Feilo Sylvania Europe Limited

Annual Report and Financial Statements

31 December 2018

Registered Number: 02721634

Directors

B Anderson
M Carpenter
C Harrild
R Turner
X Yin

Auditors

Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Bankers

HSBC Bank Plc HSBC House,
Mitchell Way,
Southampton
Hampshire
SO18 2XU

Standard Chartered Bank
1 Basinghall Avenue
London
EC2V 5DD

Main Solicitors

DLA Piper
3 Noble Street
London
EC2V 7EE

Registered Office

Avis Way
Newhaven
East Sussex
BN9 0ED

Strategic Report

The directors present their strategic report for the year end 31 December 2018.

Principal activities and review of the business

Feilo Sylvania Europe Limited's (the "Company") principal activity is the sale of lighting products. Sales are made primarily through a commissionaire agency structure. Under this structure the Company is an undisclosed principal, purchasing finished goods from Feilo Sylvania Group ("Group") factories and third party suppliers and selling to its customers both directly and through other Group companies in Europe that act as commissionaire agents on behalf of the Company.

Following a review of the group structure, the company decided to reorganise its structure and begin transitioning from an undisclosed commissionaire to a regional sales-led distribution model, along with relocation of its corporate headquarter to Budapest, Hungary. The decision was driven by current commissionaire agency structure being inconsistent with the other regions within the Group, the relatively high costs of doing business in London and BREXIT uncertainty. Group synergies, increased business opportunities and a lighting talent pool also exist in Budapest. The Global Management Team and corporate headquarter has been established in Budapest and the implementation of the operating model is expected to be phased in over a transitional period of two years. During 2018 this resulted in six of the commissionaire entities converting successfully to distributors. The UK commissionaire (wholly owned by the company) is expected to transition in 2019.

The Company has two main objectives, to improve its profitability and increase its market share mainly through innovative energy saving products. As the Company is part of the wider Feilo Sylvania Group the strategy is implemented at Group level.

In order to achieve this, the Group will take the following measures:

- Improve customer service through its order fulfilment process and its supply chain;
- Expand the product mix sold to its customers to include more innovative high technology products, including LED Smart enabled products and connected lighting solutions, together with finance and full Turnkey solutions; and
- Focus on key geographical areas such as Europe (West and East), Middle East and Latin America.

Key performance indicators (KPIs)

The directors consider the critical KPI's for the Company to be turnover and gross profit margin.

	2018	2017
	€000	€000
Turnover	181,564	199,683
Gross Profit Margin	30.4%	30.4%

Various other KPIs are monitored at Feilo Sylvania Group management level. These are not considered meaningful at Company level due to transfer pricing considerations and Group strategy implementation. The critical KPIs noted above are considered to be satisfactory for the current period.

Strategic Report (continued)

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks affecting the Company are set out below:

Competition

The Company operates in a highly competitive market particularly around price. This competition places pressure on margin and growth. The Company mitigates this risk by continuously monitoring the market to assist in pricing decisions and to sell more profitable products in the market, and also by engaging in project-based solution selling. The Company also invests in improving its customer services, brand recognition and new products.

Supply chain

The Company operates in an environment where raw materials and sub assemblies are procured globally which could cause a suspension in the flow of supply chain. To mitigate this risk the Company lays emphasis on selecting its suppliers carefully and continuously monitors them to ensure they meet the strict quality standards of the Company.

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in credit risk, liquidity risk, cash flow risk and foreign exchange risk. The Company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

Credit risk

Credit risk arises from deposits with banks and financial institutions and exposures to customers. The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. For banks and financial institutions, only parties approved by Group Treasury are accepted.

Liquidity risk

Long term debt finance is provided and maintained by the Company's parent group, whilst the Company actively maintains its short-term debt finance, which combined with the group's long-term funding positions ensures that the Company has adequate funds available for its operations and planned expansion.

Cash flow risks

Cash flow risks are risks that are mainly associated with unexpected movements in the Group's cash flows on income flowing in, incurred costs to be paid and financing charges.

Foreign exchange risk

The Treasury Policy allows and requires the management of foreign exchange cash inflows and outflows by entering into foreign exchange contracts in a cost effective manner to protect the local currency value of material payments and receipts.

On behalf of the Board

Matthew Carpenter
Director

Date : 25-9-2019

Directors' Report

Registered No. 02721634

The directors present their report and financial statements for the year ended 31 December 2018.

Directors

The directors who served the Company during the year and those appointed subsequently were as follows:

Matthew Carpenter

Bridget Anderson

Christopher Harrild

Richard Turner (appointed 26th January 2018)

Xintao Yin (appointed 26th January 2018, resigned 19th September 2019)

Wen Yang (appointed 19th September 2019)

Results and dividends

The loss for the year after taxation amounted to €22,428,000 (2017 – loss of €12,301,000), after charging exceptional costs totalling €22,307,000 (2017 - €939,000). The details of this are split amongst the notes to the financial statements.

No dividend was paid or declared in respect of the year ended 31 December 2018.

Going concern

The Company is part of the Feilo Sylvania Group (the "Group") and is consolidated into the Feilo Malta Limited group financial statements. The Company has issued cross guarantees and partakes in cash sweeping with other subsidiaries of Feilo Malta Limited.

Feilo Malta Limited has indicated its willingness to continue to provide access to group financing facilities and provide financial support to the company for the foreseeable future.

The directors of the Company, having made appropriate enquiries, have a reasonable expectation that the Company will continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Employees

The Company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Applications for employment by disabled persons are always fully considered bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Future developments

Greater environmental awareness is leading to increased demand for energy efficient products. The Group aims to meet this demand through continuous product development. The Company also looks to expand further into the Projects market.

The company will continue the reorganisation of its business structure, transitioning the remaining commissionaires to distributors during 2019. It will continue to provide routine services to the corporate headquarter in Budapest, Hungary.

Research and development

The Group engages in researching and developing more profitable and efficient products to meet customer needs.

Directors' Report (continued)

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

By order of the Board

Matthew Carpenter
Director

Date: 25-9-2019

Statement of directors' responsibilities

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper 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 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.

Independent auditors' report

to the members of Feilo Sylvania Europe Limited

Opinion

We have audited the financial statements of Feilo Sylvania Europe Limited for the year ended 31 December 2018 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 26, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditors' report

to the members of Feilo Sylvania Europe Limited

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report

to the members of Feilo Sylvania Europe Limited

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Ernst + Young LLP

David Marshall (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton

Date: 25/9/2019

Income Statement

for the year ended 31 December 2018

	Notes	*2018* €000	*2017* €000
Turnover	2	181,564	199,683
Cost of sales			
Cost of sales excluding exceptional items	3	(126,308)	(138,972)
Exceptional items	3	-	15
		(126,308)	(138,957)
Gross Profit		55,256	60,726
Distribution costs			
Distribution costs excluding exceptional items	4	(54,423)	(60,363)
Exceptional items	4	-	(116)
		(54,423)	(60,479)
Administrative expenses			
Administrative expenses excluding exceptional items	5	(260)	(9,937)
Exceptional items	5	(22,307)	(838)
		(22,567)	(10,775)
Operating profit/(loss) before exceptional items		573	(9,589)
Exceptional items	5	(22,307)	(939)
Operating Loss	6	(21,734)	(10,528)
Interest receivable and similar income	9	3,059	2,087
Interest payable and similar charges	10	(3,588)	(2,270)
Loss on ordinary activities before taxation		(22,263)	(10,711)
Tax charge	11	(165)	(1,590)
Loss for the year		(22,428)	(12,301)

All amounts relate to continuing activities.

Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	*2018* €000	*2017* €000
Loss for the year		(22,428)	(12,301)
Other comprehensive income		-	-
Total comprehensive loss for the year	21	(22,428)	(12,301)

Balance Sheet

As at 31 December 2018

	Notes	*2018* *€000*	*2017* *€000*
Fixed assets			
Intangible assets	12	2,813	1,935
Tangible assets	13	511	1,247
Investments	14	23,442	23,442
Trade and other receivables	16	4,020	707
		30,786	27,330
Current assets			
Stocks	15	26,319	27,539
Trade and other receivables	16	162,458	166,376
Deferred tax assets	11	-	-
Cash at bank and in hand		767	2,451
		189,543	196,365
Creditors: amounts falling due within one year			
Trade and other payables	17	173,412	153,376
Bank loans and overdrafts	18	42,433	7,979
		215,845	161,355
Net current (liabilities)/assets		(26,302)	35,010
Total assets less current liabilities		4,484	62,340
Creditors: amounts falling due after more than one year			
Bank loans	18	-	35,500
Accruals and deferred income		968	896
		968	36,396
Net assets		3,516	25,944
Capital and reserves			
Share capital	20	-	-
Capital contribution	21	69,018	69,018
Accumulated losses	21	(65,502)	(43,074)
Total equity		3,516	25,944

These financial statements were approved for issue by the Board of Directors, and were signed on their behalf by:

Matt Carpenter
Director

Date: 25-9-2019

Statement of Changes in Equity

for the year ended 31 December 2018

	Share Capital €000	Capital Contribution €000	Accumulated Losses €000	Total Equity €000
At 1 January 2017	**-**	**69,018**	**(30,773)**	**38,245**
Loss for the financial year	-	-	(12,301)	(12,301)
Total comprehensive loss for the year	**-**	**-**	**(12,301)**	**(12,301)**
At 31 December 2017	**-**	**69,018**	**(43,074)**	**25,944**
Loss for the financial year	-	-	(22,428)	(22,428)
Total comprehensive loss for the year	**-**	**-**	**(22,428)**	**(22,428)**
At 31 December 2018	**-**	**69,018**	**(65,502)**	**3,516**

Notes to the financial statements

at 31 December 2018

1. Accounting policies

1.1 *Basis of preparation*

The financial statements of Feilo Sylvania Europe Limited were approved for issue by the Board of Directors on the date as shown on the Balance Sheet. Feilo Sylvania Europe Limited is incorporated and domiciled in England and Wales.

The financial statements are prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in line with the applicable accounting standards.

The company has taken advantage of the exemption under S400 of the Companies Act 2006 not to prepare group statements as it is a wholly owned subsidiary of Shanghai Feilo Acoustics Co., Ltd (see Note 26).

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018. The company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;

(b) the requirements of IFRS 7 Financial Instruments: Disclosures;

(c) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;

(d) the requirements of IAS 7 Statement of Cash Flows;

(e) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

(f) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;

(g) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;

(h) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets;

(i) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement; and

(j) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a)(iv) of IAS 1; (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; (iii) paragraph 118(e) of IAS 38 Intangible Assets; (iv) paragraphs 76 and 79(d) of IAS 40 Investment Property; and (v) paragraph 50 of IAS 41 Agriculture.

In accordance with IAS 21 'The Effect of Changes in Foreign Exchange Rates', the functional currency of the company is Euros as the majority of the company's income, expenditure, assets and liabilities are denominated in Euros. The financial statements are also presented in Euros, and all values are rounded to the nearest thousand Euro (€000) except where otherwise indicated. The Euro exchange rate into Sterling as at 31 December 2018 was £1: €1.1141 (2017 – £1: €1.1265) and the average rate for 2018 was £1: €1.1294 (2017 – £1: €1.1708).

1.2 *Changes in Accounting Policies - New Standards*

The company applied IFRS9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' for the first time in 2018. Details of the new accounting policies applied under both of these standards are set out below.

IFRS9 replaces IAS39 'Financial Instruments: Recognition and Measurement' and it applies to all three aspects of financial instruments: classification and measurement; impairment; and hedge accounting. The company applied IFRS9 retrospectively. The effect of the transition on the current and prior period is not considered to be material to the financial statements of the company, and accordingly no adjustment is required to the comparative balances reported in these financial statements.

IFRS15 supersedes IAS11 'Construction Contracts' and IAS18 'Revenue' and related interpretations and it applies to all revenue arising from contracts with customers. IFRS15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The company adopted IFRS15 using the full retrospective method of adoption.

Notes to the financial statements

at 31 December 2018

1. Accounting policies (continued)

The effect of the transition on the current and prior period is not considered to be material to the financial statements of the company, and accordingly no adjustment is required to the comparative balances reported in these financial statements.

1.3 *Going concern*

The Company is part of the Feilo Sylvania Group (the "Group") and is consolidated into the Feilo Malta Limited group financial statements. The Company has issued cross guarantees and partakes in cash sweeping with other subsidiaries of Feilo Malta Limited.

Feilo Malta Limited has indicated its willingness to continue to provide access to group financing facilities and provide financial support to the company for the foreseeable future.

The directors of the Company, having made appropriate enquiries, have a reasonable expectation that the Company will continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

1.4 *Judgements and key sources of estimation uncertainty*

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.
The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 11.

Development cost

Development costs are capitalised in accordance with the accounting policy given below. Initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2018, the carrying amount of capitalised development costs was €1,482,000 (2017 - €556,000).

Notes to the financial statements

at 31 December 2018

1. Accounting policies (continued)

1.5 *Significant Accounting Policies*

The principal accounting policies, which have been applied consistently throughout the year, are set out below:

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The company has concluded that it is the principal in its revenue arrangements as it typically controls the goods or services before transferring them to the customer.

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term given is 30-90 days upon delivery. The company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated, including extended warranty arrangements. The company also considers the effects of variable consideration and the existence of any significant financing components.

Revenue from the provision of services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits of the service provided by the company.

Tangible fixed assets

All tangible fixed assets are shown at cost less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its estimated useful life, as follows:

Fixtures, fittings and equipment	–	10% – 33% straight line

The carrying values of tangible fixed assets are reviewed annually for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Intangible assets

All intangible assets are shown at cost less accumulated amortisation.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its estimated useful life, as follows:

Software and licences	–	20% – 50% straight line
Development Costs	–	Period of expected future benefit

The carrying values of intangible assets are reviewed annually for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development. Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised evenly over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Notes to the financial statements
at 31 December 2018

1. Accounting policies (continued)

Operating leases

Rentals for operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

Investments

Investments in group undertakings are stated at cost. As permitted by section 612 of the Companies Act 2006, where the relief afforded under section 610 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

Investments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Cost of sales

Cost of sales represents the direct and indirect expenses attributable to turnover excluding commission paid to its commissionaire agents which is classified as distribution cost.

Stocks

Stocks are stated at the lower of cost and net realisable value.

The cost comprises of expenditure which has been incurred in the normal course of business in bringing the product to its present location and condition.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate ruling at the date of the settlement of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Pensions

The Feilo Sylvania group operates a defined benefit pension scheme in the UK called the Sylvania Lighting Pension Plan (the Plan). The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates.

The Plan is a 'multi-employer' scheme providing pension benefits for three participating subsidiaries in the UK including the company. The sponsoring company for the plan is Feilo Sylvania UK Limited (the principal employer). As such, in line with FRS 101, full accounting for then Plan is carried out by Feilo Sylvania UK Limited.

Contributions relating to the Plan payable by the company are expensed as and when they are incurred.

The company also has a Group Personal Pension Plan. Contributions are charged in the income statement on an accruals basis in accordance with the rules of the scheme.

Notes to the financial statements

at 31 December 2018

1. Accounting policies (continued)

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics. With the exception of trade receivables, the company initially measures a financial asset at its fair value plus transaction costs. Trade receivables that do not contain a significant financing component are measured at transaction price, in line with related revenue recognition criteria. In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or derivatives designed as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments (forward currency contracts).

The company's financial instruments comprise trade debtors, trade creditors, cash, bank loans and overdrafts and loans to and from other group companies.

Recognition and derecognition

Financial instruments are recognised in the balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets are removed from the balance sheet when the rights to the cash-flows from the asset expire or when the risks and rewards of ownership of the asset are transferred or when control of the asset is transferred from the company.

Financial liabilities are removed from the balance sheet when the related obligation is discharged, cancelled or expires.

Short-term trade and other receivables

Short-term trade and other receivables are stated at original invoice amount less an allowance for doubtful debts.

Loans and borrowings

All loans and borrowings are recognised at cost less amounts repaid, net of issue costs directly associated with the borrowing. Issue costs directly attributable to specific borrowings are capitalised, and offset against the principle value of the related debt. These fees are amortised to the income statement over the life of the related debt in order to produce a constant rate of return. Fees not directly attributable to specific borrowings are charged to the income statement as incurred.

Trade payables

Trade payables are carried at payment or settlement amounts.

Derivative financial instruments

The company has derivative financial instruments by way of forward currency contracts to hedge its risks on foreign currency for its expected trading balances. These are initially recognised at fair value on the date the contract is entered into and subsequently remeasured at the balance sheet date at fair value. Gains and losses arising on remeasurement are recognised within the profit and loss for the period and no hedge accounting is followed. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Notes to the financial statements
at 31 December 2018

1. Accounting policies (continued)

Financial Instruments (continued)

Exceptional items

The company presents as exceptional items those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

Provision for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for the expected costs of maintenance under guarantees are charged against profits when products have been invoiced. Where the effect of the time value of money is material the provisions are discounted.

Notes to the financial statements
at 31 December 2018

2. Turnover

Turnover relates to one continuing activity, the sale of lighting products. Turnover by destination is not significantly different from turnover by origin.

An analysis of turnover by geographical market is given below:

	2018	*2017*
	€000	*€000*
European Union countries	169,044	186,776
Other European countries	5,658	6,700
Other countries	6,862	6,207
	181,564	199,683

3. Cost of Sales

No exceptional charges were included within cost of sales in 2018 (2017 - €75,000 relating to employee severance costs due to structural changes within the company, and €90,000 exceptional credit was recorded reducing the obsolete Switchgear inventory provision).

4. Distribution costs

Distribution costs include €33,485,455 (2017 – €39,820,000) relating to commission paid to feilo subsidiaries under the group's commissionaire arrangements.

No exceptional charges relating to employee severance pay were included in distribution costs for 2018 (2017 - €116,000).

5. Administrative expenses

Administrative expenses include the following exceptional charges/(credits)	*2018*	*2017*
	€000	*€000*
Exceptional charges/income:		
Restructuring cost associated with the closure of group factory	22,307	-
Employee severance pay	-	36
Restructuring cost associated with changes to the group operating model	-	802
	22,307	838

Administrative expenses have reduced in 2018 mainly due to the transfer of the corporate headquarter from the UK to Hungary. The corresponding expenses are therefore recorded in the Group's Hungarian subsidiary.

Severance Pay

During the year the company incurred costs of €0 (2017: €36,000) in respect of severance costs.

6. Operating Loss

	2018	*2017*
The operating loss is stated after charging/(crediting):	*€000*	*€000*
Auditors' remuneration– audit of financial statements	78	84
Auditors' remuneration– non-audit services	-	802
Depreciation on tangible fixed assets	364	227
Impairment of tangible fixed assets	479	8
Amortisation on intangible assets	434	158
Operating lease rentals – Land & Buildings	284	366
Operating lease rentals – Cars	164	220
Cost of stocks (recognised in costs of sales)	121,035	132,606

Notes to the financial statements

at 31 December 2018

7. Directors' remuneration

	2018	*2017*
	€000	*€000*
Aggregate emoluments in respect of qualifying services:		
Salary including benefits in kind	433	785
Pension contributions	30	46
	463	831

The amounts in respect of the highest paid director included above are as follows:

	2018	*2017*
	€000	*€000*
Salary including benefits in kind	176	285
Pension contributions	13	17
	189	302

The number of directors to whom retirement benefits were accruing under the group's defined benefit scheme in respect of qualifying services is nil (2017 - nil) and under the group personal pension plan is 3 (2017 – 4).

8. Staff costs

	2018	*2017*
	€000	*€000*
Wages and salaries	6,442	8,634
Social security costs	1,268	1,432
Other pension costs	363	407
	8,073	10,473

The average monthly number of employees, including directors, during the year was made up as follows:

	2018	*2017*
	No.	*No.*
Sales and marketing	54	61
Management and administration	49	56
	103	117

Notes to the financial statements
at 31 December 2018

9. Interest receivable and similar income

	2018 €000	2017 €000
Bank interest receivable	12	23
Interest receivable on loans to group undertakings	3,047	2,037
Foreign exchange gain	-	34
	3,059	2,094

10. Interest payable and similar charges

	2018 €000	2017 €000
Bank loans and overdrafts	932	1,045
Amortisation of deferred finance related fees	347	309
Interest payable on loans from group undertakings	1,917	914
Trade receivable discounting charges	-	2
Foreign exchange loss	392	-
	3,588	2,270

11. Tax

(a) Tax on loss on ordinary activities

The tax charge is made up as follows:

	2018 €000	2017 €000
Current tax:		
Corporation tax - prior year adjustment	(83)	-
Other taxes on loss	248	301
Current tax charge	165	301
Deferred tax charge - Origination and reversal of temporary differences	-	553
Deferred tax charge - Losses	-	736
Deferred tax charge	-	1,289
Total tax charge	165	1,590

Notes to the financial statements

at 31 December 2018

11. Tax (continued)

(b) Factors affecting tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 19% (2017 – 19%). The differences are explained below:

	2018	*2017*
	€000	*€000*
Loss on ordinary activities before tax	(22,263)	(10,711)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 19%)	(4,230)	(2,035)
Effects of:		
Expenses not deductible for tax purposes	9	51
Prior year adjustment	(83)	-
Other overseas taxes on (loss)/income	(11)	70
Other differences	-	1,338
Tax losses and other timing differences not recognised as deferred tax	4,480	2,166
Total tax charge	165	1,590

(c) Deferred tax

Following the losses incurred by the company in 2018 and recent periods, and in line with the deferred tax accounting policy and FRS 101, no deferred tax asset has been recognised at 31 December 2018 due to the uncertainty as to when suitable taxable profits will arise in future periods.

There is a total unrecognised deferred tax asset of €7,796,000 (2017 - €1,289,000) which relates to tax losses carried forward of €7,017,000 (2017 - €736,000), decelerated capital allowance of €415,000 (2017 - €148,000) and other short term timing differences of €364,000 (2017 - €405,000).

(d) Factors that may affect future tax charges

Future tax charges will be impacted by the availability of tax losses carried forward as detailed above.

The UK tax rate was 19% at 31 December 2018 but will fall to 17% from 1 April 2020. These reductions had been substantively enacted and deferred tax balances detailed above have been calculated at the appropriate rate based on this.

Notes to the financial statements

at 31 December 2018

12. Intangible assets

	Development cost	*Software & Licenses*	*Total*
	€000	*€000*	*€000*
Cost:			
At 1 January 2018	687	3,641	4,328
Additions	958	356	1,314
At 31 December 2018	1,645	3,997	5,642
Depreciation:			
At 1 January 2018	-	2,394	2,394
Charge for the year	163	272	434
At 31 December 2018	163	2,666	2,828
Net book value:			
At 1 January 2018	687	1,247	1,934
At 31 December 2018	1,482	1,331	2,814

The gross value of fully amortised intangible assets still in use is €1,381,000 (2017: €1,333,000)

13. Tangible fixed assets

	Fixtures & equipment	*Total*
	€000	*€000*
Cost:		
At 1 January 2018	4,140	4,140
Additions	107	107
At 31 December 2018	4,247	4,247
Depreciation:		
At 1 January 2018	2,893	2,893
Charge for the year	364	364
Impairment charge for the year	479	479
At 31 December 2018	3,736	3,736
Net book value:		
At 1 January 2018	1,247	1,247
At 31 December 2018	511	511

The gross value of fully depreciated assets still in use is €747,000 (2017: €756,000).

Notes to the financial statements

at 31 December 2018

14. Investments

	Share in group undertakings
	€000
Cost:	
At 1 January 2018	25,464
Additions in the year	-
At 31 December 2018	25,464
Provision:	
At 1 January 2018	(2,022)
Impairment charge in the year	-
At 31 December 2018	(2,022)
Net book value:	
At 1 January 2018	23,442
At 31 December 2018	23,442

The directors consider the carrying value of the investments to be supported by their underlying net assets, except where impairment charges have been made.

The investment balances in group undertakings held are:

Name of undertaking	*Proportion of voting rights & ordinary share capital held*	*Country of incorporation*	*Nature of business*
Feilo Sylvania Fixtures UK Limited	100%	England and Wales	Lighting products
Feilo Sylvania UK Limited	100%	England and Wales	Lighting products
Feilo Sylvania Dubai FZCO	83%	United Arab Emirates	Lighting products
Feilo Sylvania Poland sp.zo.o	1%	Poland	Lighting products
Tasfiye Halinde Havells Sylvania TR Elektrik Ürünleri Ticaret Limited	99.99% (2017: 99.99%)	Turkey	Lighting products
Feilo Sylvania (Thailand) Ltd	1% (2017 - 1%)	Thailand	Lighting products

Notes to the financial statements
at 31 December 2018

15. Stocks

	2018 €000	2017 €000
Finished goods	26,319	27,539

There is no material difference between the replacement cost of stocks and their balance sheet amounts.

16. Trade and other debtors

	2018 €000	2017 €000
Trade debtors	25,612	37,306
Amounts owed by group undertakings	132,783	126,371
Other debtors	1,081	370
Derivative financial assets (Note 19)	97	-
Prepayments and accrued income	2,884	3,036
	162,458	167,083

Included in the amounts owed by group undertakings are loans of €104,742,000 (2017: €117,252,000) that bear interest at market rates. The maturity of the loans are within one to twelve months of the balance sheet date.

Included in the prepayments and accrued income are the following amounts:

• €151,000(2017 - €145,000) of VAT deposits due after more than one year.
• €178,000(2017 - €372,000) set up costs for the refinancing of the group. These costs have been amortised over the period of the loan (48 months)
• €1,494,000(2017 - €1,494,000) security deposit with HSBC, placed as a guarantee that the Feilo Sylvania group will fulfil its pension obligations at its fellow subsidiary in Belgium. This will be in place for more than one year.

Amounts due after more than one year	2018 €000	2017 €000
Amounts owed to group undertakings	4,020	707
	4,020	707

Included in the amounts owed by group undertakings are loans of €4,020,000 (2017: €707,000) that bear interest at market rates. The loans mature during 2020.

Notes to the financial statements

at 31 December 2018

17. Trade and other payables

Amounts due within one year	*2018* *€000*	*2017* *€000*
Trade creditors	5,232	10,147
Amounts owed to group undertakings	155,184	126,627
Derivative financial liabilities (Note 19)	-	635
Other taxation and social security	438	551
Accruals and deferred income	12,558	15,416
	173,412	153,376

Included in the amounts owed to group undertakings are loans of €108,828,000 (2017: €80,582,000) that bear interest at market rates. The maturity of the loans is within one to twelve months of the balance sheet date.

Pension contributions accrued as at 31 December 2018 amounts to €30,000 (2017 – €45,000).

18. Bank loans and overdrafts

	2018 *€000*	*2017* *€000*
Amounts due within one year	42,433	7,979
Amounts due after more than one year	-	35,500
	42,433	43,479

Bank loans bear interest at market rates (LIBOR plus agreed percentages).

Maturity of debt

	Bank Loan 2018 *€000*	Bank Loan 2017 *€000*	Bank overdraft 2018 *€000*	Bank overdraft 2017 *€000*
Due in less than one year	35,500	-	6,933	7,979
Due in 1-5 years	-	35,500	-	-
	35,500	35,500	6,933	7,979

In November 2015 the company entered as borrower and as guarantor into a 40m Euro revolving credit facility with amongst others Havell's Netherlands B.V., HSBC Bank, Standard Chartered Bank and ICICI Bank, Germany Branch for general corporate and working capital purposes of the Feilo Sylvania Group. The company secured the obligations under this Revolving Credit Facility by entering into a debenture creating a fixed and floating charge over certain assets of the company.

In February 2016, both ICICI Bank and Standard Chartered Bank withdrew their participation following the change of ownership. The remaining available facility fully drawn down as at 31 December 2018 was €15,000,000 (2017 - €15,000,000)

Notes to the financial statements

at 31 December 2018

18. Bank loans and overdrafts (Continued)

The following loans were taken out with Agricultural Bank of China for working Capital purposes and were all supported by standby Letters of Credit from the parent company, Shanghai Feilo Acoustics Co., Ltd.

Date taken out	*Amount (€000)*	*Date repaid*
06/05/2016	26,500	13/04/2017
10/01/2017	30,000	08/12/2017
06/06/2017	20,500	Outstanding

19. Financial Assets/(Liabilities)

Derivatives

The fair value of derivative financial assets and liabilities included in the balance sheet is as follows:

	2018	*2017*
	€000	*€000*
Forward currency contracts	97	(635)

Forward currency exchange contracts fair value was determined using quoted forward exchange rates matching the maturity of the contracts. Interest rate swaps fair value was determined using discounted cash flow analysis at quoted interest rates.

20. Issued share capital

	2018		*2017*	
Allotted, called up and fully paid	*No.*	*€*	*No.*	*€*
Ordinary shares of £1 each	100	142	100	142

21. Movement on reserves

	Capital contribution	*Accumulated losses*	*Total*
	€000	*€000*	*€000*
At 1 January 2018	69,018	(43,074)	25,944
Loss for the year	-	(22,428)	(22,428)
At 31 December 2018	69,018	(65,502)	3,516

Notes to the financial statements

at 31 December 2018

22. Other Financial Commitments

At 31 December 2018 the company had future minimal rental commitments under non-cancellable operating leases, as are set out below:

		2018		2017
	Plant & Machinery	Land & Buildings	Plant & Machinery	Land & Buildings
	€000	€000	€000	€000
Operating leases which expire:				
Within one year	-	236	-	239
Between two and five years	-	472	-	716
	-	708	-	955

23. Pension commitments

Defined contribution schemes (Group Personal Pension Plan)

The cost of contributions to the group personal pension plan and defined contribution scheme amount to €420,000 (2017 – €509,000). Contributions accrued as at 31 December 2018 amounts to €30,000 (2017 – €45,000).

24. Contingent liabilities

In prior years, the company registered debenture deeds in favour of its bank whereby loans are secured by means of a fixed and floating charge over all present and future assets of the company (see Note 18). The net loan amount outstanding at 31 December 2018 is €15,000,000 (2017: €15,000,000).

25. Related party transactions

During the year the company entered into transactions, in the ordinary course of business, with other related parties. The company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries. Transactions entered into during 2018, and trading balances outstanding with other related parties, are as follows:

Year ended 31 December 2018

	Sales to related party	*Purchases from related party*	*Amounts owed by related party*	*Amounts owed to related party*
	€000	*€000*	*€000*	*€000*
Related Party				
Feilo Exim Limited	-	51,322	-	19,264
Shanghai Feilo Investment Co. Ltd.		919	-	440
Shanghai Yaming Lighting Co., Ltd.	-	-	-	2,573
INESA EUROPA Kft.	4,243	160	3,542	51
Jiangsu Havells Sylvania Lighting co. Ltd.	-	-	-	-
INESA UK Limited	10	-	243	-
Total	4,253	52,401	3,785	22,328

Notes to the financial statements
at 31 December 2018

25. Related party transactions (Continued)

Year ended 31 December 2017

	Sales to related party	*Purchases from related party*	*Amounts owed by related party*	*Amounts owed to related party*
	€000	*€000*	*€000*	*€000*
Related Party				
Feilo Exim Limited	-	46,150	-	13,849
Shanghai Feilo Investment Co. Ltd.	-	1,133	-	622
Shanghai Yaming Lighting Co., Ltd.	-	-	-	3,199
INESA EUROPA Kft.	5,057	1,051	3,703	1,067
Jiangsu Havells Sylvania Lighting co. Ltd.	-	-	-	-
Anil Gupta	-	-	-	-
Havells India Limited	222	-	231	-
Total	5,279	48,334	3,934	18,737

Sales and purchases between related parties are made on an arm's length basis. Outstanding balances with entities other than subsidiaries are unsecured, interest free and cash settlement is expected within 60 days of invoice. Terms and conditions for transactions with subsidiaries are the same. The company has not provided or benefited from any guarantees for any related party receivables or payables. During the year ended 31 December 2018, the company has not made any provision for doubtful debts relating to amounts owed by related parties.

26. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Flowil International Lighting (Holding) B.V., a company incorporated in the Netherlands.

The Company's results are consolidated within the group financial statements of Feilo Malta Limited, a company incorporated in Malta. These group financial statements are the smallest financial statements incorporating the results of the Company that are publicly available. Copies of the Feilo Malta Limited financial statements can be obtained from The Registrar of Companies, Malta Financial Services, Notable Road, Attard, Malta.

At 31 December 2018, the ultimate parent undertaking and controlling party was Shanghai Feilo Acoustics Co., Ltd, a company incorporated in China. The directors consider Shanghai Feilo Acoustics Co., Ltd to be the controlling party by virtue of its controlling interest in the company's share capital. The group financial statements of Shanghai Feilo Acoustics Co., Ltd are the largest financial statements which incorporate the results of the company that are publicly available. Copies of the Shanghai Feilo Acoustics Co., Ltd financial statements can be obtained from Shanghai Feilo Acoustics Co., Ltd, No.1001 Jiaxin Highway, Jiading District, SHANGHAI, SHA 200233