

27 March 2014

PhotonStar LED Group Plc

Full year results

PhotonStar LED Group plc (AIM: PSL, "PhotonStar" or "the Group"), the British designer and manufacturer of smart LED lighting solutions, announces its preliminary audited results for the year ended 31 December 2013.

Highlights

- Revenue up 8% to £9.4m (2012: £8.7m)
- Gross profit up 5% to £3.6m (2012: £3.4m)
- Adjusted EBITDA loss improved to £0.1m (2012: £0.3m loss)
- Reported loss before tax of £0.7m (2012: loss £0.8m)
- Basic loss per share of 0.6p (2012: basic loss per share 0.8p)
- Adjusted EBITDA positive and cash neutral during second half
- Net debt at year-end £0.3m, against available facility of £1.3m
 - Unchanged since 30 June 2013
 - Significant growth in second half achieved whilst remaining cash neutral
- Key operational developments:
 - ChromaWhite colour-tuneable light technology commercially available
 - Halcyon™ home Circadian lighting system nearing end of development, due for full commercial launch in second half of 2014

James McKenzie, CEO of PhotonStar, commented

"We have continued to make good progress, particularly in the second half of this year, and the business is now stronger and more stable. We continue to invest in developing and updating our technology and have the cash flow to support further investment and growth."

"The lighting market is changing rapidly towards LED lighting and PhotonStar is well positioned to take advantage of this transition. Our Chromawhite colour-tuneable system is now commercially available and our retrofit, home Circadian lighting product, Halcyon™, is due for full launch during 2014."

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About PhotonStar LED Group PLC

PhotonStar is a British designer and manufacturer of smart LED lighting solutions. The Group's proprietary technology seamlessly integrates LEDs, sensors and controls to provide intelligent lighting for commercial and architectural applications which benefit from greater CO2 reduction, lower cost of ownership & improved functionality compared to other available light sources. PhotonStar's lighting products have won numerous awards for performance, innovation and reliability, and are unique in the industry for the use of recycled, and recyclable materials, which means they have 90% less embodied CO2 than equivalent products providing the same levels of illumination.

PhotonStar comprises two divisions: LED Lighting Fixtures which works with lighting designers, architects, house builders, facilities management companies and sustainability consultants to provide intelligent, high-end LED lighting solutions for the commercial and architectural market, and LED Light Engines which provides LED lighting solutions for specialist applications such as film & television production lighting, UV curing and medical applications.

PhotonStar is based in Romsey, Hampshire with manufacturing in Wales. The Group was admitted to AIM in December 2010.

Overview

PhotonStar made good progress during 2013, due to its established reputation within LED lighting and the substantial growth opportunity in this sector. The Group had a particularly strong second half of the year, having resolved some operational challenges in the first half, including a change of CFO, continued development and improvement of its ChromaWhite colour-tuneable light technology and the general low level of activity in the construction sector across Europe.

During the second half, the Group was both adjusted EBITDA positive and cash neutral, a substantial improvement on the first half of 2013.

Full year revenues increased by 8% to £9.4m (2012: £8.7m), with gross profit increasing by 5% to £3.6m (2012: £3.4m). Compared with the first half of 2013, Group revenue in the second half increased by 18% and gross profit increased by 13%. Full year adjusted EBITDA improved to a loss of £0.1m in 2013 (2012: loss of £0.3m) with net debt unchanged from the half year position. Net debt at the half year and at the year-end was £0.3m against an available facility of £1.3m. The significant growth in the latter half of the year was achieved whilst remaining cash neutral.

The development of PhotonStar's smart Circadian retrofit LED lighting has made good progress. In May 2013 the Group was awarded a grant by the Department of Energy & Climate Change (DECC) Entrepreneurs Fund of up to £0.4m to further develop its ChromaWhite technology for the retrofit market. The Group achieved all the required milestones for this project and previewed its Halcyon™ home Circadian lighting system at the Gadget Show Live in November 2013.

PhotonStar has a substantial and growing IP portfolio, comprising a total of 15 patent families covering advanced LED chip design, optimal low cost packaging, advanced colour mixing and advanced colour control. This portfolio now has at least one patent per family granted in at least one territory in the world. Additionally, new IP will be filed prior to the launch of the Halcyon™ products.

PhotonStar saw particular improvements during the second half of 2013 and starts this financial year in a much stronger financial position. The Group looks forward to further growth as the case for LED lighting continues to strengthen, reinforced by further regulation in the market.

Business review

LED fixtures business

The LED fixtures business continues to develop well. Domestic sales increased by nearly 11% to £7.15m (2012: £6.45m), with export sales holding steady at £1.29m (2012: £1.47m).

The Group's supply agreement with a major UK house builder started off at a disappointingly low level in early 2013 but has grown steadily to become a much more significant revenue source. This growth is expected to continue during 2014.

Many high profile lighting projects were completed in 2013, including the five star Wellesley Hotel in London's Knightsbridge, a number of Scandic hotels in Europe and several premium airline lounges around the world.

During the year PhotonStar launched new, more efficient and competitive versions of its LED fixture products. The new EcoStar wholesale range (launched in Q1 2013) now has a fixture efficiency above 80 lm/W and the specification range (launched at the end of Q2 2013) has a fixture efficiency range of up to 100 lm/W. These are 25% more efficient than the previous versions as well as more cost effective.

In November 2013 the Group signed a partnership agreement with controls specialist Lutron Electronics Inc., to enable the Group's 'EcoSystem' protocol to be fully compatible with Lutron's world leading controls as an option on PhotonStar's luminaire products. This will result in the provision of the most reliable and workable control and lighting solutions to customers.

LED light engines business

Sampling of the ChromaWhite range to key customers started in June 2012. The production ramp was initially slowed by previously announced third party supply issues which have now been resolved. Shipments began to increase during the second half of 2013.

In January 2013 PhotonStar demonstrated its LED smart lighting solutions in partnership with CSR plc (CSR) at its stand at the Consumer Electronics Show (CES) show in Las Vegas. The Group worked closely with CSR to demonstrate how Bluetooth Smart low energy wireless technology can enable smartphones, tablets and other connected devices to control lighting systems throughout the home.

PhotonStar was also invited to host the 'Evolution of Light' feature exhibit at London's Ecobuild show in March 2013, where visitors were able to interact with the lighting installations through their smartphones and experience the effects of different types of lighting. Around 5,000 people visited the feature which focused not just on efficiency and sustainability but also on the healthier, more productive built environment. A prototype ChromaWhite colour tuneable smart lamp was demonstrated to the public, in a standard lamp form factor, with full wireless control.

In May 2013 the Group was awarded a grant by the DECC Entrepreneurs fund of up to £0.4m to support the Smart Circadian Retrofit LED lighting project to further develop its ChromaWhite technology for the retrofit market. The Group has achieved all the required milestones for the DECC project and previewed its new Halcyon™ home Circadian lighting system at the Gadget Show Live in November 2013.

The Halcyon™ lightbulb is the first true multi user, whole home, retrofit wireless LED lighting solution. The core technology is based on the Group's patented ChromaWhite colour tuneable professional LED light source.

This is the first retrofit home LED lighting system that delivers 'healthy' Circadian lighting. Circadian lighting changes throughout the day to emulate the changing colour and intensity of natural daylight and has been shown to provide health benefits. The Halcyon™ bulb also saves energy through efficiency and smart sensors automatically turn lights off when they are not needed.

Studies show that using dynamic light can improve human health and performance and changing the colour and intensity of light can affect the body's Circadian rhythms. The powerful Halcyon™

lighting server automatically controls the bulbs to deliver the right light, at the right time, for health and wellbeing as well as minimising energy use overall.

The development phase of Halcyon™ is now nearing completion and it is due for full commercial launch in the second half of 2014, once the appropriate certifications have been achieved and key new patents filed.

In November 2013 the Group announced a partnership with amBX UK Ltd (amBX), the developers of immersive experience control solutions, in order to enhance storytelling and gaming experiences through interactive, colour-tuneable lighting. The partnership will enable amBX to be one of the first to launch Halcyon™ compatible products.

Financial review

Group sales increased by 8.3% to £9.42m (2012: £8.70m), reflecting a steady growth in LED fixture sales to £8.44m (2012: £7.92m). LED light engine sales contributed a total of £0.98m to 2013 sales (2012: £0.78m).

Gross margin slightly reduced to 38.3% (2012:39.5%). The LED fixtures division saw margins of 37.5% (2012:38.0%) and the LED light engines division saw margins of 45.8% (2012:60.0%).

The overall small increase in administrative expenses reflects the effect of the expansion of the LED fixtures business, offset by a cost-reduction focus in the second half of the year.

Non cash costs (depreciation, amortization and share based payments) included in administrative expenses increased from £0.51m in 2012 to £0.59m in 2013, reflecting the increased investment in capitalized development costs.

The Group's pre-tax loss for the year was £0.73m (2012: loss of £0.84m). Basic and diluted loss per share was 0.6p (2012: basic and diluted loss per share of 0.8p). The Group has tax losses of approximately £8m available to set against future trading profits.

During 2013, the Group made capital expenditure of £0.78m, of which £0.71m was spent on research and development of its LED lighting fixtures and light engines, and £0.07m on plant and equipment.

In 2013 the Group secured and began drawing upon an Entrepreneurs Fund grant from DECC, worth a total of £0.37m and made available to support the Group's development of its wireless ChromaWhite technology.

During 2013 the Group invested £0.51m in additional inventories and trade and other receivables in support of its growing business.

The Group's year-end net debt position was £0.32m with available borrowing facilities of up to £1.3m.

Current trading and outlook

There is currently a rapid transition towards LED lighting across the market. 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. PhotonStar is well positioned to take advantage of this opportunity.

Colour-tuneable and Circadian LED lighting is becoming a significant subsector and the market in Europe alone is estimated to be worth up to €2.3bn per year by 2020.

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.

The Halcyon™ system has been specifically designed to address the market opportunity for

domestic 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.

The Group has a growing reputation as a high quality and innovative manufacturer of LED lighting products. Export channels and overseas commercial opportunities for PhotonStar continue to improve and increase.

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.

Trading in the first quarter of 2014 has been in line with the Group's budgeted levels and ahead of the first quarter of 2013. Growth is expected to come particularly through the Lighting Fixtures division as the Group's partnerships with electronic controls specialists deliver increased LED fixture project flow, and as export growth in LED fixtures increases.

The Group enters 2014 as a much stronger business, with a stable management team in place, reduced costs and the cash flow to support further growth.

**Consolidated Statement of Comprehensive Income
For the year ended 31 December 2013**

| | 2013 | 2012 |
|---|----------------|---------|
| | £'000 | £'000 |
| Revenue | 9,423 | 8,701 |
| Cost of sales | (5,811) | (5,263) |
| Gross profit | 3,612 | 3,438 |
| Administrative expenses | (4,400) | (4,265) |
| Other income | 95 | 7 |
| Operating loss | (693) | (820) |
| Financial expense | (35) | (16) |
| Loss before income tax | (728) | (836) |
| Income tax credit | 77 | 56 |
| Loss and total comprehensive income for the year attributable to the equity shareholders of the parent | (651) | (780) |
| Loss per share | | |
| Basic and diluted | (0.6p) | (0.8p) |

**Consolidated Statement of Financial Position
as at 31 December 2013**

| | 2013 £'000 | 2012 £'000 |
|---|---------------|---------------|
| Non-current assets | | |
| Property, plant and equipment | 443 | 574 |
| Intangible assets | 3,151 | 2,755 |
| | 3,594 | 3,329 |
| Current assets | | |
| Inventories | 1,296 | 1,041 |
| Trade and other receivables | 1,832 | 1,603 |
| Current tax assets | 62 | 214 |
| Cash and cash equivalents | 603 | 1,953 |
| | 3,793 | 4,811 |
| Total assets | 7,387 | 8,140 |
| Equity | | |
| Capital and reserves attributable to equity holders of the company | | |
| Ordinary shares | 11,239 | 11,184 |
| Share premium | 5,430 | 5,429 |
| Share option reserve | 524 | 453 |
| Reverse acquisition reserve | (8,843) | (8,843) |
| Accumulated losses | (4,081) | (3,430) |
| | 4,269 | 4,793 |
| Liabilities | | |
| Current liabilities | | |
| Trade and other payables and deferred income | 2,131 | 2,428 |
| Borrowings | 927 | 816 |
| Provisions | 45 | 88 |
| | 3,103 | 3,332 |
| Non-current liabilities | | |
| Deferred Tax Liabilities | 15 | 15 |
| Total liabilities | 3,118 | 3,347 |
| Total equity and liabilities | 7,387 | 8,140 |

**Consolidated Statement of Cash Flows
For the year ended 31 December 2013**

| | 2013 | 2012 |
|---|----------------|-------|
| | £'000 | £'000 |
| Cash flows from operating activities | | |
| Operating loss | (693) | (820) |
| Depreciation | 204 | 210 |
| Amortisation | 314 | 266 |
| Share option charge | 71 | 33 |
| Movement in provisions | (44) | (53) |
| Grant income | (95) | (7) |
| Receipt of grants | 216 | - |
| Change in inventories | (255) | (256) |
| Change in trade & other receivables | (229) | (267) |
| Change in trade & other payables | (361) | 726 |
| Cash used in operations | (872) | (168) |
| Interest paid | (35) | (16) |
| Tax received | 229 | 39 |
| Net cash (used) in operating activities | (678) | (145) |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (73) | (296) |
| Purchase of intangible assets | (710) | (478) |
| Net cash (used) in investing activities | (783) | (774) |
| Cash flows from financing activities | | |
| Proceeds from the issue of ordinary shares | - | 1,456 |
| Increase in borrowings | 111 | 668 |
| Net cash generated from financing activities | 111 | 2,124 |
| Net (decrease)/increase in cash and cash equivalents | (1,350) | 1,205 |
| Cash and cash equivalents at the start of the year | 1,953 | 748 |
| Cash and cash equivalents at the end of the year | 603 | 1,953 |

**Consolidated Statement of Changes in Equity
for the year ended 31 December 2013**

| | Ordinary share capital £'000 | Share premium £'000 | Share option reserve £'000 | Reverse acquisition reserve £'000 | Retained losses £'000 | Total £'000 |
|---|---------------------------------------|---------------------------|-------------------------------------|--|-----------------------------|----------------|
| Balance at 1 January 2012 | 9,875 | 5,282 | 420 | (8,843) | (2,650) | 4,084 |
| Issue of new shares | 1,309 | 147 | - | - | - | 1,456 |
| Share option charge | - | - | 33 | - | - | 33 |
| Loss and total comprehensive income for the year | - | - | - | - | (780) | (780) |
| Balance at 31 December 2012 | 11,184 | 5,429 | 453 | (8,843) | (3,430) | 4,793 |
| Issue of new shares | 55 | 1 | - | - | - | 56 |
| Share option charge | - | - | 71 | - | - | 71 |
| Loss and total comprehensive income for the year | - | - | - | - | (651) | (651) |
| Balance at 31 December 2013 | 11,239 | 5,430 | 524 | (8,843) | (4,081) | 4,269 |

Notes to the financial information

1. GENERAL INFORMATION

Photonstar LED Group ("the Group") comprises Photonstar LED Group PLC ("the Company") and its subsidiary undertakings. The Company is a limited liability company incorporated and domiciled in the United Kingdom. The Company's registered number is 06133765 (England and Wales) and its registered office is at Unit 8 Westlink, Belbins Business Park, Cupernham Lane, Romsey SO51 7JF. This announcement was approved by the Board of Directors for issue on 27 March 2014.

2. FINANCIAL INFORMATION

The financial information set out above does not constitute statutory financial statements for the year ended 31 December 2013 or 31 December 2012 but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2012 have been delivered to the Registrar of Companies. Statutory financial statements for the year ended 31 December 2013 were approved by the Board of Directors on 26 March 2014 and will be issued with an unqualified audit opinion.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in preparing the financial information were the same as applied in preparing the Company's statutory accounts for the year ended 31 December 2012 in accordance with International Financial Reporting Standards as adopted by the EU.

4. EARNINGS PER SHARE

| Basic loss per share | 2013 | 2012 |
|--|--------------------|------------|
| Loss attributable to ordinary shareholders | (£651,000) | (£780,000) |
| Weighted average number of ordinary shares | 112,225,058 | 99,259,633 |
| Basic loss per share | (0.6p) | (0.8p) |

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 2013 and 31 December 2012 are losses, 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 as potentially dilutive share options have been excluded from the calculation.

5. SEGMENTAL INFORMATION

The directors consider that for the year ended 31 December 2013 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:

| | Lighting fixtures | Lighting fixtures | Light engines | Light engines | Total | Total |
|-------------------|-------------------|-------------------|---------------|---------------|--------------|-------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| UK | 7,154 | 6,449 | 983 | 777 | 8,137 | 7,226 |
| Rest of the world | 1,286 | 1,468 | - | 7 | 1,286 | 1,475 |
| Total revenue | 8,440 | 7,917 | 983 | 784 | 9,423 | 8,701 |
| Adjusted EBITDA | 183 | 164 | (126) | (125) | 57 | 39 |
| Depreciation and | (437) | (401) | (81) | (75) | (518) | (476) |

| | | | | | | |
|-------------------|--------------|-------|--------------|-------|--------------|-------|
| amortisation | | | | | | |
| Interest expense | (35) | (16) | - | - | (35) | (16) |
| Income tax credit | 15 | 100 | 62 | (44) | 77 | 56 |
| Total assets | 4,011 | 3,844 | 2,761 | 2,343 | 6,772 | 6,187 |
| Total liabilities | 2,689 | 2,876 | 228 | 401 | 2,917 | 3,277 |

Adjusted EBITDA is defined as EBITDA before share option charge.

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

| | Total 2013 £'000 | Total 2012 £'000 |
|---|---------------------------------|------------------------|
| Adjusted EBITDA for reportable segments | 57 | 39* |
| Corporate expense | (161) | (350) |
| Adjusted EBITDA | (104) | (311) |
| Depreciation and amortisation | (518) | (476) |
| Share option charge | (71) | (33) |
| Interest expense | (35) | (16)* |
| Loss before tax | (728) | (836) |

*- Adjusted for the reclassification of bank charges of £21,000

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

| | Total 2013 £'000 | Total 2012 £'000 |
|--|---------------------------------|------------------------|
| Segment assets for reportable segments | 6,772 | 6,187 |
| Unallocated: | | |
| Cash at bank | 603 | 1,953 |
| Other | 12 | - |
| Total assets per the statement of financial position | 7,387 | 8,140 |

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

| | Total 2013 £'000 | Total 2012 £'000 |
|---|---------------------------------|------------------------|
| Segment liabilities for reportable segments | 2,917 | 3,277 |
| Unallocated: | | |
| Other | 201 | 70 |
| Total liabilities per the statement of financial position | 3,118 | 3,347 |

6. INCOME TAX CREDIT

| | Total 2013 £'000 | Total 2012 £'000 |
|---|---------------------------------|------------------------|
| Current taxation; | | |
| UK corporation tax on loss for the year | (62) | (113) |
| Adjustment in respect of prior periods | (15) | 57 |
| | (77) | (56) |
| Deferred tax | - | - |
| Income tax credit | (77) | (56) |

7. AVAILABILITY OF DOCUMENT

Copies of this announcement (and the Company's statutory accounts for the year ended 31 December 2013 when available) may be obtained from the Company Secretary, Photonstar LED Group PLC, Unit 8 Westlink, Belbins Business Park, Cupernham Lane, Romsey SO51 7JF. A copy of the annual report and accounts will be sent to shareholders shortly.

This announcement can also be viewed on the Group's website: www.photonstarled.com.