatment of rebate accrual as set out in note 1a of the consolidated financial statements.

The ageing of trade receivables at the reporting date that were not impaired was as follows:

	2018 £m	2017[1] £m
Not past due	**36.8**	38.2
Past due 0 to 59 days	**2.8**	2.5
Past due 60 days	**0.3**	0.9
Past due 90 days	**0.2**	0.6
Past due 120+ days	**0.6**	0.2
	40.7	42.4
Provision for impairment	**(1.2)**	(0.4)
Net trade receivables	**39.5**	42.0

1. The reported comparatives have been restated to reflect the change in the Group's treatment of rebate accrual as set out in note 1a of the consolidated financial statements.

The Group believes that the unimpaired amounts that are past due are collectible, based on historic payment behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings, when available.

Amounts in the above table include all trade receivables at the reporting date that were not impaired and are stated net of trade discounts offered to customers.

Receivables are written off against the impairment provision when management considers the debt is no longer recoverable.

Cash and cash equivalents

The Group held cash of £4.2m at 31 December 2018 (2017: £5.6m), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated A to AA – based on rating agency ratings.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, both under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. It has access to a number of sources of finance to manage its liquidity risk.

The following are the contractual maturities of financial liabilities excluding the impact of netting agreements.

31 December 2018	Carrying amount £m	Within 1 year £m	1-2 years £m	2-5 years £m
Non-derivative financial liabilities:				
Secured bank facilities	**15.8**	**15.8**	**—**	**—**
Bank term loan	**20.0**	**—**	**—**	**20.0**
Finance leases	**0.6**	**0.2**	**0.1**	**0.3**
Trade payables	**26.7**	**26.7**	**—**	**—**
	63.1	**42.7**	**0.1**	**20.3**

31 December 2017	Carrying amount £m	Within 1 year £m	1-2 years £m	2-5 years £m
Non-derivative financial liabilities:				
Secured bank facilities	22.0	22.0	—	—
Bank term loan	20.0	20.0	—	—
Shareholder loan notes	0.3	0.3	—	—
Finance leases	0.5	0.1	0.2	0.2
Trade payables	39.0	39.0	—	—
	81.8	81.4	0.2	0.2

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group adopts a policy of monitoring its exposure to changes in interest rates on borrowings to ensure that likely changes do not constitute a material risk to the profitability of the Group.

At the year ended 31 December 2018, the Group did not have any interest rate swaps. Interest rate risk is not currently considered to be material given relative stable monetary policies in the jurisdictions in which the Group borrows and the Group's reduced indebtedness.

For the year ended 31 December 2018, a change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

19 Financial instruments continued

Interest rate risk continued

Fair value sensitivity analysis for variable rate instruments is shown in the table below:

	Profit or loss	
	100 bps increase £m	100 bps decrease £m
31 December 2018		
Variable rate instruments	**(0.4)**	**0.4**
Cash flow sensitivity (net)	**(0.4)**	**0.4**
31 December 2017		
Variable rate instruments	(0.4)	0.4
Cash flow sensitivity (net)	(0.4)	0.4

The Group has revised its Capital structure policy during the year. It aims to ensure net debt remains in a range of 1.0 to 2.0 times Adjusted EBITDA. This includes ensuring net debt remains in a range of 1.0 to 2.0 times Adjusted EBITDA.

Currency risk

The Group is exposed to currency risk on the following transactions:

- Sales and purchases by a Group company in a currency other than its functional currency
- Flows arising from the servicing of the Group's debt under foreign currency

The Group is also exposed to fluctuations in exchange rates in the translation of net assets and profits earned by its subsidiaries overseas. These profits are translated at average exchange rates for the year, which is an approximation to the rates at the date of the transaction.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currency at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The table below shows the extent to which the Group had monetary assets and liabilities denominated in currencies other than the local currency of the company in which they are recorded:

	2018			2017		
	RMB £m	**USD £m**	**EUR £m**	RMB £m	USD £m	EUR £m
Trade receivables	**0.9**	**12.2**	**2.2**	0.9	16.8	1.6
Bank facilities	**1.0**	**(3.3)**	**0.8**	—	—	—
Trade payables	**(9.2)**	**(2.9)**	**(0.5)**	(18.4)	(3.3)	(0.5)
Net statement of financial position exposure	**(7.3)**	**6.0**	**2.5**	(17.5)	13.5	1.1

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2018	2017	**2018**	2017
USD	**1.33**	1.28	**1.27**	1.35
EUR	**1.13**	1.17	**1.11**	1.13
RMB	**8.84**	8.74	**8.75**	8.80

Sensitivity analysis

A strengthening/(weakening) of Sterling, as indicated below, against the US Dollar and RMB at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This quantifies the impact of a change in value of assets and liabilities denominated in a currency other than the functional currency of that business unit. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for 2017, as indicated below.

	Equity £m	Profit/(loss) £m
31 December 2018		
GBP strengthens against the USD by 10%	**(0.3)**	**(1.6)**
GBP strengthens against the RMB by 10%	**(1.5)**	**4.2**
31 December 2017		
GBP strengthens against the USD by 10%	(1.1)	(3.2)
GBP strengthens against the RMB by 10%	(0.3)	3.9

A weakening of Sterling against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Accounting classifications and fair values

Fair values versus carrying amounts

The following assets and liabilities' carrying values meet the definition of financial instruments and are classified according to the following categories:

	2018 £m	2017 £m
Assets carried at amortised cost:		
Trade receivables[1]	**39.5**	42.0
Cash and cash equivalents	**4.2**	5.6
Financial assets held for trading	**0.5**	0.2
Financial assets	**44.2**	47.8
Liabilities carried at amortised cost:		
Secured bank loans	**15.8**	22.0
Bank term loan	**20.0**	20.0
Shareholder loan notes	**0.6**	0.3
Finance leases	**0.6**	0.5
Trade payables[1]	**26.7**	39.0
Financial liabilities	**63.7**	81.8

1. The reported comparatives have been restated to reflect the change in the Group's treatment of rebate accrual, as set out in note 1a of the consolidated financial statements.

The fair values of financial assets and liabilities are considered to be the same as the carrying amounts for the Group.

For trade and other receivables/payables with a remaining life of less than one year, the carrying amount is deemed to reflect the fair value. For cash and cash equivalents, the amount reported on the Consolidated Balance Sheet approximates to fair value. For borrowing at floating rates, the carrying value is deemed to reflect the fair value as it is considered to represent the price of the instrument in the marketplace. For borrowing at fixed rates, the fair values are considered to be the same as the carrying amount reported on the Consolidated Balance Sheet due to the frequent updating of these funding facilities in a competitive market.

The table below analyses financial instruments into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

19 Financial instruments continued

Accounting classifications and fair values continued

Fair values versus carrying amounts continued

The only Level 2 instruments for 2018 are financial assets held for trading which relate to forward exchange contracts. The fair value (asset)/liability is shown below:

	2018 £m	2017 £m
Financial assets held for trading	**(0.5)**	(0.2)

At 31 December 2018 undrawn facilities were £14.2m (2017: £8.0m)

20 Capital Management

The Group's primary capital resources comprise share capital, bilateral bank facilities, invoice financing facilities and operating cash flow.

The core debt requirements of the Group are met via a £30m revolving credit facility and £20m invoicing financing facility. Day-to-day working capital requirements are funded primarily by the revolving credit facility.

The Board's policy is to maintain a strong capital base to maintain market confidence and sustain the development of the business, whilst maximising the return on capital to the Group's shareholders. The Group's strategy will be to maintain facilities appropriate to the working requirements of the Group, to grow organically and through acquisition and service its debt requirements through cash flow generation.

The Group has set the following capital structure policies:

- Maintain a Net Debt : Adjusted EBITDA ("Leverage Ratio") within a target range of 1.0 to 2.0 : 1, averaging 1.5 across each economic cycle.
- Maintain Adjusted EBITDA : Net Finance Expense ("Interest Cover Ratio") of at least 4.0 : 1
- Apply a progressive dividend policy, with a payout rate of 20%-30% of Adjusted Profit After Tax.
- Provided it is in compliance with its Leverage Ratio, Interest Cover Ratio and dividend policies, the Company will reinvest cash generated by the business in organic and acquisitive growth opportunities that it believes will generate long-term shareholder value. If insufficient opportunities are available to reinvest cash in this way, the Company will seek ways to return surplus cash to shareholders in order to maintain its Leverage Ratio policy.

The Adjusted EBITDA to Net Debt ratio is calculated in accordance with the Group's loan agreements, as follows:

	2018 £m	2017 £m
Adjusted Operating Profit	**8.5**	14.7
Adjusted depreciation	**5.1**	3.2
Adjusted amortisation	**1.4**	1.2
Add back: US losses	**1.5**	—
Adjusted EBITDA excluding US losses	**16.5**	19.1
Net Debt (see note 15)	**32.2**	37.2
Net Debt : Adjusted EBITDA	**2.0**	1.9

The Adjusted EBITDA to Net Finance Expense ratio is calculated as follows:

	2018 £m	2017 £m
Adjusted Operating Profit	**8.5**	14.7
Adjusted depreciation	**5.1**	3.2
Adjusted amortisation	**1.4**	1.2
Add back: US losses	**1.5**	—
Adjusted EBITDA excluding US losses	**16.5**	19.1
Adjusted Net Finance Expense (see note 1)	**2.2**	1.9
Adjusted EBITDA : Adjusted Net Finance Expense	**7.5**	10.1

The Company's covenants and headroom are summarised as follows:

2018 Year End Covenant	Covenant	2018 Actual	Headroom
Net Debt : Adjusted EBITDA	2.95 : 1	2.0	Debt Headroom: £16.5m
			Adjusted EBITDA Headroom: £5.6m
Adjusted EBITDA : Adjusted Net Finance Expense	4.00 : 1	7.5	Adjusted EBITDA Headroom: £7.7m
			Net Finance Expense Headroom: £1.9m

The key measures which management use to evaluate the Group's use of its financial resources and capital management are set out below:

	2018	2017
Adjusted Earnings Per Share (pence)	**2.9**	6.5
Net Debt : Adjusted EBITDA (times)	**2.0**	1.9
Free Cash Flow (£m)	**5.4**	5.3

21 Commitments

Operating lease commitments – Group

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings		Other	
	2018 £m	2017 £m	2018 £m	2017 £m
Less than one year	**0.8**	0.5	**0.1**	0.1
Within two and five years	**1.4**	1.1	**0.1**	0.1
In more than five years	**0.3**	—	**—**	—
	2.5	1.6	**0.2**	0.2

The majority of the leases which the Group has entered into relate to land and buildings.

22 Share-based payments

During the year the Group introduced a number of share option schemes for certain employees of the Group. The share-based payments charge relates to option awards from the Long-Term Incentive Plan ("LTIP"), the Company Share Option Plan ("CSOP") and the Share Incentive Plan ("SIP").

The vesting period ranges from one to three years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee voluntarily leaves the Group before the options vest.

The Group recorded a share-based payment charge of £0.1m (2017: £0.3m) included in the Consolidated Income Statement within administrative expenses, which is attributable to the 2018 LTIP nominal cost options.

Share Incentive Plan ("SIP")

All UK-based employees are eligible to participate in the SIP. The scheme enables employees to buy shares in the Group out of their salary, before tax deductions, up to a limit of £1,800 per tax year. The shares acquired are called partnership shares and are held in trust by the Group on behalf of the employee. The Trust is managed by a third party and the number of shares held at the year ended 31 December 2018 amounted to 402,454 (31 December 2017: 117,256).

22 Share-based payments continued

Share Incentive Plan ("SIP") continued

For every partnership share bought by the employee, the Group can award:

a) Matching shares. One share at nil cost

b) Free shares. Up to two shares at nil cost, the number depending on service, subject to a maximum of £3,600 free shares per tax year

For the SIP conditions to be met, the employees must be continuously employed by the Group for a period of at least three years from the date of the award grant. If employees voluntarily leave the Group within the three-year period they must take their shares out of the plan and they will not be entitled to the matching and free shares.

	Number of free shares		Number of partnership and matching shares	
	2018	2017	**2018**	2017
Outstanding at 1 January	**72,962**	—	**44,294**	—
Granted during the year	**—**	72,962	**310,640**	44,294
Forfeited during the year	**(3,374)**	—	**(6,926)**	—
Released during the year	**(2,384)**	—	**(12,758)**	—
Outstanding at 31 December	**67,204**	72,962	**335,250**	44,294

For the purposes of IFRS 2 the fair value of these matching shares and free shares is determined as the market value of the shares at the date of grant. No valuation model is required to calculate the fair value of awards under the SIP. The fair value of an equity-based payment under the SIP is the face value of the award on the date of grant because the participants are entitled to receive the full value of the shares and there are no market-based performance conditions attached to the awards.

The Group recognised a total expense of £0.2m (2017: £0.2m) in the year relating to matching and free share awards.

Company Share Option Plan ("CSOP")

At the time the free shares were awarded, all eligible employees of the Group were also granted CSOP options. The CSOP options had an exercise price equal to the market value of the share at the date of grant. The ordinary free shares award is subject to condition that it will be automatically exercised at the time the CSOP option is exercised. The options can only be exercisable after the performance period determined by the Board, being three years. CSOP Options will normally be exercisable from release until the tenth anniversary of the grant date.

Long-Term Incentive Plan ("LTIP")

Awards have been granted to the Chief Executive Officer and the Chief Financial Officer and other key management personnel within the Group, under the Luceco 2017 Performance Share Plan ("PSP"), which was approved by shareholders at the Company's AGM held on 25 May 2017.

The following awards have been granted in the form of nominal cost options over the number of ordinary shares of 0.05p in the Company under the terms of the PSP, as set out on page 62 within the 2017 Annual Report:

Executive Directors	Role	Number of shares awarded
John Hornby	Chief Executive Officer	145,331
Matt Webb	Chief Financial Officer	1,127,270
Former Directors		
David Main[1]	Chief Financial Officer	72,665

1. David Main stepped down as Chief Financial Officer on 19 February 2018 and left the business on 31 March 2018. Further details are included in the Remuneration Report on pages 60 to 69.

The awards made to the Chief Executive Officer and the former Chief Financial Officer, in 2017, have a linked tax qualifying option over 12,457 shares at an exercise price of 240.8 pence. The awards made to the current Chief Financial Officer in 2018 have a linked tax qualifying option over 72,904 shares at an exercise price of 45.15 pence. On exercise, the number of shares under the nominal cost option will be reduced proportionally to take account of the exercise of the tax qualifying option such that the individual will not receive a greater number of shares than is subject to the nominal cost option.

Measurement of fair values

The 2018 LTIP awards will vest subject to the satisfaction of performance conditions measuring the Company's earnings per share ("EPS") and total shareholder return ("TSR") performance. The extent to which awards will vest will depend on the extent to which the performance conditions are satisfied over the performance period. For the EPS condition, this runs from 1 January 2018 to 31 December 2021. For the TSR condition, this runs for three years from the date of grant. No consideration was paid for any of the awards.

As the options under the 2018 award include a TSR performance condition, given the increased uncertainty around potential vesting, they have been valued using the Monte Carlo model with the following assumptions:

Directors' and employee share options LTIP award 2018	2018	2017
Three-day average share price before options were issued (pence)[1]	**37.70 – 41.15**	238.5
Fair value of share options	**8.9p**	151.7p
Average expected volatility	**33%**	34%
Expected life	**3 years**	3 years
Risk free rate	**0.83%**	0.08%

1. Three sets of LTIP awards were made during 2018 and the three day average share prices for each award were in the range 37.70p to 41.15p.

The share-based payments charge of £0.1m (2017: £0.3m) included in the Consolidated Income Statement within administrative expenses is attributable to the LTIP nominal cost options.

In usual circumstances, expected volatility would be based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term. As there was insufficient share price data after the Group's IPO in October 2016 to be able to evaluate the Group's expected volatility, we have used comparison company share prices to determine the volatility. The expected term of the instruments has been based on historical experience and general option holder behaviour.

A summary of the number and weighted-average exercise prices of share options under the share option programmes were as follows:

	2018		2017	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding at 1 January	**517,142**	**0.05p**	—	—
Granted during the year	**3,525,050**	**0.05p**	517,142	0.05p
Surrendered during the year	**(431,415)**	**0.05p**	—	—
Lapsed during the year	**(66,849)**	**0.05p**	—	—
Outstanding at 31 December	**3,543,928**	**0.05p**	517,142	0.05p

As at 31 December 2018, a total of 3,543,928 options were outstanding which had an average exercise price of 0.05p, and a weighted average remaining contractual life to vesting of 9.5 years.

During the year 151,816 tax qualifying share options were granted to employees (2017: 211,769) at an average price of 39.5p (2017: 240.8p)

During the year the fair value of options granted was £0.3m (2017: £0.8m)

The Group has previously purchased its own shares on the basis that they will be used to fulfil the LTIP and the number of share options granted when they come to be exercised. The purchased shares are held in a Trust which is managed by a third party. At 31 December 2018 the Trust had 454,000 shares held at a cost of £1.2m (31 December 2017: 454,000 shares at cost of £1.2m). These shares are held within the Treasury Reserve and are shown in the Consolidated Statement of Changes in Equity.

Notes to the consolidated financial statements continued
for the year ended 31 December 2018

23 Share capital

	Allotted, called up and fully paid		Number of shares in issue (thousands)	
	2018 £	2017 £	**2018 Number**	2017 Number
At 1 January	**80,400**	80,400	**160,800**	160,800
At 31 December	**80,400**	80,400	**160,800**	160,800

Aside from the shares held in Treasury, each ordinary share carries one vote, participates equally with the other ordinary shares in distribution of dividends and capital (including on a winding up) and is not redeemable.

A description of the nature and purpose of each reserve is given below:

- The share premium represent the excess of share value paid for shares.
- The treasury reserve represents shares held to satisfy the Group's share options schemes.
- The translation reserve represents the impact of translating non-monetary assets and liabilities at the current balance sheet data as opposed to the historical rate.

24 Related parties

Key personnel include executive and non-executive Board members and the senior management team.

The Group has a related party relationship with its subsidiaries and its Directors. Transactions between Group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed below. In addition the remuneration of the Directors, and the details of their interests in the share capital of the Company are provided in the audited part of the remuneration report.

At 1 January 2018, £0.3m was owed under shareholder loan notes to John Hornby, CEO. The full amount was settled during the year and no interest was either accrued or paid to John Hornby during the period.

During the year a loan of £0.2m (31 December 2017: £nil) was made to Lorentz Jiang, General Manager of the Group's Chinese manufacturing facility. The loan is due within one year and no interest was either accrued or paid during the year.

During the period, EPIC Private Equity LLP provided due diligence services in relation to the acquisition of Kingfisher Lighting of £0.1m (2017: nil).

Transactions with key personnel

Key management personnel is defined as executive and non-executive directors and the senior management team. The compensation of key management personnel is as follows:

	2018 £m	2017 £m
Remuneration (including benefits in kind)	**1.5**	1.0
Element of share-based payments expense	**0.1**	0.1
	1.6	1.1

The aggregate remuneration paid or receivable by executive and non-executive directors and the value of contributions to money purchase pension schemes in respect of qualifying services are disclosed on page 61. No gains were exercised on share options made on the exercise of share options by executive or non-executive directors in respect of 2018 (2017: nil).

The amount of money paid to or receivable by executive and non-executive directors under long-term incentive schemes in respect of qualifying services was nil (2017: nil).

Defined contribution pension scheme retirement benefits are accruing to one Director at the year end (2017: one).

25 Ultimate Parent Company, controlling party and changes in significant accounting policies

There is no controlling party.

Financial assets

IAS 39 classifies financial assets into classes according to their nature i.e. loans and receivables, held to maturity or available for sale. IFRS 9, by contrast, classifies assets according to the business model for their realisation, as determined by the expected contractual cashflows. This classification determines the accounting treatment, and the new classification under IFRS 9 is by reference to the accounting treatment i.e. amortised cost, fair value through other comprehensive income or fair value through profit and loss.

Impairment of financial assets

IAS 39 adopts an incurred loss approach for measuring impairment while IFRS 9 adopts an expected credit loss approach (ECL). The IAS 39 incurred loss approach relied on a credit event occurring (an actual loss or a debt past a number of days due) before an impairment could be recognised. The IFRS 9 approach does not require a credit event to occur but is based on changes in expectations of credit losses. IFRS 9 also requires that impairment of financial assets be shown as a separate line item in either the statement of comprehensive income or the income statement. Under IAS 39 the Group recorded the impairment of its financial assets (trade and other receivables) within operating expenses.

Financial liabilities

IFRS 9 largely retains the classification requirements of IAS 39 so there are no material differences. The following table summarises the differences between IFRS 9 and IAS 39, as applied to these financial statements.

	IFRS 9 Classification	IAS 39 Classification	IFRS 9 Carrying Value £m	Remeasurement £m	IAS 39 Carrying Value £m
Financial assets					
Trade and other receivables	Amoritised cost	Loans and recievables	41.3	(0.5)	41.8
Cash and cash equivalents	Amoritised cost	Loans and recievables	4.2	—	4.2
Financial assets held for trading	Fair value through profit and loss	Fair value through profit and loss	0.5	—	0.5
Financial liabilities					
Loans and borrowings	Amoritised cost	Amoritised cost	35.8	—	35.8
Trade and other payables	Amoritised cost	Amoritised cost	43.6	—	43.6

Within trade receivables, the loss allowance at 31 December 2017 was nil. The movement in the balance under transistion to IFRS 9 is as follows:

	2018 £m
At 1 January	**—**
Opening IFRS 9 Transition Adjustment	**0.5**
Amounts written off in the year	**(0.1)**
Charge in the year	**—**
At 31 January	**0.4**

Company Balance Sheet

at 31 December 2018

	Note	2018 £m	2017 £m
Non-current assets			
Investments	27	**0.5**	0.4
Current assets			
Debtors	28	**29.2**	24.2
Net assets		**29.7**	24.6
Capital and reserves			
Called up share capital	29	**0.1**	0.1
Share premium account		**24.8**	24.8
Treasury reserve		**(1.2)**	(1.2)
Profit and loss account		**6.0**	0.9
Equity		**29.7**	24.6

The accompanying notes on pages 128 to 130 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 9 April 2019 and were signed on its behalf by:

JOHN HORNBY
Chief Executive Officer

MATT WEBB
Chief Financial Officer

Company registered number: 05254883

Company Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital £m	Share premium £m	Retained earnings £m	Treasury reserve £m	Total equity £m
Balance at 1 January 2017	0.1	24.8	(2.6)	—	22.3
Total comprehensive income					
Profit for the year	—	—	5.0	—	5.0
Total comprehensive income for the year	—	—	5.0	—	5.0
Transactions with owners in their capacity as owners:					
Distribution paid[1]	—	—	(1.8)	—	(1.8)
Purchase of own shares	—	—	—	(1.2)	(1.2)
Share-based payments charge	—	—	0.3	—	0.3
Total transactions with owners in their capacity as owners	—	—	(1.5)	(1.2)	(2.7)
Balance at 31 December 2017	0.1	24.8	0.9	(1.2)	24.6
Total comprehensive income					
Profit for the year	**—**	**—**	**5.0**	**—**	**5.0**
Total comprehensive income for the year	**—**	**—**	**5.0**	**—**	**5.0**
Transactions with owners in their capacity as owners:					
Share-based payments charge	**—**	**—**	**0.1**	**—**	**0.1**
Total transactions with owners in their capacity as owners	**—**	**—**	**0.1**	**—**	**0.1**
Balance at 31 December 2018	**0.1**	**24.8**	**6.0**	**(1.2)**	**29.7**

1. The amount paid included a £0.5m distribution retrospectively approved by shareholders in General Meeting on 1 March 2019.

The accompanying notes on pages 128 to 130 form an integral part of these financial statements.

Notes to the Company Financial Statements
for the year ended 31 December 2018

26 Accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Basis of preparation
These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014.
The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is Sterling. All amounts in the financial statements have been rounded to the nearest £0.1m. The financial statements are prepared on the historical cost basis.

Under s408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account. The Company did not trade during the year.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to the end of the period
- Cash flow statement and related notes
- Key management personnel compensation

As the consolidated financial statements of the Company include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 102 in its next financial statements.

Going concern
As highlighted in note 1 to the consolidated financial statements, the Group meets its day-to-day working capital requirements through its cash reserves and a number of funding facilities.

The Group's forecasts and projections, show that the Group should be able to operate within the level of funding available.

After making enquiries, the Board has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Share-based payments transactions
Incentives in the form of shares are provided to employees through the Company's Share Incentive Plan ("SIP") and Long-Term Incentive Plan ("LTIP") schemes. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

The grant date fair value of an equity-settled payment under the SIP is measured as the face value of the award on the date of grant.

The grant date fair value of the awards under the Group's LTIP is measured by the use of the Monte Carlo simulation for any market related performance conditions (given the increased uncertainty around the potential vesting of share options).

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Charges made to the income statement in respect of share-based payments are credited to reserves.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market-based vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The Company fulfils exercised options with treasury shares the Company has purchased. The proceeds received net of any directly attributable transaction costs are credited to Treasury shares (nominal value) and share premium.

The Group operates an employee share benefit trust as part of its incentive plans for UK-based employees. All assets and liabilities of the trust are recorded in the balance sheet as assets and liabilities of the Company until such time as the assets are awarded to the beneficiaries. All income and expenditure of the trust is similarly brought into the results of the Company.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements, with the corresponding credit being recognised directly to equity.

Basic financial instruments

Trade and other debtors/creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Investments

These are the separate financial statements of the Company. Investments in subsidiaries are carried at cost less impairment.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a reduction from equity, net of any tax effects.

27 Fixed asset investments

Nexus Intermediate Holdings Limited is the only company which is owned directly. All other companies are owned and controlled by virtue of the Company's holding in Nexus Intermediate Holdings Limited.

	2018 £m	2017 £m
Balance at 1 January	**0.4**	0.1
Share-based payment charge relating to subsidiaries	**0.1**	0.3
Balance at 31 December	**0.5**	0.4

The Company holds 100% of the share capital of the following companies, whose principal activities were as follows:

Company	Registered office	Principal activity	% of shares held
Nexus Intermediate Holdings Limited	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Intermediate holding company	100
Nexus Industries Limited	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Electrical accessories importer and distributor	100
BG Electrical Limited	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Electrical accessories importer and distributor	100
Luceco Electrical (Jiaxing) Limited	1,438 Jiachung Road Xiuzhou Industrial Park Jiaxing, Zhejiang 314000, China	Manufacturing company	100
Masterplug International Trading (Shanghai) Co Limited	Room 101D, 1st Floor Market Business Building No. 2001 North Yangao Road Waigaoqiao Free Trade Zone, Shanghai, China	Dormant	100
Masterplug Limited	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Dormant	100
BG Electrical Holdings Limited	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Dormant	100

Notes to the Company Financial Statements continued

for the year ended 31 December 2018

27 Fixed asset investments continued

Company	Registered office	Principal activity	% of shares held
Masterplug Holdings Limited	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Dormant	100
Nexus Industries (Hong Kong) Limited	Unit D, 15th Floor MG Tower 133 Hoi Bun Road, Kwun Tong, Hong Kong	Sales office	100
Luceco Inc	Batallon de San Patricio 109 Sur, Col. Valle Oriente San Pedro Garza Garcia, Mexico	Administrative and development office	100
Luceco SAS	3 Rue de Courtalin, 77700 Magny Le Hongre, France	Administrative and development office	100
Nexus Industries GmbH	Holstenplatz 20b, 22765 Hamburg, Germany	Administrative and development office	100
Luceco Lighting Limited	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Dormant	100
Luceco Mexico	Batallon de San Patricio 109 Sur, Col. Valle Oriente San Pedro Garza Garcia, Mexico	Administrative and development office	100
BG Electrical SDN	No. 2 Jalan SS 24/17, 47301 Petaling Jaya, Selangor, Malaysia	Administrative and development office	100
Nexus Industries PTE Limited	3,791 Jalan Bukit Merah #09-25 (E-center@redhill), Singapore, 159471	Administrative and development office	100
Nexus Industries Design Limited	1,438 Jiachung Road, Xiuzhou Industrial Park Jiaxing, Zhejiang 314000, China	Administrative and development office	100
Luceco Southern Europe SL	CL Bobinadora 1-5, Local 7, 08302 Mataro Barcelona, Spain	Administration and development office	100
Luceco Middle East FLE	Building 5EB, Office 342, DAFZA PO Box 371128, Dubai	Administration and development office	100
Kingfisher Lighting Limited	Luceco Distribution Centre Stafford Park 1, Telford TF3 3BD, UK	Electrical accessories importer and distributor	100

28 Debtors

	2018 £m	2017 £m
Amounts owed by Group undertakings	**29.2**	24.2

Amounts owed by the Group's subsidiaries are repayable on demand and are non-interest bearing.

29 Capital and reserves

	Allotted, called up and fully paid		Number of shares in issue (thousands)	
	2018 £	2017 £	**2018 Number**	2017 Number
At 1 January	**80,400**	80,400	**160,800**	160,800
At 31 December	**80,400**	80,400	**160,800**	160,800

Each ordinary share carries one vote, participates equally with the other ordinary shares in distribution of dividends and capital (including on a winding up) and is not redeemable.

30 Ultimate parent and controlling party

There is no controlling party.

Company Information

Financial calendar

Annual General Meeting	24 May 2019
Half-year end	30 June 2019
Half-year interim management statement	September 2019
Year end	31 December 2019
Full-year preliminary statement	April 2020

Share price history

The following table sets out the reported high, low, average and financial year end (31 December or immediately preceding business day) closing middle market quotations of Luceco's ordinary shares on the London Stock Exchange for the period 1 January 2018 to 31 December 2018.

Share price (pence)	High	Low	Average	Financial year end[1]
2018	120.0	33.6	57.2	**34.5**
2017	267.5	111.0	217.9	**111.0**

1. Last trading day at the London Stock Exchange, 29 December 2018.

Shareholder queries

Shareholders who change address, lose their share certificates, wish to amalgamate multiple shareholdings or have payments paid directly into their bank account, or otherwise have a query or require information relating to their shareholding should contact the Company's registrar.

This can be done by writing to **Link Asset Services, The Registry, 34 Beckenham Road, Beckenham BR3 4TU**. Alternatively, shareholders can contact **Link Asset Services on +44 (0)871 664 0300** (calls cost 12p per minute plus network extras; lines are open 9.00am to 5.30pm Monday to Friday), or on **+44 (0)371 644 0300** if calling from overseas, or email their enquiry to **enquiries@linkgroup.co.uk**, indicating they are a Luceco shareholder.

Shareholders are also able to access and amend details of their shareholding, via the registrar's website at **www.signalshares.com**. If you have not previously registered to use this facility you will need your investor code, which can be found on your proxy card or on any share certificate issued by Link Asset Services.

You can access the service via the investor relations section of Luceco's website at **www.luceco.com**.

Online shareholder services

Luceco provides a number of services online in the investor relations section of its website at **www.luceco.com**, where shareholders and other interested parties may:

- View and/or download annual and half-year reports
- Check and/or download current or historic share prices
- Check the amounts and dates of historic payments to shareholders
- Use interactive tools to calculate the value of shareholdings
- Chart Luceco ordinary share price changes against indices
- Register to receive email alerts regarding press releases, including regulatory news announcements, annual reports and Company presentations

Company Information continued

ShareGift

Luceco supports ShareGift, the share donation charity (registered charity number 1052686). ShareGift was set up so that shareholders who have only a very small number of shares which might be considered uneconomic to sell are able to dispose of them by donating them for the benefit of UK charities. Donated shares are aggregated and sold by ShareGift, the proceeds being passed on to a wide range of UK charities. Donating shares to charity gives rise neither to a gain nor a loss for UK capital gains purposes and UK taxpayers may also be able to claim income tax relief on the value of the donation.

Further information about donating shares to ShareGift is available either from its website at **www.sharegift.org**, by writing to **ShareGift** at **17 Carlton House Terrace, London SW1Y 5AH** or by contacting them on **+44 (0)20 7930 3737**.

Even if the share certificate has been lost or destroyed, the gift can be completed. The service is generally free, however, there may be an indemnity charge for a lost or destroyed share certificate where the value of the shares exceeds £100.

Unsolicited mail

The Company is obliged by law to make its share register publicly available should a request be received. As a consequence, shareholders may receive unsolicited mail from organisations that use it as a mailing list. Shareholders wishing to limit the amount of such mail should either write to **Mailing Preference Service, DMA House, 70 Margaret Street, London W1W 8SS**, register online at **www.mpsonline.org.uk** or call the Mailing Preference Service ("MPS") on **+44 (0)845 703 4599**. MPS is an independent organisation which offers a free service to the public.

Warning to shareholders – boiler room scams

Each year in the UK, £1.2bn is lost to investment fraud, with the average victim losing around £20,000. What is more, it is estimated that only 10% of the people that become victims of investment fraud actually report it.

Investment scams are becoming ever more sophisticated – designed to look like genuine investments, they are increasingly difficult to spot. They are targeted at those most at risk, typically people in retirement who are actively seeking an investment opportunity.

Protect yourself

1. **Reject cold calls**

   If you have been cold called with an offer to buy or sell shares, it is likely to be a high-risk investment or scam. You should treat the call with extreme caution. The safest thing to do is hang up.

   If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should get the name of the person and organisation contacting you and take these steps before handing over any money.

2. **Check the firm on the Financial Services Register at www.fca.org.uk/register**

   The Financial Services Register is a public record of all the firms and individuals in the financial services industry that are regulated by the FCA.

   Use the details on the Financial Services Register to contact the firm.

3. **Get impartial advice**

   Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

   REMEMBER, if it sounds too good to be true, it probably is!

   If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme if things go wrong.

Report a scam

If you suspect you have been approached by fraudsters please tell the FCA using the share fraud reporting form at **www.fca.org.uk/scams**, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on **+44 (0)800 111 6768**.

If you have lost money to investment fraud, you should report it to Action Fraud on **+44 (0)300 123 2040** or online at **www.actionfraud.police.uk**.

Find out more at **www.fca.org.uk/scamsmart**.

Advisers

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Luceco plc
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Stafford Park
Telford TF3 3BD
www.luceco.com
info@luceco.com

Independent auditor
KPMG LLP
Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

Financial adviser and broker
Numis Securities
The London Stock Exchange
Building
10 Paternoster Square
London EC4M 7LT

Principal bankers
HSBC Bank plc
8 Canada Square
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Registrars
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Investor relations
MHP Communications
6 Agar Street
London WC2N 4HN

Cautionary statement

This Annual Report and Financial Statements has been prepared for the shareholders of Luceco plc, as a body, and no other persons. Its purpose is to assist shareholders of the Company to assess the strategies adopted by the Group, the potential for those strategies to succeed and for no other purpose. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

This Annual Report and Financial Statements contains certain forward-looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

No assurances can be given that the forward-looking statements in this Strategic Report will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation of this Strategic Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report and Financial Statements should be constituted as a profit forecast.

Strategic and Directors' Reports

The Strategic Report and the Corporate Governance and Financial Statements form a Directors' Report. Both the Directors' Report and Strategic Report have been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with those reports shall be subject to the limitations and restrictions provided by such law. In particular, the Directors would be liable to the Company (but not to any third party) if the Strategic Report and/or Directors' Report contain errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

The Strategic Report forms part of the Annual Report and Financial Statements, full copies of which can be obtained free of charge from the Group's website at **www.luceco.com/investors** or from the Company's registered office.

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