

PhotonStar LED Group PLC

**Consolidated financial statements
for the year ended 31 December 2011**

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PhotonStar LED Group PLC

Consolidated financial statements for the year ended 31 December 2011

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PhotonStar LED Group PLC

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Directors and Advisers

Directors

Drew Nelson	Non-Executive Chairman
James McKenzie	Chief Executive Officer
Majd Zoorob	Chief Technology Officer
Ceri Jones	Chief Financial Officer
Jonathan Freeman	Non-Executive Director (appointed 28 March 2012)

Company Secretary

Ceri Jones

Registered Number

06133765

Registered Office and Directors' business address

Unit 8 Westlink
Belbins Business Park
Cupemham Lane
Romsey
Hants
SO51 7JF

Nominated Adviser, Financial Adviser and Broker

Finncap Limited
60 New Broad Street
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EC2M 1JJ

Solicitors

Berry Smith LLP
Haywood House
Dumfries Place
Cardiff
CF10 3GA

Auditor

PKF (UK) LLP
8th Floor, Halmont House
Churchill Way
Cardiff
CF10 2HE

Registrar

Capita Registrars
The Registry, 34 Beckenham Road
Beckenham
Kent
BR3 4TU

PhotonStar LED Group PLC

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Chief Executive Officer's Statement

Overview

PhotonStar LED Group was admitted to AIM in December 2010 following the reverse takeover of AIM-listed Enfis Group. The Group comprises two divisions:

- LED Fixtures - which works with lighting designers, architects, house builders, facilities management companies and sustainability consultants to provide intelligent, high-end LED lighting solutions for the commercial and architectural market
- LED Light Engines - which provides LED lighting solutions for specialist applications such as film & television production lighting and UV curing, as well as "ChromaWhite" the Group's next generation light engine product

On 13 May 2011, the Group acquired Camtronics Vale, a specialist contract assembly company based in Tredegar, Wales. The acquisition has provided access to surplus manufacturing capacity and brought in valuable expertise in surface mount electronics.

PhotonStar has made excellent progress in 2011 and early 2012, laying the foundations for the future of the business. This included completing the integration of both Enfis and Camtronics, rationalisation of the Enfis product line, removal of the duplicate R&D facility and closure of the former Enfis facility in Swansea.

The Group has now relocated its entire LED fixtures manufacturing operation to larger premises adjacent to Camtronics facility in Tredegar, and established production facilities for its ChromaWhite light engine technology at Romsey.

The Group is progressing its planned phased withdrawal from non LED lighting, and has also refocused the former Enfis specialty LED products business on specific niche business applications.

The market opportunity

Lighting accounts for 19% of global electricity usage and CO2 emissions attributable to lighting are equivalent to 70% of all global car CO2 emissions. General lighting is in transition, driven by energy efficiency and lower operating costs and across many sectors LED lighting is having a large impact.

General lighting of buildings is estimated to be a \$70bn market with an expected compound annual growth rate of 6% overall between 2010-2015. It is also estimated that by 2015 LED lamps and modules will account for over 50% of general lighting light source sales. There are multiple EU and UK legislative drivers such as the Europe-wide phased banning of incandescent lamps, the code for sustainable homes and the October 2010 increase in efficiency for UK building regulations.

Business review

LED Fixtures business

The LED Fixtures business has scaled up well during the last 12 months and continues to show strong growth. The Group has made excellent progress in its planned expansion of LED fixture production capacity, moving into a newly leased 12,000 square foot facility adjacent to Camtronics Vale's premises in Tredegar, Wales in late December 2011. A new workforce has been recruited and trained in January, and production levels have already returned to pre-relocation levels.

During 2011, the wholesaler-focused EcoStar luminaire range was introduced and an agreement was reached with a large UK electrical wholesale Group with more than 280 branches to stock the product. The roll out to these branches was initially limited by production capacity and product price, both of which have now been resolved by the transfer of production to the new production facility in Tredegar.

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Chief Executive Officer's Statement (continued)

A number of the Group's LED Fixtures products were nominated for Innovation and design awards during the year, including a double nomination at the 2011 CIBSE building performance awards for energy using products, and the 2011 lighting design awards in the low carbon project section

As a result of these awards, combined with the publication of a new specification product brochure and participation at major trade shows (Ecobuild, ARC and Lux Live), the Group's reputation and brand awareness have grown markedly, and product sales and project pipelines have increased in line with expectations

Light Engines business

The specialty LED light engine product range (formally Enfis) has been dramatically rationalised to focus on substantial near-term commercial opportunities in UV curing and film and TV production lighting. After strong progress in the first half, revenue growth slowed in the last quarter of 2011, as a result of inventory build-up in a customer focused on film and TV lighting. However, sales are expected to resume growth in the second half of 2012.

The UV light engines business continues to grow and several new products were finalised with customers in the last quarter of 2011.

The Innovate^(sm) Chip-on-Board (COB) technology platform introduced in 2011 has reduced production costs and is now used in many products in both the specialty and general lighting product ranges.

All R&D for the Group was centralised in Romsey in the first half of 2011 reducing overhead through the closure of Enfis' Swansea premises. This move has also increased product development speed.

In late October 2011, PhotonStar raised £1.25m to fund investment in its ChromaWhite manufacturing facilities. ChromaWhite is the Group's next generation light engine product, which allows microprocessor controlled colour tuning and superior light quality, at an extremely competitive price-point.

ChromaWhite general lighting products were nominated for many awards and won the E-On sponsored LA light source product of the year award in 2011. This was for a product designed to be a Zhaga-compliant footprint. Zhaga, of which PhotonStar is a full member, is an industry-wide body driving the adoption of standard specifications for interfaces to LED light engines.

Following the relocation of the LED Fixtures business manufacturing to South Wales, the Group has now sourced, installed and substantially completed, the commissioning of manufacturing equipment at its Romsey premises for the full manufacture of the Group's ChromaWhite light engine product.

Intellectual property

The Group has made further progress during the year with its patent portfolio and has been granted two additional patents since the last update, making a total of six granted and allowed patent families. In addition, further new intellectual property was filed in the last quarter of 2011.

Financial review

Group sales increased by 123% to £6.06m (2010: £2.72m), reflecting the strong growth in LED lighting fixture sales and the first time inclusion of Light Engine sales from the former Enfis business acquired in late December 2010. Light Engine sales contributed £0.8m to 2011 sales.

Group gross margin for 2011 was 35% (2010: 31%), with similar gross margin in both the Lighting Fixture and Light Engine divisions.

The increase in administrative expenses reflects the expansion of the Lighting Fixtures business and the inclusion of the Light Engines business for the first time in 2011.

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Chief Executive Officer's Statement (continued)

Non cash costs (depreciation, amortisation and share based payments) included in administrative expenses increased to £0.46m (2010 £0.31m), principally reflecting increased patent and development cost, amortisation in the expanded Lighting Fixtures business and the first-time inclusion of the Light Engines business

The Group's pre tax loss for the year was £1.1m (2010 loss £0.9m). Basic and diluted loss per share reduced to 1.1p (2010 basic and diluted loss per share 1.7p). The Group has tax losses of approximately £5.5m available to set against future trading profits.

During 2011, the Group made capital expenditure of £0.8m, of which £0.4m was spent on development of its LED lighting fixtures and light engines, and £0.3m on plant and equipment.

In May 2011 the Group acquired the entire issued share capital of Camtronics Vale Limited. The initial consideration was £0.26m (including £0.1m cash). There is maximum additional consideration of a further £100,000 (including £75,000 cash) payable in 2012.

In October 2011 the Group raised £1.25m net of expenses to support development of its ChromaWhite technology and provide further working capital.

During 2011 the Group invested £0.6m in additional inventories and trade and other receivables in support of its growing business.

The Group's year-end net cash position was £0.6m with available borrowing facilities of up to £0.35m.

Current trading and outlook

Whilst the LED illumination market is still in its early stages, currently accounting for less than 10% of the \$70bn global general lighting market, a rapid transition to LED lighting is occurring. This is driven by cost reductions, increased efficiency and multiple regulatory drivers such as Europe-wide phased banning of incandescent lamps and the code for sustainable homes. PhotonStar is well positioned to take advantage of this opportunity.

With a growing reputation as a high quality and innovative manufacturer of LED lighting products, export channels and overseas commercial opportunities for PhotonStar are increasing, with export expected to represent a more significant percentage of our business in 2012, as a result of growth in northern Europe and the Middle East in particular.

LED fixtures business

The new Tredegar manufacturing facility has now moved into operation and full production of Luminaires has been transferred from Romsey. This caused a limited capacity reduction in January which impacted both revenues and margins. However, with rapid growth in February sales and a recovery to normal margins through greatly increased production levels, the LED fixtures business has been EBITDA positive (before central costs) for the two months to the end of February 2012.

LED light engines business

The UV light engines business continues to grow. Several new products finalised with customers in the last quarter of 2011 have begun shipping in 2012.

The installation of the new production line in Romsey for the manufacture of the Group's ChromaWhite light engine product is now substantially complete. The product is sampling now and is on track for launch at the Frankfurt based Light and Build show in April 2012.

The Group has made a good start to 2012 with further growth anticipated during the rest of the year. We remain on track to return a Group profit for the first time in 2012.



James McKenzie
Group Chief Executive

**Directors' Report
for the year ended 31 December 2011**

The directors present the annual report and audited financial statements for the year ended 31 December 2011

Principal activity, business review and future developments

The principal activity of the Group is the design, development and manufacture of LED lighting fixtures and light engines.

The Consolidated Statement of Comprehensive Income is set out on page 11. A review of the group's trading during the year, its position at year-end and its prospects for the future, are set out in the Chief Executive Officer's Statement.

Dividends

No dividend is proposed in respect of the year (2010 £nil)

Key performance indicators (KPI's)

Given the straightforward nature and relative size of the business, the Group's directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development, performance or position of the business. The key metrics monitored by the directors include revenue, sales pipeline, gross margin, overheads, profitability, cash flow and new product development and these are discussed regularly at board level and noted within the Financial Review in the Chief Executive Officer's Statement.

Risks and uncertainties

There are a number of potential risks and uncertainties that could impact on the group's performance. Principally these risks and uncertainties relate to going concern and are set out in note 2.2.

Financial risk management

The directors' assessment of key financial risks and the policies that have been put in place to mitigate those risks are set out in note 3 to the financial statements.

Research and development

PhotonStar LED Group PLC continues to invest in research and development associated with the design, development and manufacture of LED lighting fixtures and light engines. Costs attributed to this process have been charged to the income statement to the extent that they do not meet all the criteria for capitalisation as set out in IAS 38 'Intangible Assets'.

Directors

The directors of the Group who served during the year are listed below.

Directors	Function
Drew Nelson	Non-Executive Chairman
James McKenzie	Chief Executive Officer
Majd Zoorob	Chief Technology Officer
Ceri Jones	Chief Financial Officer
Jonathan Freeman	Non-Executive Director (appointed 28 March 2012)

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Directors' Report for the year ended 31 December 2011 (continued)

Details of directors' interests in share options over the Group's share capital are set out in note 21.

Employees

The Group's employment policies are designed to attract, retain and motivate the very best staff for each role in the Group, recognising that this can only be achieved through equal opportunities regardless of gender, race, religion or disability

Regular meetings are held with employees to discuss the performance of the Group as a whole and the area in which they work. Financial and economic factors are dealt with in this context.

Information concerning employees and their remuneration is given in note 19 to the financial statements

Capital structure

Details of the issued share capital are set out in note 13. The Company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Substantial shareholders are listed in the separate section that follows

Details of employee share schemes are set out in note 13

No person has any special right of control over the Company's share capital and all issued shares are fully paid

The appointment and replacement of directors of the Company is governed by its Articles of Association, the Companies Act 2006 and related legislation. The Articles themselves may be amended by special resolution of the shareholders

Substantial Interests

As at 31 December 2011, the Group had been notified, in accordance with the Companies Act 2006, of the following substantial interests of 3% or more in the ordinary share capital of the company.

	% of ordinary shares held
James McKenzie	14.3
Majd Zoorob	10.8
JM Finn	8.4
Herald Investment Trust	6.2
Artemis	5.4
Axa Framlington	4.9

Donations

No donations were made during the year (2010: £nil)

Policy and Practice on Payment of Creditors

The Group aims to settle supplier accounts in accordance with individual suppliers' terms of business. The Group's average number of days' purchases outstanding in respect of trade creditors at 31 December 2011 was 83 days (2010: 78 days)

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Directors' Report for the year ended 31 December 2011 (continued)

Share issues

Details of shares issued during the year are set out in note 13

Going concern

The directors have concluded, having regard to the most recent projections available that the Group and Company will have in place sufficient funding to enable them to continue trading and meet their liabilities to third parties as they fall due for the foreseeable future.

Corporate governance

The company is listed on AIM and is therefore not required to comply with the provisions of the UK Corporate Governance Code

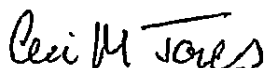
Disclosure of Information to Auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

Auditor

The auditor, PKF (UK) LLP, which has been appointed by the Directors since the last Annual General Meeting, has indicated its willingness to continue in office and a resolution concerning its reappointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Ceri Jones
Company Secretary

PhotonStar LED Group PLC

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Directors' Responsibilities Statement

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have, as required by the AIM Rules of the London Stock Exchange, elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with those standards. 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 company and the group and of the profit or loss of the group for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, to disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of PhotonStar LED Group PLC

We have audited the financial statements of PhotonStar LED Group PLC for the year ended 31 December 2011 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of cash flows, the consolidated and company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of, whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Basis for qualified opinion on financial statements

Because we were appointed auditors of PhotonStar LED Group PLC during 2010 we were not able to observe the counting of the physical inventories for certain of the company's subsidiaries at the beginning of that year or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations, we were unable to determine whether adjustments to the consolidated statement of comprehensive income might be necessary for the year ended 31 December 2010. Our audit opinion on the financial statements for the year ended 31 December 2010 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the prior year's results of operations and the comparability of corresponding figures with the current year's figures.

Qualified opinion on financial statements

In our opinion, except for the possible effects on the corresponding figures of the matter described in the Basis for Qualified Opinion paragraph:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2011 and of the group's loss for the year then ended,

**Independent Auditor's Report to the Members of PhotonStar LED Group PLC
(continued)**

- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2.2 to the financial statements concerning the directors' assessment of the company's ability to continue as a going concern. The group incurred a net loss of £1,024,000 during the year ended 31 December 2011 and has been loss making since incorporation. The directors have prepared projections that show the group is able to operate within its cash resources and existing borrowing facilities over the next 12 months. However, as set out in note 2.2, the achievement of these projections is subject to material market and operational uncertainty. Consequently, there is a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

In respect solely of the limitation on our work relating to stock, described above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made

PKF(UK)LLP

Timothy Smith (Senior statutory auditor)
for and on behalf of PKF (UK) LLP, Statutory auditor

Cardiff, UK

27 April 2012

PhotonStar LED Group PLC

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Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Revenue	5	6,061	2,720
Cost of Sales		(3,915)	(1,888)
Gross Profit		2,146	832
Administrative Expenses		(3,272)	(1,793)
Other Income		34	60
Operating Loss	6	(1,092)	(901)
Financial Expense	20	(13)	(2)
Loss before Income Tax		(1,105)	(903)
Income Tax Credit	22	81	17
Loss attributable to the equity shareholders of the parent		(1,024)	(886)
Total Comprehensive Income for the year attributable to the equity shareholders of the parent		(1,024)	(886)
Loss per share			
Basic and diluted	24	(1.1p)	(1.7p)

The results relate to continuing operations.

The company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the parent company statement of comprehensive income

The loss for the parent company for the year was £743,809 (2010 loss £805,000)

The notes on pages 18 to 48 are an integral part of these consolidated financial statements

PhotonStar LED Group PLC

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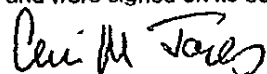
Registered number: 06133765 (England and Wales)

Consolidated Statement of Financial Position As at 31 December 2011

	Notes	2011 £'000	2010 £'000
Non-Current Assets			
Property and Equipment	8	488	123
Intangible Assets	9	2,543	2,139
		3,031	2,262
Current Assets			
Inventories	10	785	319
Trade and Other Receivables	11	1,336	427
Current Tax Assets		198	183
Cash and Cash Equivalents	12	748	1,885
		3,067	2,814
Total Assets		6,098	5,076
Equity			
Capital and reserves attributable to equity holders of the Company			
Ordinary Shares	13	9,875	8,638
Share Premium	13	5,282	5,108
Share Option Reserve		420	285
Reverse Acquisition Reserve	31	(8,843)	(8,843)
Accumulated Losses		(2,650)	(1,626)
Total Equity		4,084	3,542
Liabilities			
Current Liabilities			
Trade and Other Payables	15	1,710	1,267
Borrowings	15	148	38
Provisions	17	141	227
		1,999	1,532
Non-Current Liabilities			
Deferred Tax Liabilities		15	2
Total Liabilities		2,014	1,534
Total Equity and Liabilities		6,098	5,076

The notes on pages 18 to 48 are an integral part of these consolidated financial statements.

The financial statements were approved and authorised for issue by the board on 27 April 2012 and were signed on its behalf by



Ceri Jones
Director

PhotonStar LED Group PLC

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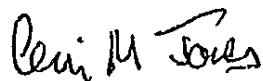
Registered number: 06133765 (England and Wales)

Company Statement of Financial Position As at 31 December 2011

	Notes	2011 £'000	2010 £'000
Non-Current Assets			
Investments	7	6,467	5,102
		6,467	5,102
Current Assets			
Trade and Other Receivables	11	719	266
Cash and Cash Equivalents	12	567	1,520
		1,286	1,786
Total Assets		7,753	6,888
Equity			
Capital and Reserves attributable to Equity Holders of the Company			
Ordinary Shares	13	9,875	8,638
Share Premium	13	5,282	5,108
Share Option Reserve		490	393
Accumulated Losses		(7,994)	(7,251)
Total Equity		7,653	6,888
Liabilities			
Current Liabilities			
Due to Vendors of Acquired Business	14	100	-
Total Liabilities		100	-
Total Equity and Liabilities		7,753	6,888

The notes on pages 18 to 48 are an integral part of these financial statements

The financial statements were approved and authorised for issue by the board on 27 April 2012 and were signed on its behalf by.



Ceri Jones
Director

Consolidated Statement of Cash Flows for the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Cash flows from operating activities			
Operating loss		(1,092)	(901)
Depreciation	8	136	28
Amortisation	9	173	82
Share option charge		155	206
Grant income	6	(34)	(60)
Receipt of government grants		61	59
Change in inventories	10	(297)	(71)
Change in trade & other receivables	11	(289)	96
Change in trade & other payables	15	(345)	250
Cash used in operations		(1,532)	(313)
Interest paid	20	(13)	(2)
Tax received		35	10
Net cash used in operating activities		(1,510)	(305)
Cash flows from investing activities			
Acquisition of subsidiary	28	(100)	(35)
Cash acquired by acquisition	28	11	175
Purchase of property and equipment	8	(310)	(8)
Purchase of intangible assets	9	(446)	(104)
Net cash (used)/generated in investing activities		(845)	28
Cash flows from financing activities			
Proceeds from the issue of ordinary shares	13	1,246	2,130
Repayment of borrowings		(28)	-
Net cash generated from financing activities		1,218	2,130
Net (decrease)/increase in cash and cash equivalents		(1,137)	1,853
Cash and cash equivalents at the start of the year	12	1,885	32
Cash and cash equivalents at the end of the year	12	748	1,885

The notes on pages 18 to 48 are an integral part of these financial statements.

Company Statement of Cash Flows for the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Cash flows from operating activities			
Operating loss		(743)	(805)
Share option charge		97	167
Impairment of investment		-	572
Impairment of loan to subsidiary		646	48
Impairment of loan to Employee Benefit Trust		-	18
Cash generated/(used) in operating activities		-	-
Cash flows from investing activities			
Change in Intra group funding	11	(1,099)	(266)
Net cash used in operating activities		(1,099)	(266)
Cash flows from investing activities			
Investment in subsidiary undertaking		(1,000)	-
Acquisition of subsidiary	28	(100)	-
Net cash used in investing activities		(1,100)	-
Cash flows from financing activities			
Proceeds from the Issue of ordinary shares	13	1,246	1,786
Net cash generated from financing activities		1,246	1,786
Net (decrease)/increase in cash and cash equivalents		(953)	1,520
Cash and cash equivalents at the start of the year	12	1,520	-
Cash and cash equivalents at the end of the year	12	567	1,520

The notes on pages 18 to 48 are an integral part of these financial statements

PhotonStar LED Group PLC

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**Consolidated Statement of Changes In Equity
for the year ended 31 December 2011**

	Ordinary Share Capital £'000	Share Premium £'000	Share Option Reserve £'000	Reverse Acquisition Reserve £'000	Retained Losses £'000	Total £'000
Balance at 1 January 2010	1,498	5,294	59	(5,590)	(740)	521
Issue of new shares	7,140	(186)	-	-	-	6,954
Reverse Acquisition Reserve	-	-	-	(3,253)	-	(3,253)
Share option charge	-	-	206	-	-	206
Loss and total comprehensive loss for the year	-	-	-	-	(886)	(886)
Balance at 31 December 2010	8,638	5,108	265	(8,843)	(1,626)	3,542
Issue of new shares	1,237	174	-	-	-	1,411
Share option charge	-	-	155	-	-	155
Loss and total comprehensive loss for the year	-	-	-	-	(1,024)	(1,024)
Balance at 31 December 2011	9,875	5,282	420	(8,843)	(2,650)	4,084

The notes on pages 18 to 48 are an integral part of these financial statements

PhotonStar LED Group PLC

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**Company Statement of Changes in Equity
for the year ended 31 December 2011**

	Ordinary Share Capital £'000	Share Premium £'000	Share Option Reserve £'000	Retained Losses £'000	Total £'000
Balance at 1 January 2010	1,498	5,294	226	(6,446)	572
Issue of new shares	7,140	(186)	-	-	6,954
Share option charge	-	-	167	-	167
Loss and total comprehensive loss for the year	-	-	-	(805)	(805)
Balance at 31 December 2010	8,638	5,108	393	(7,251)	6,888
Issue of new shares	1,237	174	-	-	1,411
Share option charge	-	-	97	-	97
Loss and total comprehensive loss for the year	-	-	-	(743)	(743)
Balance at 31 December 2011	9,875	5,282	490	(7,994)	7,653

The notes on pages 18 to 48 are an integral part of these financial statements

Notes to the financial statements for the year ended 31 December 2011

1 General information

The principal activity of the group is the design, development, manufacture and sale of LED light fixtures and light engines

The company is a public limited liability company incorporated and domiciled in England and Wales and listed on the Alternative Investment Market ('AIM').

The directors consider there to be no ultimate controlling shareholder of the company.

The address of the registered office is Unit 8 Westlink, Belbins Business Park, Cupernham Lane, Romsey SO51 7JF and the registered number of the company is 06133765.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of PhotonStar LED Group PLC have been prepared in accordance with the requirements of the AIM rules and in accordance with International Financial Reporting Standards as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

(a) New and amended standards adopted by the group

Standards and amendments to IFRSs which were effective for the current period did not have a material effect on these consolidated financial statements.

(b) Standards, amendments and Interpretations to existing standards that are not yet effective and have not been early adopted by the group

The company has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that the adoption of any other standards or interpretations which have been issued by the International Accounting Standards Board but have not been adopted will have a material impact on the financial statements.

Notes to the financial statements for the year ended 31 December 2011

2 Summary of significant accounting policies (continued)

2.2 Going Concern

The directors have adopted the going-concern basis in preparing the financial statements for the year to 31 December 2011. In reaching this conclusion, the directors have considered for both the Company and the Group, current trading and the current and projected funding position for the period of just over 12 months from the date of approval of the financial statements through to 30 April 2013.

Current Funding

Group net cash balances at 31 December 2011 were £0.6m. Since then the Group has

- continued to execute its business plan by:
 - making further investment in capital expenditure in support of bringing its Chromawhite technology into volume production,
 - expanding its workforce in support of the growth of its lighting fixture business and the transfer of its production facility to South Wales.

Projected Funding

The cash flow projections show that the Group can continue to operate utilising existing cash resources, existing borrowing facilities and anticipated innovation funding for a period of 12 months from the date the financial statements were signed.

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

The projections include assumptions on the amount and timing of revenue and gross margin that the Group expects to achieve during the period of the projections. These assumptions are subject to both market and operational uncertainty.

The Group has incurred a net loss of £1,024,000 in the year and has been loss making since incorporation. The projections reflect the directors' expectation that the Group will become EBITDA positive in the second half of 2012. To the extent there is a shortfall in revenue and/or gross margin, it is likely to be at least partially offset by a reduction in working capital requirements. No additional equity funding has been assumed in the cash flow projections, but should it be required there can be no guarantee either as to its availability or the terms on which it would be made available.

Conclusion

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

Notes to the financial statements for the year ended 31 December 2011

2 Summary of significant accounting policies (continued)

2.3 Consolidation

These financial statements are the consolidated financial statements of PhotonStar LED Group PLC and all of its subsidiaries ("the Group").

Business combinations

Business combinations are accounted for using the acquisition method. The consideration for acquisition is measured at the fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in order to obtain control of the acquiree (at the date of exchange). Costs such as professional fees incurred in connection with the acquisition are recognised in the statement of comprehensive income as incurred.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which it occurred, provisional amounts are reported for the items for which the accounting is incomplete. During the measurement period, the provisional amounts recognised at the acquisition date are adjusted retrospectively to reflect new information obtained about the facts and circumstances that existed at the acquisition date and which, if known, would have affected the measurement of the amounts recognised at that date. The measurement period is the period from the acquisition date to the date by which complete information has been received about the facts and circumstances at the acquisition date, subject to a maximum of one year.

Subsidiaries

Subsidiaries are all entities over which the company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

2.4 Segmental reporting

IFRS 8 requires that segmental information be disclosed on the basis of information reported to the chief operating decision maker. The Group considers that the role of chief operating decision maker is performed by the Group's Board of Directors.

Although the Group has different entities in the United Kingdom operating as wholly-owned subsidiaries, their primary activities focus on the supply of LED lighting fixtures.

Following the reverse takeover of Enflis on 23 December 2010, the Group in 2011 operates in two business segments, LED Light Fixtures and LED Light Engines. Future interim and annual reports will report on these segments, which is consistent with the Group's internal reporting.

2.5 Foreign currency translation

The functional currency of the group and company is sterling. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Notes to the financial statements for the year ended 31 December 2011

2 Summary of significant accounting policies (continued)

2.6 Investments

Investments are stated at cost less accumulated impairment

2.7 Intangible fixed assets – patents, development costs, customer lists and goodwill

Patents and development costs

Acquired patents associated with internally developed intellectual property are shown at historical cost. Patents have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives (5 years).

The costs associated with acquiring patents relating to technology which are no longer integral to the product range planned for market are expensed to the statement of comprehensive income.

Development costs capitalised under IAS38 are carried at historical cost. Development costs have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives (5 years). Amortisation only commences when the asset is available for use.

Intangible amortisation is recognised within administrative expenses in the statement of comprehensive income.

Customer lists

Customer lists are stated at fair value on acquisition less amortisation recognised since acquisition.

Amortisation of customer lists is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows.

Architectural Lighting & Controls customer list – 6 years

Goodwill

Goodwill arising on acquisition is the residual cost of the acquisition after allocation of the consideration paid to the fair value of the net tangible and other intangible assets acquired. Goodwill valuation is subject to annual review for impairment, and any writedown resulting from impairment is charged to the statement of comprehensive income.

Impairment of assets

The group assesses annually whether there is any indication that any of its assets have been impaired. If such indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Where it is impossible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the smallest cash-generating unit to which the asset is allocated.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount an impairment loss is recognised immediately in the statement of comprehensive income, unless the asset is carried at a revalued amount, in which case the impairment loss is recognised as a decrease in the revaluation reserve.

For goodwill, intangible assets that have an indefinite life, and intangible assets not yet available for use, the recoverable amount is estimated annually and whenever there is an indication of impairment.

Notes to the financial statements for the year ended 31 December 2011

2 Summary of significant accounting policies (continued)

2.8 Plant and equipment

All plant and equipment is stated at cost less accumulated depreciation. The cost of plant and equipment includes expenditure that is directly attributable to the acquisition of the assets

Depreciation on all plant and equipment is calculated using the straight-line method to allocate cost less residual value over estimated useful life, as follows:

Plant and equipment 3 – 5 years

Residual values, remaining useful lives and depreciation methods are reviewed annually and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income

Repairs and maintenance expenditure is written off to the statement of comprehensive income as incurred

2.9 Research and development

Expenditure on research is charged to the income statement as incurred. Expenditure on product development is capitalised as an intangible asset in the statement of financial position from the date that the expenditure incurred on the development meets all the capitalisation criteria detailed below:

- *Technical feasibility of completing the asset so that it will be available for use or sale can be demonstrated,*
- *The intention to complete the asset and use or sell it can be demonstrated;*
- *The ability to use or sell the asset can be demonstrated,*
- *The ability to demonstrate how the asset will generate probable future economic benefits;*
- *The ability to demonstrate the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset, and*
- *The ability to measure reliably the expenditure attributable to the asset during its development*

Expenditure on product development is expensed to the income statement as incurred where the capitalisation criteria are not met. Development costs recognised as an expense are not recognised as an asset in a subsequent period

2.10 Trade receivables

Trade receivables are stated at the original invoice amount less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payment are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of a provision account, and the amount of the loss is recognised within administrative expenses in the statement of comprehensive income. Trade receivables are not discounted as the effect would be immaterial

Notes to the financial statements for the year ended 31 December 2011

2 Summary of significant accounting policies (continued)

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in, first out method. The cost of finished goods comprises the purchase price including transport and handling costs.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments, with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade payables

Trade payables are non-derivative financial liabilities with fixed or determinable payments. Trade payables are included in current liabilities, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current liabilities. Trade payables are recognised at cost. They are not discounted as the effect would be immaterial.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the financial statements for the year ended 31 December 2011

2 Summary of significant accounting policies (continued)

2.17 Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services or consideration receivable from cooperative partners for product development in the ordinary course of the company's activities. Revenue is shown net of value added taxes, returns and rebates.

Revenue is recognised when the amount can be reliably measured and it is probable that future economic benefit will flow to the Group under the terms of any sale agreements. Revenue is not considered to be reliably measurable until all contingent clauses in sale agreements are met. Revenue is recognised when goods are invoiced. This normally corresponds to the date that goods are either despatched to customers or notified to ex-works customers as available for collection.

Details of the accounting policy for warranty and stock return provisions are in note 2.21.

2.18 Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and that the company will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in other income in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Capital grants that relate to specific capital expenditure are included in current and non-current liabilities as deferred income which is credited to the statement of comprehensive income over the related asset's useful life.

2.19 Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised in the period in which they are incurred.

Lease incentives and similar arrangements of incentives are taken into account when calculating the straight-lined expense.

2.20 Share based payments

The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense and credited to the share option reserve within equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and, if applicable, share premium when the options are exercised.

Share based payments are facilitated by an Employee Benefit Trust which is consolidated in the Group financial statements.

Notes to the financial statements for the year ended 31 December 2011

2 Summary of significant accounting policies (continued)

2.21 Provisions

The Group's principal provisions relate to product warranties and stock returns from distributors.

Provisions are recognised when the group has a present obligation as a result of an event that occurred in the past and the settlement of that obligation will result in an outflow of resources, but the timing of or amount that will be required to settle is uncertain. The amount recognised as a provision is the best estimate of the consideration which will be required to settle the obligation.

2.22 Retirement benefits

The Group operates defined contribution plans. A defined contribution plan is one where the group pays fixed contributions into a separate entity. These contributions are expensed in the period in which the employees rendered the services entitling them to the benefits.

3 Financial risk

3.1 Capital risk management

The capital structure of the Group consists of debt, which comprises the borrowings disclosed in note 14, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

3.2 Financial risk factors

The Group and company's operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk and interest rate risk. The group and company have in place a risk management programme that seeks to limit the adverse effects on the financial performance of the group and company by monitoring levels of debt finance and the related finance costs. The group and company do not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

Given the size of the group and company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the group and company's finance department.

(a) Market Risk

(i) Foreign exchange risk

The group distributes and sells internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and UK pound. Foreign exchange risk arises from future commercial transactions and translation of foreign currency denominated monetary assets and liabilities. Foreign currency risk is managed via the purchase of raw materials and the sale of products in equivalent currencies.

(ii) Price risk

The group has periodic price reviews within distributor sales contracts that enable the company to reassess and adjust for price risk as part of contractual negotiations. Commodity price risk is assessed as medium as a result of the various supply alternatives available for key components.

(b) Credit risk

The group has implemented policies that require appropriate credit checks on potential customers before sales are made. The group's credit risk is primarily attributable to its trade receivables balance. The amounts presented in the statement of financial position are net of allowances for impairment.

Notes to the financial statements for the year ended 31 December 2011

3.2 Financial risk factors (continued)

(c) **Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's financial liabilities include its borrowings and trade and other payables shown in note 14. Responsibility for monitoring liquidity risk and for ensuring that Group members are adequately funded lies with the parent company PhotonStar LED Group PLC. Contractual maturity analysis for financial liabilities is also shown in note 14.

(d) **Interest rate cash flow risk**

The group has both interest bearing assets and interest bearing liabilities. Interest bearing assets comprise only cash balances, which earn interest at floating rates. Interest bearing liabilities comprise debt at fixed and floating rates.

4 Critical accounting estimates and judgements

In the preparation of the financial information the directors must make estimates and assumptions that affect the asset and liability items and revenue and expense amounts recorded in the financial statements. These estimates are based on historical experience and various other assumptions that the Board believes are reasonable under the circumstances. The results of this form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources.

The principal area where judgement has been exercised in the financial statements is in respect of intangible assets.

Impairment of non-current assets

Determining whether intangible assets or plant and equipment are impaired requires an estimation of the value in use of those assets.

The value in use calculation requires the group to estimate the future cash flows expected to arise from the business or asset and to apply a suitable discount rate in order to calculate present value.

The carrying value of intangible assets was £2,543,000 and property, plant and equipment £488,000 at the statement of financial position date. Based on the calculations prepared by the directors, no impairment is required.

Stock Provisions

The directors review at each reporting date the net realisable value of all stock. Where the cost of stock is believed to exceed its net realisable value, stock provisions are made to reduce cost to net realisable value, taking into account the costs of disposal. The stock provision at 31 December 2011 was £561,000 (2010: £286,000).

Deferred tax

The group has tax losses of approximately £6 million available for off-set against future taxable profits. In determining the value of the deferred tax asset that can be attributed to these losses, the directors have to estimate future taxable profits and the period over which the asset may be recovered. The directors consider the most up-to-date forecasts for the business and assess the risks inherent in achieving those forecasts. At the statement of financial position date, no deferred tax asset has been recorded. The deferred tax asset may be recognised again in the future if there is an improvement in the forecast taxable profits.

Notes to the financial statements for the year ended 31 December 2011

5 Segmental Information

The directors consider that for the year ending 31 December 2011 the group has operated in two business segments, LED Lighting Fixtures and LED Light Engines

The group's principal activity consisted of the design, development, manufacture and sale of LED Lighting Fixtures and LED Light Engines, with turnover and operating loss on ordinary activities arising entirely from within the UK and from these activities. The group's revenue by destination has been generated from the UK and Europe

	Lighting Fixtures 2011 £'000	Lighting Fixtures 2010 £'000	Light Engines 2011 £'000	Light Engines 2010 £'000	Total 2011 £'000	Total 2010 £'000
European Union	5,219	2,720	842	-	6,061	2,720
Total Revenue	5,219	2,720	842	-	6,061	2,720
Adjusted EBITDA	(266)	(586)	(362)	-	(628)	(586)
Depreciation and amortisation	(224)	(109)	(85)	-	(309)	(109)
Interest expense	(13)	(2)	-	-	(13)	(2)
Income tax credit	81	17	-	-	81	17
Total assets	3,343	1,133	2,007	2,058	5,350	3,191
Total liabilities	1,626	860	288	674	1,914	1,534

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

	Total 2011 £'000	Total 2010 £'000
Adjusted EBITDA for reportable segments	(628)	(586)
Depreciation and amortisation	(309)	(109)
Share option charge	(155)	(206)
Interest expense	(13)	(2)
Loss before tax	(1,105)	(903)

Notes to the financial statements for the year ended 31 December 2011

5 Segmental Information (continued)

A reconciliation of the reportable segments' assets to the Group's total assets is as follows:

	Total 2011 £'000	Total 2010 £'000
Segment assets for reportable segments	5,350	3,191
Unallocated		
Cash at bank	748	1,885
Total assets per the Statement of financial position	<u>6,098</u>	<u>5,076</u>

A reconciliation of the reportable segments' liabilities to the Group's total liabilities is as follows:

	Total 2011 £'000	Total 2010 £'000
Segment liabilities for reportable segments	1,914	1,534
Unallocated		
Due to vendors of acquired business	100	-
Total liabilities per the Statement of financial position	<u>2,014</u>	<u>1,534</u>

6 Operating Loss

Operating loss is stated after charging/(crediting):	2011 £'000	2010 £'000
Exchange gains	-	(3)
Staff costs	2,274	1,040
Depreciation	136	26
Amortisation of intangible assets	173	82
Research and development	408	325
Operating lease expense	108	46
Cost of inventory recognised as expense	3,915	1,888
Impairment of trade receivables	134	43
Government grant income	(34)	(60)

Notes to the financial statements for the year ended 31 December 2011

7 Investments In subsidiary undertakings

Company	2011 £'000	2010 £'000
Opening balance	5,102	572
Business combination	365	5,102
Investment in subsidiary undertaking	1,000	-
Impairment	-	(572)
Closing balance	6,467	5,102

Name	Country of Incorporation	Proportion of ownership Interest	Principal activities
Enfis Limited	England and Wales	100% Interest in Ordinary Share Capital	Dormant
PhotonStar LED Limited	England and Wales	100% Interest in Ordinary Share Capital	Design and development of LED lighting fixtures.
Architectural Lighting & Controls Limited	England and Wales	100% interest in Ordinary Share Capital*	Lighting design and supply
PhotonStar Technology Limited	England and Wales	100% Interest in Ordinary Share Capital	Design and development of LED light engines
Camtronics Vale Limited	England and Wales	100% Interest in Ordinary Share Capital	Specialist electronics Manufacture

*Shares held by subsidiary company.

On 13 May 2011 the Company acquired the entire issued share capital of Camtronics Vale Limited for an initial consideration of £265,000 satisfied by the issue of 1,121,075 10p ordinary shares in the Company at a fair value of 14.75p per share and the payment of £100,000 in cash. The vendors are entitled to additional consideration of up to £100,000 to be satisfied 75% in cash and 25% by the issue of further shares in Photonstar LED Group PLC. This additional consideration is payable in 2012 following announcement of the Group's results for the year ended 31 December 2011.

On 23 December 2010 the Company acquired the entire issued share capital of PhotonStar LED Limited through the issue of 51,023,849 10p ordinary shares in the Company at a fair value of 10p per share. On the same date, holders of share options in PhotonStar LED Limited received in aggregate 10,263,715 replacement options over shares in the Company at an exercise price per share of 2.8 pence.

During the year the Company subscribed £1,000,000 for ordinary shares in PhotonStar LED Limited.

Notes to the financial statements for the year ended 31 December 2011

8 Property and Equipment

Group	Property and Equipment £'000	Total £'000
Cost		
At 1 January 2010	106	106
Additions	8	8
On Acquisition	82	82
At 31 December 2010	196	196
Additions	310	310
On Acquisition	191	191
At 31 December 2011	697	697
Accumulated depreciation		
At 1 January 2010	47	47
Charge for the year	26	26
At 31 December 2010	73	73
Charge for the year	136	136
At 31 December 2011	209	209
Net book value		
At 31 December 2011	488	488
At 31 December 2010	123	123
At 31 December 2009	59	59

At 31 December 2011 tangible fixed assets with a net book value of £nil (2010 £81,805) were pledged as security for the bank loan (see note 15 Trade and other payables)

The company has no fixed assets.

Notes to the financial statements for the year ended 31 December 2011

9 Intangible fixed assets

Group	Patents & Licenses £'000	Customer List £'000	Goodwill £'000	Development Costs £'000	Total £'000
Cost					
At 1 January 2010	103	243	106	-	452
Additions	104	-	-	-	104
On acquisition	20	-	1,626	60	1,706
At 31 December 2010	227	243	1,732	60	2,262
Additions	48	-	-	398	446
On acquisition	-	-	131	-	131
At 31 December 2011	275	243	1,863	458	2,839
Amortisation					
At 1 January 2010	16	25	-	-	41
Charge for the year	41	41	-	-	82
At 31 December 2010	57	66	-	-	123
Charge for year	55	40	-	78	173
At 31 December 2011	112	106	-	78	296
Net book value					
At 31 December 2011	163	137	1,863	380	2,543
At 31 December 2010	170	177	1,732	60	2,139
At 31 December 2009	87	218	106	-	411

Patents include the external third party cost associated with the acquisition of patents for internally developed intellectual property and technical expertise. Intangible amortisation is recognised within administrative expenses in the statement of comprehensive income.

The costs associated with acquiring patents relating to technology which are not integral to the product range planned for market have been expensed to the statement of comprehensive income during the period.

At 31 December 2011 Intangible fixed assets with a net book value of £nil (2010 £79,904) were pledged as security for a bank loan (see note 15 Trade and other payables)

Impairment testing of cash generating units to which goodwill has been allocated

The group has £1,626,000 goodwill allocated to its Enfis business acquired on 23 December 2010, and this represents 87% of the Group's total intangible assets with indefinite useful life as at 31 December 2011.

In accordance with the Group's accounting policies, the Enfis business unit has been tested for impairment at 31 December 2011 with its recoverable amount based on value in use. In calculating value in use, the present value of the cash flows expected to be generated over the next 10 years was considered. The key assumptions are the expected significant growth in the business unit's revenue and EBITDA over the next 4 years, after which growth is expected to be 4% per annum. The 10 year period was chosen as the business unit operates in substantial markets where the adoption of LED based products is at an early stage. The revenue growth assumptions are consistent with the business unit's customer expectations and market assessments.

Present value was calculated using a pre tax discount factor of 10%.

Notes to the financial statements for the year ended 31 December 2011

9 Intangible fixed assets (continued)

In determining the assumptions used in this year's impairment review, management considered a range of factors including the growth prospects of the business unit's customers, prospective customers and target markets and the development plan for the business unit's products

Different assumptions could have resulted in recoverable amount being assessed at less than carrying value, and by way of example a pro tax discount factor of 18% would have necessitated an impairment

The company has no intangible fixed assets.

10 Inventories

Group	2011 £'000	2010 £'000
Raw materials and consumables	785	319

The company has no inventories

11 Trade and other receivables

	Group 2011 £'000	Company 2011 £'000	Group 2010 £'000	Company 2010 £'000
Trade receivables	1,409	-	445	-
Less: provision for impairment	(227)	-	(156)	-
Trade receivables (net)	1,182	-	289	-
Amounts due from subsidiaries	-	7,633	-	6,534
Less: provision for impairment	-	(6,914)	-	(6,268)
Amounts due from subsidiaries (net)	-	719	-	266
Prepayments	88	-	65	-
Other receivables	66	-	73	-
	1,336	719	427	266

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as 'trade and other receivables' in the statement of financial position and are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets.

Amounts due from subsidiary undertakings represent net amounts provided to the company's wholly owned subsidiaries PhotonStar Technology Limited and PhotonStar LED Limited.

Receivables of £7,633,000 are due from subsidiaries at 31 December 2011, against which a provision of £6,914,000 has been made. Of the total amount advanced, £3,199,000 is unsecured and repayable on demand. The remaining balance of £4,434,000 is unsecured and is repayable on the basis that one year's notice is required.

The fair value of trade and other receivables at 31 December 2011 and 31 December 2010 approximate to the net book value stated above.

Notes to the financial statements for the year ended 31 December 2011

11 Trade and other receivables (continued)

As of 31 December 2011, trade receivables of £170,713, (2010: £81,490) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows -

	2011 £'000	2010 £'000
Up to 2 months past due	145	61
Over 2 months past due	26	20
Total	171	81

As of 31 December 2011, trade receivables of £227,304 (2010: £155,637) were impaired. The individually impaired receivables mainly relate to old balances where it has been assessed that the receivable is not expected to be recovered. The ageing of these receivables is as follows:

	2011 £'000	2010 £'000
Current	27	24
Up to 2 months past due	42	13
Over 2 months past due	159	119

The carrying amounts of the group's trade and other receivables are denominated in the following currencies:

	2011 £'000	2010 £'000
Sterling	1,334	427
US Dollar	1	-
Euro	1	-
	1,336	427

Movements on the provision for impairment of trade receivables are as follows.

	2011 £'000	2010 £'000
At 1 January	156	52
Utilised	(42)	(31)
On Acquisition	3	92
Provision for Receivables Impairment	110	43
At 31 December	227	156

12 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in readily accessible money market instruments. Cash and cash equivalents included in the consolidated and company statement of cash flows comprise the following statement of financial position amounts:

	Group 2011 £'000	Company 2011 £'000	Group 2010 £'000	Company 2010 £'000
Cash on hand & balances with banks	748	567	1,885	1,520
	748	567	1,885	1,520

Notes to the financial statements for the year ended 31 December 2011

13 Share capital

The authorised and issued share capital comprises ordinary shares of 10p nominal value and is summarised below

	Authorised No	Allotted, called up and fully paid No
At 31 December 2009	25,000,000	14,982,864
Authorised/issued	112,513,155	71,403,639
At 31 December 2010	137,513,155	86,386,503
Authorised/issued	-	12,371,208
At 31 December 2011	137,513,155	98,757,711

On 13 May 2011 the Company issued 1,121,075 £0 10 ordinary shares to the vendors of Camtronics Vale Limited at a value of £0 1475 per share.

On 20 October 2011 the Company issued 11,250,133 £0 10 Ordinary shares at a price of 12 pence per share raising £1.35m before expenses of £104,000

The table below reconciles movements in Issued share capital during the year

	Number of shares	Ordinary share capital £'000	Share premium £'000	Total £'000
At 31 December 2009	14,982,864	1,498	5,294	6,792
Exercise of Share Options	180,000	18	-	18
PhotonStar LED Acquisition	51,023,849	5,102	-	5,102
Share Issue	19,539,790	1,954	(186)	1,768
Settling NED fees	260,000	26	-	26
ALC Earn Out	400,000	40	-	40
At 31 December 2010	86,386,503	8,638	5,108	13,746
Camtronics Acquisition	1,121,075	112	53	165
Share Issue	11,250,133	1,125	121	1,246
At 31 December 2011	98,757,711	9,875	5,282	15,157

Employee Share Schemes

(i) Deferred payment share purchase plan

The Group has a deferred payment share purchase plan which enables, via an employee benefit trust, the funding of share purchases in the group by executive directors and other employees

(ii) Share Options

The Group has an Enterprise Management Incentive Share Option Scheme (EMI Scheme) and an Executive Share Option Scheme.

During the year options over nil (2010 1,100,000 ordinary shares) shares have been granted to directors of the company.

Notes to the financial statements for the year ended 31 December 2011

13 Share capital (continued)

The exercise terms of granted options as at 31 December 2011 are summarised below

Date of Grant	Number of Options	Exercise Price Per Share	Exercise Dates
2007	99,000	£0.72	From 2011
2007	450,000	£0.001	From 2007
2007	36,000	£1.15	From 2010
2008	20,000	£1.055	75% 2011, 25% 2012
2010	500,000	£0.10	From 24 December 2010
2010	10,263,715	£0.028	June 2011 to September 2013
2010	600,000	*	From 24 December 2010

*Options granted for total consideration of £1

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows

	Average exercise per share	Options Number
At 1 January 2010		1,060,300
Exercised	0.1 pence	(180,000)
Granted	*	500,000
Granted	2.8 pence	10,263,715
Granted	10 pence	600,000
At 31 December 2010		12,244,015
Lapsed		(276,300)
At 31 December 2011		11,968,715

*Options granted for total consideration of £1.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price per share	Shares 2011	Shares 2010
2013	0.1 pence	450,000	486,000
2016	115 pence	36,000	90,000
2017	72 pence	99,000	262,800
2018	105.5 pence	20,000	41,500
2020	*	500,000	500,000
2011-2013	2.8 pence	10,263,715	10,263,715
2020	10 pence	600,000	600,000
		11,968,715	12,244,015

* Options granted for total consideration of £1

The Company determines the fair value of its share option contracts on the grant date, adjusts this to reflect its expectation of the options that will ultimately vest, and then expenses the calculated balance on a straight line basis through its statement of comprehensive income over the expected vesting period with a corresponding credit to its share option reserve. Subsequent changes to the expectation of number of options that will ultimately vest are dealt with prospectively such that the cumulative amount charged to the income statement is consistent with latest expectations. Subsequent changes in market conditions do not impact the amount charged to the statement of comprehensive income.

Notes to the financial statements for the year ended 31 December 2011

13 Share capital (continued)

The Company determines the fair value of its share option contracts using a model based on the Black-Scholes - Merton methodology. In determining the fair value of its share option contracts, the Company made the following assumptions (ranges are provided where values differ across tranches). Expected volatility was determined by reference to historical experience.

Grant date	16/03/07			13/05/08	24/12/10		
Share price	140p	140p	140p	105.5p	10p	10p	10p
Exercise price	0.1p	115p	72p	105.5p	2.8p	10p	*
Expected option life	6 yrs	9 yrs	10 yrs	10 yrs	8-10 yrs	10 yrs	10 yrs
Expected volatility	50%	50%	50%	50%	50%	50%	50%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%
Risk free interest rate	5.14%	5.14%	5.14%	4.80%	3.25%- 5.25%	3.78%	3.78%
Fair value at grant date	140p	47p	82p	70.6p	30p - 75p	6.7p	9.5p

* total exercise price of £1 for the option contract covering options over 500,000 shares

Notes to the financial statements for the year ended 31 December 2011

14 Financial assets and liabilities

The tables below analyse the carrying value of financial assets and financial liabilities in the Group and Company statements of financial position. Further information on the classes that make up each category is provided in the notes indicated. The carrying value of each category is considered a reasonable approximation of its fair value. All amounts are due within one year.

Group	Notes	2011 £'000	2010 £'000
Trade Receivables	11	1,182	289
Other Receivables	11	66	73
Loans and Receivables		1,248	362
Cash and Cash Equivalents	12	748	1,885
Financial Assets		1,996	2,247
Trade Payables	15	1,166	969
Accruals	15	281	238
Borrowings	15	148	38
Due to Vendors of Acquired Business	15	100	-
Financial Liabilities at Amortised Cost		1,695	1,245
Financial Liabilities		1,695	1,245
Company	Notes	2011 £'000	2010 £'000
Amounts due from subsidiaries	11	719	266
Loans and Receivables		719	266
Cash and Cash Equivalents	12	567	1,520
Financial Assets		1,286	1,786
Due to Vendors of Acquired Business	15	100	-
Financial Liabilities at Amortised Cost		100	-
Financial Liabilities		100	-

15 Trade and Other Payables

Group	2011 £'000	2010 £'000
Trade Payables	1,166	969
Social Security and Other Taxes	103	55
Due to Vendors of Acquired Business	100	--
Accruals	281	238
Deferred Income – Government Grants	60	5
	1,710	1,267
Company		
Due to Vendors of Acquired Business	100	--
	100	-

Notes to the financial statements for the year ended 31 December 2011

15 Trade and Other Payables (continued)

Trade Payables	Total	Due or due in less than 1 month	Due between 1 and 3 months
	£'000	£'000	£'000
31 December 2011	1,166	660	506
31 December 2010	969	584	385

Borrowings

Group	2011	2010
	£'000	£'000
Current borrowings		
Bank loan	-	28
Bank credit cards	10	10
Invoice finance	138	-
	148	38

The bank loan was secured by way of a fixed and floating charge over the assets of Enflis Limited, and was repaid in full in January 2011. The bank loan bore interest of 2.5% over base rate (2010: 2.5% over Base Rate). Total borrowings include the secured bank loan of £nil (2010: £28,075). It was repayable in 60 monthly instalments commencing December 2008. Interest was payable quarterly. A guarantee premium of 2% per annum was also payable quarterly in advance. The loan was guaranteed by the Department of Trade and Industry under the Small Firms Loan Guarantee Scheme. The fair value of bank borrowing approximates to its carrying amount.

The Company has no borrowings.

The exposure of the group's bank borrowings to interest rate changes and the contractual re-pricing dates at the statement of financial position dates are as follows:

	2011	2010
	£'000	£'000
12 months or less	148	38
Total	148	38

16 Deferred income tax

There is an unprovided deferred tax asset arising on temporary timing differences of £5.48m (2010: £4.99m). The deferred tax asset has not been recognised in the 31 December 2011 or 31 December 2010 financial statements on the grounds of uncertainty surrounding its current recoverability.

Notes to the financial statements for the year ended 31 December 2011

17 Provisions

Group	Returns provision £'000	Warranty provision £'000	Total £'000
At 1 January 2011	94	133	227
Charged to income statement	-	30	30
Utilised	(49)	(67)	(116)
At 31 December 2011	45	96	141

(a) Returns provision

The amount represents a provision for stock returns by a distributor. The balance as at 31 December 2011 is expected to be utilised by 31 March 2012.

(b) Warranty provision

The group has provided product warranties to certain customers. Provision has been made for the expected cost of meeting claims in respect of those arrangements. The balance as at 31 December 2011 is expected to be utilised over the 5 years ending 31 December 2016.

The Company has no provisions.

18 Auditor's Remuneration

During the year the company obtained the following services from the company's auditor at costs as detailed below:

	2011 £'000	2010 £'000
Fees payable to company's auditor for the audit of parent company and consolidated financial statements	7	8
Fees payable to the company's auditor and its associates for other services:		
- The audit of the company's subsidiaries pursuant to legislation	18	14
- Tax services	9	8
- Non statutory audit of Photonstar LED Limited & Architectural Lighting & Controls Limited	-	13
- Tax services – compliance	6	11
- Corporate finance services	9	74
Total	49	128

Notes to the financial statements for the year ended 31 December 2011

19 Employee benefit expense

Group	2011 £'000	2010 £'000
Wages and salaries	1,921	752
Social security costs	193	77
Other pension costs	5	5
Share based payments	155	206
	2,274	1,040

The average number of persons (including executive directors) employed by the group during the year was:

By activity	2011 Number	2010 Number
Research and development	7	4
Sales	16	7
Administration and finance	6	4
Design	8	8
Production	27	3
	64	26

The Group incurred a charge of £155,000 (2010 £206,000) in respect of share based payments

20 Financial expense

Group	2011 £'000	2010 £'000
Bank loans and overdrafts	13	2
	13	2

Notes to the financial statements for the year ended 31 December 2011

21 Directors' emoluments

Group	2011 £'000	2010 £'000
Dr A Nelson	-	10
Dr J S McKenzie	94	2
Dr M E Zoorob	99	2
C M Jones	90	85

Key management personnel are defined as directors. Key management compensation comprises salaries and fees set out above and share options set out later in this note.

The number of directors to whom retirement benefits are accruing is nil (2010: nil)

Directors' emoluments are stated net of employer's national insurance which amounted to £38,000 (2010: £13,000)

The emoluments of the highest paid director were as follows

Group	2011 £'000	2010 £'000
Aggregate emoluments	99	85

No share options were exercised by the highest paid director in the year (2010: nil). The highest paid director received no other share based awards during the year.

Share options granted to the Directors under the Company's share option schemes are shown below

	31 December 2010 Number	Issued Number	Forfeited Number	31 December 2011 Number
Dr A W Nelson	512,000	-	-	512,000
Dr J S McKenzie	2,259,710	-	-	2,259,710
Dr M Zoorob	1,985,456	-	-	1,985,456
C M Jones	600,000	-	-	600,000
	5,357,166	-	-	5,357,166

The period over which the options held by the Directors are exercisable is summarised below.

Period of grant	Number of options issued	Price £	Period of exercise
2007	3,000	1.15	2007 - 2016
2007	9,000	0.72	2008 - 2017
2010	500,000	0.00	2010 - 2020
2010	600,000	0.10	2010 - 2020
2010	4,245,166	0.028	2011 - 2013

Notes to the financial statements for the year ended 31 December 2011

22 Income tax credit

Group	2011 £'000	2010 £'000
Current taxation		
UK corporation tax on loss for the year	(80)	(19)
Adjustment in respect of prior periods	(8)	-
	(88)	(19)
Deferred tax		
Origination and reversal of temporary differences	7	2
Income tax credit	(81)	(17)

The tax on the group's loss before tax differs from the theoretical amount that would arise using the tax rate applicable to the losses of the group as follows:

	2011 £'000	2010 £'000
Loss before tax	(1,105)	(903)
Tax calculated at domestic tax rates applicable 20 25% (2010 21%)	(224)	(190)
Expenses not deductible for tax purposes	1	58
Losses utilised	(15)	-
Additional deduction for R&D tax relief	-	(19)
Losses surrendered for R&D tax credit	-	74
R&D tax credit	(80)	(49)
Tax losses for which no deferred income tax asset was recognised	245	40
Adjustments in respect of prior periods	(8)	69
Total tax credit	(81)	(17)

23 Net foreign exchange (gains)/losses

The exchange differences charged to the consolidated statement of comprehensive income are as follows

Group	2011 £'000	2010 £'000
Gains -- net	-	(3)

Notes to the financial statements for the year ended 31 December 2011

24 Earnings per share

	2011	2010
Basic loss per share		
Loss attributable to ordinary shareholders	(£1,024,000)	(£886,000)
Weighted average number of ordinary shares	89,318,281	50,873,408
Basic loss per share	(1.1p)	(1.7p)

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

As the results for the years ended 31 December 2011 and 31 December 2010 are a loss, any exercise of share options would have an anti-dilutive effect on earnings per share. Consequently earnings per share and diluted earnings per share are the same and the calculation has not been included

As at 31 December 2011, there were share options outstanding over 11,968,715 shares (2010: 12,244,015 shares), which could potentially have a dilutive impact in the future.

25 Commitments

(a) Capital commitments

There are no capital commitments at either year end

(b) Operating lease commitments

The group leases buildings under non-cancellable leases from various landlords.

The future aggregate minimum lease payments under these non-cancellable operating leases are as follows

	2011 £'000	2010 £'000
Payable within 1 year	111	46
Payable within 2 to 5 years	321	29
	432	75

26 Related party transactions

Transactions with and between subsidiaries

As at 31 December 2011 the Company had advanced £670,000 to PhotonStar LED Limited (31 December 2010 £270,000), £6,915,000 to PhotonStar Technology Limited (31 December 2010 £6,264,000) and £48,000 to Camtronics Vale Limited (31 December 2010 £nil) Further details of these advances are given in Note 11 Trade and Other Receivables

27 Controlling party

The directors consider there to be no ultimate controlling party

Notes to the financial statements for the year ended 31 December 2011

28 Business combinations

Camtronics Vale Limited

On 13 May 2011 the Group acquired 100% of the share capital of Camtronics Vale Limited. The business was acquired to provide access to production expertise relevant to the Group's products and to surplus production capacity. The fair values of assets acquired and liabilities assumed on the acquisition date were as follows:

	13 May 2011		13 May 2011		31 December 2011	
	Book Value	Adjustments	Fair Value	Provisional Fair Value		
	£'000	£'000	£'000	£'000	£'000	£'000
Cash	11	-	11		11	
Inventories	127	-	127		127	
Trade and other receivables	563	-	563		563	
Property, plant and equipment	191	-	191		191	
Trade and other payables	(567)	-	(567)		(567)	
Borrowings	(87)	-	(87)		(87)	
Deferred tax	(4)	-	(4)		(4)	
Total net assets	234		234		234	
Total fair value of initial consideration paid	265	-	265		265	
Loss, fair value of shares issued	(165)		(165)		(165)	
Cash	100		100		100	
Less: Cash of Camtronics Vale Limited	(11)		(11)		(11)	
Cash outflow on acquisition net of cash acquired	89		89		89	
Maximum additional earn-out consideration payable	100		100		100	
Goodwill recognised assuming maximum consideration	131					

The additional consideration payable was determined by the sales performance of Camtronics Vale Limited to its customers excluding Group companies for the 9 months ended 31 December 2011. The maximum additional consideration of £100,000 is payable and has been recognised at the date of acquisition.

The additional consideration is payable 75% in cash and 25% in shares in the Group. The Group has the option to settle the entire additional consideration in cash.

The fair value of the equity consideration paid on acquisition was determined by the closing share price of the Group (14.75p per share) on the date of acquisition. The fair value of the additional consideration to be settled in shares will be determined by reference to the share price of the Group on the issue date of the additional consideration shares.

The goodwill recognised above reflects the benefit the Group expects to receive from a combination of the ongoing profits of Camtronics Vale Limited, from access to its production expertise relevant to the

Notes to the financial statements for the year ended 31 December 2011

28 Business combinations (continued)

Camtronics Vale Limited (continued)

Group's current and planned LED lighting products, and from access to its surplus production capacity. None of the goodwill is expected to be deductible for tax purposes.

The fair value of trade and other receivables shown above is net of a provision of £4,000 for receivables which were estimated to be uncollectable at the date of acquisition.

Other costs relating to the acquisition of Camtronics Vale Limited have not been included in the consideration shown above and are included in administrative expenses.

The revenue and profit after tax of Camtronics Vale Limited for the period from acquisition on 13 May 2011 to 31 December 2011 and for the year ended 31 December 2011 was as follows:

	13 May 2011 to 31 December 2011 £'000	1 January 2011 to 31 December 2011 £'000
Revenue	1,864	2,855
Profit after tax	94	94

Notes to the financial statements for the year ended 31 December 2011

28 Business combinations (continued)

Enfis Group PLC

On 23 December 2010 the Group acquired control of Enfis Group PLC. The transaction was a reverse takeover, under which Enfis Group PLC acquired the entire issued share capital of PhotonStar LED Limited on terms which meant the shareholders of PhotonStar LED Limited became the majority shareholders in Enfis Group PLC. The reasons for the acquisition were to accelerate bringing to market lighting products using PhotonStar LED's intellectual property using Enfis resources and to provide access to equity capital through Enfis' presence on AIM.

The consideration was satisfied by the issue of 51,023,849 ordinary shares in Enfis Group PLC (now renamed PhotonStar LED Group PLC).

The fair value of Enfis Group PLC of £1,516m at acquisition was determined by reference to its 15.16m shares in issue immediately prior to the reverse takeover and the 10p price per share at which the Group raised just under £2m before expenses in new equity at the same time as completing the reverse takeover.

Other costs incurred by PhotonStar LED Limited relating to the acquisition of Enfis have not been included in the fair value of consideration shares shown above. These other costs have been included in administrative expenses.

		23 December 2010		31 December 2010	31 December 2010 & 2011
	Book Value £'000	£'000	Fair Value £'000	Provisional Fair Value £'000	Final Fair Value £'000
Assets and liabilities acquired					
Intangible assets	80	-	80	80	80
Property, plant and equipment	82	-	82	82	82
Inventories	255	(168)	87	87	45
Trade and other receivables	201	(68)	133	133	109
Current tax receivable	117	-	117	117	117
Cash and cash equivalents	175	-	175	175	175
Trade and other payables	(556)	-	(556)	(556)	(556)
Provisions	(134)	-	(134)	(134)	(134)
Borrowings	(28)	-	(28)	(28)	(28)
Net (liabilities) acquired	192	(236)	(44)	(44)	(110)
Goodwill				1,560	1,626
				1,516	1,516
Cost of business combination					
Shares				1,516	1,516
				1,516	1,516

The gross value of trade and other receivables is £201,000, and the amount shown above is net of a provision of £92,000 for receivables believed to be uncollectable at the date of acquisition.

The goodwill recognised above represents value that the Group expects to generate from enhancement, commercialisation and volume production of products under development by Enfis for its customer base at the time of acquisition. None of the goodwill is expected to be deductible for tax purposes.

Provisions relate principally to stock returns from distributors and to product warranties.

Notes to the financial statements for the year ended 31 December 2011

28 Business combinations (continued)**Enfis Group PLC (continued)**

The acquisition was completed on 23 December 2010 and no profit or loss of the acquired business has been included in the results for the year ended 31 December 2010. The revenue and loss before tax of the acquired business for the year ended 31 December 2010 was £0.8m and £2.0m respectively.

A customer of the group's subsidiary Enfis Limited notified the Group in 2010 that it had received claims from its own customer which it maintains relate substantially to losses allegedly caused by faulty equipment supplied by Enfis Limited in late 2008 and early 2009. The equipment in question was rectified by Enfis Limited under warranty after the fault was identified in late 2009. These rectification costs were included in the results of Enfis Limited for the year ended 31 December 2009. In May 2011 Enfis Limited made an offer on a without prejudice basis to settle the claim in the sum of £19,500. To date no formal response has been received to this offer.

29 Government grants

Government grants credited to income are as follows

Group	2011 £'000	2010 £'000
Government grants	(34)	(60)
	(34)	(60)

The government grants concerned primarily related to Technology Strategy Board funded research into multiple aspects of LED technology. The principal grant scheme continued into the first half of 2011 and has now ended. There are no job increase or job maintenance requirements under the terms of the grant schemes concerned.

Notes to the financial statements for the year ended 31 December 2011

30 Capital management

In managing its capital structure the Group's objective is to safeguard the Group's ability to continue as a going concern, managing cash flows so that it can continue to provide returns for shareholders

The Group makes adjustments to its capital structure in the light of changes in economic conditions and the requirements of the group's businesses. The board has sought to maintain low levels of borrowing to reflect the development stage of the group's businesses

Over time as the Group's businesses mature and become profitable the board is likely to make increased use of borrowing facilities to fund working capital.

In order to maintain or adjust the capital structure, the group may issue new shares or seek additional borrowing facilities

The Group monitors capital on several bases including the debt to equity ratio. This ratio is calculated as debt ÷ equity.

Debt is calculated as total borrowings as shown in the consolidated statement of financial position

Equity comprises all components of equity as shown in the consolidated statement of financial position

The debt-to-equity ratio at 31 December 2011 and 31 December 2010 was as follows

Group	2011 £'000	2010 £'000
Total debt	148	38
Total equity	4,084	3,542
Debt-to-equity ratio	3.6%	1.1%

31 Reverse Acquisition Reserve

The reverse acquisition reserve set out in the Consolidated Statement of Changes in Equity arose on the acquisition by PhotonStar LED Group PLC of the entire issued share capital of PhotonStar LED Limited on 23 December 2010. Although the legal acquirer in this transaction was PhotonStar LED Group PLC (formerly Enfis Group PLC), IFRS 3 requires that PhotonStar LED Limited be treated as the acquiring and continuing business.

Consequently the previously recognised book values and assets and liabilities of PhotonStar LED Limited have been retained and the consolidated financial information for the years ending 31 December 2011 and earlier years have been presented as if PhotonStar LED Limited had always been the parent company of the Group.