LUCECO

ANNUAL REPORT AND FINANCIAL STATEMENTS 2017

Welcome to the Luceco plc Annual Report 2017

Luceco is a rapidly growing 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 a diversified customer base of trade distributors, retailers, wholesalers and project developers with a wide range of products which fall under the following brands:

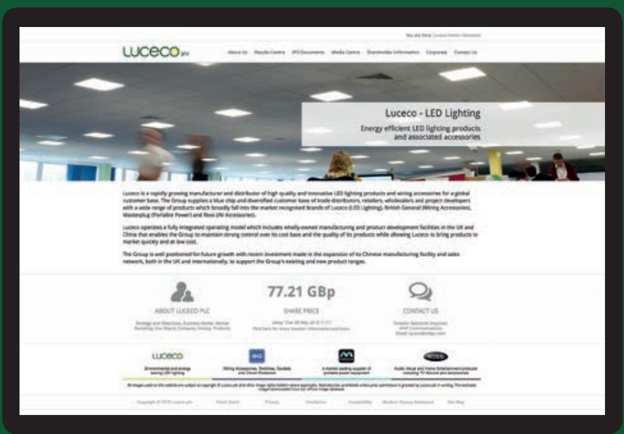
- Luceco and Kingfisher Lighting: energy efficient LED lighting products and associated accessories
- British General: wiring accessories (including switches, sockets), circuit protection and cable management products
- Masterplug: cable reels, extension leads, surge protection, timers and adaptor products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

The Luceco LED lighting brand continues to benefit from the disruptive shift away from mature lighting technologies in recent years. The Group is able to exploit this trend by bringing new products to market quickly via its own low-cost Chinese manufacturing facility. It sells these products to established customers in the UK and, increasingly, new customers abroad. The LED product range has been strengthened through the acquisition during the year of Kingfisher Lighting, which specialises in the design, installation and maintenance of exterior lighting systems.

The Group's British General and Masterplug brands continue to build on their leading positions in the UK wiring accessories market with the introduction of new value-adding products and their increasing use amongst trade professionals.

Luceco operates a fully integrated model, which includes wholly-owned manufacturing and product development facilities in the UK and China. This enables the Group to maintain tight control over its cost base and the quality of its products, while allowing new products to be brought to market quickly.

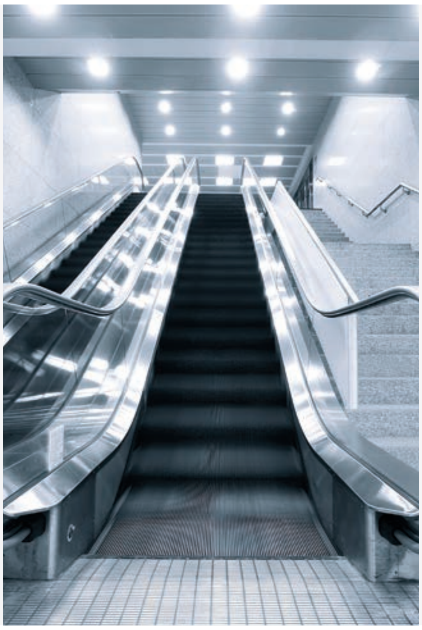
Visit us online at
www.lucecoplc.com



CONTENTS

STRATEGIC REPORT

PAGES 2 TO 40



CORPORATE GOVERNANCE

PAGES 41 TO 72

FINANCIAL STATEMENTS

PAGES 73 TO 125

HIGHLIGHTS

Luceco remains a compelling growth story despite a challenging year

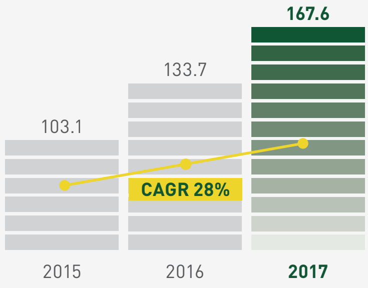
Good progress has been made in delivering the Group's long-term strategy:

- Broad-based revenue growth across all brands
- Particularly good revenue growth in adjacent, margin-enhancing markets:
    - UK trade distribution
    - UK project lighting
    - International markets
- First bolt-on acquisition successfully completed
- Expansion of the Group's wholly owned Chinese manufacturing facility
- Continued introduction of value-adding products

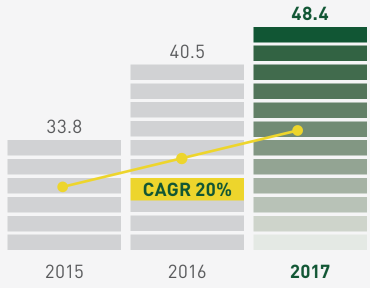
2017 was a challenging year despite the good progress made. The benefit of the strong revenue growth was partly offset by market-wide input cost increases, resulting in year-on-year profit growth but a shortfall in operating margin. As previously announced, gross margin weakened during the second half of the year and this was not identified sooner due to an incorrect assessment of the value of the Group's inventory. Resolution of this issue has also necessitated a restatement of the Group's prior years' results, see page 93 for further details.

Strategic Report
Corporate Governance
Financial Statements

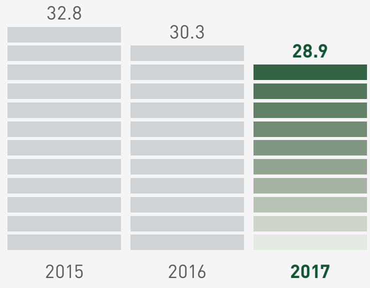
Revenue
(£m)



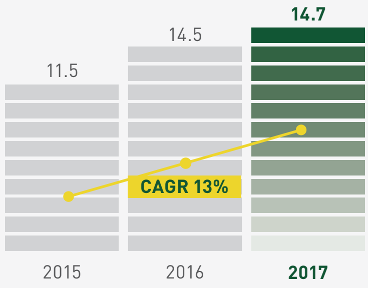
Gross profit
(£m)



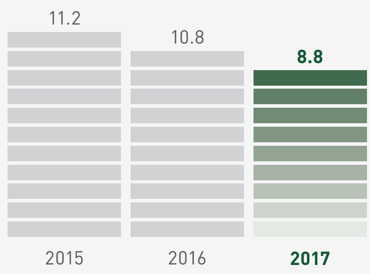
Gross margin
(%)



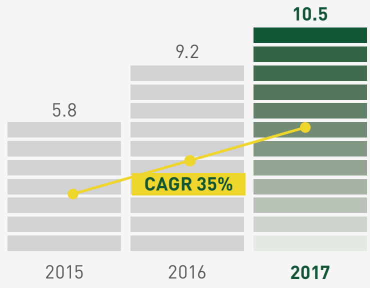
Adjusted[3] operating profit
(£m)



Adjusted[3] operating margin
(%)



Adjusted[3] profit for the year
(£m)



FINANCIAL HIGHLIGHTS

Statutory measures

- Group revenue increased by 25.4% to £167.6m (2016: £133.7m). 21.7% on a constant currency[1] basis
- Gross margin 28.9% (2016[2]: 30.3%)
- Operating profit increased by 19.3% to £14.2m (2016[2]: £11.9m)
- Profit for the year increased by 51.5% to £10.0m (2016[2]: £6.6m)
- Cash flow from operations increased from £2.6m to £17.2m
- Basic and fully diluted EPS increased by 34.8% to 6.2p per share (2016[2]: 4.6p per share)
- Net debt £36.7m (2016: £29.5m)

Alternative performance measures[3]

- Adjusted[3] operating profit of £14.7m (2016[2]: £14.5m)
- Adjusted[3] profit for the year increased by 14.1% to £10.5m (2016[2]: £9.2m)
- Adjusted[3] basic and fully diluted EPS 6.5p per share (2016[2]: 6.4p per share)

OPERATIONAL AND STRATEGIC HIGHLIGHTS

- Broad-based revenue growth across all product categories
- Continuing investment in higher margin sales opportunities in the UK
- Further investment in international sales presence
- Expansion of product ranges and a strong pipeline of new product launches
- Acquisition of Kingfisher Lighting enhances the Group's product offer and strategic position

1. 2017 translated at 2016 average exchange rates. These were 1.36 for £: US Dollar and 8.98 for £: RMB.
2. Prior year financials restated to correct errors found in previously reported inventory and inter-company balances – see page 93.
3. The definitions of the adjustments made to the statutory figures can be found in note 1 in the Notes to the Consolidated Financial Statements on page 85.

AT A GLANCE

Well established core brands and LED products provide significant growth opportunities

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

LED LIGHTING

Environmental and energy saving LED lighting, providing commercial and domestic lighting solutions

Primary growth drivers:
- Product energy efficiency
- Increased product lifetime leading to lower maintenance costs
- Product cost reductions
- Shorter payback periods on LED retrofit
- Supportive public policy and financial incentives

Revenue
£47.4m
(2016: £33.6m)

28% of Group
(2016: 25%)

Adjusted[1] operating profit
£2.3m
(2016[2]: £2.5m)

16% of Group
(2016[2]: 17%)

Find out more PAGES 30 AND 31

WIRING ACCESSORIES

A traditional wiring accessory brand, serving the professional electrical trade and specialists

Primary growth drivers:
- Product innovation and range extension, notable successes include USB sockets (including wifi extenders) and circuit protection units
- Growth in construction and house-building markets driving end-user demand

Revenue
£72.7m
(2016: £64.0m)

43% of Group
(2016: 48%)

Adjusted[1] operating profit
£10.3m
(2016[2]: £9.4m)

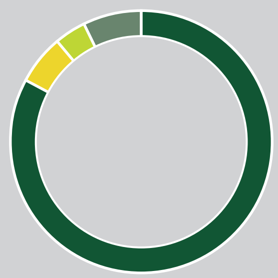
70% of Group
(2016[2]: 65%)

Find out more PAGES 32 AND 33

1. The definitions of the adjustments made to the statutory figures can be found in note 1 in the Notes to the Consolidated Financial Statements on page 85.
2. Prior year financials restated to correct errors found in previously reported inventory and inter-company balances – see page 93.

Head office in London with global offices in Telford, China, Houston, Mexico, Hamburg, Paris, Barcelona, Dubai, Hong Kong and Johannesburg offering sales and support to EMEA and Asia Pacific regions.

Group revenue by location (%)



- UK **83%** (2016: 86%)
- Europe **6%** (2016: 4%)
- Middle East **4%** (2016: 4%)
- Rest of world **7%** (2016: 6%)

Customers across **67** countries

Number of employees c.**2,150**

R&D[1] staff c.**85**

Number of product innovations 2017 **87**

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

PORTABLE POWER

masterplug

A market leading supplier of portable power equipment through DIY outlets and high street retailers

Primary growth drivers:
- Significant new business wins in the UK during second half of the year
- Internationalisation of the product range
- Leveraging pan-European customer relationships

Revenue
£41.6m
(2016: £31.1m)

25% of Group
(2016: 23%)

Adjusted[1] operating profit
£2.0m
(2016[2]: £2.2m)

14% of Group
(2016[2]:15%)

ROSS

A family of audio visual and home entertainment products designed to meet the needs of the discerning user

Primary growth drivers:
- Product innovation and efficiency
- Cost reduction
- Range expansion

Revenue
£5.9m
(2016: £5.0m)

4% of Group
(2016: 4%)

Adjusted[1] operating profit
£0.1m
(2016: £0.4m)

1% of Group
(2016[2]: 3%)

Find out more PAGES 34 AND 35

CHAIRMAN'S STATEMENT

We are successfully executing our growth and diversification strategy

Review of the year

- Strong revenue and profit growth
- Diversification strategy gaining traction
- Kingfisher Lighting acquisition
- Control issues identified and rectified
- CFO appointment strengthens the Board and finance function

2017 has been a challenging year for Luceco. We delivered strong revenue growth and made good progress in executing the Group's strategy. Despite this progress, we identified in the second half of 2017 that our inventory valuation, which was being incorrectly calculated, was masking underlying deterioration in our gross margins caused by currency movements and commodity price increases. A thorough review of the balance sheet in response to this event has revealed errors in the Group's historic financial information, necessitating a restatement. A more detailed explanation of these matters is included in the Executive Review on page 11. Against this corrected baseline, healthy revenue growth overcame margin erosion to leave adjusted operating profits broadly in line with the prior year.

It is was pleasing to report that revenues grew by 25.4% driven by excellent progress on a broad front: LED sales grew by 41.1%, UK revenue grew by 21.1% and international sales grew by 51.1%. Strong top-line growth reflects earlier steps taken by the management team to diversify the business away from a challenging UK retail environment and toward higher margin opportunities in the UK and overseas. We are undoubtedly better placed strategically because of these actions.

During the year we also completed our first acquisition and I am delighted to welcome Kingfisher Lighting to the Group. Kingfisher Lighting is led by a first-class management team and their hard-won reputation in the UK project lighting business will be a real asset to us in the future. I expect expansion and diversification into attractive new markets to continue, and therefore, I believe the Group's long-term growth prospects remain as attractive as ever.

We have accelerated planned investment in the Group's finance function. Following the departure of David Main in February 2018, Matt Webb was appointed as Chief Financial Officer to strengthen the Board. Steps have already been taken to address the issues highlighted by the accounting restatements and I am confident we will see further rapid improvements under Matt's leadership.

Your Board is sorry that our performance has not met the high standards that we have set ourselves and I would like to thank our shareholders for their patience whilst we take the necessary steps now to build a better future for Luceco.

Outlook

The Board expects revenue to grow in 2018, despite a tough UK consumer market and adverse currency rates, as a result of the Group's diversification strategy. We have taken the necessary steps to improve our profit margins and the actions taken will deliver benefits progressively in 2018 and in full in 2019.

We command enviable positions in key markets underpinned by long-standing customer relationships. We are successfully executing our growth and diversification strategy. Our product pipeline is healthier than ever. We have modest net financial debt, a strong and long-standing banking relationship and a supportive lead shareholder. Lastly, and not least, we have an experienced management team and a committed workforce.

Dividend

The Board has taken the difficult decision not to propose a final dividend for the year ended 31 December 2017. The Group had paid an interim dividend during the year of 0.8p per share. The Board remains confident in the Group's strategy and will, therefore, revisit the dividend policy at the half year 2018.

People

Our team is our greatest asset. Nurturing the excellence of our colleagues is key to our success and we continue to invest in their learning and development. The delivery of our revenue growth despite tough trading conditions is a testament to the hard work of the entire Luceco team. I am extremely grateful for their enthusiasm and dedication. My thanks to them and to our shareholders for their ongoing support.

GILES BRAND
Chairman
30 April 2018

EXECUTIVE REVIEW

Strategically well placed for continued growth

We are confident in our long-term strategy to expand the Group's product ranges and geographic reach.

Operational highlights

- Revenue growth across all product categories
- Ongoing diversification of revenue streams into new market segments and new territories
- Acquisition of Kingfisher Lighting to further enhance the Group's product offering
- Successful new product launches and range expansion

Financial highlights

Statutory measures	2017 £m	2016[1] £m	Change
Revenue	**167.6**	133.7	25.4%
Gross profit	**48.4**	40.5	19.5%
Gross margin	**28.9%**	30.3%	(140bps)
Operating profit	**14.2**	11.9	19.3%
Operating margin	**8.5%**	8.9%	(40bps)
Profit for the year	**10.0**	6.6	51.5%
Basic EPS	**6.4**	4.6	39.1%

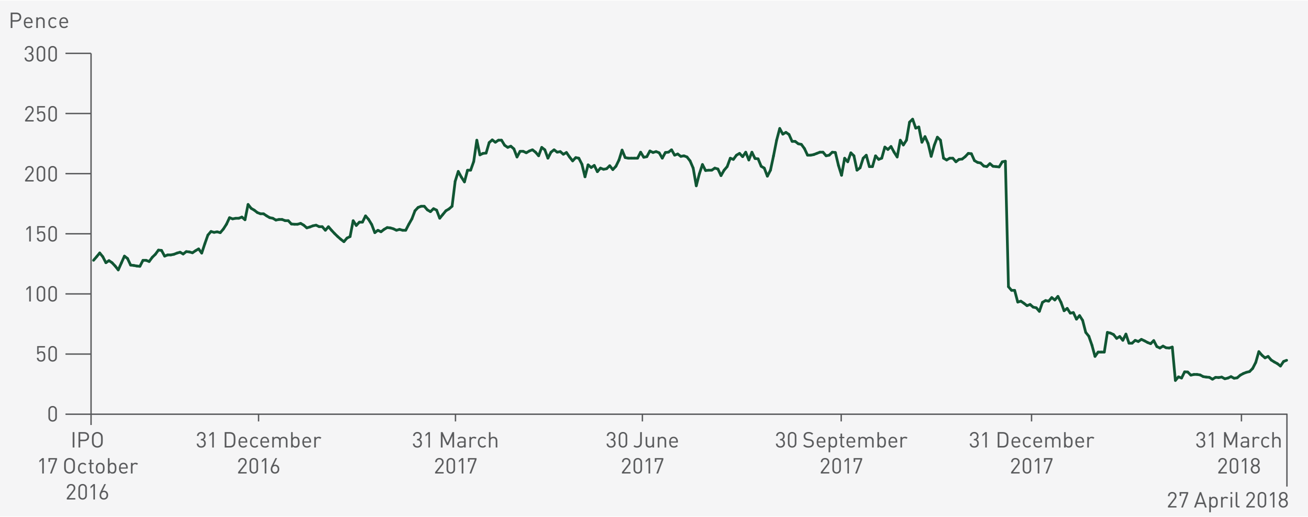
1. The reported comparatives have been restated to reflect a prior year adjustment, see note 1a in the Notes to the Consolidated Financial Statements on page 93.

Overview

Group revenue increased by 25.4% to £167.6m (2016: £133.7m) in the year and all product categories showed growth. International sales have increased by 51.1% to £28.7m (2016: £19.0m) whilst UK sales have increased by 21.1% to £138.9m (2016: £114.7m). Ongoing investment in expanded commercial teams, product range improvement and increased manufacturing capacity maintained the high growth rate we experienced for the last several years.

Gross margin in 2017 reduced from last year's 30.3% to 28.9%. The movement was principally due to higher input costs. Raw materials, such as copper, increased in cost significantly in the second half of 2017 at the same time as the Chinese Renminbi ("RMB") appreciated and the US Dollar weakened. These cost pressures will have been experienced by all market participants and hence does not affect our relative competitive position. We are therefore confident of being able to recoup our margins over time.

Share price



The decline in our profit margins due to higher input costs and currency movements was masked by these accounting errors which only came to light in the second half of the year. This did not allow us adequate time to take mitigating actions via increased market pricing and other activities which would have reduced the impact on our 2017 profit. However, we still managed to deliver profit growth compared to the prior year thanks to healthy revenue growth. Reported overheads increased by 19.6% to £34.2m (2016: £28.6m) primarily driven by investment in expanded commercial teams and distribution operations.

I am pleased to welcome Matt Webb as the Group's new Chief Financial Officer. Matt is an excellent new addition to the Board.

The last few months have clearly been a particularly challenging period for the Group but we have learned a number of lessons from this experience and are fully committed to building a stronger platform for future sustainable growth.

Strategy

Our long-term strategy remains unchanged from that set out in our 2016 Annual Report:

- Expansion of product range to deliver growth in revenue and profits
- Increase in market share in LED products
- Increase in UK market share of established core brands BG and Masterplug
- Develop international sales for all product offerings
- Targeted acquisitions
- Improve conversion of profit to cash

EXECUTIVE REVIEW CONTINUED

LED Lighting (Luceco and Kingfisher Lighting)

Our LED Lighting revenues grew to £47.4m (2016: £33.6m) reflecting the ongoing expansion of the Group's LED product ranges and investment in commercial teams. In September 2017, we announced the acquisition of Kingfisher Lighting, a long-established supplier of outdoor lighting solutions with commercial applications, which accounted for £4.1m of this revenue figure. Organic growth was 30.9%. Revenue at the UK Technical Lighting Projects division grew especially strongly as the Group focused more on technical lighting solutions for commercial environments and less on more commoditised segments, such as residential lamps.

We were pleased with Kingfisher Lighting's performance post acquisition in 2017 and believe the business has a strong future as part of the Group. Synergies are available to the Group from cross selling Kingfisher Lighting products with the Luceco sales team and vice-versa and from bringing some current third-party production in-house.

We believe that the higher technical requirement in commercial applications, both within the product itself, and in the selling process increases the barriers to entry and this together with the highly fragmented nature of the end market results in higher pricing power for successful market participants. It is fundamental to the Group's long-term strategy to diversify into such higher quality market segments serving commercial applications.

Wiring Accessories (British General)

Revenues grew to £72.7m (2016: £64.0m) due to range expansion, UK market growth and market share gains. We continued to add value to the category with an expanded range of wall sockets with built in USB charging capabilities, some with the added function of a WiFi signal repeater. We have a strong pipeline of product launches including smart Internet of Things ("IoT") enabled accessories and new ranges suitable for European markets which we believe will enable us to continue growing this category (until now our Wiring Accessories have only been suitable for British Standard markets).

Portable Power (Masterplug)

Revenues grew to £41.6m (2016: £31.1m) due to several significant customer wins in the UK and continued growth in international territories. However, the rapid increase in the cost of copper raw material in the second half of 2017 had a material impact on the margins of this product category as there is a time lag in passing higher input costs into the market.

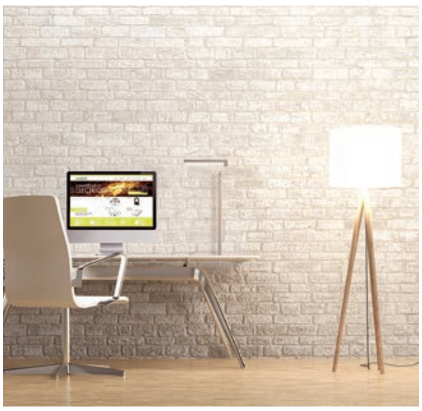
Our KPI's reflect the key strategic highlights during the year coupled with our strategy going forward, which can be seen in the Our Strategy section on page 22. We will continue to review and update our KPIs to reflect the needs of the Company and the dynamic markets in which we operate as the Group continues to grow.

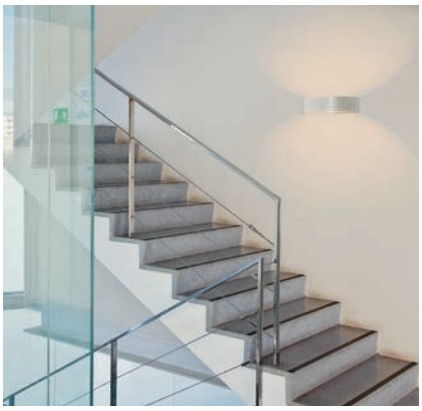
Outlook

2018 will be a year of improvement for our business. Although margins at the beginning of the new financial year were at a lower level than previously anticipated, our competitive position remains strong. We are therefore confident of stronger margins in the second half of 2018 once we have completed the adjustment of our selling prices.

Strong growth in many parts of our business and the annualising of Kingfisher Lighting revenues should be sufficient to offset a weak UK consumer environment (UK consumer-facing retail represents about 25% of Group total), so we are forecasting single-digit revenue growth compared to 25% year-on-year growth in 2017. This slower growth will enable better control of working capital and will result in higher cash conversion than in recent years where we delivered high growth.

We are confident in our strategy to expand the Group's product ranges and geographic reach and believe that our profits will benefit from this in due course.





Financial review
Overview

The commentary in the financial review uses alternative performance measures, and are identified by the prefix "adjusted", definitions of the measures used are included in note 1 on page 85.

Revenue by geography	2017 £m	2016 £m	Growth %
UK	**138.9**	114.7	21.1
Europe	**9.6**	5.9	62.7
Middle East	**6.8**	4.9	38.8
Rest of World:			
Americas	**6.4**	2.1	205.0
Asia Pacific	**3.9**	4.2	(7.1)
Africa	**2.0**	1.9	5.3
	167.6	133.7	25.4

Revenue has grown by 25.4% (constant currency 21.7%), with double digit growth across all operating geographies except Asia Pacific and Africa where operations are still being developed.

UK revenues have grown strongly, increasing 21.1% during the year to £138.9m (2016: £114.7m). This growth has been driven by significant new business wins, successful new product launches in both the Luceco and BG brand and the continuing expansion of the product range into existing customers.

International revenues have increased 51.1% to £28.7m (2016: £19.0m). New offices, which began trading in Hong Kong and Spain in 2016, have gained momentum during the year.

Reported gross margin for 2017 was 28.9% compared to 30.3% in 2016, a dilution of 140 bps. The decline has been largely due to increased commodity costs, and the adverse currency impact arising from the strengthening of the RMB versus the US Dollar, alongside the ongoing weakness in Sterling.

Adjusted overheads have increased by 29.6% to £33.7m (2016: £26.0m) and reflect the growth in sales and marketing costs in both the UK and overseas.

Adjusted operating profit was £14.7m (2016: £14.5m), giving an operating margin of 8.8% (2016: 10.8%). Operating profit on a constant currency basis is £15.5m generating a margin of 9.5%, highlighting the foreign currency headwind experienced by the Group in the year.

Impact of foreign exchange movements

A summary of the Consolidated Income Statement on a constant currency basis is included in the table below. Current year balances have been translated at last year's average exchange rates and demonstrate the impact of the volatility in exchange rates during 2017.

Alternative performance measures[1]	As reported[2] £m	Constant currency[3] £m	Variance £m
Revenue	167.6	162.7	4.9
Cost of sales	(119.2)	(115.0)	(4.2)
Gross profit	48.4	47.7	0.7
Gross margin	28.9%	29.3%	(40 bps)
Adjusted[1] operating costs	(33.7)	(32.2)	(1.5)
Adjusted[1] operating profit	14.7	15.5	(0.8)

1. The definitions of the alternative performance measures can be found in note 1 in the Notes to the Consolidated Financial Statements on page 85.
2. 2017 translated at average exchange rates for the period. These were 1.28 for £: US Dollar and 8.74 for £: RMB.
3. 2017 translated at 2016 average exchange rates. These were 1.36 for £: US Dollar and 8.98 for £: RMB.

Sterling was on average weaker against both US Dollar and RMB in 2017 compared to 2016. The average rate for the US Dollar against Sterling decreased from 1.36 in 2016 to 1.28 in 2017. Whilst this increased the Sterling value of the Group's US Dollar-denominated revenue, it also increased the Group's RMB-denominated costs by a greater amount, leaving adjusted operating profit £0.8m lower due to these currency movements. The currency movements had the greatest impact on the business in the second half of 2017. The Group has responded to this foreign exchange loss by expanding its currency hedging programme for 2018 to minimise currency risks in the future.

Prior year restatement

Following the identification of the issues announced in December 2017, the Group conducted a thorough review of its balance sheet and financial processes, completed by the Group's new Chief Financial Officer. The review identified two issues:

1. Inventory was incorrectly valued. Specifically, the amount of overhead absorbed into inventory in accordance with the Group's accounting policy was incorrectly calculated.
2. Inter-company balances were incorrectly reconciled, principally between the Group's manufacturing facility in China and its UK business.

Both issues have now been resolved.

The review revealed that both errors existed in the Group's previously published financial statements. Comparative financial information in this report has therefore been restated in accordance with IAS 8 to correct these errors. Further details on the prior year adjustments are given on page 93.

The error in the inventory valuation had a further consequence upon the Group's performance in 2017 in that it masked the impact that currency and commodity prices were having on gross margins. Although the rapid increase in commodity costs and the adverse movements in currency exchange rates were identified at the time, their impact on our profits were offset. Steps have been taken to offset these cost pressures and these will deliver progressively during 2018.

Both errors arose from a manual and complex process environment which has been impacted by the Group's recent rapid growth.

Processes have now been changed in response to these events. We have improved our inventory valuation methodology and strengthened the process for agreement of inter-company balances. We have also taken steps to mitigate the impact of future currency exchange rate movements. In short, we will progressively build a high-class finance function commensurate with the Group's long-term potential.

EXECUTIVE REVIEW CONTINUED

Operating segment review

LED Lighting (Luceco and Kingfisher Lighting)

	2017	2016[1]	Growth %
Revenue	**£47.4m**	£33.6m	41.1
Adjusted[2] operating profit	**£2.3m**	£2.5m	(8.0)
Adjusted[2] operating margin	**4.9%**	7.4%	(250) bps

The strong growth in LED Lighting follows the expansion of the product range, the decision to move more production in-house, thereby aiding competitive pricing and increasing investment in project sales teams focused on LED retrofits. LED Lighting also includes financials for the newly acquired business Kingfisher Lighting, which specialises in exterior LED lighting products. Kingfisher Lighting contributed revenue £4.1m and adjusted operating profit of £0.5m in the above financials.

Adjusted operating profit of LED Lighting has declined by 8% year-on-year and the adjusted operating margin has decreased by 250 basis points. These movements have been driven by foreign exchange movements and continued investment in overheads, most notably expansion of the product development and LED sales teams.

Wiring Accessories (British General)

	2017	2016[1]	Growth %
Revenue	**£72.7m**	£64.0m	13.6
Adjusted[2] operating profit	**£10.3m**	£9.4m	9.6
Adjusted[2] operating margin	**14.2%**	14.7%	(50) bps

Wiring Accessories saw good growth in the period due to general market share gains and ongoing product development, for example USB charging wall sockets and circuit protection consumer units, as well as range expansion in decorative finishes and a price increase in the second half of the year following currency and inflationary pressures.

Portable Power (Masterplug)

	2017	2016[1]	Growth %
Revenue	**£41.6m**	£31.1m	33.8
Adjusted[2] operating profit	**£2.0m**	£2.2m	(9.1)
Adjusted[2] operating margin	**4.8%**	7.1%	(230) bps

The increase in Portable Power revenue is as a result of the annualisation of the new business in the UK, Europe and USA generated in the second half of 2016. The Group has invested in expanding the cable reel product range to cover many international territories and has gained new international distribution partners for these new products.

The adjusted operating profit has decreased from £2.2m to £2.0m, a reduction in adjusted operating margin of 230 basis points, mainly due to an increase in the cost of raw materials, most notably copper.

Ross and other

	2017	2016[1]	Growth %
Revenue	**£5.9m**	£5.0m	18.0
Adjusted[2] operating profit	**£0.1m**	£0.4m	(75.0)
Adjusted[2] operating margin	**1.7%**	8.0%	(630) bps

Revenues mainly comprise TV brackets under the Group's Ross brand, which have increased as the Group re-engineered the product range to reduce product costs, thus enabling the Group to win some significant new retail contracts.

1. The reported comparatives have been restated to reflect a prior year adjustment, see note 1a in the Notes to the Consolidated Financial Statements on page 93.
2. The definitions of the adjustments made to the statutory figures can be found in note 1 in the Notes to the Consolidated Financial Statements on page 85.

Interest costs

Net finance expense at £1.9m (2016: £2.8m) is considerably lower than the prior year reflecting the favourable full year impact of the Group's refinancing following the IPO in October 2016.

Net debt increased to £36.7m (2016: £29.5m) largely as a result of the acquisition of Kingfisher Lighting for consideration of £9.7m.

Taxation

The amount of taxation payable for the year was £2.3m (2016: £2.5m) representing an effective tax rate of 18.7% (2016: 27.5%).

Balance sheet

Non-current assets

Non-current assets increased during the year by £13.5m to £47.2m (2016: £33.7m):

- Intangible assets increased by £10.8m: £8.9m arising on the Kingfisher Lighting acquisition, consisting of; customer relationships £4.1m, trade name £1.2m and goodwill £3.6m
- Property, plant and equipment net additions were £6.9m (2016: £6.0m) which includes investment to support improvements and expansion at the Group's manufacturing facility in China and reflects the fair value of assets acquired from Kingfisher Lighting

Working capital

The Group's working capital is managed by monitoring inventory levels, trade debtors and total creditors.

- Inventory was £44.2m (2016 restated: £35.4m), an increase of £8.8m from last year. Stock days have reduced to 135 days (2016 restated: 138 days). The Group continues to support future growth of geographical territories organically as well as holding sufficient inventories to fulfil the 2018 order book
- Trade receivables were £33.4m (2016: £26.5m) an increase of 26.0% which is slightly ahead of revenue growth and debtor days were broadly the same as the prior year at 63 (2016: 61) despite the continued overseas expansion and higher proportion of international customers
- Trade and other payables were £49.6m (2016: £35.4m). Trade payables increased by 34.0% and movement is reflected in the increase in creditor days which rose to 111 days (2016: 106). The Group continues to enjoy good relationships with its suppliers who remain supportive of its wider growth plans

Net working capital at £28.0m (2016 restated: £26.5m) was broadly comparable to the prior year. Working capital as a percentage of revenue for the year was 16.7% (2016: 19.3%). The acquisition of Kingfisher Lighting contributed £1.2m of working capital.

Cash flow

	Adjusted 2017 £m	Adjustments[1] £m	Reported 2017 £m	Adjusted 2016 £m	Adjustments[1] £m	Reported 2016 £m
EBITDA[2]	**19.1**	**(0.5)**	**18.6**	17.7	(2.6)	15.1
Operating cash flow	**20.5**	**(0.2)**	**20.3**	6.4	(2.5)	3.9
Tax paid	**(3.1)**	**—**	**(3.1)**	(1.3)	—	(1.3)
Financing inflows	**5.9**	**—**	**5.9**	4.2	—	4.2
Dividends paid	**(1.8)**	**—**	**(1.8)**	—	—	—
Capital expenditure net of disposals	**(10.0)**	**—**	**(10.0)**	(7.6)	—	(7.6)
Acquisition of subsidiary	**(9.7)**	**—**	**(9.7)**	—	—	—
Net cash in/(out)flow	**1.8**	**(0.2)**	**1.6**	1.7	(2.5)	(0.8)
Cash conversion[3]	**107.3%**	**—**	**109.1%**	36.2%	—	25.8%

1. The definitions of the adjustments made to the statutory figures can be found in note 1 in the Notes to the Consolidated Financial Statements on page 85.
2. EBITDA is the consolidated earnings before interest, tax, depreciation and amortisation.
3. Cash conversion is defined as operating cash flow divided by EBITDA.

Reduced working capital relative to revenue yield much improved operating cash conversion of 107.3% (2016 restated: 36.2%).

Dividend

The Board has taken the difficult decision not to propose a final dividend for the year ended 31 December 2017. The Group had paid an interim dividend during the year of 0.8p per share. The Board remains confident in the Group's strategy and will therefore revisit the dividend policy at the half year 2018.

Funding and covenants

The Group has committed borrowing facilities in place in the UK comprising a £20m revolving credit facility and a £30m UK invoice financing facility.

Net debt at 31 December 2017 stood at £36.7m, (2016: £29.5m), representing 1.92x adjusted EBITDA.

Going concern

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.

In early 2018, the Group successfully negotiated an extension in the maturity of its revolving credit facility to 30 June 2019 and the addition of a £3m overdraft from its relationship bank. It is also in the process of extending the invoicing financing facility provided by HSBC to Kingfisher Lighting and customers in Hong Kong. The Group remains and expects to remain in full compliance with its banking covenants. It therefore expects to continue to have adequate funding liquidity to support its growth goals. The Group's Viability Statement is found on page 27.

JOHN HORNBY
Chief Executive Officer

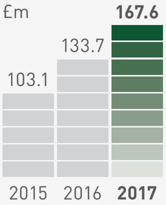
MATT WEBB
Chief Financial Officer

30 April 2018

KEY PERFORMANCE INDICATORS

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

Revenue



Link to strategy

- Total revenue is used to measure growth in operating segments and geographies and the success of the product range expansion

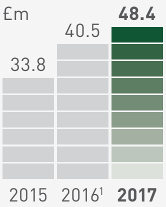
Definition

- Revenue from sales stated net of rebates and discounts

Link to remuneration

- Annual bonus and PSP are linked to growth
- Read more in the Remuneration Committee Report on pages 52 to 66

Gross profit



Link to strategy

- Gross profit measures the profitability of the growth and product range expansion in operating segments and geographies in value terms

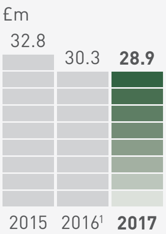
Definition

- 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 52 to 66

Gross margin



Link to strategy

- Gross margin measures the profitability of the growth and new products in operating segments and geographies as a percentage allowing ease of comparison

Definition

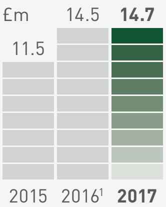
- Revenue from sales (net of rebates and discounts) less cost of goods sold, divided by revenue, expressed as a percentage

Link to remuneration

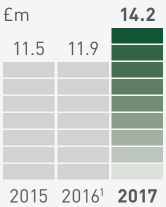
- Annual bonus and PSP are linked to growth
- Read more in the Remuneration Committee Report on pages 52 to 66

Operating profit (adjusted and reported)

Adjusted



Reported



Link to strategy

- Operating profit measures the profitability of the growth derived from segmental, geographic and product range expansion
- Adjusted operating profit excludes £2.6m of IPO costs in 2016 and £0.5m acquisition related costs in 2017

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 52 to 66

Expansion of product range to deliver growth in revenue and profits

Increase market share of established core brands (BG and Masterplug)

Targeted acquisitions

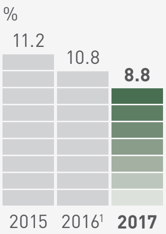
Increase market share in LED products (Luceco and Kingfisher Lighting)

Develop international sales for all product offerings

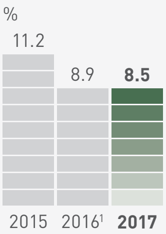
Improve conversion of profit to cash

Operating margin (adjusted and reported)

Adjusted



Reported



Link to strategy

- Operating margin measures the profitability, as a percentage, of the growth derived from segmental, geographic and product range expansion
- Adjusted operating margin excludes £2.6m of IPO costs in 2016 and £0.5m acquisition related costs in 2017

Definition

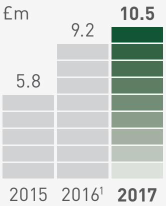
- Operating margin is calculated as operating profit divided by revenue, expressed as a percentage
- Adjusted operating margin excludes costs, that are not regarded as being part of the ongoing nature of the business, from operating profit to provide a better understanding of the underlying performance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

Link to remuneration

- Annual bonus and PSP are linked to growth
- Read more in the Remuneration Committee Report on pages 52 to 66

Profit for the year (adjusted and reported)

Adjusted



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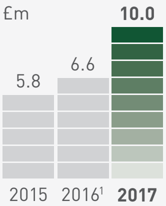


Link to strategy

- Profit after tax measures the impact of the combined strategic objectives on the whole of the business
- Adjusted profit after tax excludes £2.6m of IPO costs in 2016 and £0.5m acquisition related costs in 2017

Definition

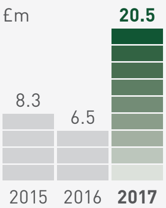
- Profit after tax is calculated as profit after charging all expenses, including interest and tax
- Adjusted profit after tax excludes costs, that are not regarded as being part of the ongoing nature of the business, from profit after tax to provide a better understanding of the underlying performance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

Link to remuneration

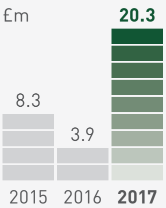
- Annual bonus and PSP are linked to growth
- Read more in the Remuneration Committee Report on pages 52 to 66

Free cash flow (adjusted and reported)

Adjusted



Reported



Link to strategy

- The determination of free cash flow measures performance of the conversion of profit to cash
- Adjusted free cash flow excludes £2.5m of IPO costs in 2016 and £0.2m acquisition related costs in 2017

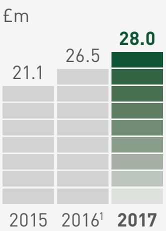
Definition

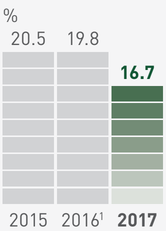
- Free cash flow is calculated as operating cash flow adjusted for cash flows in respect of investing activities, interest and taxes paid
- Adjusted free cash flow excludes exceptional cash costs to reflect the underlying performance of the business

Link to remuneration

- Annual bonus is linked to the generation of free cash flow
- Read more in the Remuneration Committee Report on pages 52 to 66

Working capital and working capital percentage of revenue





Link to strategy

- Working capital impacts the conversion of profit to cash, providing greater understanding of performance

Definition

- Working capital is the total of inventories and trade receivables less trade payables

Link to remuneration

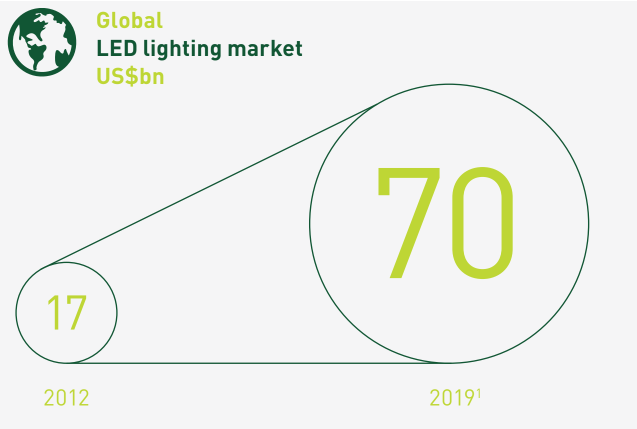
- Annual bonus is linked to the generation of free cash flow
- Read more in the Remuneration Committee Report on pages 52 to 66

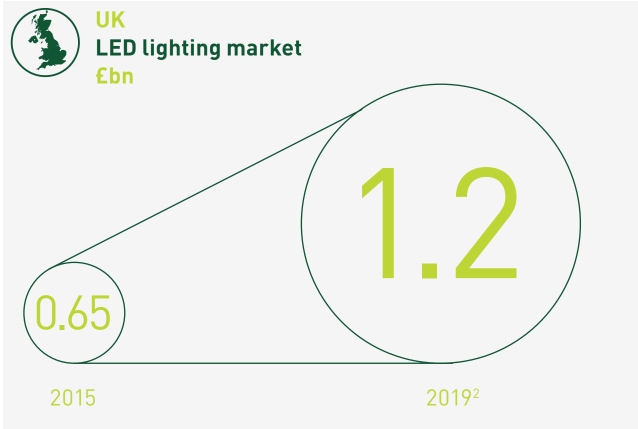
1. Prior year financials restated to correct errors found in previously reported inventory and inter-company balances – see page 93.

MARKET OPPORTUNITY

Technology evolution and legislative changes drive an expanding global market

The Group's strong Brands, new product development and innovation provides an opportunity for increasing market share.





While the European Union ("EU") economies experienced a difficult period in 2017, there have been significant differences in the performance of construction markets in different countries. The electrical wholesale market remain market leaders in the distribution of electrical products as the main source of supply for contractors and installers, with variable prospects up to 2019. In addition, each country has seen some restructuring and the sector has become much more concentrated in general, though there are still major differences between key countries.

The overall electrical wholesale market within the EU countries is estimated to be worth around €30-32bn according to AMA research. Germany represents the largest electrical wholesale market within the EU. In all countries, the 'national' players dominate the electrical wholesale market by value in 2017, typically with shares of over 65% for the top two or three players.

Demand from building, developing and general contracting largely determines revenue growth for the electrical equipment wholesaling industry. Additionally, demand for many of the industry's products depends on industrial production and electrical power consumption. As manufacturing increases, and those companies invest in equipment, they purchase industry goods to outfit their factories and as intermediary components. During the five years to 2022, the construction and housing market is expected to continue growing, albeit at a slower pace. This should maintain demand for electrical equipment products and boost industry revenue.

Overall, barriers to entry in many markets are considered to be low with a large number of players operating in the industry. From large nationals to smaller independent traders, the high number of enterprises indicate a fragmented market, which is characteristic of an industry with minimal entry barriers. In many countries, there are no licensing requirements, government regulations or resource constraints that are significant enough to prevent operators from entry. However, the costs of establishing distribution facilities, establishing relationships with suppliers, sourcing appropriately skilled labour and winning customers may (but generally do not) deter some operators from entering the market.

In the UK however, the mix between national, regional and local wholesalers has shifted in recent years. Larger nationals saturate the market with a 74% market share but as they have been seen to focus on national contracts in recent years opportunities for smaller independent groups has increased. With a mature and saturated market, new entrants to the market now find it difficult to gain a foothold and establish themselves alongside their competitors.

The growth of e-commerce, as customers start to adopt online methods of ordering, driven by the wider use of smart phones, the growth of online retailers, and more importantly the development of e-commerce within the large nationals as they commit to moving towards multi-channel sales, is likely to aid the national sector and remains an opportunity for growth as buyer behaviour shifts.

The USA electrical wholesale market size is estimated to be US$173bn and has seen an annual growth of 3.2% from 2012 to 2017, with a forecasted growth of marginally the same through the years 2017 to 2022. There are over 15,000 businesses within this market segment who operate within and outside the USA and there are no companies with a dominant market share in this industry.

While 2018 is likely to be a difficult period with all countries affected to some extent, medium-term prospects are generally relatively optimistic. Broadly, forecasts over the next few years in the electrical wholesaling market indicate modest recovery, reflecting a combination of increases in new housebuilding levels and a steady recovery in consumer spending feeding through into rising demand for electrical products in the medium term. New market opportunities are also emerging with the electrical sector adopting variable levels of involvement in renewable energy, home automation, while IT/communications also continue to attract significant investment. Conversely, external threats to the sector have grown with a switch to offsite manufacturing in some countries and a growing focus on modularity in areas such as wiring and circuit breakers for example.

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MARKET OPPORTUNITY CONTINUED

UK

Construction activity and lighting technology developments are fundamental drivers of growth in the lighting market. Industry revenue is expected to increase at a compound annual rate of 1.5% over the next five years to £2.1bn, fuelled by the growth in exports. The collapse of Carillion, the 6th largest FM and construction services business in the UK, saw a 4% fall in lending to the commercial property sector. Sub-contractors within the supply chain have been affected, however with other large construction firms taking over project completion and government contract commitments, investment in the market is expected to recover. However, the benefits to the industry were restricted because imports captured a greater share of the domestic market. Additionally, manufacturing activity remained relatively mild over the past five years and constrained industry expansion.

The manufacture of relatively new energy-efficient light sources, such as compact fluorescent lamps and LEDs, involves somewhat labour-intensive processes and large production runs. CFLs are the most readily available replacement for incandescent lamps. This means that manufacturers located in countries where labour costs are low dominate the global production of these products. The only lamp factory of significant size in Britain is now the Philips Lighting's site in Scotland, which makes both high-pressure and low-pressure sodium lamps. Philips has made significant job cuts and reduced capacity over the past five years.

The value of exports has increased over the past five years and aided industry growth. Players mainly sold high-value lighting fixtures in overseas markets. Reputation advantages held by UK manufacturers and strong demand for lighting products in emerging economies at the start of the period were primarily responsible for the growth in exports. However, the appreciation of Sterling during the first three years of the period and weak conditions in the eurozone constrained export growth. The sharp fall in the value of Sterling over the last two years has allowed exports to rise significantly in 2017.

Industry revenue is estimated to expand at a compound annual rate of 1.3% over the five years through to 2023 to reach £2.3bn, supported by rising exports and growth in construction activity. Manufacturing activity is also expected to increase and aid revenue growth. In addition, higher demand for energy-efficient and innovative lighting products, partly due to rising energy costs, as well as regulation and legislation changes, will support demand. However, consumer spending on lighting products is expected to remain constrained as many households endure spending pressures due to weak wage growth. In addition, import penetration is expected to increase, despite Sterling being projected to remain depressed, and limit industry expansion. Any major changes following the UK's exit from the European Union are likely to significantly affect industry performance over the next five years.

Germany

Germany has become the leading country in the European energy-efficiency lighting industry prior compared to other developed countries like the UK, France and Italy. The estimated turnover of LED lighting growth in Germany is predicted to increase by 27% in 2018. Four elements become the main market drivers for this large potential market: customers' demand for energy-efficiency products, falling prices in the lighting market, government regulatory phasing out of old low energy-efficiency solutions and advanced ongoing R&D of lighting technology.

France

France is committed alongside Australia, China, Germany, India, Indonesia, Korea, Mexico, South Africa, Russia, Sweden, the European Commission and the United States to reaching total sales of 10bn high-efficiency, high-quality lamps such as LEDs. France fully supports the Global Lighting Challenge and is carrying out numerous actions to speed up this transition towards more efficient lighting. These commitments improve the efficiency of lighting and lamps while addressing the imperatives of health, energy supply security and the issues of the circular economy. The French government supports an ambitious, effective European policy regarding eco-design and labelling of lighting products, through which the cost of LEDs is falling constantly, while innovation now makes it possible to find LED solutions for all applications.

USA

The USA LED lighting market has witnessed rapid growth over recent years driven by technological advancements. Consumer concern about heat emitted by traditional fluorescent lights has resulted in a shift to more energy saving resources thereby expanding the LED market. The market is dominated by a small number of manufacturers in the country and since the sector requires large amounts of capital this has generated a potential barrier to entry. The major competitors are Cree, Acuity brands, Copper Lighting, General Electric Company, Hubbell Incorporated, Philips and Osram. The market was forecast to grow at a CAGR of 13.8% from 2016 to 2021.

South America

Last year, the South America region consumption value of LED lamps, which are used in General Lighting, reached $181m; ElectroniCast forecasts that consumption value will reach $1.6bn in 2019 with strongly rising quantity growth partially offset by declining average prices. The South American economy is growing rapidly, with great efforts to build the infrastructure. The LED lighting markets in Brazil, Chile, Argentina, Colombia, Peru and Venezuela have maintained good growth. Brazil and Chile are characterised by high electricity prices, which has generated strong demand for energy saving products.

Middle East

The Gulf Cooperation Council ("GCC") is committed to reducing its carbon footprint and electricity demand through to 2025 with clearly established targets in place. One of the demand-side measures that can achieve this goal is to overhaul the lighting within buildings and at a city level, presenting robust market potential for LEDs in the region. Various measures are being implemented, like adopting global energy-efficiency standards, imposing additional import tariffs on (and even outright banning) general illumination lamps, and promoting LED lights. Facilitating this evolution is a steady fall in LED product prices and improving performance. The GCC LED lighting market is forecast grow at a compound annual growth rate of 16.8% between 2015 and 2020 to reach revenues of $2bn.

Worldwide

The global LED lighting market has been dominated in recent years by three developed economies: the USA, EU and Japan. The fundamental reason that these three developed economies represent more than 50% of the worldwide LED lighting market comes, for the most part, from the way that:

- LED industry pioneers with solid Intellectual Property portfolios are all situated in these three regions
- Higher GDP per capita helps awareness of ecological/ environmental issues earlier than in developing countries

The Asia Pacific is expected to be a major contributor to the growth of the market due to government initiatives and rapid urbanisation with China, Japan, South Korea and India, the principal growth markets for LED lights.

Electrical accessories

The market for the Group's non-LED products, within the electrical accessories market, is also exhibiting favourable growth. The UK electrical accessories market grew 1.4% CAGR between 2011 and 2017, from £636m to £682m. The market has been supported by product innovation, favourable growth in construction and housing markets and changes to public policy in the UK.

Changes to consumer behaviour and trends in the UK electrical market continues to drive product innovation, with the introduction of products such as USB sockets and smart sockets. Product development and innovation is meeting the fast-changing demands of homeowners and their increased reliance on smart technology as they strive to remain connected. Advances in this technology create an opportunity to differentiate, create a competitive advantage and are often supported by an increased price position.

Changes to regulations including the third amendment of BS 7671:2008 requirements for electrical installations and the upcoming 18th edition also provide ongoing market opportunities in the UK, driven by industry regulation change and the focus on improved electrical safety and testing.

The commercial construction sector in the UK has grown 3.7% CAGR between 2013 and 2015 and has driven end-user demand in the UK electrical accessories market in new builds and refurbishments. Over the same period, the UK housebuilding sector increased 15.1% CAGR, helping to support the end-user demand for electrical accessories for post-property acquisition refurbishments.

The electrical accessories market is divided into product segments consisting of sockets, switches, lighting accessories and circuit protection and devices, as well as other complementary products. The size of the UK wiring accessories market in 2017 was approximately £248m.

This growth strengthened from 2015 as construction sector growth accelerated across Europe and the UK. The key segments of the construction sector with significant electrical accessory market demand are private housing construction, public non-residential construction, commercial construction and repair and maintenance.

Three key areas of focus for businesses operating in the wiring accessories market are:

- Electrical safety
- Sustainable development
- Ease of installation

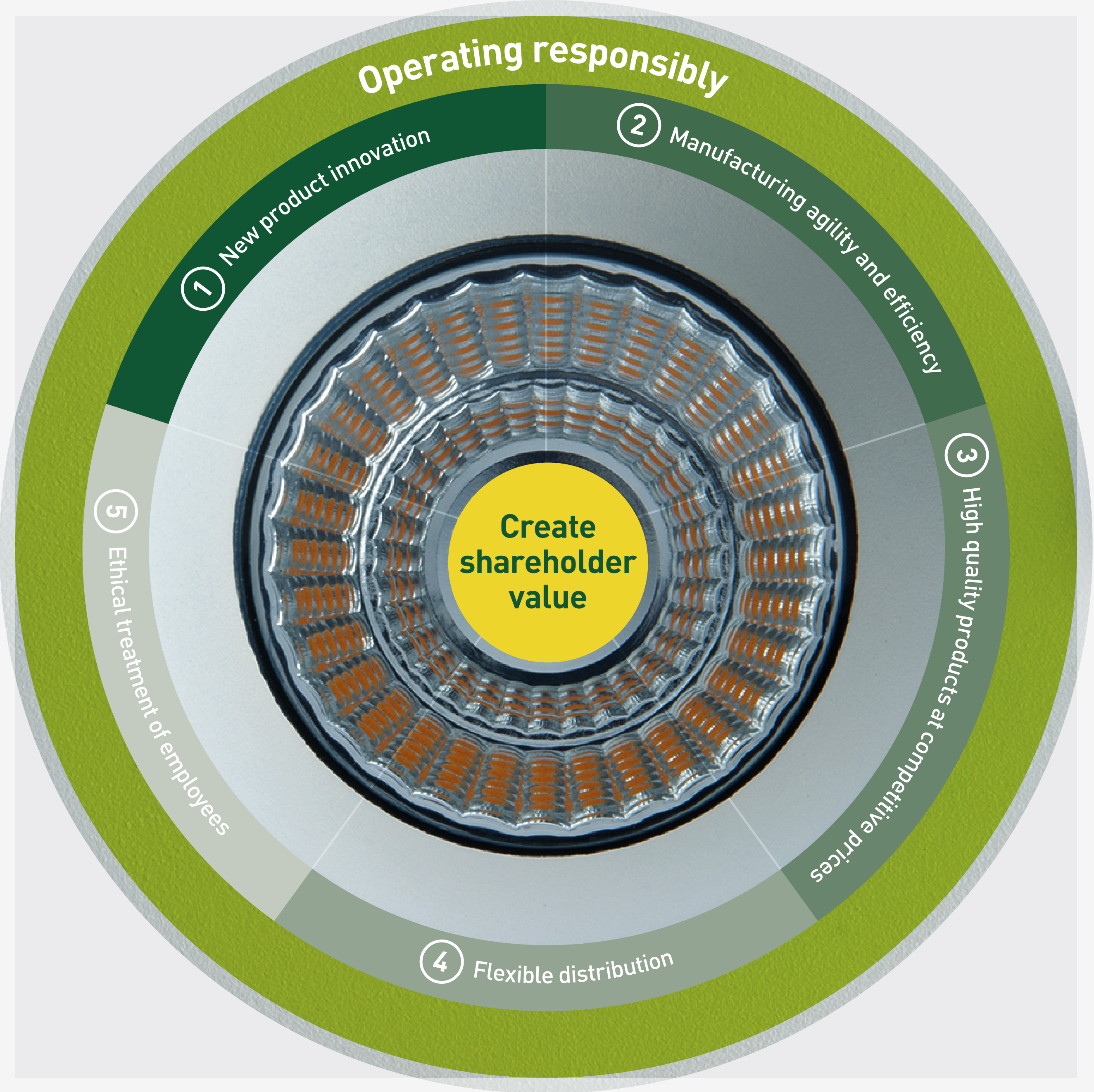
The German economy forecast electrical wholesale market growth of around 2% in 2017, and beyond that even higher, assuming that the recovery in the economy is sustained. Sonepar, the market leader in Germany, continues to grow and to make acquisitions internationally. However, there is scope for further growth within the German electrical wholesale market and it would seem likely that further acquisitions by nationals will continue to be made in coming years.

Forecasts for the electrical wholesale market in Belgium are for low levels of growth, reflecting the relatively flat economy and construction industry in general. The market has a dual structure, with two internationally active players accounting for around 70% of the market, and the remainder made up of independents. Although the regional split in the market is likely to continue, international groups will seek expansion through acquisition and developing more formal co-operative groups between them.

The electrical wholesale market in the Netherlands is highly consolidated, with the leading international groups accounting for well over 70% of the market. In general terms, the market appears to have remained flat over the last five years, though this conceals several years of volatility – particularly in 2013 when there was a significant decline. Given a positive general economic background, with GDP growth rates of around 2% forecast respectively for 2016, prospects for construction markets are better than they have been for some time.

The electrical wholesale market in Southern Europe and France is mature and the dominance of the two leading players, Rexel and Sonepar, means that major developments in market structure are unlikely, at least in the short term. Future prospects for the construction sector are not optimistic in the short term, but forecasts are for a slight improvement in the electrical wholesale market value, based on some positive effect from legislation and the development of more complex technologies. Beyond 2016, a steady increase in the Southern European electrical and French wholesale market is forecast as the construction market slowly begins to recover from the recession.

Attractive combination of local distribution and low-cost manufacturing with product innovation



Luceco's vertically integrated model has allowed the Group to create a strong value proposition for its customers with a unique combination of branded, high quality products at competitive prices, combined with rapid product innovation, commercial support and flexible distribution.

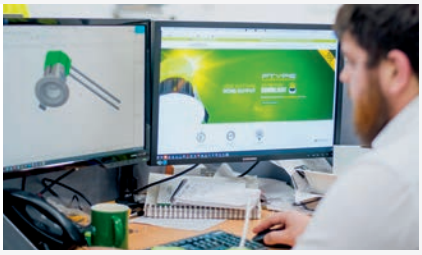
Luceco's model has been successful in the Group's main operating market, the UK, and is becoming increasingly relevant in Europe where retailers are copying the UK model. This market dynamic will provide further growth opportunities.

The key features of the Group's business model are:

1 NEW PRODUCT INNOVATION

Product development is mainly undertaken at the Chinese site, where a team of over 80 product developers and engineers is supported by small teams in the markets in which we operate. In-house development and proximity to the factory allow the Group to respond quickly to market trends, commence manufacture and launch the product to market in a timely manner.

READ MORE ON PAGES 30 TO 35



2 MANUFACTURING AGILITY AND EFFICIENCY

Having invested in a Chinese manufacturing facility, the Group has certainty of supply, and is able to invest in automation, process engineering and other cost reduction activities. This enables greater efficiencies compared to other Chinese manufacturers who are contracted for fixed periods and do not have long-term certainty of supply.

READ MORE ON PAGES 28 TO 29

3 HIGH QUALITY PRODUCTS AT COMPETITIVE PRICES

Through owning its own factory in China, the Group can manufacture its products at a low cost but with increased control over the sourcing of raw materials, manufacturing processes and robust quality control of the end product. This is further supported by a dedicated customer support team in China. The UK facility capitalises on the quality, low-cost supply channels used by the Chinese operation.

READ MORE ON PAGES 30 TO 35

4 FLEXIBLE DISTRIBUTION

The Group can operate under the commercial arrangements most suited to each customer. Large retail customers tend to source directly from China, operating on a FOB basis, by which the customer takes ownership of stock on shipment. Alternatively for smaller customers and wholesalers the Group can import products from the Chinese factory and warehouse in the relevant territory before supplying directly to the customer.

READ MORE ON PAGES 36 TO 37

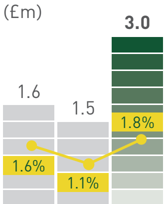
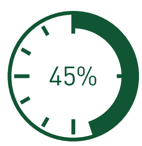
5 ETHICAL TREATMENT OF EMPLOYEES

The fair and ethical treatment of all its employees is of key importance to the Group. We encourage customers to visit our Chinese operation where they can witness the working conditions of the team throughout the process.

READ MORE ON PAGES 38 TO 40

Luceco is an exciting growth story and well positioned to execute its expansion strategy

The Group's strategy has been to organically grow revenue and profits by leveraging its Chinese facility to develop new products, to sell through existing channels and into new geographies.

	Expansion of product range to deliver growth in revenue and profits	**Increase in market share in LED products (Luceco and Kingfisher Lighting brands)**	**Increase in market share of established core brands: BG and Masterplug**
Objectives	• Focus on innovation and speed to market for new products, particularly within Luceco and BG brands • Adjust existing products to be compatible with requirements in target markets	• Expansion of LED commercial and projects sales teams • Improve and expand LED product range and marketing activities targeted at commercial environments • Enter new customer markets including UK house-builders	• Increase range of products sold to new and existing retail and distribution customers
Measurement	• Number of new products launched • R&D spend as a proportion of revenue	• Estimation of market share held • Value of LED sales	• Estimation of market share held by brand • Value of sales by brand
KPIs	**R&D spend and percentage of revenue** (£m)   **new products introduced during the year across all segments**	**Luceco** UK market share  LED sales (£m) 	**BG** UK market share[1]  **Masterplug** UK market share[1]  1. AMA Research: Electrical Products Market Data
Risks	• Disruption to manufacturing operations • Input costs • Loss of market share • Concentration	• Disruption to manufacturing operations • Loss of market share • Concentration	• Disruption to manufacturing operations • Loss of market share • Concentration

1. Adjusted cash flow is defined on page 86.

Strategic Report
Corporate Governance
Financial Statements

The Group is well positioned to execute its strategy over the next three years by continuing to pursue growth; bringing new products to market and developing its existing product range for new markets; increasing its market share across all brands in new and existing channels; targeting new markets and progressing its international expansion.

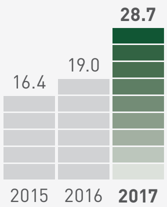
These growth initiatives will be supported by continued investment in our operations and will focus on improving free cash flow and delivering value to our shareholders.

Develop international sales for all product offerings

- Expand sales to countries with same electrical standards as UK (Middle East, countries in Africa and Asia)
- Sell internationalised product range to existing customers cross-border and to new customers through newly opened overseas offices

- Value of international sales
- Value of international sales by brand

International sales (£m)



- Disruption to manufacturing operations
- Loss of market share
- Financial impact of international operations
- Initial loss of scale versus market incumbency

Targeted acquisitions

- Consolidate UK market, delivering supply chain efficiencies
- Create access to new distribution channels in new territories
- Entry to new markets with an established customer base

- Number of acquisitions
- Number of new territories entered

Kingfisher Lighting

1 acquisition in 2017

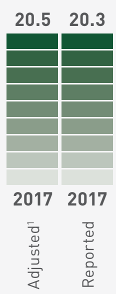
- Regulatory non-compliance
- Pursuit of the acquisition strategy

Improve conversion of profit to cash

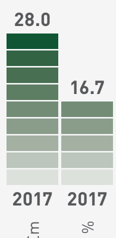
- Continue to improve working capital management
- Reduction in the length of the working capital cycle

- Value of free cash flow
- Value of working capital as a percentage of revenue

Cash flow from operating activities (£m)



Working capital



- Disruption to manufacturing operations
- Input costs
- Loss of market share
- Concentration
- Financial impact of international operations

PRINCIPAL RISKS AND UNCERTAINTIES

The Board is responsible for identifying, reviewing and managing business and operational risk

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 48 to 50. The Group's risk management process is set out below.

The principal risks identified and actions taken to minimise their potential impact are included in pages 25 to 27. 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 page 27 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.

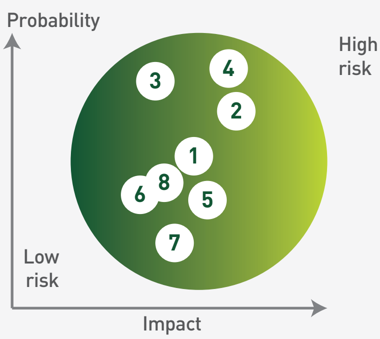
The Audit Committee reviews risk management at each meeting and is provided with an update in respect of progress made in the reduction of existing risks, summary of newly identified risks and the actions agreed to reduce them to an acceptable level.

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.

Senior management →	Executive Directors →	Audit Committee →	The Board
Reviews and updates the risk register for new risks, identify mitigations in place and recommend 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

Heatmap



1: Disruption to manufacturing operations
2: Input costs
3: Loss of market share
4: Concentration
5: Financial impact of international operations
6: Regulatory non-compliance
7: Pursuit of the acquisition strategy
8: Inadequate integration or leverage of acquired businesses

Risk 1: Disruption to manufacturing operations

The Group's key manufacturing operation is 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.

The Group is reliant on its IT systems to ensure its operations function efficiently. Any loss of IT service or compromise of IT security (through a cyber-attack) could adversely impact the business.

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 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 • Loss of sensitive data as a result of an IT security breach could negatively impact the Group's operations and reputation	• 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 • IT security systems in place, and tested regularly, to protect commercial and sensitive data • IT technological and security developments are monitored regularly	**Expand product range** **Develop LED** **Increase market share** **International business** **Profit/cash conversion**

Risk 2: Input costs

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.

Impact	Mitigation	Link to strategy
• Suppliers may increase product prices as a result of copper or other commodity price fluctuations, reducing profit margins • 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	• Copper prices are monitored regularly. Where fluctuations are severe, the exposure is determined and customer and supplier pricing is considered and adjusted accordingly • 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 • Quality control teams are in place at all key operational locations to ensure quality of supply • Additional management and reporting of copper prices to the Senior management team to help track the input costs	**Expand product range** **Profit/cash conversion**

Risk 3: Loss of market share

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 if it is unable to maintain its innovative edge, particularly in the competitive LED lighting market where barriers to entry are low.

Impact	Mitigation	Link to strategy
• Any reduction in the Group's revenue or market share would have a material adverse effect on the Group's future prospects • LED technology is constantly changing and customer demand rapidly evolving, giving risk of product obsolescence • Any defence or claim against 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 • Customers could stop trading with the Group at short notice as many agreements are on a rolling annual basis	• 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 • Dedicated customer support teams in all key trading locations maintaining excellent customer service	**Expand product range** **Develop LED** **Increase market share** **International business** **Profit/cash conversion**

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk 4: Concentration

Approximately 83% of the Group's revenue is generated from the UK and profitability is directly influenced by the UK economic climate.

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 on a rolling annual basis.

Impact	Mitigation	Link to strategy
• Any economic 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 • 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 volumes • The Group's funding arrangements include an invoice finance facility applicable to UK customers only. A downturn in UK sales may reduce funding liquidity	• Mitigation through innovation and product development as diversification of products enables the Group to grow by exploiting market gaps protecting it from any market downturn • 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 • The Group has long-standing relationships with its customers providing a strong competitive barrier • The Group's ability to rapidly embrace new consumer trends and its distribution flexibility make it a valued supplier • The Group sets credit terms that are commensurate with customer's ability to pay and monitors payment terms closely • The Group is seeking to reduce its reliance on its invoice finance for future funding	**Expand product range** **Develop LED** **Increase market share** **Profit/cash conversion**

Risk 5: Financial impact of international operations

With its Chinese operation and FOB sales, the Group is exposed to exchange rate fluctuations of the RMB and US Dollar as a significant proportion of the Group's revenue is invoiced in US Dollars and the majority of costs are paid in RMB.

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.

Impact	Mitigation	Link to strategy
• Any weakening of Sterling relative to the US Dollar and RMB, could adversely affect profit • There will be a time lag from the change in exchange rate to any recovery through pricing with a potential negative impact on profit • The UK referendum decision and negotiations may cause further currency volatility, potentially adversely impacting profits	• Currency fluctuations mitigated by hedging policy; pricing action is undertaken when appropriate • Continued international diversification will dilute the impact of currency fluctuations	**International business** **Profit/cash conversion**

Risk 6: Regulatory non-compliance

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
• 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's third-party supply chain in China may not meet the Group's ethical resourcing standards, compromising its reputation • 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 product movement between the Group's Chinese factory and its sales operations	• 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 • The Group has long-standing relationships with its suppliers and the Executive Directors frequently visit their operations	**Acquisitions**

Risk 7: Pursuit of the acquisition strategy

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.

Impact	Mitigation	Link to strategy
• Expenses may be incurred, whether or not an acquisition is completed, reducing profitability • The cost and integration of an acquisition may reduce profit and increase indebtedness in the short term • Time required in pursuit of an acquisition may divert attention from other business concerns	• Costs are tightly controlled and cash flow is monitored daily • The Board closely monitors the strategy and the resources required to deliver it • The Group has an experienced senior management team (with the appointment of a new CFO Matt Webb in February 2018) in place to ensure that the day-to-day activities of the Group's business are managed effectively	Acquisitions

Risk 8: Inadequate integration or leverage of acquired businesses

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

Impact	Mitigation	Link to strategy
• Expenses may be incurred, reducing profitability • The cost and integration of an acquisition may reduce profit and increase indebtedness in the short term • Time required in pursuit of an acquisition may divert attention from other business concerns	• Detailed integration plan and dedicated integration teams in place prior to acquisition • Regular communication on progress highlighting variations and remedial action taken • Integrate our ERP system to enhance our ability to integrate acquisitions	Acquisitions

VIABILITY STATEMENT

The Directors have assessed the prospects of the Group for a longer period than the twelve months required by the going concern principle by performing a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

The Board has conducted this review over a three-year period to 31 December 2020 as it aligns with the Group's forecasting period and the period covered by the Group's strategic objectives as set out in pages 22 to 23.

In assessing the viability of the Group over this period, the Board has considered the realistic, worst-case scenario of several of the principal risks set out in pages 24 to 27 crystallising and the impact that would have on the forecast financial position. In assessing whether the Group could withstand such negative impacts, the Board has considered cash flow, impact on debt covenants and headroom against its current borrowing facilities. In such a scenario, any return to shareholders would be reduced.

The main risks that the Board has considered in performing its review are:

- The reduction in revenue and margins if it were unable to maintain its market share through loss of customers
- A downturn in the UK consumer sales
- The impact of any disruption to operations
- The effect of an increase in the price of raw materials
- The effect of adverse currency movements

The Group's bank term loan in the financial statements is shown as being a current liability with maturity in 2018. However, the term loan has been successfully extended post year end. The Group has a strong relationship with its bank and has banking facilities in place until June 2019, with an expectation of successful refinancing or extension before the loan maturity dates are reached. The Group also has the ability to access alternative financing sources.

In the situations reviewed, the business remained robust, with sufficient funding and headroom and compliance with key covenants to remain in operation over the period reviewed. The Board considers that the long-term relationships it has with many of its key customers and suppliers helps to protect the Group and gives it the resilience to withstand such scenarios materialising.

After conducting the viability assessment, the Board considers that the Group will be able to continue in operation and to meet its liabilities as they fall due for the three-year period covered by its strategy to 31 December 2020.

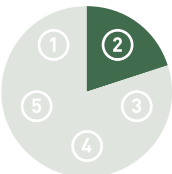
OUR OPERATIONS

The Group has a global spread and an expanding international footprint

The 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 head office in London.

Highlights

- New UK operations in Mansfield, Nottinghamshire
- 87 number of new products introduced during the year
- New customer wins in the UK and overseas



2 Manufacturing agility and efficiency

▶ **Business model pages 20 and 21**

The Group's vertical operating model allows it to create a strong value proposition for its customers with a unique combination of branded, high quality products at competitive prices, rapid product innovation, commercial support and flexible distribution.

UK operations

A UK assembly and distribution warehouse, housing 10,000m^2 of floor space, is maintained in Telford (situated 30 miles from Birmingham with good transport links) to service the needs of the customers who prefer to transact with a local business rather than sourcing directly from China.

The Group manufactures and assembles approximately 60% (2016: 60%) of its product range in-house in its Telford or Chinese facilities.

The Telford site also houses the Group's UK sales, accounting and support functions, as well as a portion of the Group's R&D function (who work closely with the R&D teams in China).

The London office serves as the Group's head office, where the executive function is based.

During the year the Group acquired Kingfisher Lighting, a nationwide UK supplier of exterior lighting products, including road and street LED lighting systems and controls, and high mast LED luminaires. Kingfisher Lighting supplies over 70,000 lighting fittings and over 15,000 columns and masts annually to UK wholesalers, contractors, specifiers and local authority customers, and operates from Mansfield, Nottinghamshire. Kingfisher Lighting's operations are well positioned to service the needs of its own customers as well as the customer base of the Group.

Chinese operations

The Group's wholly-owned manufacturing, product development and customer support facility is based in Jiaxing, China (approximately 100km from Shanghai). The facility first opened in 2008 and has been subsequently expanded in 2011 and 2016, taking the facility from 12,500m^2 in 2008 to 52,500m^2.

The facility allows the Group to benefit from low-cost manufacturing in China with increased control compared to using sub-contractors, where the Group has less control over cost, quality and the ethical treatment of employees. This has enabled the Group to be more flexible to respond to market trends with innovative product development at high quality and reasonable cost and to become a key supply partner to trade and retail customers.

In addition to the manufacturing facility, the Chinese operation also houses approximately 80 product development staff and engineers from which the Group has established a track record of successful product launches, rapid speed to market and delivery at low cost.

The strategic placement of the factory near Shanghai allows the Group's larger retail customers to source directly on a FOB basis, whereby the customer takes ownership of the goods on shipping. The existence of a Chinese customer support team is also of considerable value to the Group's customers.

Other international operations

The Group has opened a network of international sales offices, many still at an early stage in their development, to build market share in new territories and leverage the Group's manufacturing and product development facilities in China.

The Group has an established sales office and distribution warehouse in Dubai (opened in 2003). This office previously focused on sales of wiring accessories under the BG brand, as certain Gulf States and African countries have common wiring standards with the UK. More recently, the sales office has expanded to offering UK-assembled Luceco LED products.

The Group has sales offices in France, Germany and Spain and a European distribution warehouse to acquire new customers locally and to further develop existing relationships with international retailers through a European presence. In addition, sales offices and distribution warehouses were opened in the United States and Mexico to build market share as these countries transition to LED lighting. Finally, the Group has a sales office in Hong Kong to target the buying offices of global retailers based in the Far East.

PRODUCTS

LED Lighting

Environmental and energy-saving LED lighting, providing commercial and domestic lighting solutions

Group revenue (%)

UK market share (%)

Rapid growth of LED market

- Transition from traditional lighting into LED offers a disruptive market opportunity
- Improving technology will see LED replace all other lighting sources over time
- Global LED lighting market will grow to c.$70bn by 2019[1]

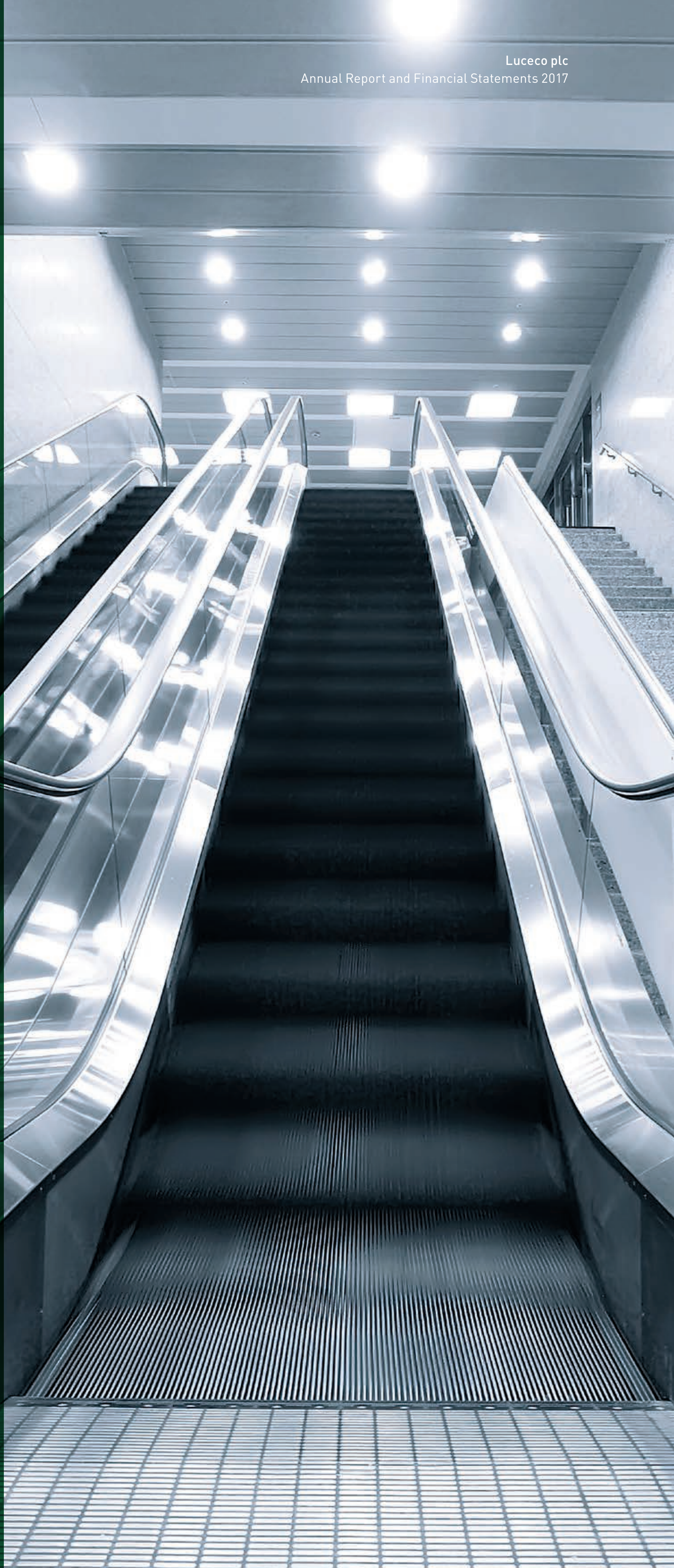
Luceco

- Established in 2013 to address the rapidly growing LED market
- Distributed via the Group's established channels
- Already an established trade brand in the UK market and penetration increasing

1 New product innovations

3 High quality products at competitive prices

Business model pages 20 and 21



The Luceco brand was established in 2013 as the transition from legacy lighting technologies to LED offered a disruptive entry point into a rapidly growing market. The Directors estimate the Group's current applicable market share in the UK LED lighting market to be 4% with revenue of £47.4m in 2017 compared to £1.5m in the year of product launch in 2013.

The product range has grown organically, with the majority of LED products assembled in-house at the Group's Chinese and Telford facilities. The range has been extended following the acquisition during the year of Kingfisher Lighting.

The Luceco and Kingfisher Lighting LED lighting ranges are focused on commercial users and consists of:

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

Routes to market

The product range is sold through the same routes to market as the Group's other product ranges: via retailers, trade wholesalers, distributors and as a new route to market through the Projects sales team.

Product advantages driving market growth

The growth in the LED lighting market is being powered by the push for greater energy efficiency and the corresponding cost savings that can be achieved by switching to LED lighting versus competing technologies.

The key features of LED lighting are:

- Efficiency: LED lighting products can have efficiencies of 15 times that of traditional (incandescent) light sources
- Lifetime: LED lighting products can have a lifetime of up to 100k hours compared to 3k for traditional (incandescent) light sources, significantly reducing replacement frequency and associated maintenance costs
- Cost: LED product manufacturing costs are falling as components become cheaper. These cost savings are passed onto consumers. The cost of LED lighting is increasingly comparable with other lighting technologies

Carbon Trust

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. As a Carbon Trust Accredited Supplier, Luceco joins a market-leading scheme for high quality energy efficient equipment and renewable technology suppliers. It provides independent validation and recognition of a supplier's skills and services – a much needed and trusted quality standard in a crowded and fast-growing marketplace. Accredited Suppliers must meet or exceed criteria set by the Carbon Trust, designed to examine their capability to deliver thoughtful, well-designed, energy efficient and renewable energy systems.

Enhanced Capital Allowances

The Enhanced Capital Allowance ("ECA") scheme is a key part of the UK government's programme to manage climate change. It provides businesses with enhanced tax relief for investments in equipment that meets published energy-saving criteria. Luceco can offer a wide number of products that meet the eligibility criteria. Using ECA compliant luminaires can drastically improve ROI figures.

Lighting Industry Association

The Lighting Industry Association is the largest lighting industry trade association in Europe. Their mission is to strengthen the industry and promote the benefits of good quality lighting by representing all aspects of UK, EU and international legislation and standards at the highest level whilst protecting the interests of both the public and its members.

ENEC testing

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

This stringent process involves independent third-party testing of the luminaires, conducted by an European test house organisation and also the inspection and audit of our manufacturing facility.

ENEC approval provides full confidence in Luceco products meeting all the relevant safety standards from when they are introduced and also ongoing as the products and audits are re-examined on a bi-annual basis.

BIM

Luceco has BIM files created in Revit, covering their range of luminaires. This enables our clients to download the information they require to aid the design process and create Building Models.

The Building Information Modelling ("BIM") is a collaborative way of working intended to increase the speed of the construction industry, using digital technologies. BIM uses product data and a three-dimensional computer model that can be used for effective management of information throughout a project lifecycle.

Expectations

Management believes that the global adoption of LED lighting will continue for a significant period of time due to varying penetration rates across different applications and geographies. International harmonisation of lighting standards provides further opportunity for expansion.

Technological improvements, decreasing component costs and new developments are expected to increase LED lighting penetration rates further.

We believe there is significant potential to increase the Group's current 4% UK applicable market share due to its ability to capitalise on its product innovation, Chinese manufacturing facility and pre-existing distribution channels.

PRODUCTS

Wiring Accessories

A wiring accessory manufacturing brand serving the professional electrical trade and specialists

Group revenue (%)

UK market share (%)

Comprehensive product range

- Continuous product development to meet market and customer needs

Style and function

- Our products combine modern styling with easy to install features such as in-line colour coded terminals and backed out captive screws

Quality and reliability

- All products manufactured to the latest British Standards, many with ASTA approval and the Company is ISO9001:2008, BSI approved

High levels of customer service, care and support

- Our friendly and professional sales and technical teams are there to support customer requirements. Together with EDI trading technology, and advanced supply chain management, we strive to ensure high levels of service

1 **New product innovations**

3 **High quality products at competitive prices**

Business model pages 20 and 21

Established in 1941, BG is a well-respected brand and a market leader in the UK wiring accessories market with a share of approximately 19% Wiring Accessories revenue has increased from £35.7m in 2013 to £72.7m in 2017.

BG

- Long-established trade brand dating back to 1941
- A UK market leader in 2017
- Significant market share gains
- Comprehensive and innovative product range
- Product examples: switches, sockets and circuit protection

The BG product range consists of:

- Wiring accessories comprising a range of switches and sockets in both plastic and decorative metal finishes. The range also includes USB charging sockets and exterior or weatherproof accessories
- Circuit protection comprising circuit protection consumer units (fuse boxes) and industrial switches
- Cable management and other accessories
- The BG product range is manufactured and assembled in the Group's facilities in China and Telford. The product range offered benefits from the Group's sizeable R&D activity and new products brought to market include range enhancements following the highly successful introduction of USB charging sockets and circuit protection consumer units
- Sales of BG products are currently focused in the UK and in other countries with British electrical standards, including certain Gulf States, African and Asian countries. However, the Group is now launching wiring accessories for the European markets

New technology and development

New wall sockets with built-in WiFi extender capability were launched in 2017. The Group is currently working on launching smart switches and sockets which will be compatible with voice control protocols.

Routes to market

The Group distributes its BG product range through retailers, UK and international trade wholesalers and distributors, including members of wholesaler buying groups and hybrid trade distributors.

Expectations

The Group has a strong track record of bringing new products to market and plans to target new adjacent product lines. Its sizeable R&D team coupled with the wholly-owned Chinese manufacturing capability keep the Group at the forefront of new technological advances and enable it to maintain competitive prices.

The Directors believe market share can be further increased by continued expansion of its competitively priced product range to existing customers and targeting new adjacent customers, such as house-builders.

The key features driving growth are:

- Product innovation, notable successes include USB sockets and circuit protection consumer units
- Range expansion by introducing numerous decorative finishes and catering for different national wiring standards
- Growth in construction and house-building markets driving end-user demand

PRODUCTS

Portable Power

Established UK market leader serving retailers and trade wholesalers

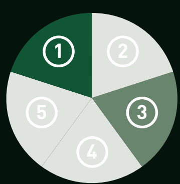
Group revenue (%)

25%

UK market share (%)

45%

- Masterplug is the Group's Portable Power brand, offering solutions for home, garden, DIY, office and commercial
- Masterplug is one of the most recognisable brands in the world and has been at the forefront of Portable Power for many decades
- With over 75 years of sales, distribution and manufacturing expertise
- Understanding customers' requirements and offering tailor made solutions to our retail partners



1 **New product innovations**

3 **High quality products at competitive prices**

Business model pages 20 and 21

Masterplug is the UK market leader in the product ranges it offers, with approximately 45% of the UK cables and extension leads market. Portable Power revenue has grown steadily from £25.0m in 2013 to £41.6m in 2017. The Group also sells a higher quality sub-range under the Pro-XT trade mark and a limited number of unbranded products to its long-standing customers.

Masterplug

- Portable Power brand established in 1988 and merged with BG in 2000
- A market leader in 2017 following significant market share gains
- Product examples: cable reels, extension leads, surge protection devices, timers and travel adapters

Quality assurance

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

Our on-site ISO9001 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.

Product development

Analysis of market trends combined with our global design teams gives us a unique position from which to drive our product categories. In-house production engineering, rapid tool-making and on-site prototyping delivers timely and continuous product development and improvements to the market.

Supply chain

The Masterplug product range is primarily manufactured by a third-party supplier in China, under an exclusive arrangement, with whom the Company has had a 15-year relationship.

Routes to market

The Group distributes its Masterplug range through retailers, selected trade wholesalers and online retailers. The Group has a well-diversified blue-chip customer base, of which it has many long-standing relationships.

Expectations

The Group will continue to drive sales through maintaining UK market share and expand sales to international retailers by winning new customers in new territories and increasing sales to existing customers cross-border. The Group has recently opened international offices to facilitate this expansion.

The key features driving growth are:

- Internationalisation of the product range
- Significant new UK business wins in second half of the year
- Leveraging pan-European customer relationships

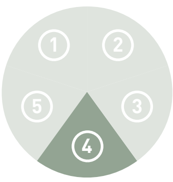
ROUTES TO MARKET

Flexible routes to market to suit the needs of the individual customer

Customers are served by three core routes to market comprising Retail (including DIY, grocery, consumer electrical, high street and online), Trade Distribution (including hybrid distributors, wholesalers and trade-buying groups) and Projects (who undertake demand creation activities with end-users and contractors).

Highlights

- High customer satisfaction due to product quality and service
- Broad customer base underpinned by customer loyalty
- LED projects growing rapidly as LED adoption increases



4 Flexible distribution

▶ **Business model pages 20 and 21**

Trade Distribution
Evolving channel underpinned by sustained customer loyalty

- 66% (2016: 60%) of Group revenue channel – made up of traditional electrical wholesalers and hybrid distributors
- Size of total UK channel (all products) c.£3.8bn
- Traditionally dominated by BG brand – now c.30% LED
- The Group services more than 700 customers with 4,800 outlets
- Strong heritage brand in this channel

The Group's Trade Distribution channel sells predominantly BG and Luceco LED products to UK and international trade wholesalers and distributors.

Distributors include wholesaler buying groups comprising a mixture of independent wholesalers and larger multi-site wholesalers and hybrid trade distributors which also have a retail offering. Products offered are typically lower in value or more technical, requiring a more specialist installation or qualified end-user.

The Group tends to negotiate contracts directly with the large distributors or wholesalers, whereas smaller wholesalers increasingly belong to buying groups. Within buying groups, pricing and contract structures are negotiated at the buying group level enabling terms to be standardised across its members and removing the need to negotiate with individuals. Members simply choose the brand they wish to stock and the quantity they wish to purchase. The Group is well represented in the UK's major buying groups with capacity for greater range and individual consumer penetration.

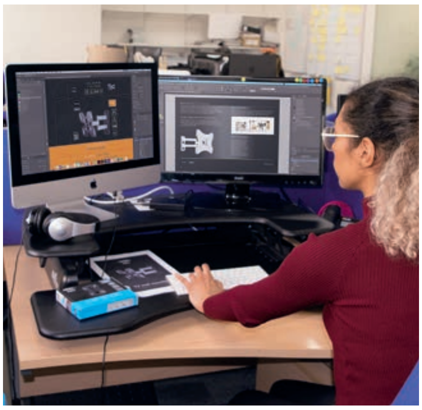
The Group has developed long-standing relationships with many of its Trade Distribution customers who have shown strong brand loyalty and have readily adopted new product ranges when introduced. This is in part due to the Group's reputation for quality, value and excellent customer service. The Group maintains an open dialogue with customers in this channel to guide product development and match product introductions to market demands.

The Trade Distribution channel is served by 25 sales employees in the Group's Telford office, with additional sales employees based at the London office and overseas servicing more than 700 customers who collectively are estimated to have over 4,800 outlets.

Retail
High customer satisfaction driven by optimised trading model

The Retail channel sells the Group's products to a diversified range of retailers including blue-chip DIY, grocery, consumer electrical, high street and online retailers. The products sold are often higher in value and more customer orientated, for example, more decorative or easy to install.

- Originally Masterplug brand with additional growth from BG and Luceco
- Strong and growing retail client base with the majority represented by blue-chip customers
- China facility provides advantage proposition for this channel
- Freight on board ("FOB") provides competitive advantages and offers working capital and margin benefits to Luceco
- Gaining momentum with major EU retail



UK retail

Historically, the Group predominantly sold the Masterplug range to UK retailers. Recently, the Group has moved to offering its full brand range (BG and Luceco) to retailers and has been successful at increasing the penetration within its major blue-chip customers, aided by the trend of supplier rationalisation within the DIY retail sector.

The Group offers a "one-stop solution" via the widest possible product range, including stock management and store merchandising services (where the Group is able to monitor the level of its stock with the customer and is able to assist in creating in-store or online retail spaces from which its products are sold).

The large retail customers tend to operate a centralised stocking model whereby the retailer holds stock centrally and resupplies stores accordingly. The Group is well positioned to support this model as it can fulfil large orders from its Chinese factory and supply on a FOB arrangement allowing the Group to service large international customer store networks without the logistical or stock keeping requirements. 70% of all UK retail is supplied FOB (2016: 74%).

The Group can also leverage access to retailers' national and international networks to increase penetration in new regions as retailers are often keen to harmonise suppliers.

The Group has long-standing relationships with many of its UK retail customers, and this customer base is served by 27 sales employees based in the Group's Telford office, with additional sales employees based at the Group's London Office and overseas. Separate sales teams also target nationwide retailers and smaller independent retailers.

International retail

International retail is an area of opportunity as the Group seeks to expand its market share by winning new customers in new territories and by increasing sales to existing customers cross-border.

The Group has recently opened international sales offices in Germany, France and Spain to facilitate this expansion, and an office in Hong Kong to deal with the Far East buying offices of global retailers. This international expansion is supported by the Group's FOB capabilities, minimising the requirement for local stock build up when the Group enters new territories and to fulfil orders in China regardless of the product's end destination.

In the rest of Europe, retailers selling the Group's product categories have tended to be less centralised but have recently started to move towards the centralised UK model. This fragmentation makes the market more competitive as it allows suppliers with less presence in the UK to enter the market, such as Far East private factories.

Projects
Growing rapidly as LED adoption increases

- Demand creation (highly valued by Trade and Distribution channels)
- Improving technology improves customer ROI's
- New and fast-growing distribution channel
- Area of significant growth in the UK and future growth internationally

The Projects sales team was established to provide LED lighting solutions directly to end-users by informing customers of the economic benefits of changing to LED and to transition them to the new technology. The main economic benefits of LED lighting include: increased energy efficiency, longer life, and lower maintenance.

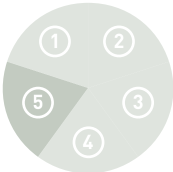
The Projects sales team targets customers with large and/or long-burning hour lighting requirements and offers a lighting solution function whereby they provide lighting planning and return on investment consultancy solutions to motivate the customer to adopt the new technology. This approach of "lighting as a solution" is integral to the current and future success of this channel. The Projects sales team is able to leverage the in-house manufacturing and production facility with on-going product enhancements and expansion of the range to meet customer demand.

The Projects sales team has already had notable successes, with Luceco products provided for retrofits in offices, schools, universities and certain primary healthcare trusts. Its capability has been significantly enhanced by the acquisition of Kingfisher Lighting in the year. The team is also targeting new build opportunities. The orders generated by this sales team are fulfilled through the Group's Trade Distribution customers, helping to build relationships in those routes to market.

The Projects channel is served by 22 sales employees across our international offices.

CORPORATE AND SOCIAL RESPONSIBILITY

The Board is responsible for the promotion of corporate and social responsibility in its business operations and strategy and ensuring that it has a positive impact on society.



5 Ethical treatment of employees

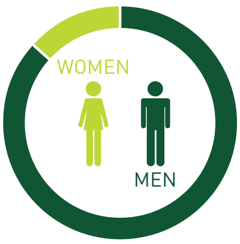
Business model pages 20 and 21

Directors

5
(2016: 5)

1
(2016: 1)

Senior managers



7
(2016: 6)

1
(2016: 2)

Total employees

1,040
(2016: 978)

1,080
(2016: 992)

The Board recognises the importance of safe, ethical behaviour in its relationships with its employees, customers and suppliers. We recognise that reducing the environmental impact of our activities and contributing to communities creates and sustains value for our shareholders.

The environment

We have an excellent long-term record and a clear strategy for addressing environmental issues that affect our businesses and for developing products that protect the environment and improve safety at work and in public places.

Luceco seeks to protect the environment by preventing or minimising the environmental impact of its activities and products through appropriate design, manufacturing, distribution and disposal practices.

Luceco expects 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, the employee should immediately report the matter to his or her manager or, if required, to the Group's Board of Directors via the complaints procedure.

Our products

Many of our innovative products play a very positive role in monitoring and improving the environment. We are fully committed to improving environmental performance across all of our manufacturing and other business activities, continually looking for new methods and materials to provide environmentally friendly solutions. Our commitment to the development of equipment for measuring and monitoring environmental changes and controlling the damaging impact of industrial activities is long term.

Our impact

Luceco requires its suppliers to comply with all applicable legal environmental requirements and demonstrate continual improvement of its environmental performance, according to our new Supplier Code of Conduct.

The environmental effect of our operations is relatively low compared to manufacturers in other sectors. Our manufacturing model is decentralised, permitting our operations to be located close to their customers, which helps us to minimise the impact on the environment. The ethos of being close to our customers reflects the importance we place on the quality of our products and the service levels we provide to our customers. It also makes our operations more flexible and responsive to their markets and customers. With operations spread around the globe, our supplier base is understandably fragmented. Therefore, responsibility for vetting and managing suppliers is devolved to local management while meeting the Group's ethical standards.

Environmental Management System ("EMS")

We have developed and implemented an EMS at our manufacturing facilities to measure, control and reduce our environmental impacts. We have developed performance indicators that assist local management in implementing the policy and ultimately developing an EMS. Our manufacturing facilities are all ISO 14001 accredited, where warranted. The requirement to implement an EMS will be extended to the rest of the Group in the medium term. Group companies are also encouraged to improve energy efficiency, to reduce waste and emissions and reduce the use of materials in order to minimise their environmental impact.

The Group has identified its key environmental impacts as emissions to air and water, water and energy consumption, and waste production. In addition to the information set out in this section of the report, we publish data annually on energy consumption, waste and transportation costs. We support innovation and investment that drives environmental performance. Opportunities are also being explored by some businesses to expand existing solar installations or switch to green energy suppliers.

Carbon footprint

The Group is committed to reducing its carbon footprint. Our greenhouse gas ("GHG") emissions inventory has been independently calculated by the Group's carbon consultants using the operational control approach in accordance with the GHG Protocol using GHG emission factors published by the UK government, the International Energy Agency and the World Resources Institute.

The table below illustrates the Scope 1 and 2 GHG emissions for the Group for the year ending 31 December 2017. Under GHG reporting guidelines, Scope 1 and 2 emissions are the key mandatory areas to report, illustrating the environmental impact of the Group for activities where we have direct control i.e. operation of our sites and vehicles. The figures provided for 2016 have been recalculated to include the emissions from Kingfisher Lighting and the electricity emissions have been recalculated with more up-to-date emission factors.

		Total GHG tCO_2e		
	Source	**2017**	2016	Change %
Scope 1	Natural gas	**213**	222	(4.0)
	HFCs (refrigerants)	**406**	212	91.5
	Company-owned vehicles	**541**	513	5.5
Scope 2	Electricity (market based)[1]	**3,625**	3,812	(4.9)
	Electricity (location based)	**3,700**	3,914	(5.5)
Total Scope 1 and 2[2]		**4,860**	4,861	0.0
tCO_2e per £m turnover		**28.83**	33.51	(14.0)

1. For overseas operations, the market-based electricity emissions are based on the location-based emissions as market-specific factors were unavailable. For UK operations, market-based factors were available and are calculated in tCO_2 only.
2. Total Scope 1 and 2 emissions have been calculated using location-based electricity emissions.

Absolute GHG emissions have remained unchanged compared to last year. There was a reduction in the emissions arising from natural gas and electricity consumption however this was offset by an increase in emissions from HFCs and company-owned vehicles. The Group have improved relative emissions performance (compared to turnover) by 14% as turnover has increased by around 16%.

Ethics

The Group's culture is one of openness, integrity and accountability. Luceco requires its employees to act fairly in their dealings with fellow employees, customers, suppliers and business partners. Luceco has introduced a global Code of Conduct which applies to all Group company employees and our external business partners. The Code of Conduct 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. Our Code of Conduct is currently on our intranet for all employees and will be issued to all new employees.

People

The Group operates in a number of territories and employs people from a diverse range of backgrounds. The Board is committed to ensuring fair and equal treatment of all its employees regardless of race, colour, nationality, ethnicity, religion or belief, gender, age, marital status or disability and that the work environment is suitable for its employees to fulfil their duties. All employees are afforded equal opportunities in recruitment and promotion, training and development are provided according to each individual's skills and capabilities. As at 31 December 2017, there were six Directors (five male, one female); eight senior managers (seven male, one female) and 2,120 employees (1,040 male, 1,080 female).

The Group has a reputation for innovation and excellent customer service and these attributes underpin the culture of the organisation. The Group is keen to attract and retain talented individuals with the same passion for innovation and customer focus and recognises and rewards outstanding performance. When recruiting, the policy is to recruit the person most capable of performing the role on the basis of their qualifications, experience and suitability.

Employee involvement

The Board communicates the strategy annually to its employees and given the continual change in the Group's products and operations, regular communications are circulated updating the teams of the changes that are taking place in the business. Employees are supported by their line managers and HR department if they have any concerns, or equally invited to contribute if they have any product or operational ideas.

CORPORATE AND SOCIAL RESPONSIBILITY CONTINUED

Safety

We provide a fair and safe work environment for employees and ensure we follow legal requirements and best practice standards. Following sustainable practices is important to Luceco's success and we continue to look for ways to improve our environmental impact and operational efficiency. During 2017, seventeen minor accidents were reported in the Telford facility and five in China.

Human rights

The UK Modern Slavery Act 2015 requires the Company to make an annual statement outlining the steps the business is taking to identify and prevent modern slavery within its organisation and supply chain. Since the introduction of the Act, we have worked to raise awareness of this important agenda. During the year, a statement was prepared and is available on the Company's website at **www.luceco.com** as well as being distributed to all of our operations overseas and supplier businesses, raising awareness of the Act and the issue of modern slavery in business and supply chains. Each business was requested to consider the potential issue of modern slavery and human trafficking within their business and supply chain. In addition, we are rolling out Modern Slavery Act training to senior management across the Group during 2018 to ensure that our business management understand their responsibilities and consider the Act in their operations.

Of the territories the Group operates in, the location where people's rights could be most at risk is in China, where the Group has a large proportion of its operations. By owning the manufacturing and product development facility in China, the Directors can directly control the environment and conditions in which its employees live and work to ensure that they are treated fairly and in accordance with the Group's employment policies. The Directors regularly visit and routinely invite customers to the facility for them to witness the working and living conditions of its employees and assist them in fulfilling their own responsibility agendas. During 2017, the CEO visited the manufacturing facility three times.

Whistleblowing

We require our employees and business partners to maintain the highest standards of integrity and act in good faith. Luceco implemented a groupwide whistleblowing policy in 2017 which applies to all employees and Luceco operations (including newly acquired businesses) and to suppliers, customers and distributors relating to our businesses. While we encourage an open culture whereby any issues can be raised and handled locally at business level, we recognise that there will be times when it is not appropriate, or a person will not be comfortable, raising a concern through line management. A procedure is currently being developed to ensure employee anonymity.

Anti-bribery and corruption

Luceco has a zero-tolerance policy on bribery and corruption which extends to all business dealings and transactions in which we are involved. This includes a prohibition on, offering or receiving inappropriate gifts or making undue payments to influence the outcome of business dealings. Our robust policy and guidance in this area is routinely reviewed and compliance with the policy is checked as part of the half-year and year-end process. During 2017, we rolled out our new anti-bribery and corruption policy to all areas of the business.

Supply chain, products and operations

The Group sources its 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 to ensure they are satisfied in how the supply process is managed, the quality of products produced and the working environment of the employees.

Being in control of its own factory means that the Group can invest in more efficient machinery and/or technology, control the products it uses in the manufacturing process, responsibly dispose of waste products and ensure compliance with industry standards and legal requirements.

Sustainability

The Group is keen to support its customer's sustainability requirements. Recycled materials are used as far as possible for the packaging of our products. The increased mix of FOB sales significantly reduces the miles in which the Group's products travel to its customers. In stocking the UK warehouse, goods are shipped in large quantities to reduce the environmental impact. Air freight is used as a last resort.

The Group also makes use of modern methods of communication in keeping in contact with customers to reduce the number of business miles incurred by our sales teams across the territories.

Communities

The Group is keen to support and contribute to the local communities in which it operates, particularly in poorer countries. In Jiaxing (the location of the Group's Chinese facility), the Company is heavily involved with the local university, establishing a "Nexus class" where 36 students were selected to receive weekly lectures for three terms. These are led by managers or technical experts within the Company on a number of topics 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 73 scholarships to date.

The Strategic Report on pages 2 to 40 was approved by the Board of Directors on 30 April 2018.

JOHN HORNBY
Chief Executive Officer

MATT WEBB
Chief Financial Officer

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.

Our governance principles

- Effective leadership with clearly defined responsibilities
- Board with appropriate balance of skills, experience, independence and knowledge of the Company
- Half of the Board are independent Non-Executive Directors
- Defined Committees with delegated responsibilities to maintain balance

Dear Shareholder

I am pleased to present the Corporate Governance Report for the year ended 31 December 2017.

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 2017.

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, it 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 happy to report that we have complied with the principles and provisions of the Code in all material respects during the 2017 financial year.

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 the period from 1 January 2017 to 31 December 2017. It explains the composition of the Board, its responsibilities and the structure within which it, and its Committees, operate 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 pages 48 to 50.

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 20 and 21 and an explanation of the strategy and longer-term objectives of the Company is contained within the Strategic Report on pages 2 to 40.

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. Overall, we are satisfied that the Board is both efficient and effective with a good mix of skills and experience. There is always room for improvement and we have identified some areas around Board process to develop in the coming year. More detail about the Board evaluation and on some of the major matters considered by the Board and its Committees during the year can be found on pages 44 to 47.

The year ahead

We will monitor with interest the ongoing corporate governance debate in the UK and in particular any changes that may be recommended by the Financial Reporting Council to the Code. We believe that our governance framework is robust and effective but recognise that we will need to consider any changes that it may be appropriate for us to address following any revisions to the Code. Moreover, we will continue to monitor, assess, and seek ways to underpin and improve our governance further.

GILES BRAND
Chairman

30 April 2018

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 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 buy-out, turnaround, distressed and growth capital transactions. Many of these transactions have made multiple bolt-on acquisitions in the UK and overseas.

Giles is currently a Non-Executive Chairman of Whittard of Chelsea and a Non-Executive Director of the Reader Organisation, a not-for-profit educational charity. He holds no other listed directorships.

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.

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 joins 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. This business is a significant part of Ferguson's operations, accounting for $9bn in revenue and over half of total Group earnings. It sustained rapid, profitable growth throughout his tenure. Prior to that, Matt held other senior Group roles at Ferguson including Group Financial Controller and Strategic Planning Manager.

Matt joined Ferguson from BPB plc, the former FTSE 100 manufacturer of building interiors, which was acquired by Saint-Gobain during his tenure. Matt qualified as a Chartered Accountant with KPMG LLP and holds a degree in Engineering Science from The University of Oxford.

Matt holds no other listed or non-listed directorships.

D

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 is currently serving as Chairman of easyJet plc. Prior to his current appointments, John served as Chairman of Cable and Wireless Worldwide plc, Brit Holdings plc and Wellington Underwriting plc and has served as Senior Independent Director of WHSmith plc and Hammerson 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.

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 listed companies for the past 15 years 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.

A N R

TIM SURRIDGE

Independent Non-Executive Director

Skills and experience

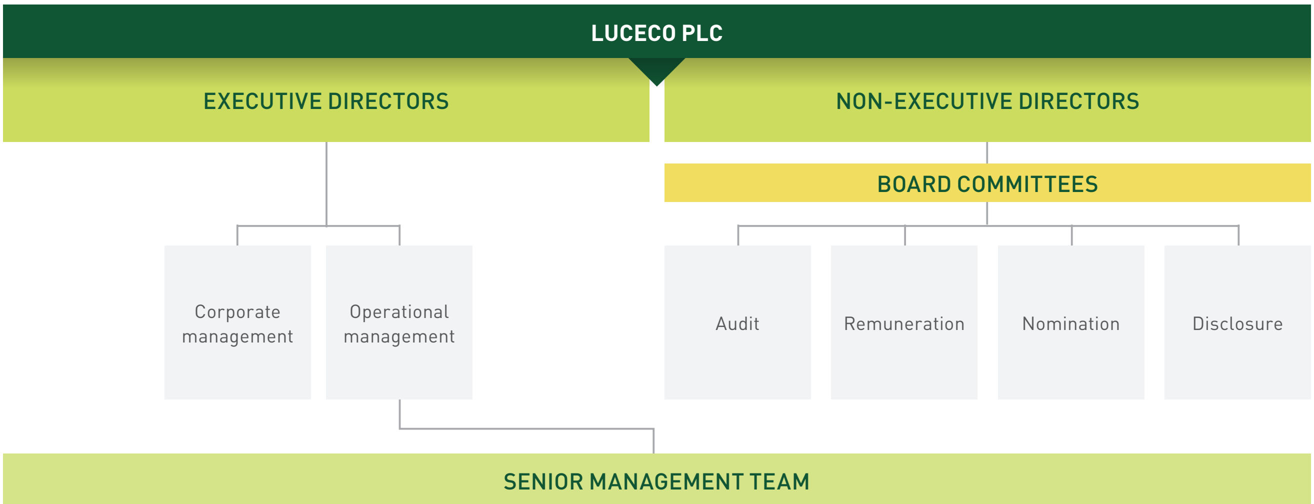
Tim joined the Group as an independent Non-Executive Director on 27 September 2016. Previously Tim has served as Group Chief Financial Officer at Olive Group Capital Limited, a Dubai based security solution provider, and as Chief Financial Officer and an Executive Director at Dangote Cement plc, Nigeria's largest cement producer. Tim joined KPMG LLP UK in 1991 and became a partner in the firm's Transaction Services business in 2006. He has considerable accounting and advisory experience including stockmarket 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.

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 Code.

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

Board composition, roles and independence

The Board comprises the Chairman, two Executive Directors and three independent Non-Executive Directors ("NEDs"), 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 set out on pages 42 and 43. The key responsibilities of the members of the Board are as set out in the table below:

Board composition and roles	
Chairman Giles Brand	The Chairman 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 Non-Executive Directors 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 Non-Executive Director, 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 Non-Executive Directors.
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 Non-Executive Directors are also members of the Board Committees (with the exception of the Disclosure Committee), with responsibility for audit, financial control and risk management, composition and remuneration of the Board.

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 Executive Directors work solely for the Group. Neither John Hornby nor Matt Webb have any other directorships. 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. 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.

Board responsibilities and procedures

The Board is collectively responsible for leading and controlling all activities of the Group with overall authority for the management and conduct of the Group's business, strategy and development.

The Board sets the strategic direction of the Group 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.

Matters reserved exclusively for Board review and approval 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.

In advance of their meetings, the Board is provided with an agenda and all relevant documentation and financial information in a timely manner to assist them in the discharge of their duties and ensuring that decisions are well informed and made in the best interests of the Group. The Directors are able to take independent, professional advice to assist them, if necessary, at the Company's expense. No one Board member has the power to make a decision without the sanction of the other members.

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.

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 Non-Executive Director, 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, is 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 their objectives.

The Board is fully accountable to the shareholders for the performance and conduct of the business.

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 included in pages 48 to 50.

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 51.

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 included in pages 52 to 66.

CORPORATE GOVERNANCE REPORT CONTINUED

Disclosure Committee

The Board has delegated responsibility to the Disclosure Committee to oversee the Company's compliance with the UKLA'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 only when requested and met once during the year.

The Disclosure Committee is chaired by Giles Brand, and its other members are John Hornby and Matt Webb. The Disclosure Committee meets as necessary or appropriate and 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

Board evaluation

During the year, a performance evaluation was undertaken by way of a questionnaire.

Performance evaluation considers the composition, balance of skills, experience, knowledge, how the Board work together and any other factors relevant to its effectiveness. The Chairman acts on the results of the performance evaluation, recognising the strengths and addressing weaknesses through training and development or where appropriate by proposing the appointment of new members to the Board or seeking the resignation of Directors.

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. The outcome of the evaluation demonstrated that the Board is operating effectively and that the functional improvements that were identified including the receipt of greater analytical information of strategic initiatives have now been actioned.

Board meetings and attendance during the year

Director	Scheduled Board meeting	Audit Committee	Nomination Committee	Remuneration Committee
Giles Brand	7/7	n/a	1/1	n/a
John Hornby	7/7	n/a	n/a	n/a
David Main	7/7	n/a	n/a	n/a
John Barton	7/7	3/3	1/1	3/3
Caroline Brown	7/7	3/3	1/1	3/3
Tim Surridge	7/7	3/3	n/a	3/3

David Main resigned from his post as Chief Financial Officer on the 19 February 2018.

The Company alternates the bi-monthly Board meeting with a bi-monthly operational meeting headed by the Chairman and attended by the Executive Directors and members of the senior management team.

Board activity

The Board agenda focuses on the themes of driving our strategy, monitoring risk, and execution of the strategy via 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
- The effective implementation of the Board decisions with the support of the Chief Executive

Acquired Kingfisher Lighting Limited as part of our long-term strategy.

Financial performance

- Considered the financial performance of the business and key performance targets
- Approved the budget and three-year plan
- 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 interim and final dividend recommendations

Governance, stakeholders and shareholders

Reviewed:

- The outcome of the Board evaluation and effectiveness
- The Company's compliance with the Code and key developments in corporate governance
- Feedback from institutional shareholders and analysts following the annual and interim results
- The terms of reference of the Board Committees
- Company policies

Received key legal and regulatory updates on topics such as gender pay gap and payment practices reporting.

Approved the Company's Modern Slavery Act Statement.

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, being the level of risk that the Company is willing to take in pursuit of its objectives
- Conducted an internal control questionnaire survey on all areas of the business, reviewed the recommendations and implemented the actions as a result of the conclusions drawn
- Reviewed the Company's hedging arrangements and strategy, including approving the Company's hedging policy

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

New appointments, development and support

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. The Company will provide any further training deemed necessary at the direction of the Board member.

All Board members have access to the advice and services of the Company Secretary. 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. The Directors are also able to take independent professional advice as deemed necessary to discharge their responsibilities effectively.

During the year there were no new appointments to the Board, however, Matt Webb was appointed as a Director on 19 February 2018. Link Company Matters Limited were appointed as Corporate Secretary on 20 February 2018.

Succession plan

The Board recognises that it needs to have a succession plan in place and a process for maintaining it. The plan will include identification of key talent within the business and the offering of leadership development and training to those individuals with the potential to form part of the future senior management team and Board. This will be an area of focus of the Board and Nomination Committee in 2018.

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 newly appointed Directors since the last AGM to retire and put themselves forward for election. Each Director must then retire from office at the third AGM after the AGM at which he was last elected. A resolution to appoint Matt Webb will be made at the AGM in June. 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 the skills and experience they bring to the Company is included on pages 42 and 43.

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 24 to 26, and also conducts an annual review of the effectiveness of the risk management and internal control systems.

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. Any concerns raised in accordance with the whistleblowing policy are reviewed by the Audit Committee.

Shareholder engagement

The Board 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 main points of contact for major shareholders are the CEO and the CFO. The CEO and CFO regularly go on investor roadshows during the year. Following the announcement of the interim results, there was an extensive roadshow lasting a week with most of the top shareholders of the Company, with the CEO and the CFO present. Any feedback gained from the roadshow is reported back to the Board to enable the Board to understand the views of major shareholders.

Where appropriate, the Company consults with shareholders on significant issues. During 2017, the major shareholders were offered the opportunity to meet the Chairman, CEO and CFO to discuss Luceco's strategy and governance arrangements.

In addition, our financial public relations advisers and corporate brokers gather investor and analyst feedback following meetings and roadshows, which is relayed 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 chairmen attend the AGM to answer any questions that shareholders may have on specific matters within the relevant Committee's remit.

The 2018 AGM will take place at 11.00am on 19 June 2018 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
30 April 2018

AUDIT COMMITTEE REPORT

The Committee's key objectives are the provision of effective financial governance and assistance to the Board in ensuring the integrity of the Group's financial reporting.

Audit Committee

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

Introduction

2017 was a very challenging year for Luceco. Profits were adversely impacted by the discovery of two accounting issues. Firstly, it was identified that the inventory valuation had not been calculated in accordance with the Group's accounting policy and consequently had been overstated. This error led to a review of the balance sheet and resulted in the identification of prior year inter-company reconciliation errors. Swift action was taken to rectify these issues and both were resolved during the year-end process and reflected in this year's financial statements.

The balance sheet review of these matters has been led by our newly appointed CFO, Matt Webb under the supervision of the Audit Committee. Since his appointment, Matt has been responsible for implementing new procedures to address the inventory and inter-company issues and is developing new systems and processes to provide further improvements, all of which will be completed in 2018.

On completion of this review, all material balance sheet items have been examined and the results presented to and discussed at the Audit Committee. The Committee has been briefed by our auditor, KPMG LLP, on the findings of their audit work and on the recommendations from management on the changes required to ensure that the Group's financial reporting and process environment is appropriately enhanced.

Following the internal review, the Committee considered the effectiveness of the Group's financial reporting processes, the performance of the external audit and the management of the Group's systems of internal control, business risk management and related compliance activities. The Committee has taken and will continue to undertake further steps to ensure the Group's control environment is working effectively and efficiently.

In doing so, the Committee and the Board have given its full support to our new CFO to develop a high-class finance function delivering to the needs of the business going forward.

This has clearly been a very challenging year for the management team, as well as for the Board and Audit Committee. I believe we have reacted to the issues raised in a professional and diligent manner, applying our independent judgement and appropriate blend of challenge and support to management.

Key responsibilities

The Committee's main responsibilities, as outlined in its terms of reference, (available on the Group's website) 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 report the findings and recommendations of the auditor to the Board

Internal financial controls and risk management systems

The Board is responsible for the risk management framework and the Committee has been delegated responsibility to review 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
- 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 trade updates

Risk management and internal control systems have been in place during 2017 and are in place as at the date of this report. The Audit Committee, on behalf of the Board, has reviewed the effectiveness of the internal review systems and risk management processes in place during the year, taking account of any material developments since the year end. With the exception of the incorrect assessment of the value of the Group's inventory and the accounting of inter-company transactions, as previously detailed, the Committee has not identified, nor been advised of, any weaknesses that it has determined to be significant. Systems and processes have been put in place to mitigate a re-occurrence of the inventory valuation and the inter-company issues, reviewed and approved by the Committee.

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 performed a review of 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 performance, business model and strategy.

Significant issues considered

The significant areas of accounting judgement that have been considered by the Committee include revenue recognition, valuation of inventory and the capitalisation of development costs. These are also areas of focus for the external auditor, who reports on these matters to the Committee.

The Audit Committee reviewed the following judgements, estimates and assumptions made by the Directors in the production of the Accounts.

Judgement applied	Action taken
Judgement is applied in the determination of rebates and/or discounts due at the year end and the resultant reduction in revenue. Judgement is required as customer agreements may not be coterminous with the year end and the calculation of any rebates and/or discounts can be complex, with varying criteria that require estimation methods to be used in the determination of any rebate and/or discount due.	Management has documented the policy for rebate and discount calculations to ensure that a consistent approach is used for all customers. In preparation for the implementation of IFRS 15, the accounting policy on rebates and other adjustments and resulting revenue recognition have been subject to an initial assessment and it has been concluded that the standard is not expected to have a material effect on revenue recognition when it is adopted in next year's financial statements.
The Group operates in a rapidly evolving, 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. In addition, judgement is applied in determining the amount of overhead to be absorbed into finished goods inventory in accordance with the Group's accounting policy.	The provisioning policy was developed and implemented during the year and will be formalised in the Finance Manual that will be delivered in 2018. Stock provision calculations are performed in conjunction with the product development and sales teams to ensure that the level of provision is sufficient, with reference to changing consumer trends, new product pipeline and the impact, if any, on existing products and has been consistently applied. Overhead absorption rates are reviewed regularly for continued appropriateness as cost functions evolve. The process for applying the appropriate rate to inventory was automated in response to the valuation issues experienced in the year.
The capitalisation of development costs requires judgement to be applied in the assessment of project costs that should be capitalised or expensed. The Group currently apportions project costs as directed by the product development team.	Timesheets are being developed and will be implemented during 2018.

AUDIT COMMITTEE REPORT CONTINUED

KPMG LLP have set out their audit approach and the work they performed to satisfy their audit requirements in these areas in their audit report on page 73.

The principal risks and uncertainties of the Group and their mitigation are included on pages 25 to 27. The crystallisation of these risks has been considered in the Viability Statement on page 27 and Going Concern assessment on page 13.

The Committee has reviewed forthcoming changes in International Financial Reporting Standards ("IFRSs") and management reports were received during 2017 on the progress of the readiness and implementation plan for IFRS 15 – Revenue from Contracts with Customers, 16 – Leases and 9 – Financial Instruments. The Committee is satisfied that the Group will be compliant with effect from the respective implementation dates.

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

External auditor

KPMG LLP has been the Group's auditor since 2014 and the senior statutory auditor is Stuart Smith, who has been in place since KPMG's LLP's appointment.

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 twenty years.

The independence and objectivity of the auditor is regularly considered by the Committee taking into consideration relevant UK professional and regulatory requirements. The Committee reviews an annual statement from the auditor detailing their independence policies and safeguards and confirming their 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 2017. Audit fees payable by the Group to KPMG LLP in 2017 totalled £0.2m (2016: £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 2017, these totalled £0.1m (2016: £0.9m). Costs incurred in 2017 relate to the Kingfisher Lighting acquisition. Costs incurred in 2016 relate to the Group's IPO on the London Stock Exchange.

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 2017 audit, discussing the results of the external auditor testing (including their views on material accounting issues and key judgements and estimates) and their audit report. The Committee concluded that a resolution to reappoint KPMG LLP as the Company's auditor will be put to shareholders at the 2018 AGM.

Internal audit

The Group did not have an internal audit function during the year. During 2017, the Committee reviewed the preliminary results of the internal control review. The Committee is confident that the new CFO has put in place new processes which will be adequate in the future. The Committee will 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

The Committee is responsible for monitoring and periodically reviewing the Group's whistleblowing and anti-bribery policies. The CFO, Matt Webb, is the Group's Compliance Officer. The Committee 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 2018

During the forthcoming year, the Committee will focus on the completion of the implementation of the plan approved by the Committee and under the leadership of the CFO to further appropriately strengthen the Group's finance function.

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

CAROLINE BROWN
Audit Committee Chair
30 April 2018

NOMINATION COMMITTEE REPORT

The Board composition remains strong, operating effectively and continues to provide effective leadership to help support the growth of the Group whilst upholding the expectations of our shareholders.

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, (available on the Group's website) are:

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

Board composition

The Committee has reviewed the size, composition and capabilities of the Board during 2017, 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.

Succession planning

Currently, all the independent Non-Executive Directors and the Chairman have been appointed for fewer than six years, and it is not expected that any changes will be made in the near future. 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.

During the year, a preliminary discussion was held with respect to succession planning for the Executive Directors and the CEO's plan for senior management succession. The Committee is satisfied that appropriate plans are in place; however, senior management succession planning will be of particular focus in 2018.

Diversity

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 recruitment and promotion of individuals throughout the Group, including those at Board and senior management level, and always consider relevant skills, experience, knowledge, ability, gender and ethnicity. More information on the Group's gender profile is included in Corporate and Social Responsibility on page 38.

Appointments

The Committee has agreed, in the event that an appointment to the Board is deemed appropriate, a role description would be devised following a review of the skills and experience of the Board. Should the Committee be dealing with the appointment of a successor for the Chairmanship, Caroline Brown or John Barton would chair the Committee. External search consultants would be engaged to ensure consideration of the widest and most diverse pool of potential candidates for the role.

Annual evaluation of the Nomination Committee

As part of the Board evaluation process, as described in the Corporate Governance Report on page 44, 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 42 and 43. The Committee has considered each Director and concluded that they continue to demonstrate the necessary knowledge and commitment to contribute effectively to the Board.

Director changes post year end

On 19 February 2018, David Main stepped down as Chief Financial Officer. As part of previous succession planning processes undertaken by senior management, potential candidates had been identified and, following consideration of the role and the capabilities of those individuals identified and approval by the Committee, Matt Webb was appointed to be Chief Financial Officer on 19 February 2018, and, as per the requirements of the Company's Articles, will stand for election at the forthcoming AGM.

Priorities 2018

During the forthcoming year, the Committee will focus on senior management succession planning.

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

GILES BRAND
Nomination Committee Chair

30 April 2018

REMUNERATION COMMITTEE REPORT

We are committed to operating a Remuneration Policy that recognises and rewards performance to support the Group achieve its strategic objectives.

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 2017. I am joined on the Committee by John Barton and Caroline Brown.

Whilst 2017 was a record year of sales for the Group, it was overshadowed by the discovery of the inventory valuation and inter-company reconciliation issues which is hugely disappointing for the Group and all stakeholders.

Strong sales overseas and record trading within the UK combined to help generate the highest ever annual Group revenue, up 25.4% to £167.6m, adjusted operating profit increased to £14.7m from £14.5m.

The inventory valuation issue has unfortunately, though understandably, overshadowed our 2017 results. However, I am pleased with the Group's continued strategic plan, since the Group's IPO in October 2016. We are already seeing results of this plan, with the strategic acquisition of Kingfisher Lighting during the year as well as continued investment in product development with the expansion of product ranges and new product launches and our continued growth in international markets.

Board changes

David Main stepped down as Chief Financial Officer on 19 February 2018 with his employment ending on 31 March 2018. He did not receive a bonus in respect of 2017 and shall neither receive a bonus for the period in which he was employed during 2018 nor for his six-month notice period. The unvested awards under the 2017 Performance Share Plan and the linked CSOP award of share options will vest on the normal vesting date to the extent the applicable performance conditions are met and will be pro-rated (as a proportion of the relevant performance period) for the period of employment to 31 March 2018. Further detail is provided on page 57.

Matt Webb was appointed Chief Financial Officer on 19 February 2018. Matt's remuneration arrangements are in-line with our Remuneration Policy and are outlined below. No 'buy-out' awards were made to Matt on joining the Group.

Priorities for 2018

The Committee intends to focus attention on the following areas in 2018 and make appropriate recommendations to the Board:

- The implementation of the Remuneration Policy for 2018 as outlined in this report
- Determination of the reward outcomes for 2018
- Determination of how the reward framework will be implemented for 2019
- Review of remuneration trends and governance developments
- Consideration of our approach to all employee reward and comparison to our Remuneration Policy for Executive Directors

Implementation of Remuneration Policy for 2018

Following our IPO in October 2016 the Committee worked to develop a remuneration policy that is simple, transparent and aligned with our strategic goals. We are pleased that our Remuneration Policy was approved by shareholders at the AGM in May 2017 with a 99.8% vote in favour. We are not proposing any changes to our Remuneration Policy this year.

The salary for the CEO was reviewed with effect from 1 January 2018 and was reduced to £325,000. The salary for the new CFO, Matt Webb, has been set at £300,000 per annum, which the Committee appreciates is higher than the salary for the previous CFO. However, the Committee considers that this level of salary is appropriate to reflect Matt's calibre, experience and his scope to contribute to the Group. The Committee believes that this salary is appropriately positioned compared to other companies of a similar size and complexity.

The maximum annual performance bonus remains at 100% of base salary for both the CEO and CFO. For 2018 the annual bonus for both the CEO and CFO will be based on Profit After Tax and Free Cash Flow, with 20% of their respective bonuses being based on the achievement of personal objectives linked to operational and strategic business objectives.

An award of 50% of salary will be made under the PSP in 2018 to the CEO and an award of 150% of salary will be made under the PSP to the CFO. These awards are subject to meeting stretching EPS and Total Shareholder Return performance targets over a three-year period. For 2018 PSP awards, EPS targets have been set at 10% p.a. for target vesting and 25% p.a. for maximum vesting. The Committee set targets taking into account internal and external expectations of performance and the Committee believes that these targets are appropriately stretching.

Remuneration paid for 2017

The CEO's bonus was based 50% on Profit after Taxation and 50% on Free Cash Flow targets. The CEO, John Hornby, waived his right to a bonus in respect of 2017.

All-employee reward

During 2017, the Group implemented a Share Incentive Plan under which eligible UK employees were awarded free shares in the Group. They will also be able to purchase further shares in the business and may receive matching shares. The implementation of this plan reflects the Group's philosophy of enabling its employees to share in the success of the business.

We look forward to receiving your support for our Annual Remuneration Report at the AGM.

TIM SURRIDGE
Remuneration Committee Chair

30 April 2018

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.

The report sets out how the Remuneration Policy was implemented in 2017 and how it will be implemented in 2018. It will be subject to an advisory shareholder vote at the 2018 AGM.

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 2017 and 2016.

Director	Year	Basic salary/fees £'000	Benefits £'000	Pension £'000	Annual bonus £'000	Long-term incentives £'000	Total £'000
John Hornby	**2017**	**350**	**15**	**—**	**—**	**—**	**365**
	2016	323	14	—	—	—	337
David Main[1]	**2017**	**175**	**9**	**15**	**—**	**—**	**199**
	2016	46	2	4	94	—	146
Giles Brand	**2017**	**50**	**—**	**—**	**—**	**—**	**50**
	2016	8	—	—	—	—	8
John Barton	**2017**	**50**	**—**	**—**	**—**	**—**	**50**
	2016	58	—	—	—	—	58
Caroline Brown	**2017**	**50**	**—**	**—**	**—**	**—**	**50**
	2016	8	—	—	—	—	8
Tim Surridge	**2017**	**50**	**—**	**—**	**—**	**—**	**50**
	2016	8	—	—	—	—	8

Where a Director was appointed during the financial year, salaries and fees are for the period of employment.

1. David Main was appointed as a Director on 27 September 2016. His emoluments are shown from that date. On 19 February 2018 it was announced that David would be stepping down from the role of Chief Financial Officer effective from this date.

Explaining the single figure

Salary

The CEO's salary was set at £350,000 per annum from 1 November 2016 following the IPO in October 2016 to reflect better the scope and responsibility of the role in the listed environment.

The CFO's salary was set at £175,000 per annum from 1 November 2016 following the IPO in October 2016.

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 8.5% 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.

REMUNERATION COMMITTEE REPORT CONTINUED

Annual bonus

For the year ended 31 December 2017, the CEO's bonus was based on the achievement of profitability and free cash flow targets. The CFO's bonus was based on the achievement of profitability, free cash flow targets and personal objectives. The maximum annual performance bonus was 100% of base salary.

		Weighting	
Measure	Rationale	CEO	CFO
Profit after tax	To incentivise executives to continue to grow the business and improve profit performance	50%	30%
Free cash flow	To continue to focus executives on operational efficiencies and the generation of cash to fund growth	50%	50%
Personal objectives	To incentivise executives to achieve specific operational and strategic business objectives	—	20%
Total		**100%**	**100%**

The bonus is payable in cash. 50% of the bonus will be achieved for meeting on-target levels of performance with the full bonus payable for meeting performance significantly in excess of target.

John Hornby and David Main did not receive a bonus in respect of 2017. David Main will neither receive a bonus for the period in which he was employed during 2018, nor for his six-month notice period. As bonus payments have not been paid the performance against targets has not been illustrated.

Payments to former Directors (audited)

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

Payments for loss of office (audited)

There were no payments made in respect of loss of office during the year.

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

2017 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 Group's AGM held on 25 May 2017.

The following awards were granted on 25 May 2017 in the form of nominal cost options over the number of ordinary shares of 0.05p in the Group under the terms of the PSP.

Board Directors	Role	Form of award	Number of shares awarded	Face value of award[1]	Percentage vesting for achieving minimum performance	Performance period
John Hornby	Chief Executive	Nil cost option	145,331	£350,000	25%	1 January 2017 to 31 December 2019
David Main	Chief Financial Officer		72,665	£175,000		

1. Calculated based on share price of £2.408 being the closing price on 25 May 2017.

The awards will vest subject to the satisfaction of performance conditions measuring the Group'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, which runs from 1 January 2017 to 31 December 2019. No consideration was paid for any of the awards.

The EPS performance condition

As soon as reasonably practicable after the end of the Performance Period, the Board will determine (i) the annual compound growth in the Group's EPS over the Performance Period; and (ii) the extent to which (if at all) the EPS Performance Condition has been satisfied by reference to the table below:

Annual compound growth in EPS over the performance period	Extent to which the EPS performance condition has been satisfied
30% or more	100%
Between 15% and 30%	On a straight-line basis between 25% and 100%
15%	25%
Less than 15%	0%

The TSR performance condition

As soon as reasonably practicable after the end of the Performance Period, the Board will: i) obtain the calculations of the TSR of the Group and of each member of the Comparator Group (being the FTSE SmallCap excluding investment trusts) for the Performance Period; and ii) rank the Group and the members of the Comparator Group by TSR. The Board will, having completed such calculations, determine the extent to which (if at all) the TSR Performance Condition has been satisfied by reference to the table below:

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%

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 2018**	**Ordinary shares held at 31 December 2017**	Ordinary shares held at 31 December 2016[1]	Nil cost options subject to performance measures	Market value options subject to performance measures	Shareholding requirement (% of salary)	Current shareholding[2]	Requirement met?
John Hornby	**31,396,514**	**31,396,512**	33,396,000	145,331	12,457	100%	4,513%	Yes
David Main	**38,462**	**38,462**	38,462	72,665	12,457	100%	11%	No

1. Adjusted to reflect the 2016 share subdivision.
2. Shareholding as a percentage of salary.

Only shares beneficially held count towards Executive Directors shareholding guidelines. The value of Executive Directors' shareholding has been calculated using the share price of 31 December 2017 of 111.0p.

REMUNERATION COMMITTEE REPORT CONTINUED

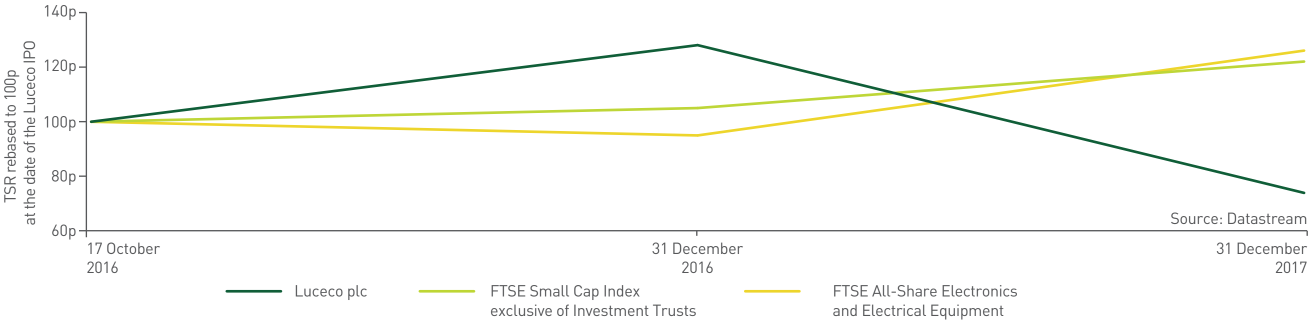
Non-Executive Directors

	Ordinary shares held at 31 March 2018	**Ordinary shares held at 31 December 2017**	Ordinary shares held at 31 December 2016
Giles Brand[1]	**8,844,000**	**8,844,000**	8,844,000
John Barton[2]	**38,462**	**38,462**	38,462
Caroline Brown	**—**	**—**	—
Tim Surridge	**19,231**	**19,231**	19,231

1. Giles Brand is Managing Partner of EPIC Investments LLP, who owns 39,081,000 (2016: 39,081,000) shares in the Group.
2. John Barton received a £50,000 payment on acceptance of his appointment as Senior Independent Non-Executive Director and the post-tax amount was fully invested in the Group's shares. John also personally invested in the Group's shares on appointment to increase his shareholding to 38,462 shares.

Review of past performance

The graph below shows the historical Total Shareholder Return ("TSR") of the Group and the FTSE Small Cap 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 2017. The Group has chosen those indices to reflect its size and the key sector within which it operates.



Performance graph and table

The table below shows the CEO's "single figure" remuneration for the six years ended 31 December 2017. John Hornby was CEO for the full period.

	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	**2017 £'000**
Total remuneration	213	219	251	314	337	**350**
Annual bonus (% of max)					nil	**nil**
LTIP vesting[1] (% of max)	n/a	n/a	n/a	n/a	n/a	**n/a**

1. No LTIPs were in place during the reporting periods 2013 to 2016.

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.

Percentage change in the remuneration of the CEO

The following table sets out the change in remuneration paid to the CEO from 2016 to 2017 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 2016–2017	
	Group CEO	UK employees
Salary	8.4	1.0
Bonus	—	(21.5)
Benefits	7.1	63.6

The CEO has accepted a 7% salary reduction from £350,000 to £325,000 with effect from 1 January 2018.

The main benefits provided include 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 2017 and 2016.

	31 December 2017 £m	31 December 2016 £m	% change
Overall spend on pay for employees including Executive Directors[1]	**28.0**	27.2	2.9
Distributions to shareholders[2]	**1.8**	n/a	—

1. Figures are taken from note 4 to the financial statements.
2. Distributions to shareholders by way of dividend were paid to shareholders during 2017.

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. 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, as well as payment in respect of the car allowance which would have otherwise been payable for this notice period. David Main did not receive a bonus in respect of 2017 and he will not receive a bonus 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 will be 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.

Remuneration principles

Remuneration arrangements are designed to:

- Support our long-term growth strategy. The measures used in our short and long-term incentives focus on improving our profit performance and generating returns for our shareholders
- Align with shareholders' interests. A significant portion of our package is delivered in shares and Executive Directors are required to meet a minimum shareholding guideline
- Align with the wider Group. The reward principles that govern Executive Directors' remuneration are aligned with the broader reward philosophy and principles of the Group. When determining remuneration for the Executive Directors, the Committee gives consideration to pay and conditions in the wider employee population

Statement of implementation of Remuneration Policy in 2018

Executive Directors

Salary

John Hornby accepted a £25,000 reduction in salary to £325,000 with effect from 1 January 2018 in response to recent Group performance.

Matt Webb's salary has been set at £300,000 per annum. The Committee appreciates that this salary is higher than the salary for the previous CFO. However, the Committee considers that this level of salary is appropriate to reflect Matt's calibre, experience and his scope to contribute to the Group. The Committee believes that this salary is appropriately positioned compared to other companies of a similar size and complexity.

Benefits

No changes have been proposed to the benefit structure in 2018. Executive Directors will continue to receive a mobile phone, private medical insurance, life insurance, critical illness cover and a fully expensed car or cash equivalent.

Pension

The Group operates a defined contribution scheme for the Executive Directors based on a percentage of salary. The CEO does not participate in the scheme and a contribution rate of 5% is made for the CFO. This reflects the contribution levels available to other employees in the UK.

REMUNERATION COMMITTEE REPORT CONTINUED

Annual bonus

The maximum annual performance bonus is 100% of base salary for the CEO and CFO. For 2018, the annual bonus will be based on the following measures:

		Weighting	
Measure	Rationale	CEO	CFO
Profit after tax	To incentivise executives to continue to grow the business and improve profit performance	30%	30%
Free cash flow	To continue to focus executives on operational efficiencies and the generation of cash to fund growth	50%	50%
Personal objectives	To incentivise executives to achieve specific operational and strategic business objectives	20%	20%
Total		**100%**	**100%**

The bonus is payable in cash. 50% of the bonus will be achieved for meeting on-target levels of performance with the full bonus payable for meeting performance significantly in excess of target.

Annual bonus targets for 2018 have not been disclosed as these are considered to be commercially sensitive. It is intended that targets will be disclosed in full in the 2018 Directors' Remuneration Report.

Long-term incentives

Awards with a value of 50% of salary have been made under the PSP in 2018 to the CEO and awards with a value of 150% of salary have been made under the PSP in 2018 to the CFO. These awards are subject to meeting stretching performance targets over a three-year period. The performance measures for these awards are as follows:

- Total shareholder return relative to the FTSE Small Cap index excluding investment trusts
- Adjusted earnings per share growth

Performance targets and vesting levels for 2018 awards are as follows:

	Relative TSR	EPS
100% vesting	Upper quartile	25% p.a. growth
25% vesting	Median	10% p.a. growth

There will be straight-line vesting between each point.

Non-Executive Directors

Non-Executive Directors are paid a basic fee for their Board role with additional fees payable for undertaking the Senior Independent Director role and for chairing a Committee. The Chairman is paid an all-inclusive fee. There have been no changes to the Non-Executive Director or Chairman's fees with effect from 1 January 2018 and our policy is summarised below:

Role	Annual fee £'000
Chairman	50
Non-Executive Director basic fee	40
Senior Independent Director fee	10
Audit Committee Chair fee	10
Remuneration Committee Chair fee	10

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 2017, neither Executive Director held any external directorship.

Executive Directors' service contracts

The service contract of the CEO 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. David Main's service contact was dated 8 February 2016.

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

Re-election by shareholders

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.

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
- Monitor the level and structure of remuneration of senior management in conjunction with the Executive Directors
- Review 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 two 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 2018 and agree performance targets for 2018.

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 2018, 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 2018 as outlined in this report and feedback from the AGM on the Remuneration Policy
- Determining reward outcomes for 2018
- The implementation of a Performance Share Plan for executives
- Determining how the reward framework will be implemented for 2019
- Review of remuneration trends and governance developments

Remuneration Committee advisers

During the year to 31 December 2017, 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 £12,550 for advice provided to the Committee. Deloitte did not provide any additional services to the Group during the year.

Shareholder voting

At the last AGM in May 2017 the following resolutions in relation to remuneration were put by the Group:

Resolution	Votes for	% for	Votes against	% against	Votes withheld
To approve the Directors' Remuneration Report	103,013,642	99.69%	320,317	0.31%	231,083
To approve the Remuneration Policy	103,327,591	99.77%	237,451	0.23%	—

REMUNERATION COMMITTEE REPORT CONTINUED

Remuneration Policy report

The following table sets out our Remuneration Policy for Directors ("Policy"). This Policy was put to shareholders for approval at the AGM in May 2017 and applies to payments made from this date. The following sets out the policy approved by shareholders for easy of reference.

Policy table

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary			
To ensure that the Group is able to attract and retain talented Executive Directors to deliver the strategy of the business.	The Committee sets base salary taking into account: • The individual's skills, experience and their performance • Salary levels at other companies of a similar size • Pay and conditions elsewhere in the Group Any salary increases are normally effective from 1 January.	Whilst there is no maximum salary, increases will normally be in line with the typical increases awarded to other employees in the Group. However, increases may be above this level in certain circumstances such as: • Where an Executive Director has been appointed to the Board at a lower than typical market salary to allow for growth in the role, larger increases may be awarded to move salary positioning closer to typical market level as the Executive Director gains experience • Where an Executive Director has been promoted or has had a change in responsibilities • Where there has been a significant change in market practice	n/a
Pension			
To provide appropriate levels of retirement benefit to attract and retain talented Executive Directors.	Executive Directors generally receive a contribution to a defined contribution pension scheme (or equivalent) or a cash allowance in lieu of a pension.	The maximum annual pension contribution or cash allowance is 8.5% of salary.	n/a
Benefits			
To ensure that the benefits offered by the Group remain competitive in the markets in which it operates and are in line with those provided to other Group employees in a position of management or responsibility.	Current benefits include: car allowance (£9,000 p.a.), mobile phone, life insurance and private medical insurance. Executive Directors may participate in the SIP and any other all-employee plans on the same basis as other employees up to HMRC approved limits. The Committee may introduce other benefits if it is considered appropriate to do so. Executive Directors shall be reimbursed for all reasonable expenses and the Group may settle any tax incurred. Where an Executive Director is required to relocate to perform their role the appropriate one-off or ongoing expatriate benefits may be provided (e.g. housing, schooling etc).	There is no maximum level of benefit.	n/a

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus			
The role of the annual performance bonus is to incentivise and reward the Executive Directors for the delivery of the Group's strategy and objectives.	Bonuses are normally paid in cash following the year end. Bonuses are not pensionable. Bonuses are based on annual performance targets. Malus and clawback provisions apply, detailed on page 62. The Committee may adjust the bonus award if it does not consider that it reflects underlying Group performance but may not exceed the maximum policy limit.	Maximum opportunity of 100% of base salary. Around 50% of the bonus shall payout for on-target levels of performance. The Committee may change this level in future years if it is considered appropriate taking into account the stretch of the targets and may introduce a payout for achieving performance below on-target.	The Committee shall determine performance measures for the bonus each year. These may include financial measures (for example profitability and cash flow) and other metrics linked to the delivery of the business strategy. No less than 70% of the annual bonus will be based on financial measures. The Committee has the discretion in exceptional circumstances to adjust the performance targets/set different measures if events occur outside of management control or where the target no longer satisfies its original purpose to ensure that pay is aligned with performance.
Performance Share Plan			
The PSP aligns shareholder interests with the Executive Directors and participating employees, incentivising them to achieve specified performance measures over a three-year period. The PSP also acts as a retention tool.	Awards can be in the form of conditional shares or nil-cost options or in such other form that the Committee determines has the same economic effect. Where awards are in the form of nil-cost options, participants may have up to ten years from grant to exercise awards. 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. Awards normally vest based on performance assessed over a period not shorter than three years. The Committee retains the discretion to adjust the final vesting level if it does not consider that it reflects the underlying performance of the Group. Malus and clawback provisions apply, as detailed on page 62.	The maximum annual award in respect of a financial year is 150% of base salary. It is currently intended that awards to Executive Directors will not exceed 100% of base salary. Typically 25% of awards vest for threshold levels of performance.	Awards granted in 2018 will vest subject to a combination of adjusted EPS and relative TSR. These measures will be equally weighted. The Committee may use different performance measures for future awards if it is deemed appropriate.

REMUNERATION COMMITTEE REPORT CONTINUED

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Company Share Option Plan			
It is not intended that awards will be made to Executive Directors under this plan during the life of the policy. The CSOP aligns shareholder interests with participating employees, incentivising them to achieve specified performance measures over a three-year period. The CSOP also acts as a retention tool.	Awards can take the form of market value share options. Awards would be subject to performance assessed over a period of no less than three years. The Committee retains the discretion to adjust the final vesting level if it does not consider that it reflects the underlying performance of the Group. Awards may be exercised once vested for up to ten years following the date of grant. Options can be granted in the form of unapproved options or HMRC approved options up to the HMRC limit at the date of grant. Malus and clawback provisions apply, as detailed on page 62.	The maximum annual award is 100% of salary. Typically 25% of awards vest for threshold levels of performance.	If this plan were operated, appropriate performance conditions would be determined by the Committee at the time of award and disclosed in the Remuneration Committee report for that year.

Luceco also operates shareholding guidelines for Executive Directors, as set out on page 55.

Information supporting the policy

Malus and clawback

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 and CSOP 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.

The Remuneration Committee has considered the impact of the prior year restatements set out on page 92 on historic remuneration paid to the Executive Directors. It has concluded that no adjustment is necessary as John Hornby did not receive a bonus for the financial years impacted by prior year adjustments. David Main received a bonus for 2016 that was not under malus and clawback dependent on financial performance.

Share plan operation

Awards under any of the Group's share plans may:

- Have any performance conditions applicable to them amended or substituted by the Committee in circumstances where the Committee determines an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy
- Incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under an award that vest up to the time of vesting. This amount may be calculated assuming that the dividends have been reinvested in the Group's shares on a cumulative basis (this provision does not apply to the CSOP)
- Be settled in cash at the Committee's discretion
- Be adjusted in the event of any variation of the Group's share capital or any demerger, delisting, special dividend or other event that may affect the Group's share price

Approved payments

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before 25 May 2017 or (ii) at a time when the relevant individual was not a Director of the Group and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Group. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Selection of performance measures

Annual bonus

The annual bonus performance measures are intended to incentivise Executive Directors to achieve the financial objectives of the Group and deliver the business strategy. The particular bonus metrics are selected by the Committee each year to ensure that Executive Directors are appropriately focused on the key objectives for the next twelve months.

Performance Share Plan

Our long-term strategic objective is to provide long-term sustainable returns for all of our shareholders. It is intended that awards made in 2018 will be based on relative TSR performance and adjusted EPS growth. The Committee believes the measures are aligned with our strategy and will incentivise Executive Directors to deliver enhanced shareholder value.

Performance targets for both the annual bonus and PSP are set taking into account internal budget forecasts, external expectations and the need to ensure that targets remain motivational.

Remuneration arrangements throughout the Group

Remuneration arrangements are determined throughout the Group based on the same principle; that reward should be sufficient to attract and retain high calibre talent without paying more than is necessary and that reward should support the delivery of the business strategy.

The senior management team, managers and members of the sales teams are eligible to earn bonuses subject to delivering against specific performance measures. Employees have access to healthcare provision in proportion to their seniority; other benefits may be provided and are limited to the grade, seniority and role performed by the employee. The Group also contributes to employee pensions either through its defined contribution pension scheme or through The People's Pension depending on the grade of the employee.

Remuneration outcomes in different performance scenarios

The charts below set out an illustration of how policy will be applied for 2018. The charts have been updated from those included in the 2017 Policy to reflect the package for the new CFO. The charts provide an illustration of the proportion of total remuneration made up of each component of the Remuneration Policy and the value of each component.

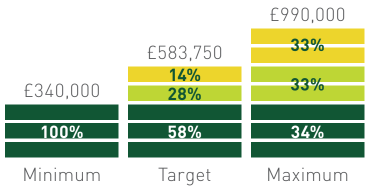
Three performance scenarios have been illustrated for each Executive Director:	
Below threshold performance	• Fixed remuneration • No annual bonus payout • No vesting under the PSP
Mid-range performance	• Fixed remuneration • 50% annual bonus payout • 25% vesting under the PSP
Maximum performance	• Fixed remuneration • 100% annual bonus payout • 100% vesting under the PSP

The charts have been prepared on the following basis:

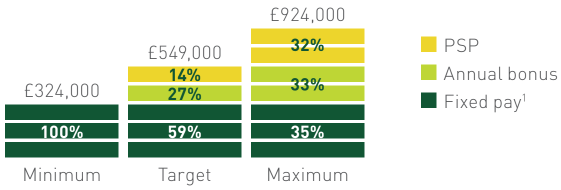
- **Base salary** – the base salary in place at 1 January 2018 for the CEO and CFO
- **Benefits** – based on the disclosed benefits for 2017 for the CEO. For the CFO benefits are based on an estimated value
- **Pension** – based on the maximum contribution/allowance of 5.0% of base salary for the CFO. The CEO does not receive any pension benefit
- **Bonus** – based on the maximum award of 100% of base salary
- **PSP** – based on the maximum award of 100% of base salary

No share price growth or the payment of dividend equivalents has been assumed. Potential benefits under all-employee plans have not been included.

John Hornby – CEO



Matt Webb – CFO



1. Fixed pay includes an estimate for benefits payable to the Directors per the assumptions on page 63.

REMUNERATION COMMITTEE REPORT CONTINUED

Remuneration Policy for newly appointed Directors

When determining the remuneration package for a newly appointed Executive Director, the Committee would seek to apply the following principles:

- The package should be market competitive to facilitate the recruitment of individuals of sufficient calibre to lead the business. At the same time, the Committee would intend to pay no more than it believes is necessary to secure the required talent
- New Executive Directors will normally receive a base salary, benefits and pension contributions in line with the policy described on pages 60 to 62 and would also be eligible to join the bonus and share incentive plans up to the limits set out in the Policy
- In addition, the Committee has discretion to include any other remuneration component or award which it feels is appropriate taking into account the specific circumstances of the recruitment, subject to the limit on variable remuneration set out below. The key terms and rationale for any such component would be disclosed as appropriate in that year's Remuneration Report
- Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of appointment, the Committee may offer compensatory payments or awards, in such form as the Committee considers appropriate, taking into account all relevant factors including the form of awards, expected value and vesting timeframe of forfeited opportunities
- When determining any such "buyout", the guiding principle would be that awards would generally be on a "like-for-like" basis unless this is considered by the Committee not to be practical or appropriate
- The maximum level of variable remuneration which may be awarded (excluding any "buyout" awards referred to above) in respect of recruitment is 250% of salary, which is in line with the current maximum limit under the annual bonus and PSP
- Where an Executive Director is required to relocate from their home location to take up their role, the Committee may provide assistance with relocation (either via one-off or on-going payments or benefits)
- In the event that an internal candidate is promoted to the Board, legacy terms and conditions would normally be honoured, including pension entitlements and any outstanding incentive awards

To facilitate any buyout awards outlined above, in the event of recruitment the Committee may grant awards to a new Executive Director relying on the exemption in the Listing Rules which allows for the grant of awards, to facilitate, in unusual circumstances, the recruitment of an Executive Director, without seeking prior shareholder approval or under any other appropriate Group incentive plan.

The remuneration package for a newly appointed Non-Executive Director would normally be in line with the structure set out in the policy table for Non-Executive Directors on page 66.

Executive Directors' service contracts and leaving policy

When determining leaving arrangements for an Executive Director, the Committee takes into account any contractual agreements including the provisions of any incentive arrangements, typical market practice and the performance and conduct of the individual.

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. The service contracts are available for inspection at the AGM and at the Group's registered office. For new appointments, notice will normally be limited to nine months on either side.

In the event of early termination of the 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.

The Committee may make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with their cessation of office or employment.

The service contracts of the Executive Directors contain restrictive covenant clauses for a period of twelve months' post-employment relating to non-competition, non-engagement and non-solicitation of the Group's customers, suppliers and employees and confidentiality undertakings. In addition, they provide for the Group to own any intellectual property rights created by the Directors in the course of their employment.

Annual bonus

The Committee may determine that an Executive Director may remain eligible to receive a pro-rata bonus for the financial year in respect of the period they remained in employment. The Committee will determine the level of bonus taking into account time in employment and performance.

Share plan leaver rules

The treatment of leavers under the Group's long-term incentive plans is determined by the rules of the relevant plans.

Good leavers[1]	Leavers in other circumstances
Performance Share Plan	
If a participant dies, their PSP award will vest to the extent determined by the Committee, taking into account the extent to which the performance conditions have been met and unless the Committee determines otherwise the proportion of the performance period that has elapsed. If the participant ceases to be an officer or employee of the Group for any other "good leaver" reason, their award will vest on the original vesting date, or, if the Committee so determines, as soon as practicable after the date of cessation. The extent to which awards vest in these circumstances will be determined by the Committee, taking into account the extent to which the performance conditions have been satisfied, and, unless the Committee determines otherwise the proportion of the performance period that has elapsed. Participants have six months to exercise awards (twelve months in the case of death).	Awards lapse. Participants have six months to exercise vested options.
Company Share Option Plan	
A participant's CSOP award will vest to the extent determined by the Committee, taking into account the extent to which the performance conditions have been met and pro-rata to the proportion of the vesting period elapsed since grant, unless the Committee determines the performance conditions should be waived. Participants have six months to exercise their awards (twelve months in the case of death) from the cessation of employment.	Awards lapse. Participants have six months to exercise vested options.
SIP	
Leaver provisions are determined in accordance with HMRC approved provisions.	

1. Death, ill-health, injury, disability, redundancy, retirement or the sale of their employing entity out of the Group, or for any other reason at the Committee's discretion.

Change of control

In the event of a takeover or winding up of the Group, share awards may vest early. The extent to which CSOP awards vest will be determined by the Committee by reference to, unless the Committee determines otherwise, the performance conditions and the proportion of the vesting period that has elapsed. The extent to which PSP awards vest will be determined by the Committee taking into account the extent to which the performance conditions have been satisfied and unless the Committee determines otherwise, the proportion of the performance period that has elapsed.

In the case of a demerger, special dividend or similar circumstances, awards may, at the Committee's discretion, vest early on the same basis as for a takeover.

REMUNERATION COMMITTEE REPORT CONTINUED

Remuneration Policy table for Non-Executive Directors

Purpose and link to strategy	Operation	Maximum value
Fees		
To enable the Group to attract and retain experienced, skilled Non-Executive Directors that are capable of advising and supporting the Executive Directors with setting, monitoring and delivering the strategic objectives.	Paid in cash. Fees for the Chairman and Non-Executive Directors are set taking into account the time commitment required to fulfil the role and typical practice at other similar companies. Our Non-Executive Director fee policy is to pay a basic fee for membership of the Board, and additional fees for the SID and chairmanship of a Committee to take into account the additional responsibilities and time commitment of these roles. Additional fees may be paid to reflect additional Board or Committee responsibilities as appropriate. Fees are reviewed at appropriate intervals.	Fees paid to Non-Executive Directors, including the Non-Executive Chairman are subject to consideration and approval of the Committee. No maximum value is specified in the Company's Articles.
Benefits and expenses		
To provide suitable arrangements to allow Non-Executive Directors to discharge their duties effectively.	Reasonable costs in relation to travel and accommodation for business purposes are reimbursed to the Chairman and Non-Executive Directors. The Group may meet any tax liabilities that may arise on such expenses. The Chairman and Non-Executive Directors are not entitled to participate in any of the Group's incentive plans or pension plans. Additional non-significant benefits may be introduced if considered appropriate.	None.

Terms and conditions for the Chairman and Non-Executive Directors

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 months' notice. No compensation is awarded on termination. Letters of appointment are available for inspection at the AGM and the Group's registered office.

Consideration of conditions elsewhere in the Group

The Committee does not consult with employees specifically on its Remuneration Policy for Executive Directors. However, the Committee is mindful of the salary increases and benefits applying across the whole business when considering the remuneration package of Executive Directors.

Consideration of shareholder views

The Committee will consider shareholder views received throughout the year and at the AGM in shaping the Remuneration Policy and when it undertakes the annual remuneration review. It is the Committee's intention to consult with major shareholders in advance of making any material changes to remuneration arrangements.

TIM SURRIDGE

Remuneration Committee Chair

30 April 2018

DIRECTORS' REPORT AND OTHER STATUTORY DISCLOSURES

This report contains the additional information the Directors are required to include in the Annual Report and Financial Statements in accordance with the Companies Act 2006 and the Listing Rules. The Chairman's Statement, the Corporate Governance Statement and the Strategic Report forms 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:

Section	Description	Annual Report location
(1)	Interest capitalised	Not applicable
(2)	Publication of unaudited financial information	Not applicable
(4)	Details of long-term incentive schemes	Page 61
(5)	Waiver of emoluments by a Director	Not applicable
(6)	Waiver of future emoluments by a Director	Not applicable
(7)	Non-pre-emptive issues of equity for cash	Page 70
(8)	Item (7) in relation to major subsidiary undertakings	Not applicable
(9)	Parent participation in a placing by a listed subsidiary	Not applicable
(10)	Contracts of significance	Page 71
(11)	Provision of services by a controlling shareholder	Not applicable
(12)	Shareholder waivers of dividends	Not applicable
(13)	Shareholder waivers of future dividends	Not applicable
(14)	Agreements with controlling shareholders	Not applicable

Results and dividends

The Group's profit for the year ended 31 December 2017 was £10.0m (2016 Restated: £6.6m), details are shown in the Consolidated Income Statement on page 81. The Board has taken the difficult but prudent decision to suspend the Group's dividend policy until actions recently taken to recover the Group's profitability and cash flow deliver clear results. Consequently, there will be no proposed final dividend for the year ended 31 December 2017. The Board remains confident in the Group's strategy and will therefore revisit the dividend policy at the earliest possible opportunity.

Directors

The Directors who held office during the year were:

John Hornby
David Main
Giles Brand
John Barton
Caroline Brown
Tim Surridge

Following the year end, David Main resigned with effect from 19 February 2018 and Matt Webb was appointed from 19 February 2018.

Biographical details of the Directors appear on pages 42 and 43. Information on the Directors' remuneration and service contracts is given in the Remuneration Committee Report on pages 52 to 66.

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 Group and then shall be eligible for election. The Group may remove a Director by ordinary resolution where special notice has been given and the necessary statutory procedures are complied with.

In accordance with the Company's Articles, Matt Webb will offer himself for election at the 2018 AGM. The Board is satisfied that he is suitably qualified for election by virtue of his experience, skills and contribution to the Board.

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 Group.

DIRECTORS' REPORT AND OTHER STATUTORY DISCLOSURES CONTINUED

Compensation for loss of office

The Group 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 2 to 40.

Corporate governance

A report on corporate governance and the Group's compliance with the UK Corporate Governance Code 2014 is set out on pages 44 to 47 and forms part of this report by reference.

Post balance sheet events

On the 19 February 2018 David Main stepped down as Chief Financial Officer from the Board to pursue other opportunities and Matt Webb was appointed Chief Financial Officer on the 19 February 2018.

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, supported by a smaller team in the UK. R&D expenditure in the year was £4.3m (2016: £1.7m), of which £3.0m (2016: £1.5m) was capitalised and amortised.

Asset values

Property, plant and equipment is disclosed in note 9 to the financial statements on page 100. 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 on page 106.

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 27, and the Executive Review on pages 8 to 13.

Global operations

The Group's executive head office, accounting, domestic sales and support functions are based in the UK. The Group has two UK sites in London and Telford. The Group's London facility serves as the Group's head office with the executive function and certain sales and support functions based at the office. The Telford facility serves as the UK assembly and distribution centre and 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, Texas (USA), Mexico and Hong Kong.

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 implications of the current economic environment and future uncertainties around the Group's revenues and profits by undertaking forecasts and projections on a regular basis
- The impact of the competitive environment within which the Group's businesses operate
- The potential actions that could be taken in the event that revenues are worse than expected, to ensure that operating profit and cash flows are protected

Viability Statement

The Viability Statement can be found in the Strategic Report on page 27.

Charitable donations

The Group made no charitable donations during the year (2016: £nil).

Political donations

No political donations were made and no political expenditure was incurred during the year (2016: 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 of 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.

The Group endeavours to provide supportive working conditions and environment 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.

Details of the Group's employment policies and its approach to diversity and disability can be found in Corporate and Social Responsibility on pages 38 to 40.

Greenhouse gas emissions

The Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013 require the Group to disclose its annual greenhouse gas ("GHG") emissions.

Details of the Group's GHG emissions can be found in the carbon footprint section of the Corporate and Social Responsibility on pages 38 to 40.

Directors' interests and share options

During the year ended 31 December 2017, 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 52 to 66. Details of Directors share options are set out in note 21.

Directors' conflicts of interest

In accordance with the Act 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 2017 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.

DIRECTORS' REPORT AND OTHER STATUTORY DISCLOSURES CONTINUED

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 25 May 2017, 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. These authorities expire on the conclusion of the next AGM of the Company to be held on 19 June 2018.

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 next AGM of the Group to be held on 19 June 2018.

At 31 December 2017, 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 2017 are disclosed in note 23 on page 114.

Authority for the Group to purchase its own shares

A resolution will be proposed at the 2018 AGM that the Group 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 2019 AGM.

The authority was given for the Group 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, 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 AGM of the Group to be held on 19 June 2018.

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 27 April 2018 (being the last practicable date prior to the date of this report).

	At 27 April 2018		At 31 December 2017	
Shareholder	Number of shares held	% voting rights	Number of shares held	% voting rights
EPIC Investments LLP	39,081,000	24.30	39,081,000	24.30
John Hornby	31,396,514	19.50	31,396,512	19.50
Giles Brand	8,844,000	5.50	8,844,000	5.50
Columbia Threadneedle Investments	6,212,996	3.86	6,212,996	3.86
Old Mutual Global Investors	n/a	n/a	5,151,279	3.20
Standard Life Aberdeen plc	n/a	n/a	8,111,487	5.04
Danske Bank A/S	6,423,549	3.99	n/a	n/a
Prudential Plc Group of Companies	8,550,000	5.31	n/a	n/a

Provision of services by substantial shareholders

Giles Brand, Group Chairman, and EPIC Investments LLP are connected parties and significant shareholders of the Group (Giles Brand is Managing Partner of EPIC Private Equity LLP which controls EPIC Investments LLP). Giles Brand charged 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 58 which is available for inspection at the AGM and at the Group's registered office. Further details of John Hornby's remuneration can be found in the Remuneration Committee Report in pages 52 to 66.

Significant agreements

The Group has an agreement with its significant shareholders, EPIC Investments LLP and Giles Brand ("connected parties"), Chairman of Luceco plc and Managing Partner of EPIC Private Equity LLP which controls EPIC Investments LLP, who collectively exercise or control 29.80% of the voting rights.

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 £20m would be immediately cancelled, requiring repayment of all outstanding loans and the £30m invoice discounting facility could be modified or terminated; a notice period of six months is required.

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, a resolution will be proposed at the AGM under s489 of the Companies Act 2006 to re-appoint KPMG LLP as auditor of the Group and to authorise the Audit Committee to set their remuneration.

Annual General Meeting

The Group's AGM will be held on 19 June 2018. 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 30 April 2018.

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 complies 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

30 April 2018

KPMG

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 2017 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 2017 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 appointed as auditor by the directors on 4 December 2014. The period of total uninterrupted engagement is for the 4 financial years ended 31 December 2017. 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		£0.5m (2016: £0.7m) 3.9% (2016: 5.9%) of Adjusted Profit before tax
Coverage		92% (2016: 93%) of group profit before tax
Risks of material misstatement		**vs 2016**
Recurring risks	Recognition of revenue and related rebate liabilities	◆
	Valuation of Inventory	◆
	Capitalisation of development costs	◆
	Parent Company: Recoverability of intercompany debtors	◆
Event driven	**New:** Management override of controls	▲
Event driven	**New:** Accuracy of valuation of Inventory	▲

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Luceco plc

2. Key audit matters: 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 decreasing order of audit significance, 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
Management override of controls Refer to page 48 (Audit Committee Report), and page 93 (financial disclosures)	**Effects of errors** The matters in relation to the prior year restatement identified and disclosed in the Consolidated Statement of Changes in Equity and Note 1a raise concerns in relation to the Group's controls over financial reporting (in particular relating to intercompany balances and inventory), the potential for these not to identify errors or misstatements or to be overridden by management.	**Our procedures included:** – Extended scope: applying deepened scepticism and challenge to our audit, decreasing performance materiality (and thus increasing our sample sizes) for the testing of certain balance sheet captions considered more likely to contain error and performing more substantive, rather than controls, testing; – Test of details: extending our assessment of journals that we judged to be high-risk. For such journals we obtained supporting information and third party evidence where available, or otherwise confirmed our understanding of the closing balance sheet position; – Enquiry of legal and other advisors: considering the detailed enquiries carried out by the Board, including those carried out by external advisors. Obtaining the reports from the enquiries into the circumstances that led to the adjustments and enquired of the directors and the advisors through follow up calls and emails to understand the scope of their work and determine the impact of their findings on additional audit procedures required. Challenging the directors so as to understand their interpretation of the reports from the Group's legal and other advisors and the implications for the financial statements; and – Our forensics specialists: using our own forensics specialists to consider the effects of the errors on the audit procedures Consideration of the reports from the Group's advisors and specifically the matters identified in the reports and their impact on additional audit procedures required. **Our results** – Our additional procedures in this area did not identify additional prior year matters or instances of management override.

	The risk	Our response
Recognition of revenue (£167.6 million; 2016: £133.7 million) Related liabilities, Rebates (£8.8 million; 2016: £6.8 million) Refer to page 48 (Audit Committee Report), page 91 (accounting policy) and page 96 (financial disclosures).	**Subjective estimate** Revenue is measured taking account of discounts and rebates earned by customers on the Group's sales. The Group has agreements with its key customers whereby discounts and rebates are offered according to the quantity of goods sold as is common in the industry. As the agreement periods are not always coterminous with the Group's year end, not all sales qualify for discounts and rebates, and because settlement can take time and the manner of settlement can differ, there are a number of elements that require judgement and forecasts to be applied in determining the appropriate adjustment to revenue and consequential rebate and discount accruals for each customer. Discounts and rebates can have a significant effect on revenue recognised and their estimation can be complex, so there is a risk that revenue and related liabilities are materially misstated.	**Our procedures included:** – Controls operation: testing of the design and implementation of controls over entering into new or revised agreements to determine whether they are authorised appropriately; – Test of details: We selected a sample of agreements using qualitative and quantitative criteria. For this sample, our procedures included the following on a per customer basis: 1. we compared the qualifying sales volume achieved to underlying accounting records which were tested for completeness by agreeing to total reported revenue; 2. we agreed other relevant parameters used in calculating the corresponding rebate, such as sales hurdles, rebate percentage, definition of qualifying sales and rebate period to the signed agreement with the customer; 3. for agreement periods that are non-coterminous with the Group's year end, we assessed the Directors' sales estimate for the entire agreement period based on past experience and our knowledge of recent and forecast sales patterns; 4. we re-performed the rebate calculations and tested that the rebates had been recorded in the correct financial year; 5. we tested credit notes issued in settlement of rebates during the year and post year- end to determine whether revenue was recognised in the correct period and whether the year-end balance for rebates was appropriate; and 6. for the largest customers by turnover, compared those customers against the related liabilities in order to test completeness of rebate liabilities. – Our expertise: considering the appropriateness of the Group's revenue recognition accounting policies in particular relating to discounts and rebates and assessing compliance with applicable accounting standards. – Assessing transparency: We also considered the adequacy of the Group's disclosures in respect of the complexity in determining revenue; **Our results** – As a result of our work, we consider the recognition of revenue and rebate related liabilities to be acceptable.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Luceco plc

	The risk	Our response
Valuation of Inventory (£44.2 million; 2016: £35.4 million) Refer to page 48 (Audit Committee Report), page 90 (accounting policy) and page 103 (financial disclosures).	**Forecast-based valuation** The Group operates in a rapidly 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 determining the appropriate provisions for inventory based upon analysis of inventory levels, discontinued inventory, sales forecasts for the future usage of inventory and overall product strategy. The complexity and subjectivity in these assessments by the directors means that there is a risk that the assessment of the level of these provisions is inappropriate.	**Our procedures included:** – Methodology design: Assessing the adequacy of the Group's inventory provision methodology based on our knowledge of the industry and factors specific to the Group. – Control operation: 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. We met with the directors to understand the manufacturing and purchasing strategy as well as the key drivers for demand such as new product launches, sales plans and levels of expected discounting and the application of these into the provisioning calculation; – Tests of detail: Testing the key inputs to the provisioning model, including recent sales data and inventory costing. Obtaining a report of sales made by product to identify slow moving or negative margin sales so as to ascertain whether those items should have been provided for at the year end; – Historical comparisons: Assessing the accuracy of previous inventory provisioning with reference to the level of inventory write-offs during the year; 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.
Accuracy of valuation of Inventory (£44.2 million; 2016: £35.4 million) Refer to page 48 (Audit Committee Report), page 90 (accounting policy) and page 103 (financial disclosures).	**Calculation error** Accuracy of valuation of inventory for Group purposes is complex relating to items manufactured and purchased from the Group's facility in China. Manual adjustments are made to absorb certain costs and recognise intercompany sales due to lack of full system integration. Such adjustments are inherently prone to a higher risk of error. This is a new risk because during the year the Group identified errors in inventory cost adjustments and intercompany transactions.	**Our procedures included:** – Assessing methodology: Evaluating the appropriateness of the methodologies applied in determining product cost and critically assessing the respective calculations and factors specific to the Group; – Tests of detail: Evaluating product cost for a statistical sample of inventory balances, including comparing respective underlying data to the purchase documentation. Recalculating absorbed costs into the year end inventory balance and critically assessing appropriateness and accuracy of these costs. We performed procedures to test the reconciliation of intercompany balances at the Group's reporting dates. – Assessing transparency: Assessing the adequacy of the Group's disclosures about methodology involved in determining inventory cost. **Our results** – As a result of our work, we consider the accuracy of the valuation of inventory to be acceptable.

	The risk	Our response
Capitalisation of development costs (£3.0 million; 2016: £1.5 million) Refer to page 48 (Audit Committee Report), page 89 (accounting policy) and page 101 (financial disclosures).	**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, conversely, that development costs meeting the criteria for capitalisation are expensed. In particular, the criteria requiring the most significant judgement for this Group is the ability to measure reliably the expenditure attributable to the specific projects and demonstration of how the projects will generate future earnings.	**Our procedures included:** – Methodology observation: Assessing the adequacy of the Group's capitalisation methodology based on our knowledge of the Group and applicable accounting standards. Our procedures included testing whether the costs incurred met the criteria for capitalisation by obtaining the Directors' analysis of all costs incurred and those that had been capitalized and considering on which development activity they had been incurred, together with plans to complete the development activity; – Tests of detail: We tested 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; – 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; 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 capitalising development costs. **Our results** – As a result of our work, we consider the capitalisation of development costs to be acceptable.
Parent company risk: Recoverability of parent's debt due from group entities (£24.2 million; 2016: £22.2 million) Refer to page 121 (accounting policy) and page 125 (financial disclosures).	**Low risk, high value** The carrying amount of the intra-group debtor balance represents 99.9% 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: For 100% of the intra-group debtor balance, performing an assessment as to recoverability by reference either to the net assets of the creditor company, or to its forecast profits and cash flows on an entity-by-entity basis. – 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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Luceco plc

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 £515,000 (2016: £714,000), determined with reference to a benchmark of Group adjusted profit before taxation (of which it represents 3.9%) (2016: Group profit before tax which in 2016 only was adjusted by excluding one-off fees relating to the Group's IPO process as identified, of which it represented 5.9%).

Materiality for the parent company financial statements as a whole was set at £250,000 (2016: £250,000), determined with reference to a benchmark of company total assets, of which it represents 1% (2016: 1%).

The audit team revised materiality for the Group financial statements as the audit progressed. We reassessed the percentage applied to the benchmark noted above from 4.5% at the planning stage to 3.9% during final audit work. This was due to a change in the amount of the benchmark and an increase in the risk profile of the Group.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £26,000 (2016: £35,700), in addition to other identified misstatements that warranted reporting on qualitative grounds.

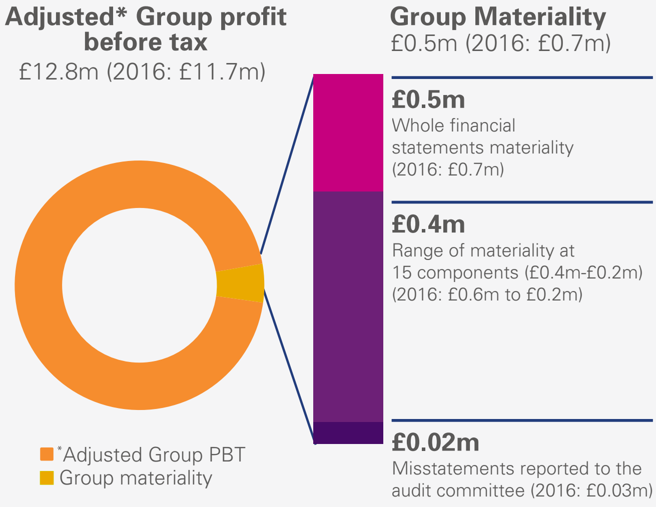
Of the Group's 16 (2016: 14) reporting components, we subjected 6 (2016: 5) to full scope audits for Group purposes and 4 (2016: 1) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require full scope audit for group purposes, but did present specific individual risks that needed to be addressed. We subjected 4 (2016: 1) components to specified risk-focused audit procedures over inventory.

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

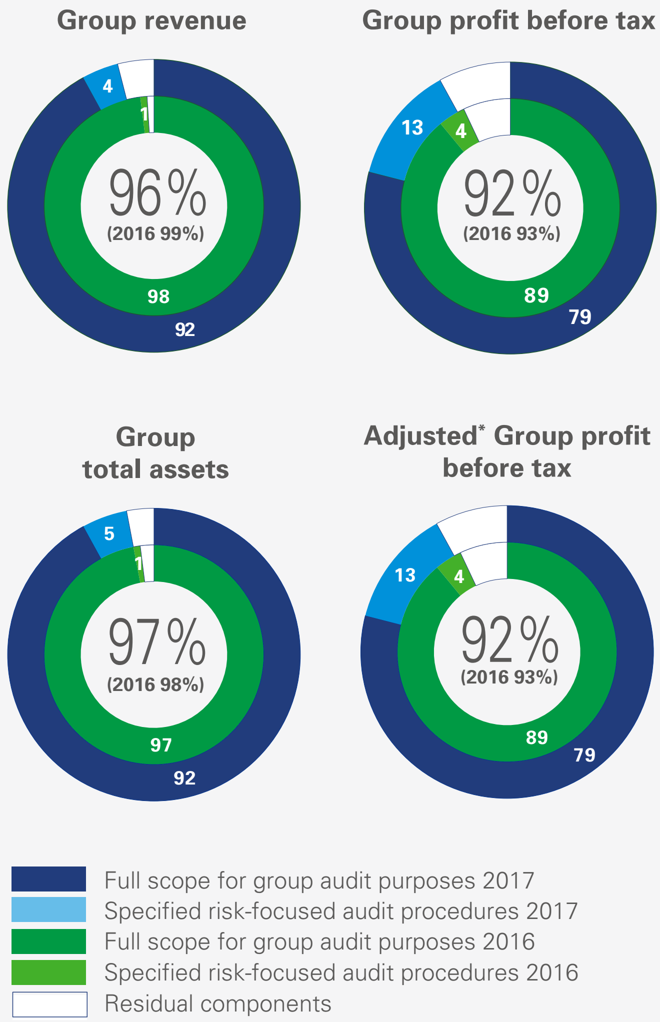
The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

The Group team approved the component materialities which ranged from £250,000 to £438,000 (2016: £250,000 to £607,000), 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 components subject to specified risk-focused audit procedures over inventory was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

The Group team visited 1 (2016: 1) full scope audit component location in China (2016: 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 auditors.



* adjusted for items as disclosed on the face of the income statement.



4. We have nothing to report on going concern

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
- if the related statement under the Listing Rules set out on page 72 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 27 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.

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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Luceco plc

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 72, 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 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.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition we considered the impact of laws and regulations in the specific areas of health and safety, anti-bribery, and employment law recognising the nature of the Group's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statement items.

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, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component team.

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.

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.

STUART SMITH
(SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF KPMG LLP, STATUTORY AUDITOR
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

30th April 2018

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2017

	Note	**Adjusted 2017 £m**	**Adjustments[2] £m**	**Reported 2017 £m**	Adjusted 2016 £m	Adjustments[2] £m	Reported[1] 2016 £m
Revenue	2	**167.6**	**—**	**167.6**	133.7	—	133.7
Cost of sales		**(119.2)**	**—**	**(119.2)**	(93.2)	—	(93.2)
Gross profit		**48.4**	**—**	**48.4**	40.5	—	40.5
Distribution expenses		**(12.1)**	**—**	**(12.1)**	(11.0)	—	(11.0)
Administrative expenses		**(21.6)**	**(0.5)**	**(22.1)**	(15.0)	(2.6)	(17.6)
Operating profit	3	**14.7**	**(0.5)**	**14.2**	14.5	(2.6)	11.9
Finance income	5	**0.1**	**—**	**0.1**	0.1	—	0.1
Finance expense	5	**(2.0)**	**—**	**(2.0)**	(2.9)	—	(2.9)
Net financing expense		**(1.9)**	**—**	**(1.9)**	(2.8)	—	(2.8)
Profit before tax		**12.8**	**(0.5)**	**12.3**	11.7	(2.6)	9.1
Taxation	6	**(2.3)**	**—**	**(2.3)**	(2.5)	—	(2.5)
Profit for the year		**10.5**	**(0.5)**	**10.0**	9.2	(2.6)	6.6
Earnings per share (pence)							
Basic	7	**6.5p**	**(0.3)p**	**6.2p**	6.4p	(1.8)p	4.6p
Fully diluted	7	**6.5p**	**(0.3)p**	**6.2p**	6.4p	(1.8)p	4.6p

1. The reported comparatives have been restated to reflect a prior year adjustment, see note 1a in the Notes to the Consolidated Financial Statements on page 93.
2. Definition of the adjustments made to the reported figures can be found in note 1 in the Notes to the Consolidated Financial Statements on page 85.

The accompanying notes on pages 85 to 117 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	2017 £m	2016[1] £m
Profit for the year	**10.0**	6.6
Other comprehensive income – amounts that may be reclassified to profit or loss in the future		
Foreign exchange translation differences – foreign operations	**(0.1)**	1.8
Total comprehensive income for the year	**9.9**	8.4

1. The reported comparatives have been restated to reflect a prior year adjustment, see note 1a in the Notes to the Consolidated Financial Statements on page 93.

All results are from continuing operations.

The accompanying notes on pages 85 to 117 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2017

	Note	2017 £m	2016[1] £m
Non-current assets			
Property, plant and equipment	9	**23.5**	20.6
Intangible assets	10	**23.7**	12.9
Deferred tax asset	11	**—**	0.2
		47.2	33.7
Current assets			
Inventories	12	**44.2**	35.4
Trade and other receivables	13	**36.7**	29.3
Cash and cash equivalents	14	**5.6**	4.1
		86.5	68.8
Total assets		**133.7**	102.5
Current liabilities			
Interest-bearing loans and borrowings	15	**42.3**	21.6
Trade and other payables	17	**49.6**	35.4
Other financial liabilities	16	**0.1**	0.6
		92.0	57.6
Non-current liabilities			
Other interest-bearing loans and borrowings	15	**—**	12.0
Other financial liabilities	16	**0.4**	0.1
Deferred tax liability	11	**1.3**	—
		1.7	12.1
Total liabilities		**93.7**	69.7
Net assets		**40.0**	32.8
Equity attributable to equity holders of the parent			
Share capital	23	**0.1**	0.1
Share premium		**24.8**	24.8
Translation reserve		**1.3**	1.4
Treasury reserve		**(1.2)**	—
Retained earnings		**15.0**	6.5
Total equity		**40.0**	32.8

1. The reported comparatives have been restated to reflect a prior year adjustment, see note 1a in the Notes to the Consolidated Financial Statements on page 93.

The accompanying notes on pages 85 to 117 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 30 April 2018 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 2017

	Share capital £m	Share premium £m	Translation reserve £m	Retained earnings[1] £m	Treasury reserve £m	Total equity £m
Balance at 1 January 2016	0.1	0.5	(0.4)	2.4	—	2.6
Prior year restatement	—	—	—	(2.5)	—	(2.5)
Balance at 1 January 2016 as restated	0.1	0.5	(0.4)	(0.1)	—	0.1
Total comprehensive income						
Profit for the year as restated	—	—	—	6.6	—	6.6
Currency translation differences	—	—	1.8	—	—	1.8
Total comprehensive income[1] for the year	—	—	1.8	6.6	—	8.4
Shares issued in the year	—	24.3	—	—	—	24.3
Balance at 31 December 2016[1]	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:						
Dividends paid	**—**	**—**	**—**	**(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**

1. The reported comparatives have been restated to reflect a prior year adjustment, see note 1a in the Notes to the Consolidated Financial Statements on page 93.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2017

	Note	Adjusted 2017 £m	Adjustments[2] 2017 £m	Reported 2017 £m	Adjusted[1] 2016 £m	Adjustments[2] 2016 £m	Reported[1] 2016 £m
Cash flows from operating activities							
Profit for the year		**10.2**	**(0.2)**	**10.0**	9.1	(2.5)	6.6
Adjustments for:							
Depreciation and amortisation	9,10	**4.4**	**—**	**4.4**	3.2	—	3.2
Financial derivatives		**(0.7)**	**—**	**(0.7)**	—	—	—
Financial income	5	**(0.1)**	**—**	**(0.1)**	(0.1)	—	(0.1)
Financial expense	5	**2.0**	**—**	**2.0**	2.9	—	2.9
Taxation	6	**2.3**	**—**	**2.3**	2.5	—	2.5
Share-based payments charge	21	**0.3**	**—**	**0.3**	—	—	—
Operating cash flow before movement in working capital		**18.4**	**(0.2)**	**18.2**	17.6	(2.5)	15.1
Increase in trade and other receivables		**(4.4)**	**—**	**(4.4)**	(7.5)	—	(7.5)
Increase in inventories		**(7.8)**	**—**	**(7.8)**	(9.6)	—	(9.6)
Increase in trade and other payables		**14.3**	**—**	**14.3**	5.9	—	5.9
Cash from operations		**20.5**	**(0.2)**	**20.3**	6.4	(2.5)	3.9
Tax paid		**(3.1)**	**—**	**(3.1)**	(1.3)	—	(1.3)
Net cash from operating activities		**17.4**	**(0.2)**	**17.2**	5.1	(2.5)	2.6
Cash flows from investing activities							
Acquisition of property, plant and equipment	9	**(7.2)**	**—**	**(7.2)**	(6.0)	—	(6.0)
Acquisition of subsidiary	22	**(9.7)**	**—**	**(9.7)**	—	—	—
Acquisition of other intangible assets	10	**(3.1)**	**—**	**(3.1)**	(1.6)	—	(1.6)
Disposal of tangible assets		**0.3**	**—**	**0.3**	—	—	—
Net cash used in investing activities		**(19.7)**	**—**	**(19.7)**	(7.6)	—	(7.6)
Cash flows from financing activities							
Proceeds from new loans		**8.7**	**—**	**8.7**	0.1	—	0.1
Interest paid		**(1.9)**	**—**	**(1.9)**	(3.0)	—	(3.0)
Dividends paid		**(1.8)**	**—**	**(1.8)**	—	—	—
Finance lease liabilities	16	**0.3**	**—**	**0.3**	(17.2)	—	(17.2)
Purchase of treasury shares	21	**(1.2)**	**—**	**(1.2)**	—	—	—
Net proceeds from share issue		**—**	**—**	**—**	24.3	—	24.3
Net cash from financing activities		**4.1**	**—**	**4.1**	4.2	—	4.2
Net increase/(decrease) in cash and cash equivalents		**1.8**	**(0.2)**	**1.6**	1.7	(2.5)	(0.8)
Cash and cash equivalents at 1 January				**4.1**			4.8
Effect of exchange rate fluctuations on cash held				**(0.1)**			0.1
Cash and cash equivalents at 31 December	14			**5.6**			4.1

1. The reported comparatives have been restated to reflect a prior year adjustment, see note 1a in the Notes to the Consolidated Financial Statements on page 93.
2. Definition of the adjustments made to the reported figures can be found in the Notes to the Consolidated Financial Statements on page 85.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2017

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 118 to 125. 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 and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

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 their existing bank facilities and meet their 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. During the year ended 31 December 2017, the Group made an adjusted profit for the year of £10.5m and generated adjusted cash from operations before working capital movements of £18.4m. For these reasons the Directors consider it appropriate to prepare the financial statements on a going concern basis.

In early 2018, the Group successfully negotiated an extension in the maturity of its revolving credit facility to 30 June 2019 and the addition of a £3m overdraft from its relationship bank. It is also in the process of extending the invoicing financing facility provided by HSBC to Kingfisher Lighting and customers in Hong Kong. The Group remains and expects to remain in full compliance with its banking covenants. It therefore expects to continue to have adequate funding liquidity to support its growth goals.

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.

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 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

1 Accounting policies continued

Statutory and non-statutory measures of performance continued

Nature of measure	Related IFRS measure	Related IFRS source	Definition	Use/relevance
Adjusted operating profit	• Operating profit	• Consolidated Income Statement	• Based on the related IFRS measure but excluding adjusting items • Transaction costs relating to acquisitions and equity issuance • Restructuring 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 profit before tax	• Profit before tax	• Consolidated Income Statement		
Adjusted basic EPS	• Basic EPS	• Consolidated Income Statement		
Constant exchange rate ("CER")			• CER is achieved by applying the prior year's actual exchange rates to the current year's results	• 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 adjusting expense items noted above	• Provides management with an approximation of cash generation from the Group's underlying operational activities
Adjusted operating cash flow	• Cash flow from operating activities	• Consolidated Cash Flow Statement	• Adjusted operating cash flow is the cash generated from operating activities and excludes the items noted above	• Provides management with an indication of the amount of cash available for discretionary investing or financing after removing large/unusual expenditure that does not reflect the underlying business operations
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 net cash flow covered by adjusted EBITDA	• Allows management to monitor the conversion of profit into cash which is a key strategy of the business, see page 23

A breakdown of the adjustments made in 2017 and 2016 are detailed below:

	2017 adjustments £m	Transaction costs £m	Restructuring costs £m
Revenue	**—**	**—**	**—**
Cost of sales	—	—	—
Gross profit	**—**	**—**	**—**
Distribution expenses	—	—	—
Administrative expenses	(0.5)	(0.3)[1]	(0.2)[2]
Operating profit	**(0.5)**	**(0.3)**	**(0.2)**
Finance income	—	—	—
Finance expenses	—	—	—
Net financing expense	**—**	**—**	**—**
Profit before tax	**(0.5)**	**(0.3)**	**(0.2)**
Taxation	—	—	—
Profit for the year	**(0.5)**	**(0.3)**	**(0.2)**

1. Legal and professional fees incurred in the acquisition of Kingfisher Lighting.
2. Redundancy and reorganisation costs following the acquisition of Kingfisher Lighting.

	2016 adjustments £m	IPO transaction costs £m
Revenue	**—**	**—**
Cost of sales	—	—
Gross profit	**—**	**—**
Distribution expenses	—	—
Administrative expenses	(2.6)	(2.6)
Operating profit	**(2.6)**	**(2.6)**
Finance income	—	—
Finance expenses	—	—
Net financing expense	**—**	**—**
Profit before tax	**(2.6)**	**(2.6)**
Taxation	—	—
Profit for the year	**(2.6)**	**(2.6)**

Reconciliation of adjusted cash flow measures

	31 December 2017 £m	31 December 2016 £m
Reported net cash inflow from operating activities	**17.2**	2.6
Kingfisher Lighting acquisition costs paid	**0.2**	—
Group IPO costs paid	**—**	2.5
Adjusted net cash inflow from operating activities	**17.4**	5.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

1 Accounting policies continued

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 investments in equity and debt securities, 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 debt and equity securities

Investments are stated at amortised cost less impairment. Financial instruments held for trading are stated at fair value, with any resultant gain or loss recognised in the Consolidated Income Statement.

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.

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. 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 92.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

1 Accounting policies continued

Intangible assets and goodwill continued

Amortisation

Amortisation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful lives of internally generated intangible assets unless such lives are indefinite. Internally generated intangible assets with an indefinite useful life and goodwill are 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 to reflect the discount required to sell the product or to rework it into a different product.

Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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 post-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 (the "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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

Revenue is recognised when revenue and associated costs can be measured reliably, and future economic benefits are probable and when the risks and rewards of ownership have been transferred to the customer. Freight on Board ("FOB") sales are recognised on receipt of the goods by the customer's freight forwarders. Revenue is measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of rebates and settlement discounts, VAT and other sales related taxes.

Revenue recognition requires the estimation of rebates that will be provided in respect of sales which have been made before the balance sheet date. Luceco has rebate arrangements in place, which take the form of volume rebates, trade discounts, marketing support, catalogue support and contributions to various costs incurred by our customers. The majority of the rebates incurred by Luceco are directly attributable to revenue however there are some rebates that are not e.g. generic marketing and catalogue support.

The policy is designed to specify which rebate types are to be reported as a deduction from revenue and which are to be reported within commercial overhead. The following are costs that are not attributable to revenue:

- Marketing support: if the contribution we are making is for general marketing it is not specific to our product or products
- Catalogue support: if the contribution we are making is towards the overall cost of catalogue production, it is not specific to our product or products
- Fixed rebates: Where a customer receives a fixed rebate with no conditions attached
- New store openings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

1 Accounting policies continued

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.

Financing income and expenses

Financing 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. Financing income comprises interest receivable on funds invested, dividend income, and net foreign exchange gains.

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. Foreign currency gains and losses are reported on a net basis.

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 the Directors have agreed by the balance sheet date that the RDEC will be claimed by the Group, the conditions to obtain the credit have 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 research and 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

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:

- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 40: Transfers of Investment Property
- Amendments to IFRS 2: Amendments to clarify the classification and measurement of share-based payment transactions
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration
- IFRIC 23 – Uncertainty over Income Tax Treatments
- Annual improvements to IFRS 2014—2016 cycle
- Annual improvements to IFRS 2015—2017 cycle

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.

IFRS 9 – Financial Instruments

The new standard introduces a principles-based approach to the classification and measurement of financial instruments, a new impairment model and changes to hedge accounting.

It will be effective from 1 January 2018. The Directors have completed their initial assessment and based on the Group's current financial instruments and hedging strategy estimate that there will be no material effect on the financial statements.

IFRS 15 – Revenue Recognition

IFRS 15 – Revenue from Contracts with Customers, which supersedes IAS 18 – Revenue, will be effective from 1 January 2018. The new standard provides a single model for revenue recognition based on when identified performance obligations are satisfied. The revenue recognition model now focuses on the transfer of control rather than the transfer of risks and rewards.

The Directors have completed an initial assessment of the impact of the new standard. Based on the current operating model the new standard is not expected to have a material effect on revenue recognition, as the point at which revenue is recognised at present is consistent with the passing of control under IFRS 15. The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

IFRS 16 – Leases

In January 2016 the IASB issued IFRS 16 – Leases. It was endorsed by the European Union in October 2017 and will be effective from 1 January 2019. This Standard will have a material effect on the Group because the value of the operating leases it has entered into will be included in the balance sheet in future.

The Group has made progress to determine the effect of this new Standard and implement the processes and systems necessary to comply with its requirements. However, given the complexity of the Standard and the volume of leases to which the Group is a party, this exercise has not been completed at the date of these accounts and will be adopted by the Group in January 2019.

1a Prior year restatement

A number of material errors have been identified in the Group's previously published financial statements. A quantification of the errors is included in the table below and restated Consolidated Income Statement and Consolidated Balance Sheet have been included to show the financial impact from the correction of these errors.

At 31 December 2016	**Total £m**	Inventories[1] £m	Inter-company[2] £m
Reduction in inventory	**(3.1)**	(1.8)	(1.3)
Increase in trade payables	**(2.4)**	—	(2.4)
Net assets	**(5.5)**	(1.8)	(3.7)

1. In line with the Group's accounting policy an appropriate share of overheads is included in inventory values. This share was incorrectly calculated at 1 January and 31 December 2016 resulting in an over-valuation of the Group's inventory. The impact at 1 January 2016 was £0.4m, which has been adjusted for in opening reserves. The impact on the Consolidated Income Statement for the year ended 31 December 2016 is an increase to cost of sales of £1.4m.
2. Balances between subsidiaries were incompletely reconciled and therefore not appropriately eliminated in the Group's Consolidated Balance Sheet. An adjustment to increase trade and other payables by £3.7m is therefore required at 31 December 2016. The reconciliation was also incomplete with respect to inter-company inventory transactions, requiring a balance sheet only adjustment to reduce both inventories and trade payables by £1.3m at 31 December 2016 leaving a net impact on trade payables of £2.4m.

   The cumulative impact of the adjustments at 1 January 2016 was £2.1m with respect to balances between subsidiaries and £0.7m at 31 December 2015 with respect to inter-company inventory transactions leaving a £1.4m adjustment to trade payables at 1 January 2016. The impact on the Consolidated Income Statement for the year ended 31 December 2016 is an increase to cost of sales of £1.6m.

No tax effect has been reflected at 31 December 2016 as the ability to claim tax deductions is uncertain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

1a Prior year restatement continued

The impact of the above errors on the financial statements is that net assets at 1 January and 31 December 2016 and profit for the year ended 31 December 2016 was misstated. These errors have been corrected by restatements to the Consolidated Balance Sheet and Consolidated Income Statement as at and for the year ended 31 December 2016 as detailed below:

Consolidated Balance Sheet

	2016			2015		
	As previously reported £m	Restatement impact £m	**As restated £m**	As previously reported £m	Restatement impact £m	As restated £m
Non-current assets						
Property, plant and equipment	20.6	—	**20.6**	15.5	—	15.5
Intangible assets	12.9	—	**12.9**	12.0	—	12.0
Deferred tax asset	0.2	—	**0.2**	—	—	—
	33.7	—	**33.7**	27.5	—	27.5
Current assets						
Inventories	38.5	(3.1)	**35.4**	26.2	(1.1)	25.1
Trade and other receivables	29.3	—	**29.3**	21.8	—	21.8
Cash and cash equivalents	4.1	—	**4.1**	4.8	—	4.8
	71.9	(3.1)	**68.8**	52.8	(1.1)	51.7
Total assets	105.6	(3.1)	**102.5**	80.3	(1.1)	79.2
Current liabilities						
Interest bearing loans and borrowings	(21.6)	—	**(21.6)**	(26.0)	—	(26.0)
Trade and other payables	(33.0)	(2.4)	**(35.4)**	(25.5)	(1.4)	(26.9)
Other financial liabilities	(0.6)	—	**(0.6)**	(0.7)	—	(0.7)
	(55.2)	(2.4)	**(57.6)**	(52.2)	(1.4)	(53.6)
Non-current liabilities	(12.1)	—	**(12.1)**	(25.5)	—	(25.5)
Total liabilities	(67.3)	(2.4)	**(69.7)**	(77.7)	(1.4)	(79.1)
Total net assets	38.3	(5.5)	**32.8**	2.6	(2.5)	0.1

Consolidated Income Statement

	2016 restatement			2016 reclassification	
	As previously reported £m	Restatement impact £m	As restated £m	Chinese costs to be included in COGS[1] £m	£m
Revenue	133.7	—	133.7	—	**133.7**
Cost of sales	(85.9)	(3.0)	(88.9)	(4.3)	**(93.2)**
Gross profit	47.8	(3.0)	44.8	(4.3)	**40.5**
Gross margin	35.8%	—	33.5%	—	**30.3%**
Distribution expenses	(11.0)	—	(11.0)	—	**(11.0)**
Administrative expenses	(21.9)	—	(21.9)	4.3	**(17.6)**
Operating profit	14.9	(3.0)	11.9	—	**11.9**
Net financing expense	(2.8)	—	(2.8)	—	**(2.8)**
Profit before taxation	12.1	(3.0)	9.1	—	**9.1**
Taxation	(2.5)	—	(2.5)	—	**(2.5)**
Profit for the year	9.6	(3.0)	6.6	—	**6.6**
Earnings per share (pence)					
Basic and fully diluted	6.7p	(2.1p)	4.6p	—	**4.6p**

1. In 2017, £4.0m of the Chinese manufacturing facility costs were moved from Selling General and Administrative costs where they had historically been reported and included in cost of sales as they represent a direct cost of the goods sold rather than an overhead. The corresponding amount for 2016 was £4.3m which has been reclassified in the table above.

There is no impact from the restatement on the total operating, investing or financing cash flows for the year ended 31 December 2016.

Operating profit in the Operating Segments, note 2, has been restated for the £3.0m cost of sales adjustment and is analysed in the table below.

	As previously reported 2016 £m	Restatement impact £m	**As restated 2016 £m**
Operating profit			
Wiring Accessories	9.2	(1.5)	**7.7**
Portable Power	2.5	(0.7)	**1.8**
LED Lighting	2.8	(0.7)	**2.1**
Ross and other	0.4	(0.1)	**0.3**
	14.9	(3.0)	**11.9**

The movement on retained earnings is detailed below:

	£m
Balance at 31 December 2015 as previously reported	**2.4**
Prior year adjustment	(2.5)
Balance at 1 January 2016 as restated	**(0.1)**
Reported retained profit for the year ended 31 December 2016	9.6
Prior year adjustment	(3.0)
2016 retained earnings as restated	**6.5**
Dividends paid	(1.8)
Share-based payment	0.3
Retained profit for the year ended 31 December 2017	10.0
Balance at 31 December 2017	**15.0**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

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 is reported under IFRS 8 – Operating Segments.

	Adjusted 2017 £m	Adjustment[1] £m	Reported 2017 £m	Adjusted 2016 £m	Adjustment[1] £m	2016[2] £m
Revenue						
Wiring Accessories	**72.7**	**—**	**72.7**	64.0	—	64.0
Portable Power	**41.6**	**—**	**41.6**	31.1	—	31.1
LED Lighting	**47.4**	**—**	**47.4**	33.6	—	33.6
Ross and other	**5.9**	**—**	**5.9**	5.0	—	5.0
	167.6	**—**	**167.6**	133.7	—	133.7
Operating profit						
Wiring Accessories	**10.3**	**—**	**10.3**	9.4	(1.7)	7.7
Portable Power	**2.0**	**—**	**2.0**	2.2	(0.4)	1.8
LED Lighting	**2.3**	**(0.5)**	**1.8**	2.5	(0.4)	2.1
Ross and other	**0.1**	**—**	**0.1**	0.4	(0.1)	0.3
	14.7	**(0.5)**	**14.2**	14.5	(2.6)	11.9

1. Definition of the adjustments made to the reported figures can be found in note 1 in the Notes to the Consolidated Financial Statements on page 85.
2. The reported comparatives have been restated to reflect a prior year adjustment, see note 1a in the Notes to the Consolidated Financial Statements on page 93.

	2017			2016
	Total £m	**Restructuring costs £m**	**Transaction costs £m**	IPO £m
Wiring Accessories	**—**	**—**	**—**	1.7
Portable Power	**—**	**—**	**—**	0.4
LED Lighting	**0.5**	**0.2**	**0.3**	0.4
Ross and other	**—**	**—**	**—**	0.1
Total	**0.5**	**0.2**	**0.3**	2.6

Revenue by location of customer

	2017 £m	2016 £m
Middle East	**6.8**	4.9
Asia Pacific	**3.9**	4.2
Africa	**2.0**	1.9
Europe	**9.6**	5.9
Americas	**6.4**	2.1
UK	**138.9**	114.7
Total revenue	**167.6**	133.7

3 Expenses and auditor's remuneration

Included in the Consolidated Income Statement are the following:

	2017 £m	2016 £m
Research and development costs expensed as incurred	**1.3**	0.2
Operating lease charges:		
Plant and machinery	**0.1**	0.1
Other assets	**1.1**	0.6
Depreciation of property, plant and equipment	**3.2**	2.5
Amortisation of intangible assets	**1.2**	0.7

Auditor's remuneration:

	2017 £m	2016 £m
Audit of these financial statements	**0.1**	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**	0.5
Other services relating to taxation	**—**	0.4
Total	**0.3**	1.1

1. All other services represent the due diligence work in respect of Kingfisher Lighting acquisition in 2017 and work performed in respect of the IPO in 2016.

4 Staff numbers and costs

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

	Number of employees	
	2017	2016
Administration and support	**542**	516
Production	**1,594**	1,570
	2,136	2,086

The aggregate payroll costs of these persons were as follows:

	2017 £m	2016 £m
Wages and salaries	**25.9**	25.9
Social security costs	**1.4**	1.0
Other pension costs	**0.4**	0.3
Share-based payment expense	**0.3**	—
Total staff costs	**28.0**	27.2

The compensation of key management personnel, including Executive Directors is as follows:

	2017 £m	2016 £m
Remuneration (including benefits in kind)	**0.8**	0.6
Element of share-based payments expense	**0.1**	—
	0.9	0.6

Under money purchase pension schemes retirement benefits are accruing to one Director at the year end (2016: one).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

5 Finance income and expense

	2017 £m	2016 £m
Finance income		
Net gain on financial instruments	**0.1**	0.1
Finance expense		
Interest expense on financial liabilities measured at amortised cost	**—**	0.7
Interest on bank borrowings	**2.0**	2.2
Total finance expense	**1.9**	2.8

6 Taxation

	2017 £m	2016 £m
Current tax expense		
Current year – UK	**1.6**	2.7
Current year – overseas	**0.5**	0.6
Adjustment in respect of prior years	**(0.4)**	0.1
Current tax expense	**1.7**	3.4
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	**0.5**	(0.7)
Changes in tax rate	**—**	—
Adjustment in respect of prior years	**0.1**	(0.2)
Deferred tax expense/(credit)	**0.6**	(0.9)
Total tax expense	**2.3**	2.5

Reconciliation of effective tax rate

	2017 £m	2016 £m
Profit for the year (2016 restated)	**10.0**	6.6
Total tax expense	**2.3**	2.5
Profit before taxation	**12.3**	9.1
Tax using the UK corporation tax rate of 19.25% (2016: 20.00%)	**2.3**	1.8
Effect of tax rates in foreign jurisdictions	**0.1**	0.1
Non-deductible expenses	**0.1**	0.4
Research and development credits	**(0.1)**	—
Adjustment in respect of previous periods	**(0.3)**	0.5
Deferred tax asset recognised in respect of tax losses	**—**	(1.2)
Deferred tax not recognised	**0.2**	0.9
Total tax expense	**2.3**	2.5

The tax rate has been positively impacted by losses allowed in the year, via a loan rationalisation programme, that were previously considered uncertain and the recognition of previously unrecognised deferred tax assets.

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 2017 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.

	2017 £m	2016[1] £m
Earnings for calculating basic earnings per share	**10.0**	6.6
Adjusted for:		
Restructuring costs	**0.2**	—
Transaction costs	**0.3**	—
IPO costs	**—**	2.6
Adjusted earnings for calculating adjusted basic earnings per share	**10.5**	9.2

	2017 Number million	2016[1] Number million
Weighted average number of ordinary shares – basic and diluted	**160.8**	144.1

	2017 Pence	2016[1] Pence
Basic earnings per share	6.2	4.6
Diluted earnings per share	6.2	4.6
Adjusted basic earnings per share	**6.5**	**6.4**
Adjusted diluted earnings per share	**6.5**	**6.4**

1. The reported comparatives have been restated to reflect a prior year adjustment, see note 1a in the Notes to the Consolidated Financial Statements on page 93.

Basic and diluted EPS calculations for 2016 have been restated for the prior year adjustment.

During the year the Group purchased its own shares to fulfil option awards when they become exercisable, consequently the share options awarded during the year do not have a dilutive effect on the weighted number of ordinary shares. Shares that have been bought back are held in Treasury reserve.

There were no dilutive ordinary shares in issue at 31 December 2016.

8 Dividends

On 2 June 2017 a dividend of £0.5m, 0.3p per share, was paid in respect of the year ended 31 December 2016.

In respect of the year ended 31 December 2017, an interim dividend of £1.3m, 0.8p per share, was paid to shareholders on 27 October 2017. The Board is not proposing a final dividend for the year ended 31 December 2017. The Board remains confident in the Group's strategy and will therefore revisit the dividend policy at the half year 2018.

	2017 £m	2016 £m
Interim dividend of 0.8p per ordinary share (2016: nil)	**1.3**	—
Final dividend nil (2016: 0.3p)	**—**	0.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

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 2016	9.4	9.8	1.9	0.1	3.2	24.4
Additions	3.5	1.3	0.8	—	0.4	6.0
Effect of movements in foreign exchange	1.2	1.0	—	—	—	2.2
Balance at 31 December 2016	14.1	12.1	2.7	0.1	3.6	32.6
Opening balance adjustment[2]	**—**	**(1.1)**	**—**	**—**	**—**	**(1.1)**
Acquired assets[1]	**—**	**0.2**	**—**	**—**	**—**	**0.2**
Additions	**0.9**	**2.1**	**0.4**	**—**	**3.6**	**7.0**
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**
Depreciation						
Balance at 1 January 2016	1.4	3.3	1.4	0.1	2.7	8.9
Depreciation charge for the year	0.5	1.2	0.1	—	0.7	2.5
Effect of movements in foreign exchange	0.3	0.3	—	—	—	0.6
Balance at 31 December 2016	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**
Net book value						
At 1 January 2016	8.0	6.5	0.5	—	0.5	15.5
At 31 December 2016	11.9	7.3	1.2	—	0.2	20.6
At 31 December 2017	**12.3**	**7.8**	**1.2**	**—**	**2.2**	**23.5**

1. Assets were acquired from Kingfisher Lighting.
2. Adjustment to opening balance in China's fixed asset register.

Leased land and buildings

At 31 December 2017, the net carrying amount of leased land and buildings was £10.0m (2016: £10.2m) relating to the manufacturing facility located in China.

Borrowing costs

The Group has not included any borrowing costs within additions in 2017 (2016: 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	Tradename £m	Total £m
Cost						
Balance at 1 January 2016	9.6	0.4	2.8	—	—	12.8
Other acquisitions – internally developed	—	0.1	1.5	—	—	1.6
Balance at 31 December 2016	9.6	0.5	4.3	—	—	14.4
Other acquisitions – externally purchased (note 22)	**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**
Amortisation						
Balance at 1 January 2016	—	0.2	0.6	—	—	0.8
Amortisation for the year	—	—	0.7	—	—	0.7
Balance at 31 December 2016	—	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**
Net book value						
At 1 January 2016	9.6	0.2	2.2	—	—	12.0
At 31 December 2016	9.6	0.3	3.0	—	—	12.9
At 31 December 2017	**13.2**	**0.4**	**4.8**	**4.1**	**1.2**	**23.7**

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

Goodwill has been allocated to cash-generating units ("CGUs") or groups of CGUs as follows:

	Goodwill	
	2017 £m	2016 £m
Portable Power	**2.0**	2.0
Wiring Accessories	**4.0**	4.0
LED Lighting	**7.2**	3.6
	13.2	9.6

Goodwill has not been allocated to Ross and others as the CGU is not considered significant.

The assessment as to recoverable amount of each CGU was based on its value in use. The carrying amount of each unit was determined to be significantly lower than its recoverable amount and management identified that there is sufficient headroom on each unit with no need for any impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2017

10 Intangible assets continued
Impairment testing for cash-generating units containing goodwill continued
Value in use was determined by discounting (using the Group's pre-tax discount rate) the future cash flows generated from the continuing use of the unit. Unless indicated otherwise, value in use in 2017 was determined similarly as in 2016. The calculation of the value in use was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and the two-year business plan for 2018 and 2019. Cash flows for a further two-year period were also extrapolated using a constant growth rate of 8% for each CGU (on the basis that cash flow variabilities were already fully included in the two-year business plan and the calculations are not sensitive to assumptions) which is not considered to exceed the long-term average growth rate for each of the CGUs. Value in use calculations provided sufficient headroom in all CGUs containing goodwill
- The anticipated annual revenue growth included in the LED Lighting cash flow projections for the years 2018 to 2021 has been based on significant growth levels experienced in the last two years, reflecting an expectation of further growth in line with information obtained from external brokers who published an analysis of long-term LED market trends
- The Portable Power and Wiring Accessories growth was assumed to be a constant in the three years in line with industry indicators and forecasts from key customers
- A Group pre-tax discount rate of 10.00% (2016: 9.84%) was calculated based on past experience and industry average assumptions to determine weighted average cost of capital based on an assumed market-participant debt/equity position. In establishing the discount factor for each CGU, the Group's pre-tax discount rate was flexed according to CGU geographical spread, customer concentration, expected business change, risk of customer loss/length of customer contracts and growth opportunity. The assessment as to impairment is not considered sensitive to discount rate assumptions, as at each reporting date. The pre-tax discount rates applied are as follows:

	2017 %	2016 %
Portable Power	**9.8**	10.2
Wiring Accessories	**10.9**	11.4
LED Lighting	**7.6**	7.9

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 deterioration in the UK economy

The impairment review calculations are based upon anticipated discounted future cash flows. For most of the CGU groupings, given the prudence already built into the Group's corporate plan and the level of headroom they show, 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 Directors have conducted a sensitivity analysis to determine the specific value for each assumption, all other assumptions remaining the same, that would result in the carrying value of goodwill and other intangible assets equalling their recoverable amounts. The analysis was conducted on projections for 2018 to 2021.

For Portable Power, the forecasted revenue growth rate of 8.4% with a long-term growth rate of 2% and a discounted factor of 8.1% applied, would result in a headroom of £215.2m. Revenue should be reducing by 28.3% over the next five years with zero subsequent growth for the carrying value of goodwill to equal the recoverable amount. The discounted factor needs to be 324.1% for the carrying value of goodwill to equal the recoverable amount.

For Wiring Accessories, the forecasted revenue growth rate of 8.3% with a long-term growth rate of 2% and a discounted factor of 8.1% applied, would result in a headroom of £67.2m. Revenue growth should be reducing by 12.0% over the next five years with zero subsequent growth for the carrying value of goodwill to equal the recoverable amount. The discounted factor needs to be 72.9% for the carrying value of goodwill to equal the recoverable amount.

For LED Lighting, the forecasted revenue growth rate of 8.3% with a long-term growth rate of 2% and a discounted factor of 8.1% applied, would result in a headroom of £48.8m. Revenue growth should be reducing by 33% over the next five years with zero subsequent growth for the carrying value of goodwill to equal the recoverable amount. The discounted factor needs to be 28.4% for the carrying value of goodwill to equal the recoverable amount.

11 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Property, plant and equipment	**—**	—	**0.4**	0.3	**0.4**	0.3
Intangible assets	**—**	—	**1.7**	0.5	**1.7**	0.5
Losses	**(0.7)**	(0.9)	**—**	—	**(0.7)**	(0.9)
Financial assets and liabilities	**(0.1)**	(0.1)	**—**	—	**(0.1)**	(0.1)
Deferred tax liability/(asset)	**(0.8)**	(1.0)	**2.1**	0.8	**1.3**	(0.2)

A deferred tax asset has been recognised against previously carried forward non-trading tax losses of £5.2m (2016: £5.2m) during the period as it is expected that they can be offset against future profits.

Movement in deferred tax liability/(asset) during the 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**

A deferred tax liability has been recognised from intangible assets acquired, details are contained in note 22.

Movement in deferred tax (asset)/liability during the prior year

	1 January 2016 £m	Recognised in income £m	31 December 2016 £m
Property, plant and equipment	0.3	—	0.3
Intangible assets	0.5	—	0.5
Losses	—	(0.9)	(0.9)
Financial assets and liabilities	(0.1)	—	(0.1)
	0.7	(0.9)	(0.2)

12 Inventories

	2017 £m	2016[1] £m
Raw materials	**3.5**	2.8
Work in progress	**4.0**	6.0
Finished goods	**36.7**	26.6
	44.2	35.4

1. The reported comparatives have been restated to reflect a prior year adjustment, see note 1a in the Notes to the Consolidated Financial Statements on page 93.

The write-down of inventories to net realisable value amounted to £1.0m (2016: £0.8m).

Finished goods has been restated at 31 December 2016 to reflect the prior year adjustment which is explained in more detail in note 1a.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

13 Trade and other receivables

	2017 £m	2016[1] £m
Trade receivables	**33.4**	26.5
Prepayments and other receivables	**3.1**	2.8
Financial assets held for trading (including derivatives)	**0.2**	—
	36.7	29.3

1. The reported comparatives have been restated to reflect a prior year adjustment, see note 1a in the Notes to the Consolidated Financial Statements on page 93.

14 Cash and cash equivalents

	2017 £m	2016 £m
Cash and cash equivalents	**5.6**	4.1

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.

	2017 £m	2016 £m
Non-current liabilities		
Bank term loan	**—**	12.0
	—	12.0
Current liabilities		
Bank term loan	**20.0**	—
Shareholder loan notes	**0.3**	0.6
Secured bank loans	**22.0**	21.0
	42.3	21.6

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2017 £m	Carrying amount 2017 £m	Face value 2016 £m	Carrying amount 2016 £m
Shareholder loan notes[1]	GBP	10%	2018	**0.3**	**0.3**	0.6	0.6
Bank term loan	GBP	2.3% + LIBOR	2018[1]	**20.0**	**20.0**	12.0	12.0
Secured bank loan	GBP	2%	2017[2]	**8.0**	**8.0**	10.3	10.3
Secured bank loan	USD	2%	2017[2]	**14.0**	**14.0**	10.7	10.7
				42.3[3]	**42.3[3]**	33.6[3]	33.6[3]

1. Amount due to John Hornby. £0.3m was repaid in the year.
2. The maturity of the bank term loan was extended after the balance sheet date until June 2019.
3. 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 October 2019.
4. For more information on fair value/carrying value assessment, see note 19.

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 £22.0m (2016: £21.0m), which are secured by legal charges over the Group's book debts.

	2017 £m	2016 £m
Net debt as at 31 December represented by:		
Long-term debt	**—**	12.0
Cash and cash equivalents	**(5.6)**	(4.1)
Shareholder loans	**0.3**	0.6
Short-term debt	**42.0**	21.0
	36.7	29.5

	2017 £m
Net debt movement:	
As at 1 January	**29.5**
Increase in bank loans	**9.0**
Repayment of shareholder loan	**(0.3)**
Cash inflow	**(1.6)**
Non-cash items	**0.1**
As at 31 December	**36.7**

16 Other financial liabilities

	2017 £m	2016 £m
Non-current liabilities		
Finance lease liabilities	**0.4**	0.1
Current liabilities		
Finance lease liabilities	**0.1**	0.1
Financial liabilities held for trading (including derivatives)	**—**	0.5
	0.1	0.6

Finance lease liabilities

Finance lease liabilities are payable as follows:

	2017			2016		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	**0.1**	**—**	**0.1**	0.1	—	0.1
Between one and five years	**0.4**	**0.1**	**0.5**	0.1	—	0.1
	0.5	**0.1**	**0.6**	0.2	—	0.2

17 Trade and other payables

	2017 £m	2016[1] £m
Current liabilities		
Trade payables	**39.0**	29.1
Tax payable	**1.0**	3.2
Other payables and accrued expenses	**9.6**	3.1
	49.6	35.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

18 Employee benefits

Defined contribution plans

The Group operates a number of defined contribution pension plans.

The 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 £0.4m (2016: £0.3m).

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	
	2017 £m	2016 £m
Trade receivables	**33.4**	26.5
Cash and cash equivalents	**5.6**	4.1
	39.0	30.6

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. In 2017, one customer comprised 30% of sales (2016: 33%).

As at 31 December 2017, the Group had an allowance for impairment of £0.4m (2016: £0.3m).

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was as follows.

	Carrying amount	
	2017 £m	2016 £m
Europe	**27.0**	22.5
North America	**1.3**	0.3
Rest of world	**5.1**	3.7
	33.4	26.5

The ageing of trade receivables at the reporting date that were not impaired was as follows:

	2017 £m	2016 £m
Neither past due nor impaired	**29.2**	23.7
Past due but not impaired	**2.5**	1.1
Past due 60 days	**0.9**	0.3
Past due 90 days	**0.6**	0.2
Past due 120+ days	**0.2**	1.2
	33.4	26.5

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 and other receivables at the reporting date that were not impaired and are stated net of rebates and 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 £5.6m at 31 December 2017 (2016: £4.1m), 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 2017	**Carrying amount £m**	**Within 1 year £m**	**1-2 years £m**	**2-5 years £m**
Non-derivative financial liabilities:				
Secured bank loans	**22.0**	**22.0**	**—**	**—**
Bank term loan	**20.0**	**20.0**	**—**	**—**
Shareholder loan notes	**0.3**	**0.3**	**—**	**—**
Trade payables	**39.0**	**39.0**	**—**	**—**
	81.3	**81.3**	**—**	**—**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

19 Financial instruments continued

Liquidity risk continued

31 December 2016	Carrying amount £m	Within 1 year £m	1-2 years £m	2-5 years £m
Non-derivative financial liabilities:				
Secured bank loans	21.0	21.0	—	—
Bank term loan	12.0	—	12.0	—
Shareholder loan notes	0.6	0.6	—	—
Trade payables[1]	29.4	29.4	—	—
	63.0	51.0	12.0	—
Derivative financial liabilities:				
Interest rate swaps used for hedging	0.4	0.4	—	—
Forward exchange contracts used for hedging	0.1	0.1	—	—
	0.5	0.5	—	—

1. The reported comparatives have been restated to reflect a prior year adjustment, see note 1a in the Notes to the Consolidated Financial Statements on page 93.

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 ensuring that at least 50% of its exposure to changes in interest rates on borrowings is on a fixed rate basis, taking into account assets with exposure to changes in interest rates.

At the year ended 31 December 2017 the Group did not have any Interest rate swaps. The Group expects to increase its proportion of fixed rate borrowing in 2018.

For the year ended 31 December 2016, 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.

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 2017		
Variable rate instruments	**(0.4)**	**0.4**
Interest rate swap	**—**	**—**
Cash flow sensitivity (net)	**(0.4)**	**0.4**
31 December 2016		
Variable rate instruments	(0.3)	0.3
Interest rate swap	0.1	(0.1)
Cash flow sensitivity (net)	(0.2)	0.2

There were no changes in the Group's approach to capital management during the year.

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:

	2017			2016	
	RMB £m	**USD £m**	**EUR £m**	RMB £m	USD £m
Trade receivables	**0.9**	**16.8**	**1.6**	1.1	14.1
Secured bank loans	**—**	**—**	**—**	—	(10.7)
Trade payables	**(18.4)**	**(3.3)**	**(0.5)**	(4.1)	(3.6)
Net statement of financial position exposure	**(17.5)**	**13.5**	**1.1**	(3.0)	(0.2)

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2017	2016	**2017**	2016
USD	**1.28**	1.36	**1.35**	1.22
EUR	**1.17**	1.24	**1.13**	1.17
RMB	**8.74**	8.98	**8.80**	8.50

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 2016, as indicated below.

	Equity £m	Profit/(loss) £m
31 December 2017		
USD (10% strengthening)	**(1.1)**	**3.2**
RMB (10% strengthening)	**(0.3)**	**(3.9)**
31 December 2016		
USD (10% strengthening)	—	1.7
RMB (10% strengthening)	(0.3)	(0.4)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

19 Financial instruments continued

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:

	2017 £m	2016 £m
Assets carried at amortised cost:		
Trade and other receivables	**33.4**	26.5
Cash and cash equivalents	**5.6**	4.1
Forward exchange contracts	**0.2**	—
Financial assets	**39.2**	30.6
Liabilities carried at amortised cost:		
Secured bank loans	**22.0**	21.0
Bank term loan	**20.0**	12.0
Shareholder loan notes	**0.3**	0.6
Trade payables[1]	**39.0**	29.4
Liabilities carried at fair value:		
Forward exchange contracts	**—**	0.1
Interest rate swaps	**—**	0.4
Financial liabilities	**81.3**	63.5

1. The reported comparatives have been restated to reflect a prior year adjustment, see note 1a in the Notes to the Consolidated Financial Statements on page 93.

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)

The only Level 2 instruments for 2017 are forward exchange contracts. The fair value (asset)/liability is shown below:

	2017 £m	2016 £m
Foreign exchange contracts	**(0.2)**	0.1
Interest rate swaps	**—**	0.4
	(0.2)	0.5

20 Commitments

Operating lease commitments – Group

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings		Other	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Within one year	**0.5**	0.5	**0.1**	—
Within two and five years	**1.1**	1.6	**0.1**	—
In more than five years	**—**	—	**—**	—
	1.6	2.1	**0.2**	—

The majority of the leases which Group has entered into relate to land and buildings.

21 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 leaves the Group before the options vest.

The Group recorded a share-based payment charge of £0.3m (2016: nil) included in the Consolidated Income Statement within administrative expenses, which is attributable to the 2017 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 the third party and the number of shares held at the year ended 31 December 2017 amounted to 117,256.

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 employee must be continuously employed by the Group for a period of at least three years from the date of the award grant. If employees 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	
	2017	2016	**2017**	2016
Outstanding at 1 January	**—**	—	**—**	—
Granted during the year	**72,962**	—	**44,294**	—
Forfeited during the year	**—**	—	**—**	—
Released during the year	**—**	—	**—**	—
Outstanding and exercisable at 31 December	**72,962**	—	**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 (2016: nil) 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 conditions 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

21 Share-based payments continued

2017 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 61 within the 2017 Annual Report:

Board Directors	Role	Number of shares awarded
John Hornby	Chief Executive Officer	145,331
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 31 March 2018. Further details are included in the Remuneration Report on page 57.

Each award has a linked tax qualifying option over 12,457 shares at an exercise price of £2.408. 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 2017 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, which runs from 1 January 2017 to 31 December 2019. No consideration was paid for any of the awards.

As the options under the 2017 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 2017	2017
Three-day average share price before options were issued (pence)	**238.50**
Average expected volatility	**34%**
Expected life	**3 years**
Risk free rate	**0.08%**

The share-based payments charge of £0.3m (2016: nil) included in the Consolidated Income Statement within administrative expenses is attributable to the 2017 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 data to be able to evaluate the Group's expected volatility, given the Group IPO was in October 2016, 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:

	2017		2016	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding at 1 January	**—**	**—**	—	—
Granted during the year	**517,142**	**0.05p**	—	—
Outstanding and exercisable at 31 December	**517,142**	**0.05p**	—	—

As at 31 December 2017, a total of 517,142 options were outstanding which had an average exercise price of 0.05p, and a weighted average remaining contractual life of seven years.

The Group purchased its own shares during the year 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 2017 the trust had 454,000 shares held at a cost of £1.2m. These shares are held within the treasury reserve and can be shown in the Consolidated Statement of Changes in Equity.

22 Acquisition of subsidiary

On the 18 September, the Group acquired the entire issued share capital of Kingfisher Lighting Limited ("Kingfisher Lighting") from its retiring founder and other minority shareholders for a total cash consideration of £9.7m on a cash free, debt free basis. The acquisition was funded through an increase to the Group's existing banking facilities. Kingfisher Lighting is a nationwide UK supplier of exterior lighting products, including road and street LED lighting systems and controls, and high mast LED luminaires, as well as a provider of installation and maintenance services.

For the three months ended 31 December 2017, Kingfisher Lighting contributed revenue of £4.1m and adjusted operating profit of £0.5m to the Group's results. If the acquisition had occurred on 1 January 2017, management estimates that the impact on consolidated revenue would have been £11.7m and on consolidated operating profit for the year £1.6m. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

Acquisition related costs

The Group incurred acquisition-related costs of £0.5m comprising professional fees £0.3m and redundancy and restructuring costs £0.2m. These costs have been included in 'administrative expenses'.

Identifiable assets acquired, and liabilities assumed

The following table summarises the provisional recognised amounts of assets acquired, and liabilities assumed at the date of acquisition:

	Acquired £m	Fair value adjustment £m	**Fair value £m**
Property, plant and equipment	0.4	(0.2)	**0.2**
Inventories	1.3	(0.3)	**1.0**
Trade receivables	2.9	(0.1)	**2.8**
Loans and borrowings	(1.1)	—	**(1.1)**
Corporation tax liabilities	(0.2)	—	**(0.2)**
Contingent liabilities	(0.1)	—	**(0.1)**
Trade and other payables	(1.8)	(0.2)	**(2.0)**
Total identifiable net assets acquired	1.4	(0.8)	**0.6**

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation technique
Property, plant and equipment	Market comparison technique and cost technique: The valuation model considers market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.
Intangible assets	Relief-from-royalty method and multi-period excess earnings method: The relief-from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned. The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, be excluding any cash flows related to contributory assets.
Inventories	Market comparison technique: The fair value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

The trade receivables comprise gross contractual amounts due of £2.9m less an impairment of £0.1m giving £2.8m which is deemed to be collectible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

22 Acquisition of subsidiary continued

Fair values measured

The fair value of the acquired identifiable intangible assets consist of the following:

Intangible asset category	Remaining useful life (years)	2017 £m
Customer relationships	10-12	**3.8**
Order backlog	Less than 1	**0.3**
Tradename	15	**1.2**

The values have been assessed by an independent third-party valuation company.

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	2017 £m
Consideration paid	**9.7**
Repayment of Kingfisher Lighting's bank overdraft	**(1.1)**
Net consideration	**8.6**
Transferred to intangible assets	**(5.3)**
Net assets acquired	**(1.4)**
Fair value adjustment	**0.8**
Deferred tax liability	**0.9**
Goodwill	**3.6**

A Group has recognised a deferred tax liability of £0.9m in respect of the £5.3m intangible assets acquired as part of the Kingfisher Lighting acquisition.

23 Share capital

	Group	
	2017 £m	2016 £m
Allotted, called up and fully paid		
Balance at 1 January	**80,400**	70,000
Shares issued in the period prior to IPO	**—**	400
Shares issued at IPO	**—**	10,000
Balance at 1 January and 31 December	**80,400**	80,400

Reconciliation of the number of shares in issue

	2017 Number	2016 Number
Number at 1 January	**160,800,000**	700,000
Shares issued in the period prior to IPO	**—**	4,000
Share subdivision from 10p to 0.05p	**—**	140,096,000
Shares issued at IPO	**—**	20,000,000
Number at 31 December	**160,800,000**	160,800,000

24 Related parties

Related party transactions

During the year, a decision was taken to exit from sales to the domestic Chinese market. To effect an orderly transfer and exit, the rights to the Ross trademark and relevant patent (which were carried at nil net book value) were transferred for nil consideration to Jiaxing Ross Trading Limited. Based on a third-party valuation, finished goods inventory was sold for £0.2m, realising a loss on sale of £0.2m to the same entity. Jiaxing Ross Trading Limited was a related party as at the time of the transactions as it was wholly owned by a member of the Group's key management personnel. Since the initial transfer and during the remainder of the year the Group had made sales of £0.6m including mark up to Jiaxing Ross Trading Limited. During the year Jiaxing Ross Trading Limited was sold on to its largest customer with no gain to any employee of the Group.

At 1 January 2017, £0.6m was owed under shareholder loan notes to John Hornby, CEO. £0.3m was repaid during the year and no interest was received by John Hornby. As at 31 December 2017 £0.3m was payable to him. The loan will be fully repaid during 2018.

Transactions with key personnel

The compensation of key management personnel, including the Executive Directors, is included in note 4.

25 Ultimate Parent Company and controlling party

There is no controlling party.

26 Accounting estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The principal accounting estimates, assumptions and judgements employed in the preparation of these consolidated Group financial statements which could affect the carrying amounts of assets and liabilities at the balance sheet date are as follows:

Judgements

- Determining whether there are impairment triggers for intangible assets, including goodwill
- Revenue recognition on new revenue streams, should they involve more complexity than simply sale of goods, for example, determining whether or not substantially all the risks and rewards of ownership have passed, or whether there is a financing arrangement
- Determining which research and development activities meet capitalisation criteria
- Determining if any matters or events have triggered a risk of obsolescence for inventory

Accounting estimates

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets (including goodwill) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The determination of whether goodwill and other indefinite life intangible assets should be impaired requires the estimation of future cash flows and growth factors adopted by each CGU. Furthermore, discount rates applied to these cash flows are determined by reference to the markets in which they operate and are risk adjusted to reflect risks and opportunities existing for each CGU. These factors are all affected by prevailing market and economic factors outside the Group's control. Further information, including the assumptions applied, is included in note 10.

Intangible assets with indefinite useful lives and other intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

As part of the Goodwill impairment testing, the Group reviewed the carrying value of goodwill based on the forecasted cash flow projections for each CGU under a specific set of sensitivities. These sensitivities included revenue growth rate, margin growth rates, inflation rates and WACC rates applied. The valuations indicate that the Group has sufficient headroom and that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

During 2017, the Group did not record any impairment charges upon review of its tangible and intangible assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

26 Accounting estimates and judgements continued

Accounting estimates continued

Capitalisation of intangible assets

In testing for impairment the recoverable amount of goodwill and intangible assets is determined by reference to the value in use of the CGU grouping to which they are attributed. In addition, the Directors have made certain estimates concerning discount rates, future cash flows and the future development of the business that are consistent with the Group strategy. Whilst the Directors consider these assumptions to be realistic, should actual results, including those for market volume changes, be different from expectations, for example a worsening of the UK economy, then it is possible that the value of goodwill and other intangible assets included in the balance sheet could be impaired.

The pre-tax discount rate is derived from the Group's weighted average cost of capital ("WACC") calculated by the Group's advisers. The WACC is based upon the risk free rate for 20-year UK gilts, adjusted for the UK market risk premium which reflects the increased risk of investing in UK equities and the relative volatiles of the equity of the Group compared to the market as a whole. The Directors have applied risk-based adjustments to cash flows to reflect their view of the relative risk of the Group's operations. Further details concerning the judgements of goodwill and other intangible assets and the impairment testing thereof, are included in note 10.

During the year, £3.0m was capitalised in relation to the Group's new product development. The costs include external consultant costs and incremental staffing costs. In establishing the principles on which the costs are capitalised, the Directors have reviewed the nature of work being performed under the different phases of the project and the nature of the associated deliverables against the capitalisation criteria of IAS 38 and have identified the activities through the life of the project where the related costs should be expensed through the income statement.

Deferred taxation

The Group has recognised deferred tax assets in respect of unutilised losses and other temporary differences arising in certain of the Group's businesses. This requires management to make decisions on the recoverability of such deferred tax assets based on future forecasts of taxable profits. If these forecast profits do not materialise, or there are changes in the tax rates or to the period over which the losses or temporary difference might be recognised, the value of the deferred tax asset will need to be revised in a future period.

Utilisation of tax losses and recognition of other deferred tax assets

The Group operates in many countries and is subject to taxes in numerous jurisdictions. Management uses judgement to assess the recoverability of tax assets such as whether there will be sufficient future taxable profits to utilise losses.

Current asset provisions

Management are required to estimate the net realisable value of various elements of working capital, principally inventories and trade receivables. Provisions are established for net realisable value and bad and doubtful debt risks. Provisions are based on the facts available at the time and applied to inventories and aged receivables.

In estimating the net realisable value of inventories an assessment is required to determine their likely value on realisation taking into account market and technological changes and the Group's marketing or discount plans. Assumptions are therefore required to be made as to levels of demand, routes to market and prices likely to be achieved.

Inventory

Inventory valuation can involve judgements in respect of the inclusion of overheads and costs relating to bringing inventory items to their current location and condition. The Group's facility in China is primarily involved in the production of inventory for the Group's operations. Overheads, including distribution costs, are apportioned and attributed to inventory items.

In determining an estimate of net realisable value, management has made judgements in respect of the longevity, international marketability and general quality of the Group's products, which provide a level of protection against market conditions, and competitor product development and pricing.

The recent increases in raw materials costs, including the effect of exchange rates, increases the level of judgement required since the Group continues to operate in competitive markets.

The provision for slow-moving inventory is based on management's estimation of the future sales of each of the Group's products over the period from the balance sheet date into the preceding year. Estimated future sales are based on historical actual sales and an element of judgement applied if the product will sell in future periods based on discussions with Commercial Directors of the Group.

If actual unit sales growth rates differ from those estimated by management, both the level of provision against existing inventory and the rates of provision applied to inventory in future periods would need to be revised.

Trade receivables

Estimation is applied with regard to the collectability of trade receivables in assessing their likely realisation, including the current creditworthiness of each customer, the likely settlement of discount and rebate arrangements and related ageing of past due balances. Specific accounts are assessed in situations where a customer may not be able to meet its financial obligations due to deterioration of its financial condition.

Revenue and related liabilities

The sales of goods are recognised when the risks and rewards of ownership have been transferred to the customer. For the majority of customers, this is when goods are delivered, and title has passed. For others it is when goods are delivered for shipment by our contract manufacturers as this depends upon the terms and conditions of the sales contracts and when the risks and rewards of ownership is transferred.

Estimation can be required in determining the required adjustment to revenue and/or discount arrangements. These can have a significant effect on revenue recognised and their estimation can be complex, because the agreement periods are not always coterminous with the Group's year end and the calculation can involve various criteria that need to be assessed. Determining the rebate accrual requires assumptions to be made about expected full year volumes and likely rebate thresholds to be applied. The rebate accrual at 31 December 2017 was £8.8m (2016: £6.8m). Rebate agreements are in place with our customers, who are mainly large retail business, that detail specific terms for volume driven rebates and the other financial support e.g. marketing contributions. As customer year ends tend not to be co-terminus with the Group it is necessary to make estimates for the level of rebates payable which generates a sensitivity in arriving at the estimate in the year.

Transfer pricing

The Group processes a large number of internal cross border transactions each year, particularly between its Chinese manufacturing operations and its sales & distribution offices globally. The Group's sales teams also collaborate internationally to meet the needs of its international customer base. Whilst the Group has processes in place to ensure appropriate transfer prices are applied to such transactions for local tax purposes, like many international businesses there is always a risk that these arrangements may be queried by local tax authorities. A successful challenge could result in a historic tax liability. Judgement is required to assess whether any such tax liabilities exist at the balance sheet date.

The Group seeks appropriate tax advice in both setting transfer pricing policy and in quantifying the impact of transfer pricing on its financial statements. Based on this advice, the Group has recorded a tax liability of £0.1m (2016: nil) in respect of its transfer pricing arrangements.

Share-based payments

On granting of share options, the fair value as at the date of grant is calculated using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that are likely to vest.

The Black-Scholes option valuation model requires the use of assumptions, including expected stock price volatility, the estimated life of each award and the estimated dividend yield. The risk free interest rate used in the model is determined, based on ten-year UK government bonds with a life equal to the expected life of the equity-settled share-based payments.

For the 2017 LTIP share options award, the grant date fair value of stock options is estimated using the Monte Carlo option valuation model. This model is similar to the Black Scholes model in which it requires the use of assumptions as described previously but differs in the initial calculation taking into account the probability that the options will be exercisable dependent on meeting the criteria as seen in note 21.

The Group instructed a third-party adviser to calculate and confirm the fair value of stock options using the Monte Carlo simulation model, using the parameters at grant date combined with the judgements concluded on many differing scenarios and outcomes based on market price sensitivities. The share-based payments charge is therefore reflective of the work and conclusions obtained.

The total gross amount of recognised expenses associated with share-based payments was £0.3m (2016: nil).

COMPANY BALANCE SHEET

at 31 December 2017

	Note	2017 £m	2016 £m
Non-current assets			
Investments	29	**0.4**	0.1
Current assets			
Debtors	30	**24.2**	22.2
Net assets		**24.6**	22.3
Capital and reserves			
Called up share capital	31	**0.1**	0.1
Share premium account		**24.8**	24.8
Treasury reserve		**(1.2)**	—
Profit and loss account		**0.9**	(2.6)
Equity		**24.6**	22.3

The notes on pages 120 to 125 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 30 April 2018 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 2017

	Share capital £m	Share premium £m	Retained earnings £m	Treasury reserve £m	Total equity £m
Balance at 1 January 2016 as reported	0.1	0.5	—	—	0.6
Total comprehensive income					
Reported loss for the year	—	—	(2.6)	—	(2.6)
Total comprehensive loss for the year	—	—	(2.6)	—	(2.6)
Shares issued in the year	—	24.3	—	—	24.3
Balance at 31 December 2016[1]	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:					
Dividends paid	**—**	**—**	**(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**

1. Interim accounts were filed with Companies House regarding the dividend paid in respect of the prior year.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2017

27 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 £m. 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 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 Group's 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.

28 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 leaves the Group before the options vest.

The Group recorded a share-based payment charge of £0.3m (2016: nil) included in the Consolidated Income Statement within administrative expenses, which is attributable to the 2017 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 the third party and the number of shares held at the year ended 31 December 2017 amounted to 117,256.

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 employee must be continuously employed by the Group for a period of at least three years from the date of the award grant. If employees 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

28 Share-based payments continued

Share Incentive Plan ("SIP") continued

	Number of free shares		Number of partnership and matching shares	
	2017	2016	**2017**	2016
Outstanding at 1 January	**—**	—	**—**	—
Granted during the year	**72,962**	—	**44,294**	—
Forfeited during the year	**—**	—	**—**	—
Released during the year	**—**	—	**—**	—
Outstanding and exercisable at 31 December	**72,962**	—	**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 (2016: nil) 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 conditions 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.

2017 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 61 within the 2017 Annual Report:

Board Directors	Role	Number of shares awarded
John Hornby	Chief Executive Officer	145,331
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 31 March 2018. Further details are included in the Remuneration Report on page 57.

Each award has a linked tax qualifying option over 12,457 shares at an exercise price of £2.408. 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 2017 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, which runs from 1 January 2017 to 31 December 2019. No consideration was paid for any of the awards.

As the options under the 2017 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 2017	**2017**
Three-day average share price before options were issued (pence)	**238.50**
Average expected volatility	**34%**
Expected life	**3 years**
Risk free rate	**0.08%**

The share-based payments charge of £0.3m (2016: nil) included in the Consolidated Income Statement within administrative expenses is attributable to the 2017 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 data to be able to evaluate the Group's expected volatility, given the Group IPO was in October 2016, 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:

	2017		2016	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Outstanding at 1 January	—	—	—	—
Granted during the year	517,142	0.05p	—	—
Outstanding and exercisable at 31 December	**517,142**	**0.05p**	—	—

As at 31 December 2017, a total of 517,142 options were outstanding which had an average exercise price of 0.05p, and a weighted average remaining contractual life of seven years.

The Group purchased its own shares during the year 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 2017 the trust had 454,000 shares held at a cost of £1.2m. These shares are held within the treasury reserve and can be shown in the Consolidated Statement of Changes in Equity.

29 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.

	2017 £m	2016 £m
Balance at 1 January	0.1	0.1
Share-based payment charge relating to subsidiaries	0.3	—
Balance at 31 December	**0.4**	0.1

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2017

29 Fixed asset investments continued

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
Nexus 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	Administrative and development office	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
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	11,050 W Little York Road, Building C1 Houston, Texas, 77041, USA	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

During the year the Company acquired the whole share capital of Kingfisher Lighting Limited, a Company situated in Mansfield, Nottinghamshire. The Company is a nationwide UK supplier of exterior lighting products, including road and street LED lighting systems and controls, and high mast LED luminaires, as well as a provider of installation and maintenance services.

30 Debtors

	2017 £m	2016 £m
Amounts owed by Group undertakings	**24.2**	22.2

Amounts owed by the Group's subsidiaries are repayable on demand and are non-interest bearing.

31 Capital and reserves

	Group	
	2017 £	2016 £
Allotted, called up and fully paid		
Balance at 1 January	**80,400**	70,000
Shares issued in the period prior to IPO	**—**	400
Shares issued at IPO	**—**	10,000
Balance at 31 December	**80,400**	80,400

Reconciliation of the number of shares in issue

	2017 Number	2016 Number
Number at 1 January	**160,800,000**	700,000
Shares issued in the period prior to IPO	**—**	4,000
Share subdivision from 10p to 0.05p	**—**	140,096,000
Shares issued at IPO	**—**	20,000,000
Number at 31 December	**160,800,000**	160,800,000

32 Ultimate parent and controlling party

There is no controlling party.

COMPANY INFORMATION

Financial calendar

Annual General Meeting	19 June 2018
Half-year end	30 June 2018
Half-year interim management statement	September 2018
Year end	31 December 2018
Full-year preliminary statement	April 2019

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 2017 to 31 December 2017.

Share price (pence)	High	Low	Average	Financial year end[1]
2017	267.5	111.0	217.9	**111.0**
2016	196.5	130.0	161.5	**192.0**

1. Last trading day at the London Stock Exchange 29 December 2017.

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.lucecoplc.com**.

Online shareholder services

Luceco provides a number of services online in the investor relations section of its website at **www.lucecoplc.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

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.

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.**

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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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