

## **PhotonStar LED Group PLC**

**Consolidated financial statements  
for the year ended 31 December 2015**

**Company registered number: 06133765**

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# PhotonStar LED Group PLC

## Consolidated financial statements for the year ended 31 December 2015

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# PhotonStar LED Group PLC

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## Directors and Advisers

### Directors

|                  |                                                    |
|------------------|----------------------------------------------------|
| Jonathan Freeman | Non-Executive Chairman                             |
| James McKenzie   | Chief Executive Officer                            |
| Majd Zoorob      | Chief Technology Officer                           |
| Philip Marshall  | Non-Executive Director                             |
| Russell Banks    | Chief Financial Officer (Resigned 31 January 2015) |
| Drew Nelson      | Non-Executive Director (Resigned 8 December 2015)  |

### Company Secretary

CFO Solutions Limited

### Registered Number

06133765

### Registered Office

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

### Nominated Adviser, Financial Adviser and Joint Broker

finnCap Limited  
60 New Broad Street  
London  
EC2M 1JJ

### Joint Broker

Northland Capital Partners Limited  
60 Gresham Street, 4<sup>th</sup> Floor,  
London,  
EC2V 7BB

### Solicitors

Greenaway Scott LLP  
The Maltings  
East Tyndall Street  
Cardiff  
CF24 5EZ

### Auditor

BDO LLP  
Bridgewater House  
Finzels Reach  
Bristol  
BS1 6BX

### Registrar

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

## Chief Executive Officer's Statement

### Overview

The Group had a mixed year during 2015 with, on the one hand, good progress in the further development of the Halcyon™ product range and ensuring that a wide cross section of industries are represented in its initial trial installations, whilst on the other the more traditional, fixed white (non-colour tuneable) lighting business suffering from significant competitor price reductions, which resulted in a slight decline in revenues and increased pressure on profit margins.

PhotonStar remains heavily focused on further expanding its Halcyon™ product range and to use this range to transition into a Group that increasingly focuses on being a retrofit connected lighting and building management business, which offers us the potential to address a broad range of significant future business opportunities and markets. Halcyon™ is an "intelligent" circadian wireless lighting system with wireless lamps, fixtures and controllers that use behavioral, environmental and energy data from wireless sensors or Internet of Things (IoT) devices to intelligently deliver the right light at the right time, whilst gathering valuable data. The ability of the system to gather and report real time data has created significant interest from a wide range of industry sectors which regard this ability as a key part of their future needs requirements.

In early 2015 PhotonStar completed a full retrofit of its Halcyon™ lighting system into the IBM Mobile and IoT Lab at their world renowned Hursley laboratory in Hampshire, England. The lab hosts many clients interested in using IoT within their industries and the installation is being used to demonstrate IBM cloud solutions operating with Halcyon™ as an end to end commercial IoT solution. This important test site for our Halcyon™ system was followed up throughout the year with further building installations in a wide cross section of industry sectors, including hospitals, mental health care homes, hotels, offices and student accommodation.

On 18 January 2016 it was announced that we had won a competitive test installation contract with the Royal Bank of Scotland as an intended first step towards winning a contract for a substantial part of their building estate. Such installations, into a 'test site', have been shown to be an important part of the process towards being awarded large national contracts across multi-building estates and so we will continue to work towards generating more of these for customers who are responsible for multi building estates. We are however mindful that these installed test sites should be sufficient reference sites for customers with smaller building estates and so anticipate being able to create additional sales opportunities from them. In terms of sales of the Halcyon™ system we made excellent progress during 2015 with over 200 systems deployed, which generated gross revenues at list price of approximately £400,000, and revenues net of promotional discounts of about £300,000 (2014: £5,000).

We are pleased with the on-going collaboration with IBM and anticipate that this will lead to some further project work with them and/or their partners in 2016. This started at the beginning of the year with a test installation at their Hursley House offices, then developed into a demonstration of the Halcyon™ intelligent wireless lighting system operating with the IBM Watson IoT Cloud platform to IBM® clients and partners at IBM's Global Watson IoT Headquarters in Munich, Germany. This collaboration with IBM has now developed to such an extent that we were also invited to the IBM Interconnect in February 2016, where PhotonStar previewed its cloudBMS™, a new cloud based solution that delivers an IoT Building Management System as a Service (BMaaS™). The new solution is built on the second generation of its low cost retrofittable wireless monitoring and control platform, halcyonPRO2™. The new halcyonPRO2™ adds regulation of heating and cooling, shading and power management to the proven lighting control and environmental sensor network already in use in the first Halcyon™ product. cloudBMS™, halcyonPRO2™ and cloud based analytics combine to deliver an extremely capable, scalable and secure BMaaS™ solution at a price point and low entry cost that enables owners of small to medium sized businesses to reduce energy and operating costs and realise new insights into their operations. PhotonStar also demonstrated the automated shading solution feature of halcyonPRO2™ at the event. The solution taps into the IBM Watson IoT Platform, taking environmental and occupancy data from the Halcyon™ sensor network, geolocation information per room and real time weather and forecast data from The Weather Company, an IBM Business, to optimise window shade use to deliver maximum energy savings thus reducing HVAC costs by intelligently using or preventing solar heat gain and optimizing thermal, daylight and visual comfort for building occupants. PhotonStar demonstrated with IBM the retrofittable asset monitoring feature of halcyonPRO2™ and cloudBMS™, providing device health and key asset performance indicator information seamlessly to IBMs Maximo asset management package.

**Chief Executive Officer's Statement (continued)****Overview (continued)**

The combination of the retrofittable hardware and sensor inputs, cloud analytics, visualisation and the connectivity options to asset management software will lower operating expenses for owners of multiple facilities by reducing manual compliance tests, manual monitoring and inspection of assets, and enable smart predictive and preventative maintenance.

As a reflection of the importance of the Halcyon™ development in the marketplace it has been cited and commended for several awards including the Lux Awards 2015, the Energy Awards in 2015, the Lighting Design Awards 2015, IET awards, Building and Efficiency awards, edie awards and the Environment & Energy Awards 2015 winning the Technology Innovator 2015 awards for smart lighting.

The initial development of Halcyon™ is now largely complete with current and future development work concentrating on improvements to Halcyon™ and the expansion of cloud services.

The smart lighting market is expected to grow to USD 8.14 Billion by 2020, at a CAGR of 22.07% between 2015 and 2020 (Source: Markets and Markets 2016). Smart lighting is a system of luminaries and electronic control systems designed to accelerate energy savings and maintain an intelligent lighting ecosystem. Smart lighting is an advance technology that makes the use of intelligent lighting control systems to control light based on various parameters, namely, occupancy, movement, color temperature, and amount of natural light. The smart lighting broadly comprises two components, namely, luminaries and control & communication components.

We were pleased to be awarded in March 2015 an Innovate UK grant of £0.12m for a project entitled 'Smart In-building Micro-Grid for Energy Management' that will deliver future energy management solutions for buildings.

**The PhotonStar traditional businesses**

As previously reported, the LED fixed lighting market experienced a significant increase in price competition with the consequence that prices and margins for our fixed lighting products fell during 2015 and impacted on sales volumes. As a result our overall revenues for the year under review fell 4% to £6.90m (2014: £7.19m) but our Adjusted EBITDA (see Note 5) position improved by 73% to £0.24m loss (2014: £0.88m loss). In reaction to this ongoing situation the Group has worked hard to reduce its cost of goods and operating expenses in order to be able to reduce its prices to more competitive levels. These efforts continue and the Board is pleased to confirm that the fixed cost base for the business is now substantially reduced and the cost of goods for the existing fixed lighting product range has been materially cut by the introduction of new suppliers and re-negotiation of existing supply contracts. In addition expenditure plans on non-essential product development projects remain tightly controlled.

**Intellectual Property**

PhotonStar continues to develop its IP portfolio. Patent applications for this new IP were filed prior to the launch of Halcyon™ with the result that the Group's IP portfolio now comprises a total of 17 patent families covering advanced LED chip design, optimal low cost packaging, advanced colour mixing and secure commissioning of IoT devices including lighting products. This secure commissioning patent was granted in the UK in March 2016.

**Impairment Review**

As a result of the change in strategic direction by the Company towards transitioning into a Group that increasingly focuses on being a retrofit connected lighting and building management business, the Board has reviewed, in conjunction with the annual review of goodwill required by accounting standards, the value of certain historic assets on the balance sheet but which are related to non-strategic areas of the Group. The result of this review is that we have concluded that there should be a non-cash impairment charge to the balance sheet which totals, in aggregate, £1.98m (2014: £Nil). The majority of this impairment charge, £1.6 million, relates to the remaining goodwill on the balance sheet from the reverse transaction with Enfis in 2010 and which the Board has concluded should be written off entirely. In addition, the capitalised costs of the development of the Chip on Board Light

## Chief Executive Officer's Statement (continued)

### Impairment Review (continued)

Engines, the capitalised research and development costs of the earliest version of ChromaWhite ('ChromaWhite 1.0') are being written off and the value of some stock the Group continues to hold and which relates to the early development of a retail version of Halcyon has been impaired. The Board believes that this impairment charge, which is a non-cash charge through the consolidated statement of comprehensive income, is an appropriate action to take in order to ensure that the value of the assets included on the balance sheet remains relevant to the business that is being built.

### Current Trading and Outlook

We are seeing a rapid transition towards LED lighting across the market but with strong price pressures in fixed white lighting products. This is driven by cost reductions, increased efficiency and multiple regulatory drivers, including the Europe-wide ban on incandescent lamps and building regulations.

With its investment in new technology and manufacturing processes, PhotonStar is well positioned to take advantage of this fast-growing market and the next phase of lighting development. The Halcyon™ system has been specifically designed to address the market opportunity for retrofit dimmable white, colour-tuneable and circadian lighting. It is also the Group's first IoT platform.

In terms of financial results, 2015 was disappointing for the fixed white lighting business and contract manufacturing business. However, there were highlights in that the Group's house builder sales were stronger than expected. The Group enters 2016 as a much stronger business. Following changes to the board in 2015 the Group enters 2016 with a leaner and stable management team in place. David McTurk has completed his interim operations role and left the business during Q1 2016.

As of 31 December 2015 the Group's cash in the bank was £0.2m and the Group had drawn down £1.00m of invoice financing debt out of its total maximum facility of £1.65m. In November 2015 the trade finance facility, provided by HSBC of up to £1.30m, was replaced by a new working capital facility of up to £1.65m provided by ABN AMRO Commercial Finance PLC. This new facility provides greater flexibility to the Group in its drawdown arrangements and concentration limits for larger customers.

### Post Year End

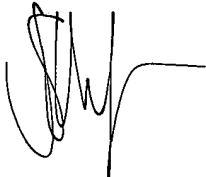
In early 2016, Halcyon™ was selected by the Royal Bank of Scotland Group plc ("RBS"), the international banking and financial services company, building as a part of its Go Green initiative which provides innovators and SMEs with the opportunity to trial innovative resource efficiency solutions in Trinity House, the RBS commercial office building in Bristol. The trial is being funded by RBS as part of its initiative to source innovative solutions to address a range of environmental challenges. PhotonStar will be installing its intelligent wireless lighting control and energy monitoring system, Halcyon™, to help reduce the energy consumption and environmental impact of the office building.

On 25 February 2016 it was announced that the Group had conditionally raised gross proceeds of £1.00m (before expenses) by way of a placing of 38,000,000 ordinary shares of 1p each and a subscription of 2,000,000 ordinary shares of 1p each at a price of 2.5p per share. The funds raised will be used for working capital, software and product expansion and Halcyon™ channel and brand development. We welcome our new shareholders and thank our existing shareholders for their continued support to the Company. The net funds raised will be used to capitalise on the significant investment that has already been made into the Company and will, it is anticipated, transform PhotonStar into a retrofit connected lighting and building management business with hardware sales and a recurring revenue base. Management hope that the stronger balance sheet will underpin the Company's future growth.

**Chief Executive Officer's Statement (continued)**

**Post Year End (continued)**

Sales for the first quarter of 2016 are broadly in line with management expectations with the traditional businesses continuing to see increased pressure on revenue and profit margins but with our new business, the Halcyon Cloud BMS, enjoying continued success in winning trial installations. We see that the Group's future growth will be driven by a combination of hardware sales and services in lighting, heating, cooling, ventilation and critical asset monitoring.

A handwritten signature in black ink, appearing to read 'J. McKenzie', with a horizontal line extending to the right.

**James McKenzie**  
Chief Executive Officer  
20 May 2016

## Strategic Report

The directors present their strategic report for the year ended 31 December 2015.

### Business review

#### LED fixtures business

The LED fixtures business, selling predominantly fixed white light LED luminaires, saw increasing competition and price pressures and as a result sales decreased by 3% to £6.7m (2014: £6.9m). The lighting market continues to transition towards LED lighting, with colour-tuneable and Circadian LED lighting becoming a significant subsector. The market in Europe alone is estimated to be worth up to €2.3bn per year by 2020 (Source: Lighting Europe 2013, 'Human Centric Lighting').

During the year PhotonStar launched an expanded range of its fixed white light LED fixture products. The new EcoStar and Piran wholesale range (launched in Q4 2014) now has a fixture efficiency range between 80lm/W and 95lm/W at a reduced cost.

House builder sales exceeded forecast in 2015. The Group benefits from an exclusive contract with a leading UK house builder, initially announced in late 2012 and expected to be renewed shortly.

Excellent progress has been achieved on the next generation Halcyon™ system with over 200 lighting systems deployed in 2015, with notable installs in offices, healthcare, houses and hotels, and generated gross revenues at list price of approximately £400,000, and revenues net of promotional discounts of about £300,000 (2014: £5,000). Additionally in 2015 the LuxLoop product range was expanded to include LuxLoop sunpipe. This product was developed in conjunction with Monodraft and it was shortlisted in the FX awards. It is expected that the Luxloop product family will result in a strong specification pipeline in 2016.

We were also pleased to be awarded in March 2015 an Innovate UK grant of £123,000 for a project titled 'Smart In-building Micro-Grid for Energy Management' that will deliver future energy management solutions for buildings.

One of our Group subsidiaries, Camtronics Vale Limited, undertakes critical LED and electronic assembly operations for the Group's manufacture of its lighting fixtures. Camtronics Vale also contracts electronics manufacturing for some third party customers. In July 2015, Camtronics Vale secured a supply contract with a UK-based electronics company for the manufacture of a high value sophisticated consumer product at its factory in Tredegar, South Wales. The Group had anticipated 2015 revenues from this project of £0.5m, helping to underpin original 2015 forecasts. Unfortunately this project ran into technical difficulties, which were outside of our Group's control. The customer's parent company went into receivership, as announced in November 2015, and the Group incurred bad debts of £0.06m.

As a reflection of the importance of the Halcyon™ development in the marketplace it has been cited and commended for several awards including the Lux Awards 2015, the Energy Awards in 2015, the Lighting Design Awards 2015, IET awards, Building and Efficiency awards, edie awards and the Environment & Energy Awards 2015 winning the Technology Innovator 2015 Awards for smart lighting.

The Company has trials lined up for its cloudBMS™ product, the company's building management as a service software and hardware solution aimed at the retrofit market. We see that the Group's future revenue growth will be driven by a combination of hardware sales and services in lighting, heating, cooling, ventilation and critical asset monitoring. It is expected that as the systems are installed the service revenue component will strengthen the Group's gross margin.

#### LED light engines business

The light engines business also experienced a slow-down in sales. Sales decreased 25% to £0.20m (2014: £0.26m). As previously reported in 2015 the Group does not commit any speculative development resources to this area of the business and now requires development work to be commercially funded by customers. The Board believes that focusing resources on expanding the Halcyon™ product range offers a greater return on investment.

## Strategic Report (continued)

## Principal 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 – the Group has historically been loss making and similarly made a loss in 2015. Whilst the Board believes the Group has sufficient resources available to continue operating for at least the next 12 months, this is predicated on the Group achieving an anticipated growth in the levels of sales and gross margin, which are themselves subject to operational and market uncertainty;
- Research & Development and Product Development activities – whilst we are confident that the Group has the right people with the right skills and drive in order to execute its R&D and Product Development plan, there is no guarantee that these efforts will be successful, or that any such development work will be successfully translated into a commercial product;
- Market conditions and competition – the Group operates in markets where there are many competing products and competing companies, many of whom have significantly greater resources than the Group. Whilst we endeavour to differentiate our products from our competitors on the basis of quality, performance and reliability, we may find that our customers prefer to sacrifice such attributes in return for a lower price; and
- Other financial risks as highlighted in Note 3 to the financial statements, including credit risk, interest rate cash flow risk and foreign exchange risk.

## Key performance indicators (KPIs)

The Group's directors use various key performance indicators to help understand the development, performance and position of the business. Ordinarily this is presented in the form of monthly management accounts and other management information (although other information is presented on an ad hoc basis as and when requested), and includes, amongst others, the following indicators which the directors consider key:

| In £'000                                                    | 12 months to<br>31 December<br>2015 | 6 months<br>to 31<br>December<br>2015 | 6 months<br>to 30<br>June<br>2015 | 12 months to<br>31<br>December<br>2014 | 6 months<br>to 31<br>December<br>2014 | 6 months<br>to 30<br>June<br>2014 |
|-------------------------------------------------------------|-------------------------------------|---------------------------------------|-----------------------------------|----------------------------------------|---------------------------------------|-----------------------------------|
| Sales:                                                      |                                     |                                       |                                   |                                        |                                       |                                   |
| Light fixtures                                              | 6,705                               | 3,590                                 | 3,115                             | 6,925                                  | 3,335                                 | 3,590                             |
| Light engines                                               | 196                                 | 55                                    | 141                               | 263                                    | 78                                    | 185                               |
| Gross profit %                                              | 36.0%                               | 35.3%                                 | 36.9%                             | 37.0%                                  | 34.3%                                 | 39.3%                             |
| Net operating<br>expenses<br>excluding<br>exceptional costs | 3,493                               | 1,705                                 | 1,788                             | 4,195                                  | 2,127                                 | 2,068                             |
| Adjusted EBITDA<br>(see Note 5)                             | (236)                               | (37)                                  | (199)                             | (884)                                  | (603)                                 | (281)                             |
| In £'000                                                    | As at<br>31 December<br>2015        |                                       | As at<br>30 June<br>2015          | As at<br>31<br>December<br>2014        |                                       | As at<br>30 June<br>2014          |
| Net cash/(debt)                                             | (845)                               |                                       | (664)                             | 412                                    |                                       | (433)                             |

All of the actual performances of the above KPI's are compared monthly to those formulated in the Group's budget or latest forecast.

**Strategic Report (continued)****Key performance indicators (KPIs) (continued)**

Whilst the beginning of 2015 was disappointing, sales for the second half of 2015 exceeded the sales of the corresponding period of the prior year.

Gross profit percentages for 2015 were slightly less than 2014.

Adjusted EBITDA improved significantly in 2015 following the major reductions in operating expenses implemented in the fourth quarter of 2014.

The major ongoing programme of investment in research and development continues to impact the net cash resources of the Group.

The main non-financial KPI is monitoring the progress of the international filings of the patents for Halcyon.

**Financial review**

Group sales decreased by 4% to £6.90m (2014: £7.19m), reflecting a small decline in LED fixture sales to £6.70m (2014: £6.92m). LED light engine sales contributed a total of £0.20m to 2015 sales (2014: £0.26m).

Gross margin overall slightly reduced to 36.0% (2014: 37.0%). The larger LED fixtures division saw slightly lower margins of 36.9% (2014: 38.4%) and the much smaller LED light engines division saw increased margins of 15.3% (2014: 3.1%).

The significant reduction in net operating expenses in 2015 reflects the major cost-reduction focus in the second half of 2014.

Non-cash costs (depreciation, amortisation and share based charges), included in net operating expenses, increased from £0.65m in 2014 to £0.77m in 2015, reflecting the higher levels of investment in capitalised development costs in recent years.

As a result of the change in strategic direction by the Company towards transitioning into a Group that increasingly focuses on being a retrofit connected lighting and building management business, the Board has reviewed, in conjunction with the annual review of goodwill required by accounting standards, the value of certain historic assets on the balance sheet but which are related to non-strategic areas of the Group. The result of this review is that we have concluded that there should be an impairment charge to the balance sheet which totals, in aggregate, £2.00m (2014: £Nil). The majority of this impairment charge, £1.6 million, relates to the remaining goodwill on the balance sheet from the reverse transaction with Enfis in 2010 and which the Board has concluded should be written off entirely. In addition, the capitalised costs of the development of the Chip on Board Light Engines, the capitalised research and development costs of the earliest version of ChromaWhite ('Chromawhite 1.0') is being written off and the value of some stock the Group continues to hold and which relates to the early development of a retail version of Halcyon has been impaired. The Board believes that this impairment charge, which is a non-cash charge through the consolidated statement of comprehensive income, is an appropriate action to take in order to ensure that the value of the assets included on the balance sheet remains relevant to the business that is being built.

The Group's pre-tax loss before exceptional item for the year was significantly reduced to £1.04m (2014: loss of £1.57m). The Group's pre-tax loss after exceptional item (see Note 32) was £3.03m (2014: loss of £1.57m). Basic and the diluted loss per share were up to 1.9p (2014: 1.1p). The Group has tax losses of approximately £9.30m available to set against future taxable trading profits.

During 2015, the Group made capital expenditure of £0.81m, of which £0.76m was spent on research and development of its LED lighting fixtures and light engines, and £0.05m on plant and equipment.

In 2015 the Group started drawing on a grant from Innovate UK (the new name for the government's Technology Strategy Board), worth a total of £0.12m over 2015 and 2016, and made available to support the Group's development of a project entitled 'Smart In-building Micro-Grid for Energy Management'.

**Strategic Report (continued)****Financial review (continued)**

During 2015, the Group released £0.19m from inventories and trade and other receivables, before impairment provisions.

The Group's year-end net borrowings were £0.84m with further available borrowing facilities of up to £0.61m. On 25 February 2016 it was announced that the Group had conditionally raised gross proceeds of £1.00m (before expenses) by way of a placing of 38,000,000 ordinary shares of 1p each and a subscription of 2,000,000 ordinary shares of 1p each at a price of 2.5p per share. The funds raised will be used for working capital, software and product expansion and Halcyon™ channel and brand development.

**Current Trading and Outlook**

We are seeing a rapid transition towards LED lighting across the market but with strong price pressures in fixed white lighting products. This is driven by cost reductions, increased efficiency and multiple regulatory drivers, including the Europe-wide ban on incandescent lamps and the code for sustainable homes. The impact and importance of natural daylight and light exposure on the human 'body clock' was highlighted by the recent NASA 520 day Mars mission simulation. This concluded that crews on long missions should live in surface habitats that artificially mimic Earth's light exposure, food intake and exercise.

With its investment in new technology and manufacturing processes, PhotonStar is well positioned to take advantage of this fast-growing market and the next phase of lighting development. The Halcyon™ system has been specifically designed to address the market opportunity for dimmable white, retrofit colour-tuneable and Circadian lighting. It is also the Group's first Internet of Things platform, able to be controlled by multiple users using smart devices.

In December 2015 the Group announced that it was extending its collaboration with IBM around their IBM Watson IoT. In particular, the Group will team with IBM to further build on its partnership around IBM's cloud platform, Bluemix.

PhotonStar demonstrated its Halcyon intelligent wireless lighting system operating with the IBM Watson IoT Cloud platform and IBM Bluemix to IBM's clients and partners at IBM's Global Watson IoT headquarters in Munich, Germany.

PhotonStar also joined the IBM Partner World program, which provides business partners access to IBM technology and capabilities which will enable the Group's Halcyon™ wireless intelligent lighting system to build the next best innovations jointly with IBM in the IoT space.

In addition, PhotonStar has completed a full retrofit of its Halcyon™ lighting system into the IBM Mobile and IoT lab at their world renowned Hursley laboratory in Hampshire, England. The lab hosts many clients interested in using IoT within their industries, and the installation will be used to demonstrate IBM cloud solutions operating with Halcyon as an end commercial IoT solution.

In terms of financial results, 2015 sales were disappointing and there was a significant increase in price competition in the LED fixed lighting market that has impacted margins. Also, significant cost savings made in the second half of 2014 continued through 2015. As a result, adjusted EBITDA for the main Lighting Fixtures division was positive in the second half of 2015.

The Group enters 2016 as a much stronger business, with a stable management team in place and a significantly reduced cost base. The development of Halcyon™ is now largely complete with current and future development work concentrating on improvements, new solutions and markets for Halcyon™.

This report was approved by the board on 20 May 2016 and was signed on its behalf by



**James McKenzie**  
Chief Executive Officer

## Directors' Report for the year ended 31 December 2015

The directors present the annual report and audited financial statements for the year ended 31 December 2015.

### 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 19. A review of the Group's trading during the year, its position at year-end, post balance sheet events, and its prospects for the future are set out in the Chief Executive Officer's Statement and the Strategic Report.

### Dividends

No dividend is proposed in respect of the year (2014: £Nil).

### 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 consolidated statement of comprehensive income to the extent that they do not meet all the criteria for capitalisation as set out in IAS 38 'Intangible Assets'.

### Financial risk management

Information in respect of financial risk management objectives and policies, exposure to price, credit, liquidity and cash flow risks, and current trading and trading outlook for the Group are outlined in Note 3.

### Directors

At the start of 2015 the Board comprised of a Non-Executive Chairman, two independent Non-Executive Directors and three Executive Directors, with one Executive Director and one Non-Executive resigning during the year. The Board is satisfied that it has an appropriate mix of experience in its Executive and Non-Executive Directors. The roles of Chairman and Chief Executive Officer are intended to remain separate.

The Board retains full control of the Group with day-to-day operational control delegated to Executive Directors. The full Board meets monthly and on any other occasions it considers necessary. During 2015 there were eleven Board meetings, two Remuneration Committee meetings and two Audit Committee meetings. All meetings were fully attended by their constituent directors, except that Drew Nelson was unable to attend eight of the board meetings and Philip Marshall was unable to attend two.

**Directors' Report for the year ended 31 December 2015 (continued)**

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

| <b>Directors</b> | <b>Function</b>                                    |
|------------------|----------------------------------------------------|
| Jonathan Freeman | Non-Executive Chairman                             |
| James McKenzie   | Chief Executive Officer                            |
| Majd Zoorob      | Chief Technology Officer                           |
| Philip Marshall  | Non-Executive Director                             |
| Russell Banks    | Chief Financial Officer (resigned 31 January 2015) |
| Drew Nelson      | Non-Executive Chairman (resigned 8 December 2015)  |

**Board Responsibility**

The Board is responsible for approving the interim and annual financial statements, formulating and monitoring Group strategy, approving financial plans and reviewing performance, as well as complying with legal, regulatory and corporate governance matters. The Board is committed to maintaining appropriate standards of corporate governance.

The Board considers that given the size and nature of the Group's activities it does not intend to comply with The UK Corporate Governance Code ("the Code") in all matters prescribed by it. This is considered by the Board to be reasonable and appropriate and does not compromise the overall principles of corporate governance which the Board strongly supports.

**Audit Committee**

During the year under review the Audit Committee comprised the Non-Executive Directors Jonathan Freeman and Philip Marshall and was chaired by Jonathan Freeman. It meets as required and specifically to review the Interim Report and Annual Report, and to consider the suitability and monitor the effectiveness of internal control processes. There were two meetings of the Audit Committee during 2015. The Audit Committee also reviews the findings of the external auditor and reviews accounting policies and material accounting judgements.

The independence and effectiveness of the external auditor is reviewed annually. The possibility of undertaking an audit tender process is considered on a regular basis. The Audit Committee meets at least once year with the auditor to discuss their independence and objectivity, the Annual Report, any audit issues arising, internal control processes, appointment and fee levels and any other appropriate matters. As well as providing audit related services, the auditor also provides taxation and other advice. The fees in respect of audit and tax services are set out in Note 18. Fees for non-audit services paid to the auditor are not deemed to be of such significance to them as to impair their independence and therefore the Audit Committee considers that the objectivity and independence of the auditor is safeguarded.

**Internal Control**

The Board is responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The system of internal controls is designed to manage, rather than eliminate, the risk of failure of the achievement of business objectives and can only provide reasonable rather than absolute assurance against material misstatement or loss.

The Audit Committee continues to monitor and review the effectiveness of the system of internal control and report to the Board when appropriate with recommendations.

The annual review of internal control and financial reporting procedures did not highlight any issues warranting the introduction of an internal audit function. It was concluded, given the current size and transparency of the operations of the Group, that an internal audit function was not required.

**Directors' Report for the year ended 31 December 2015 (continued)****Internal Control (continued)**

The main features of the internal control system are outlined below:

- A control environment exists through the close management of the business by the Executive Directors. The Group has a defined organisational structure with delineated approval limits. Controls are implemented and monitored by Executive Directors;
- The Board has a schedule of matters expressly reserved for its consideration and this schedule includes acquisitions and disposals, major capital projects, treasury and risk management and approval of budgets;
- The Group utilises a detailed budgeting and forecasting system. Detailed budgets are prepared annually by the Executive Directors before submission to the Board for approval. Forecasts are updated to reflect changes in the business and are monitored by the Board including future cash flow projections. Actual results are monitored against annual budgets in detail with variances highlighted to the Board;
- Financial risks are identified and evaluated for consideration by the Board and senior management; and
- Standard financial control procedures are operated throughout the Group to ensure that the assets of the Group are safeguarded and that proper accounting records are maintained.

**Directors' qualifying third party indemnity provisions**

The Group has made qualifying third party indemnity provisions in favour of the Directors against liability in respect of proceedings brought by third parties and these remain in force at the date of this Directors' Report.

**Remuneration Committee**

Until 8 December 2015 the Remuneration Committee comprised of Drew Nelson and Philip Marshall and was chaired by Drew Nelson. From this date Jonathan Freeman replaced Drew Nelson. The purpose of the Remuneration Committee is to ensure that the Executive Directors and other employees are fairly rewarded for their individual contribution to the overall performance of the Group. The Committee considers and recommends to the Board the remuneration of the Executive Directors and is kept informed of the remuneration packages of senior staff and invited to comment on these. There were two Remuneration Committee meetings during 2015.

The Board retains responsibility for overall remuneration policy. Executive remuneration packages are designed to attract and retain executives of the necessary skill and calibre to run the Group. The Remuneration Committee recommends to the Board the remuneration packages by reference to individual performance and uses the knowledge and experience of the Committee members, published surveys relating to AIM companies, the lighting industry and market changes generally. The Remuneration Committee has responsibility for recommending any long-term incentive schemes.

The Board determines whether or not Executive Directors are permitted to serve in roles with other companies. Such permission would only be granted on a strictly limited basis, where there are no conflicts of interest or competing activities and providing there is not an adverse impact on the commitments required to the Group. Earnings from such roles would be required to be disclosed to the Chairman.

There are three main elements of the remuneration package for Executive Directors and staff:

1. Basic salaries and benefits in kind: Basic salaries are recommended to the Board by the Remuneration Committee, taking into account the performance of the individual and the rates for similar positions in comparable companies. Certain benefits in kind are available to certain senior staff and Executive Directors.

**Directors' Report for the year ended 31 December 2015 (continued)****Remuneration Committee (continued)**

2. Share options: The Company operates approved and unapproved share option schemes for Executive Directors and other employees to motivate those individuals through equity participation. Exercise of share options under the schemes is subject to specified exercise periods and compliance with the AIM Rules. The schemes are overseen by the Remuneration Committee which recommends to the Board all grants of share options based on the Remuneration Committee's assessment of personal performance and specifying the terms under which eligible individuals may be invited to participate. It is intended that the performance related elements of remuneration form a significant proportion of the total remuneration package of Executive Directors and be designed to align their interests with those of shareholders. In this development phase of the Group the Remuneration Committee currently considers that the best alignment of these interests is through the continued use of incentives for performance through the award of share options.
3. Bonus Scheme: The Group has a discretionary bonus scheme for staff and Executive Directors which is specific to each individual and the role performed by that individual within the Group.

Salaries and benefits were reviewed in March 2015 to cover the period to 31 March 2016. Future reviews will be held in March each year for implementation from 1 April to enable the Group's performance over the preceding year and the strategy for the forthcoming year to be considered.

**Service Contracts**

The Executive Directors are employed under service contracts requiring six months' notice by either party. Non-Executive Directors and the Chairman receive payments under appointment letters which are terminable by three months' notice by either party.

**Policy on Non-Executive Directors Remuneration**

The Non-Executive Directors and the Non-Executive Chairman each receive a fee for their services as a director which is approved by the Board, being mindful of the time commitment and responsibilities of their roles and of current market rates for comparable organisations and appointments. Non-Executive Directors and the Non-Executive Chairman are reimbursed for travelling and other incidental expenses incurred on Group business.

The Board encourages the ownership of shares in the Company by Executive and Non-Executive Directors alike and in normal circumstances does not expect Directors to undertake dealings of a short-term nature. The Non-Executive Directors are encouraged to receive a proportion of their remuneration in the form of shares. The quantum of the shares is agreed with the individual and the method of delivering the agreed number of shares is either by the issue of new shares by the Company or by the payment of cash to the individual who undertakes to use the funds to purchase shares in the market as soon as this is possible and with regards to the close periods that the Company may be in. The Board considers ownership of Company shares by Non-Executive Directors as a positive alignment of their interest with shareholders. The Board will periodically review the shareholdings of the Non-Executive Directors and will seek guidance from its advisors if, at any time, it is concerned that the shareholding of any Non-Executive Director may, or could appear to, conflict with their duties as an independent Non-Executive Director of the Company. Directors' emoluments, including Directors' interest in share options over the Group's share capital, are set out in Note 21.

**Employees**

At 31 December 2015 the total number of employees in the Group comprised 110 employees, including 2 Executive Directors.

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.

**Directors' Report for the year ended 31 December 2015 (continued)****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 option 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 2015, 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:

|                               | <b>% of ordinary<br/>shares held</b> |
|-------------------------------|--------------------------------------|
| W B Nominees Ltd              | 14.94                                |
| James McKenzie                | 9.68                                 |
| BBHISL Nominees               | 7.76                                 |
| Majd Zoorob                   | 7.35                                 |
| BNY OCS Nominees Ltd          | 7.10                                 |
| Bank of New York Nominees Ltd | 4.80                                 |
| Barclayshare Nominees         | 3.83                                 |
| Roy Nominees Ltd              | 3.55                                 |
| Drew Nelson                   | 3.36                                 |

**Donations**

No charitable or political donations were made during the year (2014: £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 2015 was 36 days (2014: 54 days).

**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 has 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.

**Directors' Report for the year ended 31 December 2015 (continued)**

**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**

A resolution to re-appoint BDO LLP as auditor of the Company will be put to the Annual General Meeting.

**Annual General Meeting**

The Annual Report is made available to shareholders at least 20 working days before the Annual General Meeting ("AGM") along with the notice of the AGM. Shareholders are given the opportunity to vote on each separate resolution proposed at the AGM. The Company counts all proxy votes and will indicate the level of proxies lodged for each resolution, after it has first been dealt with by a show of hands.

**Approved by the Board of Directors  
and signed by order of the Board**



*On behalf of*

**CFO Solutions Limited  
Company Secretary  
20 May 2016**

## Directors' Responsibilities Statement

The directors are responsible for preparing the strategic report, 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 elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

### Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

**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 2015 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 statement of directors' responsibilities, 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 Financial Reporting Council's ("FRC's") Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the FRC's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

**Opinion on financial statements**

In our opinion:

- 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 2015 and of the Group's loss for the year then ended;
- 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 and 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 ability of the Company and the Group to continue as going concerns. The ability of the Company and the Group to continue as going concerns is dependent on the Group achieving the sales and profit growth projected by the directors in their current forecasts. The Directors are confident of being able to meet the forecasts, however there can be no guarantee that these will be met within the necessary timeframe. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Company and the Group to continue as going concerns. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as going concerns.

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

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the strategic report and 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**

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:

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



**Antonio Antonius (senior statutory auditor)**

For and on behalf of BDO LLP, statutory auditor  
Bristol  
United Kingdom

20 May 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

**Consolidated Statement of Comprehensive Income  
for the year ended 31 December 2015**

|                                                                                                               | Notes | 2015<br>£'000  | 2014<br>£'000  |
|---------------------------------------------------------------------------------------------------------------|-------|----------------|----------------|
| Revenue                                                                                                       | 5     | 6,901          | 7,188          |
| Cost of sales                                                                                                 |       | (4,416)        | (4,528)        |
| <b>Gross profit</b>                                                                                           |       | <b>2,485</b>   | <b>2,660</b>   |
| Administrative expenses                                                                                       |       | (3,567)        | (4,286)        |
| Other income                                                                                                  |       | 74             | 91             |
| <b>Operating loss before exceptional item</b>                                                                 | 6a    | <b>(1,008)</b> | <b>(1,535)</b> |
| Exceptional item                                                                                              | 6b    | (1,983)        | -              |
| <b>Operating loss after exceptional item</b>                                                                  |       | <b>(2,991)</b> | <b>(1,535)</b> |
| Financial expense                                                                                             | 20    | (34)           | (37)           |
| <b>Loss before income tax</b>                                                                                 |       | <b>(3,025)</b> | <b>(1,572)</b> |
| Income tax credit                                                                                             | 22    | 258            | 240            |
| <b>Loss and total comprehensive income for the year attributable to the equity shareholders of the parent</b> |       | <b>(2,767)</b> | <b>(1,332)</b> |
| <b>Loss per ordinary share (pence) attributable to the equity shareholders of the parent</b>                  |       |                |                |
| Basic and diluted                                                                                             | 24    | (1.9p)         | (1.1p)         |

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's statement of comprehensive income.

The loss for the Parent Company for the year was £4,109,000 (2014 loss: £381,000).

The notes on pages 26 to 53 are an integral part of these consolidated financial statements.

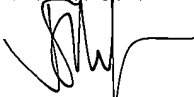
Registered number: 06133765 (England and Wales)

**Consolidated Statement of Financial Position  
As at 31 December 2015**

|                                                                           | Notes | 2015<br>£'000 | 2014<br>£'000 |
|---------------------------------------------------------------------------|-------|---------------|---------------|
| <b>Non-current assets</b>                                                 |       |               |               |
| Property, plant and equipment                                             | 8     | 214           | 339           |
| Intangible assets                                                         | 9     | 1,811         | 3,452         |
|                                                                           |       | <b>2,025</b>  | <b>3,791</b>  |
| <b>Current assets</b>                                                     |       |               |               |
| Inventories                                                               | 10    | 874           | 1,184         |
| Trade and other receivables                                               | 11    | 1,637         | 1,574         |
| Current tax assets                                                        |       | 360           | 166           |
| Cash and cash equivalents                                                 | 12    | 197           | 1,137         |
|                                                                           |       | <b>3,068</b>  | <b>4,061</b>  |
| <b>Total assets</b>                                                       |       | <b>5,093</b>  | <b>7,852</b>  |
| <b>Equity</b>                                                             |       |               |               |
| <b>Capital and reserves attributable to equity holders of the company</b> |       |               |               |
| Ordinary shares                                                           | 13    | 1,477         | 1,438         |
| Share premium                                                             | 13    | 7,271         | 7,188         |
| Share capital reduction reserve                                           | 13    | 10,081        | 10,081        |
| Share option reserve                                                      |       | 599           | 596           |
| Reverse acquisition reserve                                               | 30    | (8,843)       | (8,843)       |
| Accumulated losses                                                        |       | (8,180)       | (5,413)       |
| <b>Total equity</b>                                                       |       | <b>2,405</b>  | <b>5,047</b>  |
| <b>Liabilities</b>                                                        |       |               |               |
| <b>Current liabilities</b>                                                |       |               |               |
| Trade and other payables and deferred income                              | 15    | 1,595         | 2,034         |
| Borrowings                                                                | 15    | 1,042         | 725           |
| Provisions                                                                | 17    | 36            | 31            |
|                                                                           |       | <b>2,673</b>  | <b>2,790</b>  |
| <b>Non-current liabilities</b>                                            |       |               |               |
| Deferred tax liabilities                                                  | 16    | 15            | 15            |
| <b>Total liabilities</b>                                                  |       | <b>2,688</b>  | <b>2,805</b>  |
| <b>Total equity and liabilities</b>                                       |       | <b>5,093</b>  | <b>7,852</b>  |

The notes on pages 26 to 53 are an integral part of these consolidated financial statements.

The financial statements were approved and authorised for issue by the board on 20 May 2016 and were signed on its behalf by:



**James McKenzie**  
Director

# PhotonStar LED Group PLC

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Registered number: 06133765 (England and Wales)

## Company Statement of Financial Position As at 31 December 2015

|                                                                           | Notes | 2015<br>£'000 | 2014<br>£'000 |
|---------------------------------------------------------------------------|-------|---------------|---------------|
| <b>Non-current assets</b>                                                 |       |               |               |
| Investments                                                               | 7     | 6,135         | 9,523         |
|                                                                           |       | <b>6,135</b>  | <b>9,523</b>  |
| <b>Current assets</b>                                                     |       |               |               |
| Trade and other receivables                                               | 11    | 1,344         | 986           |
| Cash and cash equivalents                                                 | 12    | 9             | 690           |
|                                                                           |       | <b>1,353</b>  | <b>1,676</b>  |
| <b>Total assets</b>                                                       |       | <b>7,488</b>  | <b>11,199</b> |
| <b>Equity</b>                                                             |       |               |               |
| <b>Capital and reserves attributable to equity holders of the company</b> |       |               |               |
| Ordinary shares                                                           | 13    | 1,477         | 1,438         |
| Share premium                                                             | 13    | 7,271         | 7,188         |
| Share capital reduction reserve                                           | 13    | 10,081        | 10,081        |
| Share option reserve                                                      |       | 576           | 573           |
| Accumulated losses                                                        |       | (13,031)      | (8,922)       |
| <b>Total equity</b>                                                       |       | <b>6,374</b>  | <b>10,358</b> |
| <b>Liabilities</b>                                                        |       |               |               |
| <b>Current liabilities</b>                                                |       |               |               |
| Trade and other payables                                                  | 15    | 1,114         | 841           |
| <b>Total liabilities</b>                                                  |       | <b>1,114</b>  | <b>841</b>    |
| <b>Total equity and liabilities</b>                                       |       | <b>7,488</b>  | <b>11,199</b> |

The notes on pages 26 to 53 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the board on 20 May 2016 and were signed on its behalf by:



**James McKenzie**  
Director

## Consolidated Statement of Cash Flows for the year ended 31 December 2015

|                                                             | Notes | 2015<br>£'000  | 2014<br>£'000  |
|-------------------------------------------------------------|-------|----------------|----------------|
| <b>Cash flows from operating activities</b>                 |       |                |                |
| <b>Loss before tax</b>                                      |       | <b>(3,025)</b> | <b>(1,572)</b> |
| Exceptional item – impairment                               | 6b,32 | <b>1,983</b>   | -              |
| Depreciation                                                | 8     | <b>133</b>     | 169            |
| Amortisation                                                | 9     | <b>584</b>     | 410            |
| Movement in share option reserve                            |       | <b>3</b>       | 72             |
| Movement in provisions                                      | 17    | <b>5</b>       | (14)           |
| Grant income                                                | 6     | <b>(74)</b>    | (91)           |
| Receipt of grants                                           |       | <b>41</b>      | 157            |
| Change in inventories                                       | 10    | <b>185</b>     | 112            |
| Change in trade & other receivables                         | 11    | <b>(63)</b>    | 258            |
| Change in trade & other payables                            | 15    | <b>(406)</b>   | (163)          |
| <b>Cash used in operations</b>                              |       | <b>(634)</b>   | <b>(662)</b>   |
| Tax received                                                |       | <b>64</b>      | 136            |
| <b>Net cash used in operating activities</b>                |       | <b>(570)</b>   | <b>(526)</b>   |
| <b>Cash flows from investing activities</b>                 |       |                |                |
| Purchase of property, plant and equipment                   | 8     | <b>(51)</b>    | (65)           |
| Purchase of intangible assets                               | 9     | <b>(758)</b>   | (711)          |
| <b>Net cash used in investing activities</b>                |       | <b>(809)</b>   | <b>(776)</b>   |
| <b>Cash flows from financing activities</b>                 |       |                |                |
| Proceeds from the issue of ordinary shares                  | 13    | <b>122</b>     | 2,072          |
| Cost of reducing share capital                              | 13    | -              | (34)           |
| New bank facilities                                         |       | <b>872</b>     | -              |
| Repayment of previous bank facilities                       |       | <b>(872)</b>   | -              |
| Change in borrowings                                        | 15    | <b>317</b>     | (202)          |
| <b>Net cash generated from financing activities</b>         |       | <b>439</b>     | <b>1,836</b>   |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |       | <b>(940)</b>   | <b>534</b>     |
| <b>Cash and cash equivalents at the start of the year</b>   | 12    | <b>1,137</b>   | <b>603</b>     |
| <b>Cash and cash equivalents at the end of the year</b>     | 12    | <b>197</b>     | <b>1,137</b>   |

The notes on pages 26 to 53 are an integral part of these financial statements.

## Company Statement of Cash Flows for the year ended 31 December 2015

|                                                                | Notes   | 2015<br>£'000  | 2014<br>£'000  |
|----------------------------------------------------------------|---------|----------------|----------------|
| <b>Cash flows from operating activities</b>                    |         |                |                |
| <b>Loss before tax</b>                                         |         | <b>(4,109)</b> | <b>(381)</b>   |
| Provision for Impairment to investment in subsidiary companies | 7       | 3,888          | -              |
| Share option charge                                            |         | 3              | 49             |
| Change in trade and other receivables                          | 11      | (25)           | 11             |
| Change in trade and other payables                             | 15      | (146)          | 55             |
| <b>Net cash used in operating activities</b>                   |         | <b>(389)</b>   | <b>(266)</b>   |
| <b>Cash flows from investing activities</b>                    |         |                |                |
| Capital contributions to subsidiaries                          | 7       | -              | (1,000)        |
| Change in intra group funding                                  | 7,11,15 | (414)          | (295)          |
| <b>Net cash used in investing activities</b>                   |         | <b>(414)</b>   | <b>(1,295)</b> |
| <b>Cash flows from financing activities</b>                    |         |                |                |
| Proceeds from the issue of ordinary shares                     | 13      | 122            | 2,072          |
| Cost of reducing share capital                                 | 13      | -              | (34)           |
| <b>Net cash (used in)/generated from financing activities</b>  |         | <b>122</b>     | <b>2,038</b>   |
| Net (decrease)/increase in cash and cash equivalents           |         | <b>(681)</b>   | <b>477</b>     |
| <b>Cash and cash equivalents at the start of the year</b>      | 12      | <b>690</b>     | <b>213</b>     |
| <b>Cash and cash equivalents at the end of the year</b>        | 12      | <b>9</b>       | <b>690</b>     |

The notes on pages 26 to 53 are an integral part of these financial statements.

**Consolidated Statement of Changes in Equity  
for the year ended 31 December 2015**

|                                                        | Ordinary<br>share capital<br>£'000 | Share<br>premium<br>£'000 | Share<br>capital<br>reduction<br>reserve<br>£'000 | Share<br>option<br>reserve<br>£'000 | Reverse<br>acquisition<br>reserve<br>£'000 | Retained<br>losses<br>£'000 | Total<br>£'000 |
|--------------------------------------------------------|------------------------------------|---------------------------|---------------------------------------------------|-------------------------------------|--------------------------------------------|-----------------------------|----------------|
| <b>Balance at 1 January 2014</b>                       | <b>11,239</b>                      | <b>5,430</b>              | <b>-</b>                                          | <b>524</b>                          | <b>(8,843)</b>                             | <b>(4,081)</b>              | <b>4,269</b>   |
| Share capital reduction                                | (10,115)                           | -                         | 10,081                                            | -                                   | -                                          | -                           | (34)           |
| Issue of new shares                                    | 314                                | 1,758                     | -                                                 | -                                   | -                                          | -                           | 2,072          |
| Share option charge                                    | -                                  | -                         | -                                                 | 72                                  | -                                          | -                           | 72             |
| Loss and total<br>comprehensive income for<br>the year | -                                  | -                         | -                                                 | -                                   | -                                          | (1,332)                     | (1,332)        |
| <b>Balance at 31 December<br/>2014</b>                 | <b>1,438</b>                       | <b>7,188</b>              | <b>10,081</b>                                     | <b>596</b>                          | <b>(8,843)</b>                             | <b>(5,413)</b>              | <b>5,047</b>   |
| Issue of new shares                                    | 39                                 | 83                        | -                                                 | -                                   | -                                          | -                           | 122            |
| Change in share option<br>reserve                      | -                                  | -                         | -                                                 | 3                                   | -                                          | -                           | 3              |
| Loss and total<br>comprehensive income for<br>the year | -                                  | -                         | -                                                 | -                                   | -                                          | (2,767)                     | (2,767)        |
| <b>Balance at 31 December<br/>2015</b>                 | <b>1,477</b>                       | <b>7,271</b>              | <b>10,081</b>                                     | <b>599</b>                          | <b>(8,843)</b>                             | <b>(8,180)</b>              | <b>2,405</b>   |

The notes on pages 26 to 53 are an integral part of these financial statements.

**Company Statement of Changes in Equity  
for the year ended 31 December 2015**

|                                                  | Ordinary<br>share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Share<br>capital<br>reduction<br>reserve<br>£'000 | Share<br>option<br>reserve<br>£'000 | Retained<br>losses<br>£'000 | Total<br>£'000 |
|--------------------------------------------------|---------------------------------------|---------------------------|---------------------------------------------------|-------------------------------------|-----------------------------|----------------|
| <b>Balance at 1 January 2014</b>                 | <b>11,239</b>                         | <b>5,430</b>              | <b>-</b>                                          | <b>524</b>                          | <b>(8,541)</b>              | <b>8,652</b>   |
| Share capital reduction                          | (10,115)                              | -                         | 10,081                                            | -                                   | -                           | (34)           |
| Issue of new shares                              | 314                                   | 1,758                     | -                                                 | -                                   | -                           | 2,072          |
| Share option charge                              | -                                     | -                         | -                                                 | 49                                  | -                           | 49             |
| Loss and total comprehensive income for the year | -                                     | -                         | -                                                 | -                                   | (381)                       | (381)          |
| <b>Balance at 31 December 2014</b>               | <b>1,438</b>                          | <b>7,188</b>              | <b>10,081</b>                                     | <b>573</b>                          | <b>(8,922)</b>              | <b>10,358</b>  |
| Issue of new shares                              | 39                                    | 83                        | -                                                 | -                                   | -                           | 122            |
| Change in share option reserve                   | -                                     | -                         | -                                                 | 3                                   | -                           | 3              |
| Loss and total comprehensive income for the year | -                                     | -                         | -                                                 | -                                   | (4,109)                     | (4,109)        |
| <b>Balance at 31 December 2015</b>               | <b>1,477</b>                          | <b>7,271</b>              | <b>10,081</b>                                     | <b>576</b>                          | <b>(13,031)</b>             | <b>6,374</b>   |

The notes on pages 26 to 53 are an integral part of these financial statements.

**Notes to the financial statements for the year ended 31 December 2015****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 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 first time in the current period did not have a material effect on these 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 Group and 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 2016 financial statements. The Group is in the process of assessing the impact of new standards taking effect on or after 1 January 2017.

**Notes to the financial statements for the year ended 31 December 2015****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 2015. In reaching this conclusion, the directors have considered for both the Company and the Group, current trading and the current and projected funding position for the period of just over 12 months from the date of approval of the financial statements through to 31 May 2017.

**Current funding**

The Group's cash balance as at 31 December 2015 was £197,000 and the drawdown of borrowing was £1,041,000 against bank facilities at that date of £1,650,000. Since then the Group has continued to execute its business plan by:

- o investing in the continuing growth of its Lighting fixtures business and the development of new product ranges;
- o continued further investment in expanding its Halcyon range; and
- o continued transformation of the Group into a retrofit connected lighting and building management business through its Halcyon and CloudBMS platforms.

In order to progress these plans after the year end, in March 2016 new shares were issued in the Company for a consideration of £1,000,000.

**Projected funding**

Subject to the continued growth in Halcyon™ sales, the cash flow projections show that the Group can continue to operate for a period of 12 months from the date the financial statements were signed.

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

The projections include assumptions on the amount and timing of revenue and gross margin that the Group expects to achieve during the period of the projections. These assumptions are subject to both market and other uncertainties, as discussed in the Chief Executive Officer's Statement and the Strategic Report.

The Group has incurred a net loss of £2,767,000 in the year (2014: £1,332,000) and has been loss making since incorporation. The projections reflect the directors' expectation that the Group will be monthly adjusted EBITDA (as calculated in Note 5) positive in 2016. To the extent there is a shortfall in revenue and/or gross margin, it is likely to be at least partially offset by a reduction in working capital requirements. Nevertheless, the ability of the Company and the Group to continue as going concerns is dependent on the ability of the Group to achieve the growth in sales of its products projected by the directors in their current forecasts. Growth needs to be sufficient for the Company and the Group to be able to operate within their cash resource and borrowing facilities.

**Notes to the financial statements for the year ended 31 December 2015****2 Summary of significant accounting policies (continued)****Conclusion**

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

**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**

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever the facts and circumstances indicate that there may be a change in any of these elements of control. Defacto control exists in situations where the company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights.

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.

The Group operates in two reporting segments, LED Light Fixtures and LED Light Engines. Segmental information consistent with the Group's internal reporting is provided in Note 5.

**Notes to the financial statements for the year ended 31 December 2015****2 Summary of significant accounting policies (continued)****2.5 Foreign currency translation**

The functional currency of the Company and each of its subsidiary companies is Sterling. Foreign currency assets and liabilities are converted into Sterling at the rates of exchange ruling at the end of the financial year. 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.

**2.6 Investments in subsidiaries**

Investments in subsidiaries 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 recognised initially at 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 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 write-down resulting from impairment is charged to the statement of comprehensive income.

**Notes to the financial statements for the year ended 31 December 2015****2 Summary of significant accounting policies (continued)****2.8 Property, 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 statement of comprehensive income 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 statement of comprehensive income 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 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 Group 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 to the extent of any previous surplus with any further loss being recognised in the statement of comprehensive income.

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

**Notes to the financial statements for the year ended 31 December 2015****2 Summary of significant accounting policies (continued)****2.11 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 Group 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.

**2.12 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 and work in progress comprises the purchase price including transport and handling costs and attributable manufacturing overheads.

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

**2.13 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.

**2.14 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.

**2.15 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.

**2.16 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 statement of comprehensive income 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.

**2.17 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.

**Notes to the financial statements for the year ended 31 December 2015****2 Summary of significant accounting policies (continued)****2.17 Current and deferred income tax (continued)**

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.

**2.18 Revenue**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services. 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. This normally corresponds to the date that goods are either despatched to customers, or in the case of ex-works customers the goods are available for collection. Revenue is not considered to be reliably measurable until all contingent clauses in sale agreements are met.

Details of the accounting policy for warranty and stock return provisions are in Note 2.22.

**2.19 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 Group 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.

**2.20 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.

**2.21 Share based payments**

The Group 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). Options that lapse before vesting are credited back to income.

**Notes to the financial statements for the year ended 31 December 2015****2 Summary of significant accounting policies (continued)****2.21 Share based payments (continued)**

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.

**2.22 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.

**3 Financial risk****3.1 Capital risk management**

The Group monitors capital which comprises all components of equity (i.e. share capital, share premium, capital reduction reserve, share option reserve, and retained earnings/losses). Note 29 describes how capital is managed in respect of the debt to equity ratio.

**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 Sterling. 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. A sensitivity analysis has not been performed because the Group's exposure to foreign exchange risk is not significant.

**(ii) Price risk**

The Group has periodic price reviews within distributor sales contracts that enable it 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. Any increase or decrease in commodity prices has a direct impact on EBITDA until sales prices can be renegotiated.

**Notes to the financial statements for the year ended 31 December 2015****3 Financial risk (continued)****3.2 Financial risk factors (continued)****(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.

**(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 15. Responsibility for monitoring liquidity risk and for ensuring that Group members are adequately funded lies with the board of the Parent Company, PhotonStar LED Group PLC. Contractual maturity analysis for financial liabilities is also shown in Note 15.

**(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 statements 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.

After recognition of an impairment loss of £1,983,000 (2014: £nil) (see Note 32), the carrying value of intangible assets was £1,811,000 (2014: £3,452,000) and property, plant and equipment £214,000 (2014: £339,000) at the statement of financial position date.

**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 (including impairment) at 31 December 2015 was £721,000 (2014: £612,000).

## Notes to the financial statements for the year ended 31 December 2015

## 4 Critical accounting estimates and judgements (continued)

## Deferred tax

The Group has tax losses of £9.30m (2014: £9.10m) 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 in the future if there is an improvement in the forecast taxable profits.

## 5 Segmental information

The directors consider that for the year ended 31 December 2015 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 of LED Light Engines, as follows:

|                               | <b>Lighting<br/>fixtures<br/>2015<br/>£'000</b> | <b>Lighting<br/>fixtures<br/>2014*<br/>£'000</b> | <b>Light<br/>engines<br/>2015<br/>£'000</b> | <b>Light<br/>engines<br/>2014*<br/>£'000</b> | <b>Total<br/>2015<br/>£'000</b> | <b>Total<br/>2014*<br/>£'000</b> |
|-------------------------------|-------------------------------------------------|--------------------------------------------------|---------------------------------------------|----------------------------------------------|---------------------------------|----------------------------------|
| UK                            | 5,654                                           | 6,353                                            | 196                                         | 263                                          | 5,850                           | 6,616                            |
| Rest of the world             | 1,051                                           | 572                                              | -                                           | -                                            | 1,051                           | 572                              |
| Total revenue                 | 6,705                                           | 6,925                                            | 196                                         | 263                                          | 6,901                           | 7,188                            |
| Adjusted EBITDA               | (36)                                            | (375)                                            | (30)                                        | (177)                                        | (66)                            | (552)                            |
| Depreciation and amortisation | (715)                                           | (572)                                            | (2)                                         | (7)                                          | (717)                           | (579)                            |
| Interest expense              | (34)                                            | (37)                                             | -                                           | -                                            | (34)                            | (37)                             |
| Income tax credit             | 258                                             | 240                                              | -                                           | -                                            | 258                             | 240                              |
| Impairment                    | (1,917)                                         | -                                                | (66)                                        | -                                            | (1,983)                         | -                                |
| Total assets                  | 4,827                                           | 6,557                                            | 38                                          | 151                                          | 4,865                           | 6,708                            |
| Total liabilities             | 1,482                                           | 1,689                                            | 50                                          | 127                                          | 1,532                           | 1,816                            |

'Adjusted EBITDA for reportable segments' above is defined as EBITDA before share option charge and corporate expenses, and 'Adjusted EBITDA' below is defined as EBITDA before share option charge and exceptional item.

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

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

|                                         | <b>Total<br/>2015<br/>£'000</b> | <b>Total<br/>2014*<br/>£'000</b> |
|-----------------------------------------|---------------------------------|----------------------------------|
| Adjusted EBITDA for reportable segments | (66)                            | (552)                            |
| Corporate expense                       | (170)                           | (332)                            |
| Adjusted EBITDA                         | (236)                           | (884)                            |
| Depreciation and amortisation           | (717)                           | (579)                            |
| Share option charge                     | (55)                            | (72)                             |
| Interest expense                        | (34)                            | (37)                             |
| Exceptional item (Notes 6b and 32)      | (1,983)                         | -                                |
| Loss before tax                         | (3,025)                         | (1,572)                          |

## Notes to the financial statements for the year ended 31 December 2015

## 5 Segmental information (continued)

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

|                                                             | <b>Total<br/>2015<br/>£'000</b> | <b>Total<br/>2014<br/>£'000*</b> |
|-------------------------------------------------------------|---------------------------------|----------------------------------|
| Segment assets for reportable segments                      | 4,865                           | 6,708                            |
| Unallocated:                                                |                                 |                                  |
| Cash at bank                                                | 197                             | 1,137                            |
| Other                                                       | 31                              | 7                                |
| <b>Total assets per the statement of financial position</b> | <b>5,093</b>                    | <b>7,852</b>                     |

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

|                                                                  | <b>Total<br/>2015<br/>£'000</b> | <b>Total<br/>2014<br/>£'000*</b> |
|------------------------------------------------------------------|---------------------------------|----------------------------------|
| Segment liabilities for reportable segments                      | 1,532                           | 1,816                            |
| Unallocated:                                                     |                                 |                                  |
| Borrowings                                                       | 1,041                           | 725                              |
| Other                                                            | 115                             | 264                              |
| <b>Total liabilities per the statement of financial position</b> | <b>2,688</b>                    | <b>2,805</b>                     |

Single external customers amounting to more than 10 per cent of segment revenue - in 2015 for Lighting fixtures two customers with revenues of £993,000 and £684,000 (2014: two customers with revenues of £867,000 and £810,000) and for Light Engines two customers with revenues of £163,000 and £33,000 (2014: two customers with revenues of £85,000 and £69,000).

## 6a Operating loss

| <b>Operating loss is stated after<br/>charging/(crediting):</b> | <b>2015<br/>£'000</b> | <b>2014<br/>£'000</b> |
|-----------------------------------------------------------------|-----------------------|-----------------------|
| Cost of inventory recognised as expense                         | 4,399                 | 4,528                 |
| Staff costs                                                     | 2,867                 | 3,283                 |
| Depreciation                                                    | 133                   | 169                   |
| Amortisation of intangible assets                               | 584                   | 410                   |
| Operating lease expense                                         | 164                   | 145                   |
| Impairment of trade receivables                                 | 52                    | -                     |
| Exchange (gains)/losses                                         | (5)                   | (6)                   |
| Government grant income                                         | (74)                  | (91)                  |

## 6b Exceptional item

|                                 | <b>2015<br/>£'000</b> | <b>2014<br/>£'000</b> |
|---------------------------------|-----------------------|-----------------------|
| Impairment losses (see Note 32) | 1,983                 | -                     |
| <b>Total exceptional item</b>   | <b>1,983</b>          | <b>-</b>              |

## Notes to the financial statements for the year ended 31 December 2015

## 7 Investments in subsidiary undertakings

| Company                  | 2015<br>£'000 | 2014<br>£'000 |
|--------------------------|---------------|---------------|
| Opening balance          | 9,523         | 8,523         |
| Capital contributions    | 500           | 1,000         |
| Provision for impairment | (3,888)       | -             |
| Closing balance          | 6,135         | 9,523         |

The provision for impairment against the parent company's investment is related to the Group's impairment review explained in Note 32.

| Name                                      | Country of<br>incorporation | Proportion of ownership<br>interest      | Principal activities                             |
|-------------------------------------------|-----------------------------|------------------------------------------|--------------------------------------------------|
| PhotonStar LED Limited                    | England and Wales           | 100% interest in ordinary share capital  | Design and development of LED lighting fixtures. |
| 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               |
| Enfis Limited                             | England and Wales           | 100% interest in ordinary share capital  | Dormant                                          |
| Architectural Lighting & Controls Limited | England and Wales           | 100% interest in ordinary share capital* | Dormant                                          |

\*Shares held by subsidiary Company.

## Notes to the financial statements for the year ended 31 December 2015

**8 Property, plant and equipment**

| <b>Group</b>                                   | <b>Property,<br/>plant and<br/>equipment<br/>£'000</b> |
|------------------------------------------------|--------------------------------------------------------|
| <b>Cost</b>                                    |                                                        |
| At 1 January 2014                              | 1,066                                                  |
| Additions                                      | 65                                                     |
| At 31 December 2014                            | 1,131                                                  |
| Additions                                      | 51                                                     |
| <b>At 31 December 2015</b>                     | <b>1,182</b>                                           |
| <b>Accumulated depreciation and impairment</b> |                                                        |
| At 1 January 2014                              | 623                                                    |
| Charge for the year                            | 169                                                    |
| At 31 December 2014                            | 792                                                    |
| Charge for the year                            | 133                                                    |
| Impairment (see Note 32)                       | 43                                                     |
| <b>At 31 December 2015</b>                     | <b>968</b>                                             |
| <b>Net book value</b>                          |                                                        |
| <b>At 31 December 2015</b>                     | <b>214</b>                                             |
| At 31 December 2014                            | 339                                                    |
| At 31 December 2013                            | 443                                                    |

At 31 December 2015 property, plant and equipment with a net book value of £214,000 (2014: £339,000) were pledged as security for the bank facilities (see Note 15 Trade and other payables).

The Company has no property, plant and equipment.

## Notes to the financial statements for the year ended 31 December 2015

## 9 Intangible fixed assets

## Group

|                                    | Patents and<br>licences<br>£'000 | Customer<br>list<br>£'000 | Goodwill<br>£'000 | Development<br>costs<br>£'000 | Total<br>£'000 |
|------------------------------------|----------------------------------|---------------------------|-------------------|-------------------------------|----------------|
| <b>Cost</b>                        |                                  |                           |                   |                               |                |
| At 1 January 2014                  | 431                              | 243                       | 1,833             | 1,520                         | 4,027          |
| Additions                          | 62                               | -                         | -                 | 649                           | 711            |
| At 31 December 2014                | 493                              | 243                       | 1,833             | 2,169                         | 4,738          |
| Additions                          | 57                               | -                         | -                 | 701                           | 758            |
| <b>At 31 December 2015</b>         | <b>550</b>                       | <b>243</b>                | <b>1,833</b>      | <b>2,870</b>                  | <b>5,496</b>   |
| <b>Amortisation and impairment</b> |                                  |                           |                   |                               |                |
| At 1 January 2014                  | 262                              | 186                       | -                 | 428                           | 876            |
| Charge for the year                | 82                               | 40                        | -                 | 288                           | 410            |
| At 31 December 2014                | 344                              | 226                       | -                 | 716                           | 1,286          |
| Charge for year                    | 73                               | 14                        | -                 | 497                           | 584            |
| Impairment (see Note 32)           | -                                | -                         | 1,626             | 189                           | 1,815          |
| <b>At 31 December 2015</b>         | <b>417</b>                       | <b>240</b>                | <b>1,626</b>      | <b>1,402</b>                  | <b>3,685</b>   |
| <b>Net book value</b>              |                                  |                           |                   |                               |                |
| <b>At 31 December 2015</b>         | <b>133</b>                       | <b>3</b>                  | <b>207</b>        | <b>1,468</b>                  | <b>1,811</b>   |
| At 31 December 2014                | 149                              | 17                        | 1,833             | 1,453                         | 3,452          |
| At 31 December 2013                | 169                              | 57                        | 1,833             | 1,092                         | 3,151          |

Included within additions to development costs are costs of £556,000 (2014: £432,000) which are staff and other internal costs capitalised in the year.

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 2015 intangible fixed assets with a net book value of £1,811,000 (2014: £3,452,000) were pledged as security for the bank facilities (see Note 15 Trade and other payables).

The goodwill of £1,626,000 arising from the Group's acquisition of Enfis in 2010 has been impaired during the year, as explained in Note 32, and the impairment loss presented as an exceptional cost on the face of the Consolidated Statement of Comprehensive Income. The remaining goodwill of £207,000 consists of £106,000 to the acquisition of Architectural Lighting and Controls Limited and £101,000 to the acquisition of Camtronics Vale Limited.

## Notes to the financial statements for the year ended 31 December 2015

## 10 Inventories

| Group                          | 2015<br>£'000 | 2014<br>£'000 |
|--------------------------------|---------------|---------------|
| Raw materials                  | 780           | 985           |
| Work in progress               | 41            | 55            |
| Finished goods                 | 178           | 144           |
| <b>Total</b>                   | <b>999</b>    | <b>1,184</b>  |
| Less: Impairment (see Note 32) | (125)         | -             |
| <b>Net</b>                     | <b>874</b>    | <b>1,184</b>  |

The inventories shown above are pledged as security for the invoice finance borrowings disclosed in Note 15. The Company has no inventories.

## 11 Trade and other receivables

|                                | Group<br>2015<br>£'000 | Company<br>2015<br>£'000 | Group<br>2014<br>£'000 | Company<br>2014<br>£'000 |
|--------------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Trade receivables              | 1,560                  | -                        | 1,514                  | -                        |
| Less: provision for impairment | (87)                   | -                        | (12)                   | -                        |
| Trade receivables (net)        | 1,473                  | -                        | 1,502                  | -                        |
| Amounts due from subsidiaries  | -                      | 1,313                    | -                      | 980                      |
| Prepayments                    | 164                    | 31                       | 72                     | 6                        |
|                                | <b>1,637</b>           | <b>1,344</b>             | <b>1,574</b>           | <b>986</b>               |

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. The value of trade receivables shown above represents the Group's maximum exposure to credit risk. No collateral is held as security.

Amounts due from subsidiary undertakings represent net amounts provided to the Company's wholly owned subsidiaries, PhotonStar Technology Limited, PhotonStar LED Limited and Camtronics Vale Limited. Receivables due from subsidiaries at 31 December 2015 are unsecured and repayable on demand.

The fair value of trade and other receivables at 31 December 2015 and 31 December 2014 approximate to the net book values stated above.

As of 31 December 2015, trade receivables of £173,000 (2014: £34,000) were past their due date of receipt 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:-

|                           | 2015<br>£'000 | 2014<br>£'000 |
|---------------------------|---------------|---------------|
| Up to two months past due | 104           | 31            |
| Over two months past due  | 69            | 3             |
| <b>Total</b>              | <b>173</b>    | <b>34</b>     |

As of 31 December 2015, trade receivables of £87,000 (2014: £12,000) were impaired. The individually impaired receivables relate to balances where it has been assessed that the receivable is not expected to be recovered. The ageing of these receivables is as follows:

|                           | 2015<br>£'000 | 2014<br>£'000 |
|---------------------------|---------------|---------------|
| Current                   | -             | 3             |
| Up to two months past due | 10            | 7             |
| Over two months past due  | 77            | 2             |

## Notes to the financial statements for the year ended 31 December 2015

## 11 Trade and other receivables (continued)

The Group's trade and other receivables above are denominated in Sterling, and are pledged as security for the invoice finance borrowings disclosed in Note 15.

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

|                                               | 2015<br>£'000 | 2014<br>£'000 |
|-----------------------------------------------|---------------|---------------|
| At 1 January                                  | 12            | 12            |
| Utilised                                      | (12)          | -             |
| Provision for impairment of trade receivables | 87            | -             |
| <b>At 31 December</b>                         | <b>87</b>     | <b>12</b>     |

## 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<br>2015<br>£'000 | Company<br>2015<br>£'000 | Group<br>2014<br>£'000 | Company<br>2014<br>£'000 |
|------------------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Cash on hand & balances with banks | 197                    | 9                        | 1,137                  | 690                      |

## 13 Share capital

The authorised and issued share capital comprises ordinary shares of 1p nominal value (2014: 1p) and is summarised below:

|                            | Allotted, called up<br>and fully paid<br>No. |
|----------------------------|----------------------------------------------|
| At 31 December 2013        | 112,394,651                                  |
| Issued                     | 31,400,000                                   |
| At 31 December 2014        | 143,794,651                                  |
| Issued                     | 3,932,712                                    |
| <b>At 31 December 2015</b> | <b>147,727,363</b>                           |

On 31 July 2014, the High Court of Justice, under the provisions of s641 of the Companies Act 2006, authorised a reduction in the nominal value of each Company share from 10 pence to 1 pence. On 8 August 2014 the Company issued 31,400,000 Ordinary shares at a cash price of 7p, and on 8 December 2015 the Company issued 3,932,712 Ordinary shares at a cash price of 3.125 pence per share in settlement of directors' fees.

The table below reconciles movements in issued share capital during the year.

|                            | Number<br>of shares | Ordinary<br>share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Share<br>capital<br>reduction<br>reserve<br>£'000 | Total<br>£'000 |
|----------------------------|---------------------|---------------------------------------|---------------------------|---------------------------------------------------|----------------|
| At 31 December 2013        | 112,394,651         | 11,239                                | 5,430                     | -                                                 | 16,669         |
| Reduction in share capital | -                   | (10,115)                              | -                         | 10,081                                            | (34)           |
| Shares issued              | 31,400,000          | 314                                   | 1,758                     | -                                                 | 2,072          |
| At 31 December 2014        | 143,794,651         | 1,438                                 | 7,188                     | 10,081                                            | 18,707         |
| Shares issued              | 3,932,712           | 39                                    | 83                        | -                                                 | 122            |
| <b>At 31 December 2015</b> | <b>147,727,363</b>  | <b>1,477</b>                          | <b>7,271</b>              | <b>10,081</b>                                     | <b>18,829</b>  |

## Notes to the financial statements for the year ended 31 December 2015

**13 Share capital (continued)**

After the year end, in March 2016, 40,000,000 ordinary 1p shares were issued for cash at 2.5p each per share.

**Employee share schemes****(i) Deferred payment share purchase plan**

The Group has a deferred payment share purchase plan which enables the funding of share purchases in the Group by executive directors and other employees. There are no current applications to purchase shares through this plan (2014: Nil applications).

**(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 900,000 (2014: 1,900,000) ordinary shares have been granted to directors of the Company.

The exercise terms of granted options as at 31 December 2015 are summarised below:

| <b>Date of grant</b> | <b>Number of options</b> | <b>Exercise price (pence per share)</b> | <b>Exercise dates from</b> |
|----------------------|--------------------------|-----------------------------------------|----------------------------|
| 2007                 | 54,000                   | 72                                      | 2011                       |
| 2007                 | 15,000                   | 115                                     | 2010                       |
| 2010                 | 5,923,610                | 2.8*                                    | 2011                       |
| 2012                 | 258,000                  | 10                                      | 2015                       |
| 2012                 | 1,961,780                | 13.5                                    | 2015                       |
| 2013                 | 3,223,000                | 10                                      | 2015                       |
| 2014                 | 2,327,000                | 7                                       | 2017                       |
| 2014                 | 560,000                  | 3                                       | 2017                       |
| 2015                 | 3,120,000                | 5                                       | 2017                       |

The number and weighted average exercise price of the options that were exercisable at 31 December 2015 were 11,435,390 and 7.3p respectively (2014: 7,134,126 and 3.8p).

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

|                            | <b>Average exercise price (pence per share)</b> | <b>Options number</b> |
|----------------------------|-------------------------------------------------|-----------------------|
| At 31 December 2013        | 11                                              | 16,973,051            |
| Granted                    | 7                                               | 3,810,000             |
| Granted                    | 3                                               | 810,000               |
| Lapsed                     | 11                                              | (2,921,590)           |
| At 31 December 2014        | 10                                              | 18,671,461            |
| Granted                    | 5                                               | 3,240,000             |
| Lapsed                     | 19                                              | (4,469,071)           |
| <b>At 31 December 2015</b> | <b>6</b>                                        | <b>17,442,390</b>     |

## Notes to the financial statements for the year ended 31 December 2015

## 13 Share capital (continued)

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

| Expiry date | Exercise price<br>(pence per share) | Options<br>2015   | Options<br>2014   |
|-------------|-------------------------------------|-------------------|-------------------|
| 2016        | 115                                 | 15,000            | 18,000            |
| 2017        | 72                                  | 54,000            | 63,000            |
| 2018        | 105.5                               | -                 | 20,000            |
| 2018-2019   | 2.8                                 | 5,923,610         | 6,533,126         |
| 2020        | 1                                   | -                 | 500,000           |
| 2022        | 10                                  | 258,000           | 304,000           |
| 2022        | 13.5                                | 1,961,780         | 2,380,335         |
| 2023        | 10                                  | 3,223,000         | 4,233,000         |
| 2024        | 7                                   | 2,327,000         | 3,810,000         |
| 2024        | 3                                   | 560,000           | 810,000           |
| 2025        | 5                                   | 3,120,000         | -                 |
|             |                                     | <b>17,442,390</b> | <b>18,671,461</b> |

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 statement of comprehensive income is consistent with latest expectations. Subsequent changes in market conditions do not impact the amount charged to the statement of comprehensive income.

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 | Share price<br>pence | Exercise price<br>pence | Expected option life<br>years | Expected volatility<br>% | Expected dividend yield<br>% | Risk free interest rate<br>% | Fair value at grant date<br>pence |
|------------|----------------------|-------------------------|-------------------------------|--------------------------|------------------------------|------------------------------|-----------------------------------|
| 2014       | 7                    | 7                       | 10                            | 30                       | 0                            | 2.13                         | 1.3                               |
| 2014       | 3                    | 3                       | 10                            | 30                       | 0                            | 2.13                         | 3.0                               |
| 2015       | 5                    | 5                       | 10                            | 34                       | 0                            | 1.96                         | 2.0                               |

## Notes to the financial statements for the year ended 31 December 2015

## 14 Financial assets and liabilities

The tables below analyse the carrying value of financial assets and financial liabilities in the Group and Company's 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 | 2015<br>£'000 | 2014<br>£'000 |
|------------------------------------------------|-------|---------------|---------------|
| Trade receivables                              | 11    | 1,473         | 1,502         |
| Cash and cash equivalents                      | 12    | 197           | 1,137         |
| <b>Financial assets</b>                        |       | <b>1,670</b>  | <b>2,639</b>  |
| Trade payables                                 | 15    | 870           | 1,210         |
| Accruals                                       | 15    | 179           | 403           |
| Borrowings                                     | 15    | 1,042         | 725           |
| <b>Financial liabilities at amortised cost</b> |       | <b>2,091</b>  | <b>2,338</b>  |
| <b>Financial liabilities</b>                   |       | <b>2,091</b>  | <b>2,338</b>  |

| Company                                        | Notes | 2015<br>£'000 | 2014<br>£'000 |
|------------------------------------------------|-------|---------------|---------------|
| Amounts due from subsidiaries                  | 11    | 1,813         | 980           |
| Cash and cash equivalents                      | 12    | 9             | 690           |
| <b>Financial assets</b>                        |       | <b>1,822</b>  | <b>1,670</b>  |
| Trade payables                                 | 15    | 86            | 69            |
| Amounts due to subsidiaries                    | 15    | 999           | 580           |
| Accruals                                       | 15    | 29            | 192           |
| <b>Financial liabilities at amortised cost</b> |       | <b>1,114</b>  | <b>841</b>    |
| <b>Financial liabilities</b>                   |       | <b>1,114</b>  | <b>841</b>    |

## 15 Trade and other payables

| Group                               | 2015<br>£'000 | 2014<br>£'000 |
|-------------------------------------|---------------|---------------|
| Trade payables                      | 870           | 1,210         |
| Social security and other taxes     | 339           | 181           |
| Accruals                            | 179           | 403           |
| Deferred income – government grants | 207           | 240           |
| <b>Total</b>                        | <b>1,595</b>  | <b>2,034</b>  |
| <b>Company</b>                      |               |               |
| Trade payables                      | 86            | 69            |
| Accruals                            | 29            | 192           |
| Amounts due to subsidiaries         | 999           | 580           |
| <b>Total</b>                        | <b>1,114</b>  | <b>841</b>    |

## Notes to the financial statements for the year ended 31 December 2015

## 15 Trade and other payables (continued)

| Group            |                | Due<br>or<br>due in less<br>than one<br>month | Due<br>between<br>one and<br>three<br>months |
|------------------|----------------|-----------------------------------------------|----------------------------------------------|
| Trade payables   | Total<br>£'000 | £'000                                         | £'000                                        |
| 31 December 2015 | 870            | 454                                           | 416                                          |
| 31 December 2014 | 1,210          | 756                                           | 454                                          |

| Group                     | 2015  | 2014  |
|---------------------------|-------|-------|
| Borrowings                | £'000 | £'000 |
| <b>Current borrowings</b> |       |       |
| Hire purchase agreements  | 1     | 4     |
| Bank credit cards         | 2     | 1     |
| Invoice finance           | 1,039 | 720   |
| Total                     | 1,042 | 725   |

The bank facilities are secured by way of a fixed and floating charge over the assets of the Group.

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:

| Group                 | 2015<br>£'000 | 2014<br>£'000 |
|-----------------------|---------------|---------------|
| Twelve months or less | 1,041         | 721           |
| Fixed interest rates  | 1             | 4             |
| Total                 | 1,042         | 725           |

## 16 Deferred income tax

There is an unprovided deferred tax asset arising on taxable losses of £9.30m (2014: £9.10m). In accordance with accounting standards, the deferred tax asset has not been recognised in the financial statements as there will not be sufficient future profits against which it could be recovered. This view will be reconsidered once the Group demonstrates consistent profitability.

The deferred tax liability of £15,000 (2014: £15,000) relates to accelerated timing differences on plant and equipment.

## Notes to the financial statements for the year ended 31 December 2015

**17 Provisions**

| <b>Group</b>                | <b>Warranty provision<br/>£'000</b> |
|-----------------------------|-------------------------------------|
| At 1 January 2014           | 45                                  |
| Charged to income statement | 36                                  |
| Utilised                    | (50)                                |
| At 31 December 2014         | 31                                  |
| Charged to income statement | 50                                  |
| Utilised                    | (45)                                |
| <b>At 31 December 2015</b>  | <b>36</b>                           |

The Group has provided product warranties to certain customers. Provision has been made for the expected cost of meeting claims in respect of these arrangements. The balance as at 31 December 2015 is expected to be utilised over an appropriate period of time, having taken account of the Group's rigorous quality assurance procedures prior to despatch, and the low level of warranty claims experienced relating to the new product lines.

**18 Auditor's remuneration**

During the year the Group obtained the following services from the Company's auditor as detailed below:

|                                                                                                           | <b>2015<br/>£'000</b> | <b>2014<br/>£'000</b> |
|-----------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| Fees payable to Company's auditor for the audit of Parent Company's and consolidated financial statements | 14                    | 8                     |
| Fees payable to the Company's auditor and its associates for other services:                              |                       |                       |
| - The audit of the Company's subsidiaries pursuant to legislation                                         | 20                    | 20                    |
| - Tax services                                                                                            |                       |                       |
| - Compliance                                                                                              | 6                     | 8                     |
| - Advisory                                                                                                | -                     | -                     |
| <b>Total</b>                                                                                              | <b>40</b>             | <b>36</b>             |

## Notes to the financial statements for the year ended 31 December 2015

**19 Employee benefit expense**

| <b>Group</b>          | <b>2015<br/>£'000</b> | <b>2014<br/>£'000</b> |
|-----------------------|-----------------------|-----------------------|
| Wages and salaries    | <b>2,582</b>          | 2,951                 |
| Social security costs | <b>230</b>            | 260                   |
| Share based payments  | <b>55</b>             | 72                    |
|                       | <b>2,867</b>          | 3,283                 |

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

| <b>By activity</b>         | <b>2015<br/>Number</b> | <b>2014<br/>Number</b> |
|----------------------------|------------------------|------------------------|
| Research and development   | <b>16</b>              | <b>15</b>              |
| Sales                      | <b>20</b>              | <b>23</b>              |
| Administration and finance | <b>7</b>               | <b>13</b>              |
| Production                 | <b>64</b>              | <b>71</b>              |
|                            | <b>107</b>             | <b>122</b>             |

During the year, the Company had no employees (2014: Nil), other than the directors.

**20 Financial expense**

| <b>Group</b>                                              | <b>2015<br/>£'000</b> | <b>2014<br/>£'000</b> |
|-----------------------------------------------------------|-----------------------|-----------------------|
| Bank loans, overdrafts, invoice finance and hire purchase | <b>34</b>             | 37                    |

## Notes to the financial statements for the year ended 31 December 2015

## 21 Directors' emoluments

| Group                                                 | 2015<br>£'000 | 2014<br>£'000 |
|-------------------------------------------------------|---------------|---------------|
| Dr A Nelson                                           | 17            | 36            |
| Dr J S McKenzie                                       | 97            | 103           |
| Dr M E Zoorob                                         | 83            | 91            |
| R Banks                                               | 9             | 98            |
| J Freeman                                             | 27            | 20            |
| P Marshall                                            | 17            | 20            |
|                                                       | 250           | 368           |
| Social security costs – employer's national insurance | 29            | 38            |
| Share based charges                                   | 18            | 12            |
| Pensions costs                                        | -             | -             |
| Total                                                 | 297           | 418           |

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 emoluments of the highest paid Director were as follows:

| Group                | 2015<br>£'000 | 2014<br>£'000 |
|----------------------|---------------|---------------|
| Aggregate emoluments | 97            | 103           |

No share options were exercised by the highest paid Director in the year (2014: Nil). The highest paid Director received 500,000 share options during the year (2014: 600,000), exercisable at 5.025p and granted when the share price was 5.025p.

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

|                 | 31 December<br>2014<br>number | Issued<br>number | Lapsed<br>number | 31 December<br>2015<br>Number |
|-----------------|-------------------------------|------------------|------------------|-------------------------------|
| Dr A W Nelson   | 512,000                       | -                | 512,000          | -                             |
| Dr J S McKenzie | 4,359,710                     | 500,000          | -                | 4,859,710                     |
| Dr M Zoorob     | 3,785,456                     | 400,000          | -                | 4,185,456                     |
| R Banks         | 1,700,000                     | -                | 1,700,000        | -                             |
|                 | 10,357,166                    | 900,000          | 2,212,000        | 9,045,166                     |

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

| Year of grant | Number of<br>options issued | Exercise<br>price<br>(pence) | Period of<br>exercise |
|---------------|-----------------------------|------------------------------|-----------------------|
| 2010          | 4,245,166                   | 2.8                          | 2009 - 2019           |
| 2012          | 1,000,000                   | 13.5                         | 2015 - 2023           |
| 2013          | 2,000,000                   | 10                           | 2015 - 2023           |
| 2014          | 900,000                     | 7                            | 2015 - 2024           |
| 2015          | 900,000                     | 5.025                        | 2017 - 2025           |

## Notes to the financial statements for the year ended 31 December 2015

**22 Income tax credit**

| <b>Group</b>                                           | <b>2015<br/>£'000</b> | <b>2014<br/>£'000</b> |
|--------------------------------------------------------|-----------------------|-----------------------|
| Current taxation; research and development tax credits |                       |                       |
| UK corporation tax on loss for the year                | (182)                 | (166)                 |
| Adjustment in respect of prior periods                 | (76)                  | (74)                  |
|                                                        | (258)                 | (240)                 |
| Deferred tax                                           | -                     | -                     |
| Income tax credit                                      | (258)                 | (240)                 |

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:

| <b>Group</b>                                                          | <b>2015<br/>£'000</b> | <b>2014<br/>£'000</b> |
|-----------------------------------------------------------------------|-----------------------|-----------------------|
| Loss before tax                                                       | (3,025)               | (1,572)               |
| Tax calculated at the domestic tax rate applicable of 20% (2014: 20%) | (605)                 | (314)                 |
| Expenses not deductible for tax purposes                              | 327                   | 2                     |
| R&D tax credit                                                        | (182)                 | (166)                 |
| Tax losses for which no deferred income tax asset was recognised      | 278                   | 312                   |
| Adjustments in respect of prior periods                               | (76)                  | (74)                  |
| <b>Total tax credit</b>                                               | <b>(258)</b>          | <b>(240)</b>          |

**23 Net foreign exchange (gains)/loss**

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

| <b>Group</b> | <b>2015<br/>£'000</b> | <b>2014<br/>£'000</b> |
|--------------|-----------------------|-----------------------|
| (Gain) – net | (5)                   | (6)                   |

## Notes to the financial statements for the year ended 31 December 2015

**24 Earnings per share**

| Basic loss per share                       | 2015         | 2014         |
|--------------------------------------------|--------------|--------------|
| Loss attributable to ordinary shareholders | £(2,767,000) | £(1,332,000) |
| Weighted average number of ordinary shares | 144,042,465  | 124,868,624  |
| Basic loss per share                       | (1.9p)       | (1.1p)       |

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 2015 and 31 December 2014 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 2015, there were share options outstanding over 17,442,390 shares (2014: 18,671,461 shares), which could potentially have a dilutive impact in the future.

**25 Commitments****(a) Capital commitments**

There were capital commitments at 31 December 2015 of £258,000 (31 December 2014: £Nil)

**(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:

|                                  | 2015<br>£'000 | 2014<br>£'000 |
|----------------------------------|---------------|---------------|
| Payable within one year          | 99            | 156           |
| Payable within two to five years | 145           | 72            |
| Payable over five years          | 20            | -             |
|                                  | 264           | 228           |

**26 Related party transactions****Transactions with and between subsidiaries**

As at 31 December 2015 the Company had advanced £404,000 to PhotonStar LED Limited (2014: £437,000) and £1,409,000 to PhotonStar Technology Limited (2014: £543,000), £865,000 was due to Camtronics Vale Limited (2014: £446,000), and £134,000 was due to Architectural & Lighting Controls Limited (2014: £134,000). Further details of these advances are given in Note 11, Trade and other receivables, and in Note 15, Trade and other payables.

**Transactions with directors**

Emoluments of P Marshall totalling £14,000 (2014: £20,000) were invoiced to the Company by Marshall Consulting KFT, as included in Note 21. Emoluments of D Nelson totalling £98,000 (2014: £Nil) were invoiced to the company by Llansannor Management Consultants Limited in respect of consultancy services provided over a number of years that had been accrued for. No amount was outstanding at the year-end (2014: £Nil).

**27 Controlling party**

The directors consider there to be no ultimate controlling party.

## Notes to the financial statements for the year ended 31 December 2015

**28 Government grants**

Government grants credited to income are as follows:

| Group             | 2015  | 2014  |
|-------------------|-------|-------|
|                   | £'000 | £'000 |
| Government grants | 74    | 91    |

The government grants relate to research that was funded by the DECC Entrepreneurs Fund and by Innovate UK.

**29 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 2015 and 31 December 2014 was as follows:

| Group                | 2015  | 2014  |
|----------------------|-------|-------|
|                      | £'000 | £'000 |
| Total debt           | 1,042 | 725   |
| Total equity         | 2,405 | 5,047 |
| Debt-to-equity ratio | 43.3% | 14.4% |

**30 Capital reduction reserve and Reverse acquisition reserve**

The capital reduction reserve set out in the Consolidated Statement of Changes in Equity arose in 2014 when the nominal value of each share was reduced from 10p to 1p. The reverse acquisition reserve 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 has been presented as if PhotonStar LED Limited had always been the Parent Company of the Group.

**31 Subsequent event**

In March 2016 the Company issued 40,000,000 ordinary 1p shares for a cash price of 2.5p per share. This consisted of 38,000,000 Placing Shares and 2,000,000 Subscription Shares. The Placing Shares were issued in two tranches as follows: 19,100,000 ordinary shares of 1p each issued on 2 March 2016 and 18,900,000 ordinary shares of 1p each on 16 March 2016. The Subscription Shares were also issued in two tranches as follows: 1,600,000 ordinary shares of 1p each on 2 March 2016 and 400,000 ordinary shares of 1p each on 16 March 2016.

## Notes to the financial statements for the year ended 31 December 2015

## 32 Impairment

As a result of the change in strategic direction by the Company towards transitioning into a Group that increasingly focuses on being a retrofit connected lighting and building management business, the Board reviewed, in conjunction with the annual review of goodwill, the value of certain historic assets on the balance sheet but which are related to non-strategic areas of the Group. The result of this review is that we have concluded that there should be a non-cash impairment charge to the balance sheet which totals, in aggregate, £1,983,000 (2014: £Nil). The majority of this impairment charge, £1,626,000 relates to the remaining goodwill on the balance sheet from the reverse transaction with Enfis in 2010 and which the Board has concluded should be written off entirely. In addition, the capitalised costs of the development of the Chip on Board Light Engines, the capitalised research and development costs of the earliest version of ChromaWhite ('Chromawhite 1.0') is being written off and the value of some stock the Group continues to hold and which relates to the early development of a retail version of Halcyon has been impaired. The affected assets are mainly within the LED Lighting Fixtures reporting segment – see Note 5. The Board believes that this impairment charge, which is a non-cash charge through the Consolidated Statement of Comprehensive Income, is an appropriate action to take in order to ensure that the value of the assets included on the balance sheet remain relevant to the business that is being built.

The impairment loss consists of the following:

| Group                         | 2015<br>£'000 | 2014<br>£'000 |
|-------------------------------|---------------|---------------|
| Goodwill                      | 1,626         | -             |
| Capitalised development costs | 189           | -             |
| Inventories                   | 125           | -             |
| Property, Plant and Equipment | 43            | -             |
| Total impairment loss         | 1,983         | -             |

Cash generating units

The Group comprises of four Cash Generating Units (CGU), PhotonStar LED Limited, PhotonStar Technology Limited, Camtronics Vale Limited and a Group CGU.

In accordance with the Group's accounting policy, the carrying value of the cash generating unit operating assets including the carrying value of goodwill has been tested for impairment. This was done by calculating its value in use using certain key assumptions. The key assumptions applied were as follows:

- Future time period – 10 years
- A positive growth rate of 4% for all CGU's except for Halcyon™ which is considered to be 30% for 2016 to 2020 and 3% for 2021 to 2025, based on the projects that customers are discussing with the Group.
- A discount factor of 12%
- Use of an EBITDA forecast, adjusted for forecast movements in working capital and capital expenditure, as a reasonable estimate for future cash flow

Projected EBITDA is calculated based on a detailed forecast for one year, and growth assumptions based on expected overall sector growth for up to 10 years (2014: 10 years). Expected future cash flows were based on the CGU's detailed budget cash flows for the financial year ending 31 December 2015 and the assumption that revenues will grow steadily thereafter at 4% for most products and 30% per annum for Halcyon™ for 2016 to 2020 and 3% for 2021 to 2025 (2014: 4%). The directors are content that this growth is achievable because of the view taken by the directors of the Group's current position within the LED lighting market and the opportunities for the Halcyon™ retrofit lighting product.

## Notes to the financial statements for the year ended 31 December 2015

## 32 Impairment (continued)

The Group cash generating unit value in use was calculated using average discounted cash flows reflective of its cash generation throughout each future financial year and using a pre-tax discount factor of 12.0% (2014: 13.0%). The headroom, for the Group, after the impairment charge of £1,983,000 is £2,686,000. The impairment charge has resulted in the PhotonStar Technology Limited CGU being written down to its recoverable amount (value in use) of £1,537,000.

Different assumptions could have resulted in the following 2015 headroom amounts, after the impairment charge of £1,983,000:

|                                                           | Headroom/ (Impairment)<br>(after impairment charge of<br>£1,983,000)<br>£'000 |
|-----------------------------------------------------------|-------------------------------------------------------------------------------|
| <b>Using different growth factors</b>                     |                                                                               |
| 2% and Halcyon 20% (2016 to 2020) and 3% for 2021 to 2025 | 1,374                                                                         |
| 6% and Halcyon 30% (2016 to 2020) and 3% for 2021 to 2025 | 3,216                                                                         |
| <b>Using different discount factors</b>                   |                                                                               |
| 10%                                                       | 3,666                                                                         |
| 15%                                                       | 1,502                                                                         |
| <b>Using different EBITDA forecast</b>                    |                                                                               |
| +10% of forecast                                          | 3,398                                                                         |
| -10% of forecast                                          | 1,623                                                                         |
| -20% of forecast                                          | 560                                                                           |
| -30% of forecast                                          | (503)                                                                         |

The carrying value of goodwill is dependent on the ability of the company to achieve cash flows set out in its planned forecasts and the uncertainties that exist in this respect. The Company has no intangible fixed assets.