

Luceco plc
(“Luceco” or the “Group” or the “Company”)

2018 FULL YEAR RESULTS - A sound platform for future profitable growth

Luceco plc, a manufacturer and distributor of high quality and innovative LED lighting products, wiring accessories and portable power products, today announces its audited results for the year ended 31 December 2018 (“FY 2018” or “the period”).

Year ended 31 December (£m)	Reported results				Adjusted ¹ results			
	2018	2017	Change (%)	Change at constant FX rate ²	2018	2017	Change (%)	Change at constant FX rate ²
Revenue	163.9	167.6	(2.2)%	(0.4)%	163.9	167.6	(2.2)%	(0.4)%
Gross Margin %	30.3%	28.9%	140bps		30.9%	28.9%	200bps	220bps
Operating Profit	4.9	14.2	(65.5)%		8.5	14.7	(42.2)%	(34.0)%
Operating Margin %	3.0%	8.5%	(550)bps		5.2%	8.8%	(360)bps	(300)bps
Profit Before Tax	3.0	12.3	(75.6)%		6.3	12.8	(50.8)%	
Profit After Tax	1.5	10.0	(85.0)%		4.6	10.5	(56.2)%	
Basic Earnings Per Share	0.9p	6.2p	(85.5)%		2.9p	6.5p	(55.4)%	
Net Debt	32.2	37.2	(13.4)%					
Net Debt : EBITDA ¹	2.0	1.9	5.3%					
Free cash flow	5.4	5.3	1.9%					
Dividend per share	0.6p	0.8p	(25.0)%					

1. The definitions of the adjustments made to the statutory figures can be found in note 1 to these financial statements.

2. 2018 translated at 2017 average exchange rates. These were 1.28 for £: US dollar and 8.74 for £: RMB. Further details can be found in note 10 to these financial statements.

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 share³

Commenting on the results, Chief Executive Officer, John Hornby said:

“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 for 2019 comfortably ahead of current market expectations.”

3. Shareholders will be asked to approve the dividend at the AGM on 24 May 2019, for payment on 31 May 2019 to shareholders whose names are on the register on 3 May 2019. The shares will be marked ex-dividend on 2 May 2019.

Luceco plc
John Hornby, Chief Executive Officer
Matt Webb, Chief Financial Officer

via MHP Communications
020 3128 8100

MHP Communications
Tim Rowntree
Ollie Hoare
Guy Featherstone

020 3128 8100

Business summary

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.

The Group supplies trade distributors, retailers, wholesalers and project developers with a wide range of products which broadly fall into the following market recognised brands:

- Luceco and Kingfisher Lighting: energy efficient LED lighting products and associated accessories;
- British General (“BG”): wiring accessories (including switches, sockets), circuit protection and cable management products;
- Masterplug: cable reels, extension leads, surge protection, timers and adaptor products; and
- Ross: television wall mounts, audio visual accessories and other items.

The Luceco and Kingfisher LED lighting brands continue to benefit from the disruptive shift away from mature lighting technologies because of the material advancement in LED technology in recent years. The brand has continued to successfully leverage the Group's existing customer base and low-cost Chinese manufacturing facility.

In the electrical wiring accessories market, Luceco's BG and Masterplug brands have continued to reinforce their market leading positions through further new product development initiatives, expanding into new product adjacencies and gaining market share.

CHAIRMAN'S STATEMENT

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 52,500m² 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.

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

CHIEF EXECUTIVE OFFICER'S REVIEW

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.

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.

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.

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 for 2019 comfortably ahead of current market expectations.

JOHN HORNBY

Chief Executive Officer

9 April 2019

FINANCIAL REVIEW

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. 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

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 Annual Report and Accounts 2018).

	2018 Actual £m	Currency impact		2018 at constant currency £m	Constant currency variance to 2017		2017 Actual £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.

2. The methodology used to segment the businesses has changed. Further details are in note 1a.

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.

2. The methodology used to segment the businesses has changed. Further details are in note 1a.

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.

2. The methodology used to segment the businesses has changed. Further details are in note 1a.

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.

2. The methodology used to segment the businesses has changed. Further details are in note 1a.

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 Finance 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.

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

	2018	2017
	£m	£m
Free cash flow		
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.

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.

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 Group's Annual Report and Accounts 2018.

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.

MATT WEBB

Chief Financial Officer

9 April 2019

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. The Group's risk management process is set out below.

The principal risks identified and actions taken to minimise their potential impact are below. 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 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 with 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.

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.	Increase sales to professionals, particularly LED.
	The Group has an IT strategy and a disaster recovery plan in place to protect its operations.	Increase sales to international customers and improve profitability.
	The Chinese factory comprises separate buildings, reducing disruption.	Maximise manufacturing efficiency and effectiveness.
	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.	

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.	Operational sites are regularly asked to assess the quality of their IT security with action plans produced to address any weaknesses. The Group has an IT strategy and security policy and a disaster recovery plan in place to protect its operations.	Maintain best practice corporate governance.

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.	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.	Increase sales to professionals, particularly LED. Increase sales to international customers and improve profitability.
Suppliers may not fulfil order requirements or products may be of poor quality, negatively impacting the Group's reputation, financial position and contractual commitments.	Continued international expansion will lessen reliance on any particular economy or customer.	
LED technology is constantly changing and customer demand rapidly evolving, giving risk of product obsolescence.	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.	
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.	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.	

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.	Senior executive remuneration packages are reviewed regularly by the Remuneration Committee.	Increase sales to professionals particularly LED.
Failure to identify skills required in the future and/or develop these skills would lead to competitive disadvantage.	SIP/LTIP schemes promote retention.	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.	Costs are tightly controlled and cash flow is monitored daily.	Seek targeted acquisitions.
Management are distracted.	Detailed integration plan and dedicated integration teams in place prior to acquisition.	Maximise return on capital.
	Regular communication on progress highlighting variations and remedial action taken.	Enter new product segments that are synergistic with our existing business.
	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.	

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.	Many of our products are essentials and have a 'defensive' quality against slow macroeconomic growth.	Increase sales to professionals, particularly LED.
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 economies and markets of all the Group's operations are reviewed regularly by the Board with mitigating action taken.	Increase sales to international customers and improve profitability.
The Group's third-party supply chain in China may not meet the Group's ethical resourcing standards, compromising its reputation.	Continued international expansion will lessen reliance on any particular economy or customer.	Maintain best practice corporate governance.
	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.	

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.	The Group registers its designs with the design and patent office in the country of the market the product is sold in.	Maintain best practice corporate governance.
Infringement of third-party IP would limit the Group's product offering and ability to compete.	The Group participates in industry associations to ensure IP is respected.	
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.	The Group has long-standing relationships with many of its customers and works closely with them to meet their requirements.	
Loss of ISO Accreditation / Change in Product Standards.	The Board monitors the changing landscape of laws and regulations in the jurisdictions in which it operates.	
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.	The Board seeks appropriate advice before setting up operations in new territories and setting internal transfer prices.	
Innovative technologies (e.g. LED lighting) may have unforeseen public health implications.	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.	

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.	The Group has set a prudent Capital Structure Policy to accommodate this risk.	Increase sales to professionals, particularly LED.
Any weakening of Sterling relative to the RMB, or strengthening relative to the USD could adversely affect profit.	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.	Increase sales to international customers and improve profitability.
External or management reporting error may result in poor management decisions or misleading financial statements.	Currency fluctuations mitigated by hedging policy; pricing action is undertaken when appropriate.	Maintain best practice corporate governance.
Physical property may be stolen by an employee.	New finance leadership team has been recently recruited.	
Money may be stolen, for example through Treasury or Accounts Payable fraud.	Luceco Finance Manual was recently relaunched with associated compliance mechanisms strengthened. We continue to invest in finance systems.	

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement will be contained in the Annual Report and Accounts 2018.

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

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	2	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		-	0.3	0.3	0.1	-	0.1
Finance expense		(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	4	(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	5	2.9p	(2.0)p	0.9p	6.5p	(0.3)p	6.2p
Fully Diluted	5	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.

2. The allocation of operating costs between Distribution and Administrative expenses for 2017 has been restated - see note 1a.

The accompanying notes 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 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	7	21.5	23.5	20.6
Intangible assets	8	23.3	23.7	12.9
Deferred tax asset		-	-	0.2
		44.8	47.2	33.7
Current assets				
Inventories		32.8	44.2	35.4
Trade and other receivables		41.3	45.1	36.1
Financial assets held for trading		0.5	0.2	-
Cash and cash equivalents		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	9	15.8	42.3	21.6
Trade and other payables		43.6	57.2	39.0
Current tax liabilities		1.5	1.0	3.2
Other financial liabilities		0.2	0.1	0.6
		61.1	100.6	64.4
Non-current liabilities				
Other interest-bearing loans and borrowings	9	20.0	-	12.0
Other financial liabilities		0.4	0.4	0.1
Deferred tax liability		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		0.1	0.1	0.1
Share premium		24.8	24.8	24.8
Translation reserve		1.4	1.3	1.4
Treasury reserve		(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 the reclassifications detailed in note 1a

The accompanying notes form an integral part of these financial statements.

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.

Consolidated Cash Flow Statement

for the year ended 31 December 2018

	Note	Adjusted £m	Adjust- ments ¹ £m	2018 £m	Adjusted £m	Adjust- ments 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		6.5	0.7	7.2	4.4	-	4.4
Financial derivatives		-	-	-	(0.7)	-	(0.7)
Financial income		-	(0.3)	(0.3)	(0.1)	-	(0.1)
Financial expense		2.2	-	2.2	2.0	-	2.0
Taxation	4	1.7	(0.2)	1.5	2.3	-	2.3
Impairment provisions for credit losses		(0.5)	-	(0.5)	-	-	-
Share-based payments charge		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	7	(3.2)	-	(3.2)	(7.2)	-	(7.2)
Acquisition of subsidiary		-	-	-	(9.7)	-	(9.7)
Acquisition of other intangible assets	8	(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		0.1	-	0.1	0.3	-	0.3
Purchase of treasury shares		-	-	-	(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				4.2			5.6

1. The definitions of the adjustments made to the statutory figures can be found in note 1.

2. The reported comparatives have been restated to reflect the reclassifications detailed in note 1a.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018

1 Basis of preparation

Luceco plc (the 'Company') is a company incorporated and domiciled in the United Kingdom. These consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is primarily involved in the manufacturing and distributing of high quality and innovative LED lighting products and wiring accessories to global markets (see note 2).

The financial information is derived from the Group's consolidated financial statements for the year ended 31 December 2018, which have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared on the historical cost basis except for certain financial instruments which are carried at fair value.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2018 and 31 December 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies, and those for 2018 will be delivered in due course. The Auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the Auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The text of the Auditors' report can be found in the Company's full Annual Report and Accounts 2018.

Copies of the Annual Report and Accounts 2018 and the Notice of the 2019 Annual General Meeting are available to view on the Company's website at <http://www.luceco.com/investors>. They have also been submitted to the National Storage Mechanism and will shortly be available for inspection at <http://www.morningstar.co.uk/uk/NSM>

The Group's accounting policies can be referred to in note 1 of the consolidated financial statements in the Annual Report and Accounts 2018

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.

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. The measures allow a more effective 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, other exceptional items and other specific items in the Consolidated Income Statement which, in the Director's 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 (APMs) 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 definitions of the measures used in this results announcement can be found in note 1 of the consolidated financial statements in the Annual Report and Accounts 2018. The definition of EBITDA used in the net debt : EBITDA measure on the Highlights page is shown in note 20 of the consolidated financial statements in the Annual Report and Accounts 2018.

The adjustments made are summarised in the tables 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)	-
Finance expense	(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

	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 expense	(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

1. Costs of closing US operations comprising inventory provision (£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.

Standards and interpretations issued

At the date of the approval of these financial statements, the following Standards and Interpretations, which have not yet been applied in these financial statements, were in issue, but 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 on the financial statements of the Group.

Impact on future periods of the adoption of new standards and interpretations

IFRS 16 – 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. This involves calculating the right-of-use asset and lease liability based upon the present value of remaining lease contracts at the transition date.

Management has estimated these measures and the Group expects to recognise right-of-use assets of approximately £2.0m on 1 January 2019 and 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 the 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 operating leases were included in EBITDA, but the amortisation of the right-of-use assets and the 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. The Group's net debt to EBITDA ratio will increase by 0.1 if the additional lease debt is recognised within the net debt definition.

Critical accounting judgements and estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these financial statements, the significant judgements and estimates made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2018 as shown in the Group's Annual Report and Accounts 2018.

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 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 finance 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 consolidated balance sheet and consolidated 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 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

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 business was changed during the period and the comparatives have been restated using this new methodology, as summarised below:

	Year ended 31 December 2017		
	As previously reported	Reclassification	As restated
	£m	£m	£m
Revenue			
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		
	As previously reported	Reclassification	As restated
	£m	£m	£m
Operating Profit			
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	Adjustment £m	Reported 2018 £m	Adjusted 2017 £m	Adjustment £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)
Operating profit	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.

	2018				2017			
	Total	Closure of US business ¹	Restructuring costs ²	Amortisation of acquired intangibles and related costs ³	Total	Restructuring costs ²	Amortisation of acquired intangibles and related costs ³	
Analysis of adjustments	£m	£m	£m	£m	£m	£m	£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	-	-	-	-	-	-	-	
Total	(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.

	2018	2017
Revenue by location of customer	£m	£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

One customer represents more than 10% of revenue. This customer's revenue represents 26% of total revenue and is across all operating segments.

	2018	2017
Non-current assets by location	£m	£m
UK	28.0	31.3
China	16.7	15.5
Other	0.1	0.4
Total non-current assets	44.8	47.2

3 Expenses

Included in the Consolidated Income Statement are the following:

	2018	2017
	£m	£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

4 Taxation

	2018	2017
	£m	£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 expense/(credit)	(0.4)	0.6
Total tax expense	1.5	2.3

	2018	2017
	£m	£m
Reconciliation of effective tax rate		
Profit for the year	1.5	10.0
Total tax expense	1.5	2.3
Profit before tax	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

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.

5 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	2017
	£m	£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	2017
	Number million	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	2017
	Pence	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

6 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.

7 Property, plant and equipment

During the year, the Group purchased assets at a cost of £3.2m (2017: £5.9m). The majority of the expenditure related to plant and equipment and tooling at the manufacturing facility in China. Total depreciation for the year was £5.1m (2017: £3.2m). Assets with net book value of £0.2m (2017: £0.3m) were disposed of in the year for net proceeds of £0.2m (2017: £0.3m). Net book value at 31 December 2018 was £21.5m (31 December 2017: £23.5m)

The Group has not included any borrowing costs within additions in 2018 (2017: £nil). There were no funds specifically borrowed for the assets and the amount eligible as part of the general debt instruments pool (after applying the appropriate capitalisation rate) is not considered material.

For further information refer to note 9 of the consolidated financial statements in the Annual Report and Accounts 2018.

8 Intangible assets and goodwill

Development expenditure is capitalised and included in intangible assets when it meets the criteria laid out in IAS 38, "Intangible Assets". During the year, the Group incurred internally generated development costs of £1.7m (2017: £3.0m). 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. Amortisation totalled £2.1m (2017: £1.2m) with the increase arising from charges relating to customer relationship and tradename intangible assets acquired with Kingfisher Lighting. Net book value at 31 December 2018 was £23.3m (31 December 2017: £23.7m)

Goodwill is reviewed annually impairment. Further details on the review conducted at 31 December 2018 can be found in note 10 to the Group's Annual Report and Accounts 2018. No impairment charge was recorded in either 2018 or 2017.

9 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 in the Annual Report and Accounts 2018.

	2018	2017
	£m	£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

Bank loans and overdrafts are secured by a fixed and floating charge over the assets of the Group. Bank loans and overdrafts include funds advanced under invoice discounting arrangements from HSBC Finance (UK) Limited of £15.8m (2017: £22.0m), which are secured by legal charges over the Group's book debts.

10 Exchange rates

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

11 Related party transactions

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.

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 personnel include executive and non-executive Board members and the senior management team. The compensation of key management personnel, including executive directors, is as follows:

	2018	2017
	£m	£m
Remuneration (including benefits in kind)	1.2	0.8
Element of share-based payments expense	0.1	0.1
	1.3	0.9

Defined contribution pension scheme retirement benefits are accruing to one Director at the year end (2017: one).

12 Annual General Meeting

The 2019 AGM will take place 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.

13 Date of Approval of financial information

The preliminary financial information covers the year 1 January 2018 to 31 December 2018 and was approved by the Board on 9 April 2019. A copy of the Annual Report and Accounts 2018 can be accessed on the Luceco plc investor relations website, www.luceco.com.