Dialight

Dialight plc Annual report and accounts 2011

Energy-efficient lighting using the latest LED technology

Dialight is the recognised world leader in energy-efficient lighting. Since our beginnings producing instrument panel lighting for aircraft and motor vehicles, through to our primary role in the development of LED applications, Dialight is leading the lighting revolution for industrial users across the world.

We are uniquely positioned to deliver complete LED solutions for a growing, global client base...

Our key strengths

We are unique in our ability to consistently develop and deliver our products to a continually expanding customer base.

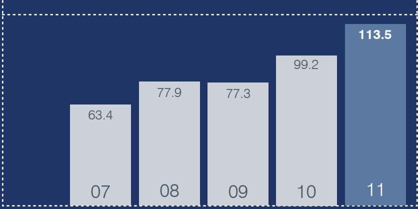
Expertise

Highly skilled engineering teams in Europe and the US are constantly engaged in developing new and improved existing products for our customers.

Our results

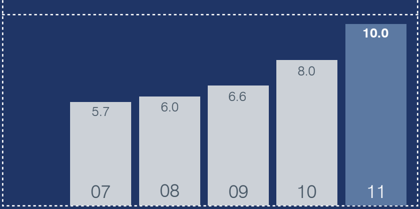
Group revenue 2010: £99.2m

£113.5m +14.4%



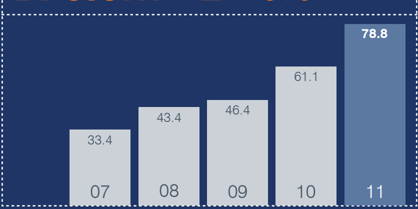
Dividend per share 2010: 8.0p

10.0p +25%



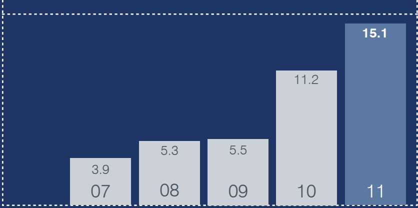
Signals/Illumination revenue 2010: £61.1m

£78.8m +29.0%



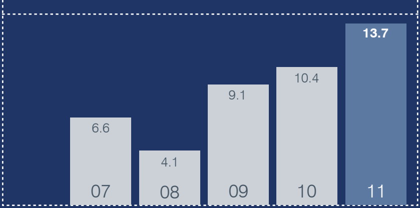
Operating profit 2010: £11.2m

£15.1m +34.6%



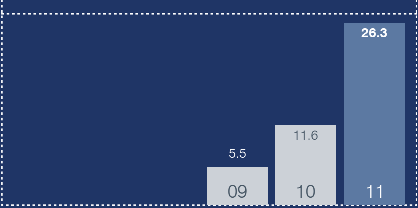
Cash balance 2010: £10.4m

£13.7m +25%



Lighting 2010: £11.6m

£26.3m +128%



...we now continue to grow and evolve

Find out how we have been delivering our priorities

Page 10–11

Value creation

The combination of typical energy savings of 60%, the reduction in CO_2 emissions as well as zero maintenance costs through extended warranties and attractive payback periods all result in LED applications providing a lower cost of ownership.

Innovation

Products are specifically developed for our chosen markets. With product lifecycles currently less than two years we intend to remain ahead of our competition.

Visit us online

www.dialight.com

View this report online

ar11.dialight.com

- Profit before tax of £15.1 million excluding pension disposal cost (2010: £11.3 million)
- Full year revenues grew 14.4% to £113.5 million (2010: £99.2 million)
- Signals/Illumination segment revenues increased 29.0% to £78.8 million (2010: £61.1 million)
- Lighting sales more than doubled once again with growth of 128% to £26.3 million (2010: £11.6 million)
- Strong operating cash flow leading to net cash of £13.7 million (2010: £10.4 million)
- Final dividend of 6.7 pence (2010: 5.2 pence) an increase of 25% giving a total dividend for the year of 10.0 pence (2010: 8.0 pence)

Chairman's statement

"Dialight's strategy, focused on converting the industrial market to Solid State Lighting, has proved to be successful in 2011 with Lighting sales more than doubling."

Harry Tee CBE

I am very pleased to present the results of Dialight for 2011 which demonstrate the successful execution of our strategy in Solid State Lighting and the strength in depth of the Group. Dialight continues to go from strength to strength and our unique position and skill set gives the Company the potential of a strong growth trajectory in the coming years.

Financial results

Revenue in the year to 31 December 2011 grew by 14.4% to £113.5 million compared with £99.2 million in 2010. This is a pleasing performance and with particularly strong growth in Lighting of 128% to £26.3 million and Obstruction of 45% to £17.8 million. Group contribution margins have increased from 41.0% to 42.7% with the benefit of significant investment in product re-engineering and cost reduction. Underlying Group operating profit has increased more than 34.6% to £15.1 million (2010: £11.2 million) and, with tight working capital control, the Group generated operating cash flow of £12.4 million leading to a year-end cash balance of £13.7 million.

Included in the income statement are non-underlying expenses of £2.8 million relating to a provision to settle a longstanding dispute with a rail signalling customer, non-underlying other operating income of £2.7 million relating to the grant of a lifetime licence to use our patented technology and a non-underlying financial expense of £0.7 million relating to the cost of buying out the US defined benefit pension scheme.

These results provide a solid base for future growth and continued commercial and technical investment will support that growth for the coming years.

Dividend

In line with the Group's progressive dividend policy the Board has recommended a final dividend of 6.7 pence per share (2010: 5.2 pence) giving a total dividend of 10.0 pence (2010: 8.0 pence), which is an increase of 25%. Dividend cover is 3.0 times. Subject to approval by the shareholders at the Annual General Meeting ("AGM"), this dividend will be paid on 9 May 2012 to shareholders on the register at the close of business on 10 April 2012.

Staff

2011 has been a year of great changes at Dialight, all of which have been approached with commitment by every member of staff and I would like to thank them all for their hard work and contribution. We look forward to 2012 and beyond with real confidence in our ability to continue to meet the challenges of a growing company.

Acquisitions

During the year Dialight established a joint venture with its Japanese distributor, I-Spec Limited, giving the Company a base in Japan. Dialight Japan KK ("Dialight Japan") commenced trading on 1 July 2011 and on behalf of the Board I welcome them into Dialight.

As reported last year, the beginning of 2011 also saw the addition of Dialight ILS Australia Pty Limited ("ILS") following the Group's acquisition of its Australian distributor.

Current trading and outlook

We expect to see continued strong growth in Signals/Illumination in 2012 driven by sales of Obstruction Lights and Solid State Lights for the industrial market. We will further enhance the value that our products bring to our customers as our technical team capitalise on the ongoing developments in LED technology.

The growth in revenues and the Group's focus on the cost and performance of its products gives us confidence for a future of sustainable profit improvement in this year and the years to follow.

Harry Tee CBE
Chairman

View this section online
ar11.dialight.com/chairmans_statement

Chief Executive's review

"In 2011, all of the Group's growth in both revenues and profits came from the Signals/Illumination segment. As the efficiencies and costs of LEDs improve, more applications for Solid State Lighting make financial and environmental sense for our customers in the industrial marketplace."

Roy Burton

Review of the year

The continuation of turbulent economic conditions set the background for the year, yet the Group was still able to post record revenues with growth of almost 15% overall and almost 30% in its key Signals/Illuminations segment. The principal drivers within the segment were Obstruction Lighting with growth of 45% and Industrial Lighting with growth of 128%. Our strategy of continued focus on large niche markets with significant barriers to entry is proving to be successful even against a tough economic backdrop.

Revenues in the LED Indication Components segment have always been cyclical and the global economy has undoubtedly affected the appetite of our distributors in this segment to hold inventory. Whilst their sales of our products to end users have been relatively flat for the last twenty four months, our sales to the distributors are down by almost 14% year-on-year. This business is expected to return to more normal levels when confidence in the economy returns.

Sales of Electromagnetic Components were flat for the year in a difficult pricing environment. The price of both silver and copper escalated significantly in 2011 and not all of our customers were prepared to pay for this increased cost. We therefore declined to supply them in 2011. The potential volumes from the SMART meter market are significant, but the Board has decided to investigate the potential for selling this business and this is planned to conclude by the end of the first half of 2012.

Operations and engineering

Continued improvement of our products is key to our continued success. Our engineering and operations teams are tasked with an ongoing objective of improved performance and reduced cost as both the performance of LEDs increases and our techniques for extracting the most light for the least power evolve. Our product and technology road map continues to be aggressive and the good performance of 2011 is but a template for the coming years. Our Signals/Illuminations contribution margins improved by 1.7% and the efficiency of our white lights improved by 23% and at a better cost.

Our patent base grew considerably in 2011. We had eight new patents granted, filed 25 new applications and had 78 patent applications pending at the year end. Innovation and improvement are the watchwords for our technical staff as they take on the challenge to provide the best and most cost-effective products in the industry.

Once more our operations performed well as we expanded capacity for Solid State Lighting in both North America and the United Kingdom. Our focus is on superior operational performance and the continual improvement of our cost base.

Summary

Once again our niche strategy has delivered top and bottom line growth with a road map to sustain this for the coming years. Our products have improved during 2011 and have brought better savings in energy, less maintenance and improved safety to our customers. The key Signals/Illumination segment is positioned to drive the Group forward to achieve continued growth which will be more strongly fuelled by our developments and innovations in Solid State Lighting as we enable the penetration of our solutions into the vast installed base of Industrial Lighting.

Roy Burton
Group Chief Executive

For more information on operations and engineering see our
Operating review on page 12

View this section online
ar11.dialight.com/chief_executives_review

Creating long-term value for our customers...

Our investment proposition: it's all about lighting

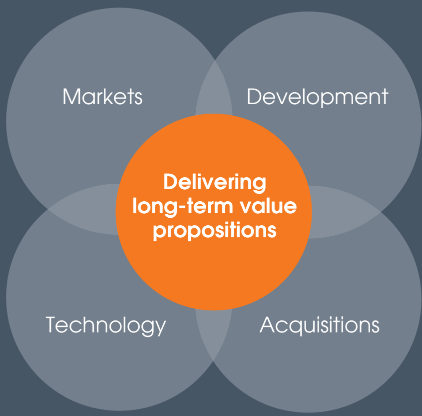
Dialight defines the current state of LED lighting technology with continuous innovations in light output, efficacy and reliability for our complete line of high-specification lighting fixtures specifically designed for industrial, commercial, hazardous location and transportation applications.

These results are directly related to our ongoing commitment to advancing Solid State Lighting products that vastly reduce maintenance, improve safety, ease disposal and are more environmentally friendly – thereby helping to reduce CO_2 emissions, the dominant Greenhouse Gas contributor to global warming.

With our high-specification range of products we are uniquely positioned for a number of long-term global growth trends, many of which are driven by government regulations and environmental initiatives.

The strengths of our business model

With the continuing improvements in LED technology and our ability to turn these into even stronger value propositions for our customers, we are seeing exciting opportunities for the Group in new markets and sectors across the world.



Markets

We focus on large niche markets, each with a barrier to entry, offering compelling operational, environmental and cost-efficiency benefits using advances enabled by LED technology to expand our presence in new markets.

Development

By investing 6.5% of the Signals/Illumination segment's turnover in research and development, we use our technological expertise in thermal management, optics and electronic circuitry to innovate through the development and improvement of new and existing products, bringing further efficiencies through cost improvements and product design.

Technology

We continue to create intellectual property across all our research teams.

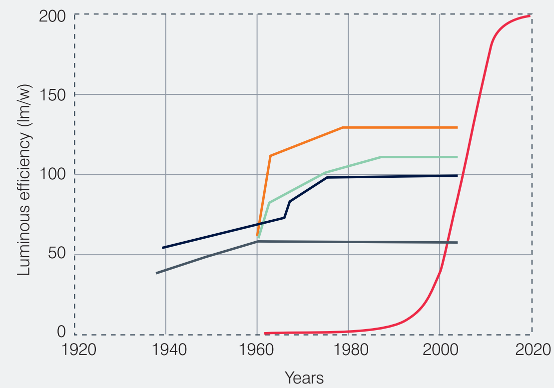
Acquisitions

Our expansion into key regions continues with acquisitions in Japan and Australia, a sales office in Dubai, and the establishment of regional channel partners to increase our growth opportunities and global reach.

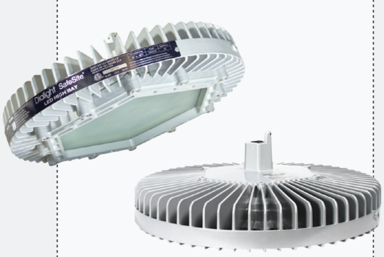
View this section online
ar11.dialight.com/
our_business_model

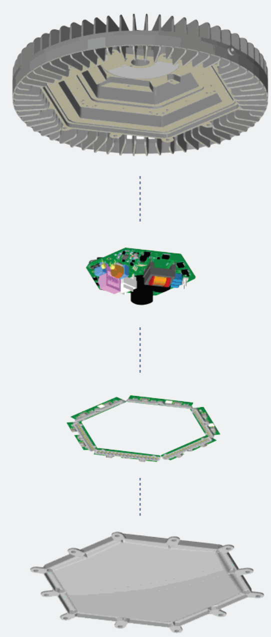
How do LEDs stack up against traditional lighting technologies?

High-brightness white LEDs continue to become brighter and more efficient each year, now surpassing all other lighting technologies.



Why Dialight LED fixtures?





Mechanical design/thermal heatsinking

Our LED fixtures are optimally designed to dissipate heat generated by LEDs and electrical components in order to meet lifetime expectations set by our customers.

Electrical design

Highly efficient universal power supplies are custom built for each luminaire, tailored to meet specific certifications, extreme temperatures and rugged environments.

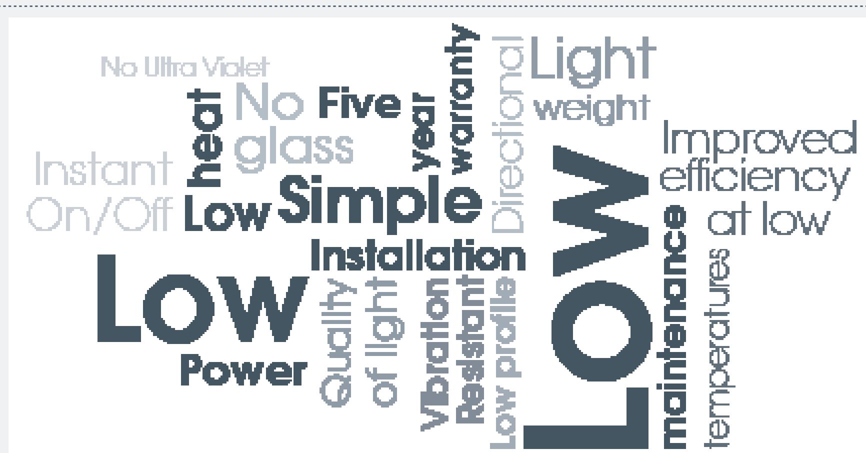
High-brightness LEDs and optics system

We apply the brightest LEDs from the world's most recognised manufacturers, which have third-party test data and analysis to support our lifetime claims and full performance warranty. Paired with our proprietary optics, we concentrate light to the targeted area, rather than waste it on walls, tops of shelves or into the night sky.

Highly durable and efficient lenses

Dialight provides its customers with extremely durable lens options for a range of indoor and outdoor applications. Depending on our customers' specific needs, we offer lenses made from glass, polycarbonate or acrylic.

Features and benefits



LED applications will constitute 60% of the total global lighting market by 2020*

As new LED applications evolve, we develop products that satisfy the particular needs of our ever-expanding global customer base. Addressing their needs on a worldwide basis, we deliver value through lighting across their organisations.

North America

Overview
With massive operations in all hazardous and industrial sectors, the LED lighting market in North America is driven primarily by payback affected by energy and maintenance savings and significant rebate incentives.

Growth potential
Starting with tens of LED fixtures installed in 2009, moving to orders in the hundreds in the last two years, we are seeing facilities considering 100% plant retrofits resulting in future orders in the thousands.

Major oil refinery, US
Market: Oil and gas

Now in the process of replacing its existing traditional lighting fixtures, some 20,000 in all, with our LED fixtures, the entire LED-lit plant will reduce the company's energy consumption by 19GWh (roughly enough electricity to power 2,000 households a year), saving millions on energy and maintenance costs combined.

Europe

Overview
Strong in wind farms, coal mining, petrochemicals and heavy industry, Germany is leading Europe in driving demand for sustainable technologies to support its green agenda and offset its growing power shortage.

Growth potential
Rising electricity prices in the UK, France and Benelux will contribute to increase opportunities for our lighting in their regulated markets, while Eastern Europe has already begun to invest in LED infrastructure lighting.

Kuehne + Nagel, UK
Market: Warehousing

This global logistics provider is committed to offering robust, sustainable and innovative supply chain solutions that continually reduce impact on the environment. In replacing its 400w HPS warehouse lighting with 150w LED high bays it achieved sufficient energy savings to see payback in just over a year.

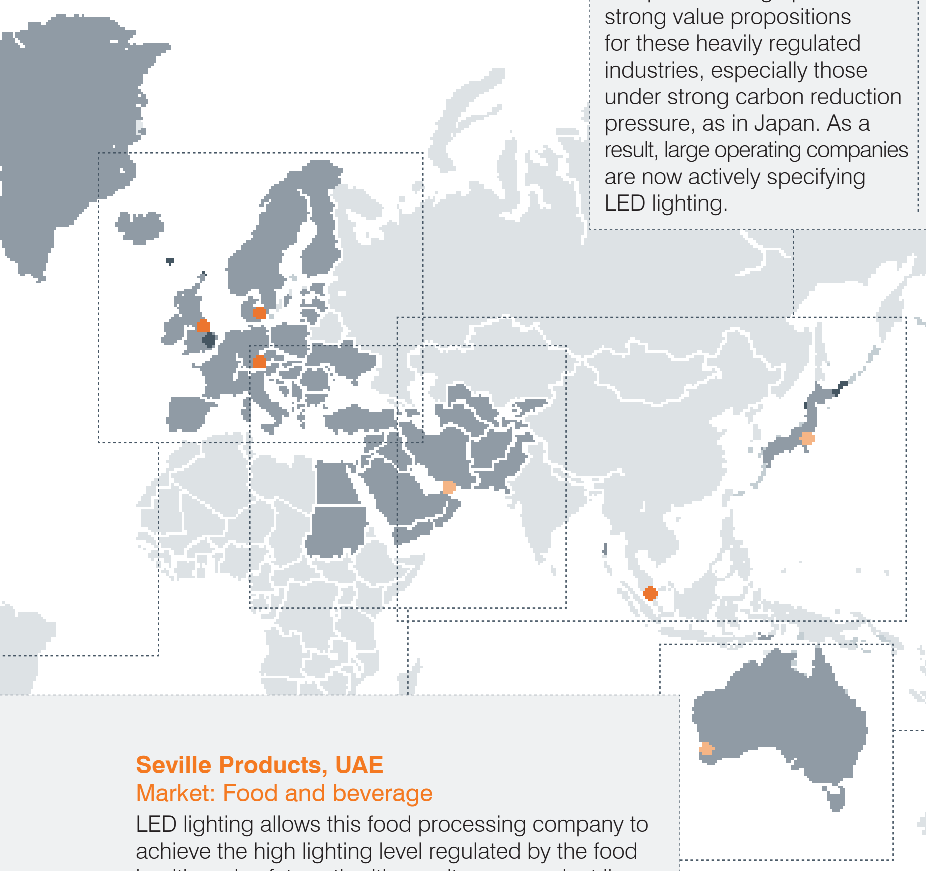
Middle East

Overview
Regional GDP growth rates have been revised up, despite political unrest, while electricity prices are increasing with the need for increased generating capacity. Increasing oil prices look set to assure another round of heavy investment.

Growth potential
The region contains dense concentrations of key target markets with large projects and budgets and strong emphasis on energy conservation. We have already achieved several local approvals needed for both products and companies.

Overview
Operating review
Governance
Financials
Shareholder information

* *McKinsey & Company, Lighting the Way: Perspectives on the global lighting market study July 2011.*



Asia

Overview

The region contains the world's largest shipping and asset manufacturing centres as well as heavy industry, pharmaceuticals and mining. Their customers are usually based in the West and specify Western-manufactured products.

Growth potential

Our product range presents strong value propositions for these heavily regulated industries, especially those under strong carbon reduction pressure, as in Japan. As a result, large operating companies are now actively specifying LED lighting.

Data centre, Singapore
Market: Warehousing

Low heat output and high lighting efficacy are key attractions of LED lighting for this large data centre where the hot climate makes it a challenge to maintain a low temperature for the servers. The LED lighting also provides the high lighting level necessary for security purposes in such applications.

Seville Products, UAE
Market: Food and beverage

LED lighting allows this food processing company to achieve the high lighting level regulated by the food health and safety authorities on its new product lines without generating extra heat, a vital consideration in such a hot climate.

Australia

Overview

The region is strong in coal mining, oil and gas and has many major infrastructure projects underway. With growing electricity demand it is the third highest CO_2 emitter in the Organisation for Economic Co-operation and Development.

Growth potential

Sustainability, climate change and biodiversity are high on the region's agenda for all industrial activities. With its strong economy it can support investment in proven eco-friendly technologies like LED lighting.

Gorgon Project, Australia
Market: Oil and gas

Located in a Class A nature reserve, this liquid natural gas project had environmental protection high on its list of priorities. Our unique turtle-friendly amber-coloured LED lighting has been essential to the safe development and operation of this vast project for workers and for the protection of the wildlife indigenous to the area.

View this section online
ar11.dialight.com/market_opportunities

With double-digit growth again coming from the Signals/Illumination segment our vision is clear...

Our vision
is to bring the value of Solid State Lighting to customers in a broad range of industries and markets.

Our aim
is to achieve our vision through our continued belief in our existing strategy.

1 Identify

We focus on niche markets with compelling operational and cost-efficiency benefits for our customers and expand our presence in new markets enabled by advances in LED technology.

Expansion into the hazardous and industrial lighting markets including the following:

- Oil and gas refineries
- Power generation facilities
- Chemical and pharmaceutical plants
- Waste water treatment plants
- Mining operations

2 Focus

We use our technological expertise in thermal management, optics and electronic circuitry to develop innovative products in niche markets.

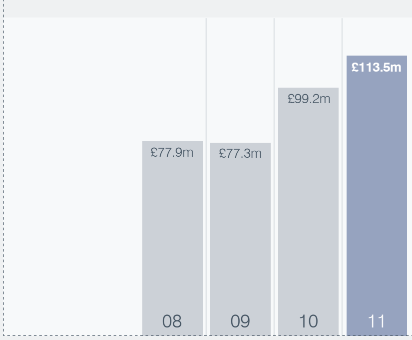
Our award winning High Bay is dominating the LED market. At the end of 2011 we have:

- Increased High Bay light output from 8,000–17,000 lumens
- Increased the installed base of High Bays to around 60,000
- Reduced the amount of power required to run the High Bay

How we measure our performance

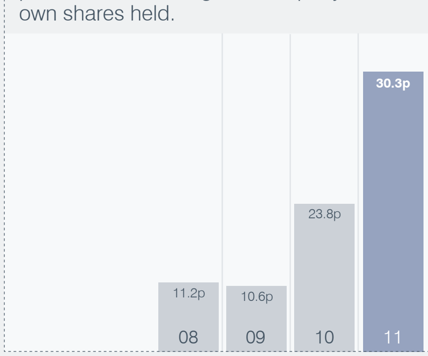
Total revenue
£113.5m +14.4%

Total revenue from the Group's continuing businesses.



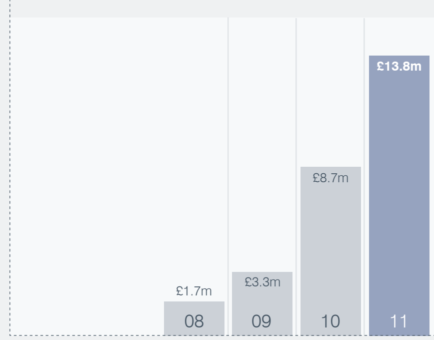
Earnings per share ("EPS")
30.3p +27.3%

Profit for the period attributable to equity holders, excluding the effect of exceptional items, divided by the weighted average number of shares in issue during the period and excluding the Company's own shares held.



Signals/Illumination profit
£13.8m +59.4%

Total profit for the Signals/Illumination segment including Traffic, Obstruction, Transportation and Lighting.



View this section online
ar11.dialight.com/our_strategy_and_KPIs

3 Develop

We create intellectual property rights across all research teams and develop new products incorporating this defensible technology.

Through this process of developing and improving we have managed to:

- Be the first to market in LED applications for over 20 years
- File and register a large number of patents
- Re-invest 6.5% of annual Signals/Illumination revenues in research and development
- Demonstrate a commitment to highly educated and skilled engineering teams

4 Target

We consider acquisitions with valid channel to market, strong geographical coverage and proven technology.

During the year we have:

- Established a presence in Australia and Asia following the purchase of our existing distributors
- Established a sales office in Dubai

5 Protect

We use our low-cost manufacturing base and continually review and monitor cost-saving opportunities to reduce our material cost.

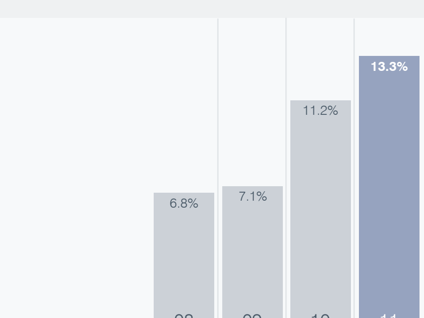
Never complacent

- LED efficiency and cost improvement supports our customer value proposition
- We vigorously defend any intellectual property infringement
- We have a strong pipeline of new and improved products with continuous re-engineering and cost reduction

Group return on sales

13.3% +2.0%

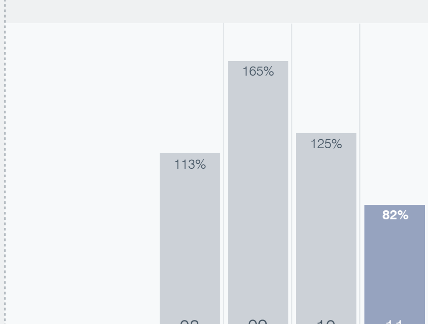
Group operating profit expressed as a percentage of revenue.



Operating cash as % of operating profit

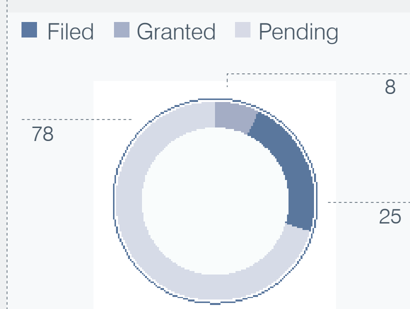
82%

Operating cash as a percentage of operating profit shows the amount of cash made by Dialight's business.



Patents filed, pending and granted

In 2011 Dialight had 78 patents pending, 25 having been filed and eight granted. This contrasted with figures of 61, 29 and 16, respectively, in 2010.



Delivering our priorities

Oil and gas opportunities in the US

The majority of Dialight's sales in Hazardous Lighting are to oil and gas, petrochemical and pharmaceutical companies. As a large number of oil and gas companies as well as chemical manufacturing sites are concentrated in and around Houston, Texas, Dialight has established a dedicated sales group in this area to take full advantage of the abundant local opportunities.

2010 figures put global Hazardous Lighting sales at around $900 million of which the oil and gas segment constitutes more than 30%. During the year Dialight's presence in the world hazardous lighting market has been expanded through an increased investment in sales personnel in Europe, the Middle East and the US.

Reaching out to new markets

At the beginning of the year we set out to deliver further efficiencies, continue to innovate and expand our global reach

We will continue to innovate by developing and improving new and existing products.

One new product per month

Dialight is the first to market with LED-based lighting for hazardous and industrial applications and has the largest LED lighting portfolio for hazardous areas.

During the first half of 2011 Dialight's engineering teams managed to release one new product every month. Over the same period 20,000 industrial lights were delivered to customers – more than the total amount for the whole of 2010!

Winner of multiple awards, the Group's High Bay has a large installed base of around 60,000 units globally and a customer base that has grown from 300 in 2010 to 460 by mid 2011.

Expanding our global reach

Dialight expands into Asia with Dialight Japan

The formation of Dialight Japan in the middle of 2011 was a further step in the Company's global thrust into the industrial and hazardous LED lighting market. This followed the acquisition of the assets and contracts of its Japanese distributor, I-Spec Limited, for an up front consideration of £0.2 million.

Dialight Japan is based in Hamamatsu in the industrial heartland of central Japan. The Industrial and Hazardous Lighting segment is highly regulated and there are in excess of 50,000 industrial facilities in Japan making this one of the world's largest industrial and hazardous lighting markets.

Continuing to innovate

Our outlook going forward

The growth in revenues and the Group's focus on the cost and performance of its products give us confidence for a future of sustainable profit improvement in the coming years.

1. Grow Signals/Illumination
2. Enhance product value to customers
3. Capitalise on ongoing developments in LED technology

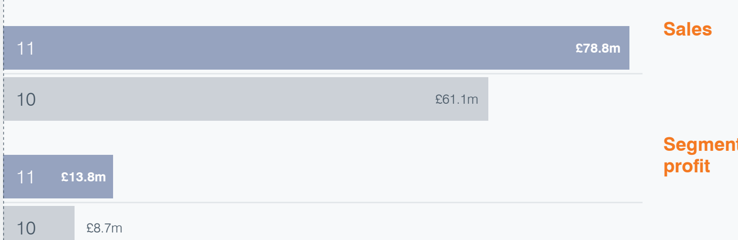
Signals/Illumination

SafeSite® LED High Bay

Signals/Illumination addresses the increasing demands for energy-efficient lighting solutions through the use of high-brightness LEDs and utilisation of a number of associated technologies.

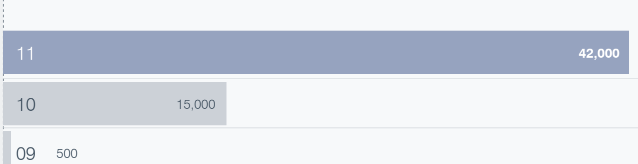
Areas of business include Transportation, Traffic, Obstruction lights and Solid State Lighting products.

Segment sales and profits



Installed High Bays

42,000 +180%



Global markets served:

Lighting:

- Oil and gas
- Power generation
- Food and beverage
- Pharmaceutical
- Chemical
- Mining
- Heavy industrial and manufacturing
- Cold storage
- Water and sewage
- Warehousing
- Public infrastructure

Obstruction:

- Telecommunications
- Wind
- Broadcast
- Utilities
- Marine

Transportation:

- US transit buses

Traffic:

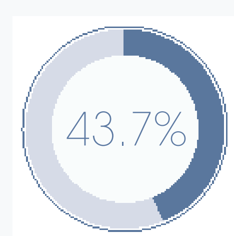
- US/Europe

Key products:

- Traffic lights
- High Bay
- Low Bay
- Linear fixture
- Area light
- High intensity strobe
- Medium intensity strobe
- Medium intensity beacon

Revenue and contribution

£78.8m
+29.0%
2010: £61.1m



Overall growth of almost 30% for the year with significant gains in Lighting and Obstruction products, our two key growth lines, was a pleasing result.

European Traffic Lights displayed very modest growth due to municipal budget constraints but nevertheless there is an inherent need for Europe to convert its incandescent-based traffic lights to LED technology, leading to growth in this market as budget pressures ease.

Contribution margin strengthened once again showing an almost two percentage point improvement over 2010. This was helped in part by the continued downward pressure on prices for the LED components we buy, but more particularly by the improved efficiencies available and Dialight's ability to capitalise on those improvements and provide more efficient and cost-effective products for our customers.

Traffic

Overall, sales into this market were flat with Europe showing just a little growth. In the longer term we would expect to see European sales growth of up to 10% a year due to the low penetration of LED Traffic Lights in this geography. As one would expect, current economic conditions have adversely affected our European business, although there are still some cities where LED technology is being adopted into traffic signals. We are well-placed in our relationships with key traffic systems OEMs throughout Europe and in particular with Siemens AG. These OEMs supply a complete traffic system to towns and cities throughout Europe. With the current low level of adoption we expect to see growth to return as the economy improves or as capital for cost-saving projects becomes available.

Dialight has been supplying LED traffic lights to the North American market for over a decade and the market is now mature, the majority of the installed base of traffic lights having already been converted to LED technology. Much of the activity now is around replacing the LED signals which were supplied at the end of the 1990s and early 2000s. The Group sells through an exclusive network of traffic-based distributors, which provide a strong and somewhat protected channel to this market.

Obstruction Lighting

All around the world tall structures are marked by red and sometimes white lights as a collision warning for aircraft. Regulations are similar from country to country but enforcement of these rules is most strict in North America. Due to the inaccessibility of many of these lights and their locations, maintenance has been a long-term problem for the owners and operators of these tall structures. In order to fulfil their function, these lights need to be lit and Dialight has been supplying highly reliable LED versions of these lights for some years.

Sales in Obstruction Lighting grew by 45% in 2011 to £17.8 million driven by two different markets. In the US, the Federal Aviation Administration prescribes the illumination of all structures in excess of 199 feet. During the daytime they have to be illuminated with a white strobe light, the light source being typically a xenon strobe tube. These tubes have unpredictable lifetimes, which in the best instance are significantly less than an LED light; therefore Dialight introduced an LED version of this strobe light. To date there is no other approved LED version of this light. It is estimated that there are more than 80,000 strobe lights installed today, most of them on communications towers. Dialight has been successful in achieving adoption of this technology by the top ten cell phone tower operators in the US. These lights are warranted for a minimum of five years but the expectation is that they will outlast the tower on which they are mounted. To date we have installed only 7,000 of the available 80,000 thus leaving a market of almost a quarter of a billion Dollars still to be converted.

Obstruction Lighting: A key growth line

- 45% year on year growth
- More than 7,000 strobes supplied to US cell tower market since 2007
- Only Federal Aviation Administration approved supplier of these products
- Introduction of High Intensity Strobe

Obstruction Lighting continued

In early 2010, we acquired BTI Light Systems A/S ("BTI") in Copenhagen. BTI had long been a supplier of lighting to the marine and latterly the offshore wind turbine market. Whilst Dialight has been traditionally strong in North America in its supply of Obstruction Lighting to the wind turbine market – almost exclusively onshore – access to the European offshore wind turbine market had proved difficult. The arrival of BTI into the Dialight family has opened up that market and 2011 proved to be a successful year for BTI. This was helped by some recovery in the European offshore wind market and BTI supplied significant projects in the UK, Denmark and Southern Europe. In 2012 we will continue our co-operation with the major turbine manufacturers as new potential opens up for German offshore projects as well as further onshore installations in Eastern Europe.

In 2010, Dialight and BTI developed a 100,000 candela strobe for very tall towers in Sweden. This is five times as bright as the US strobe light mentioned previously and we expect to see some projects that utilise this strobe in the coming year. This, however, is not our brightest light. The US market requires an ultra-bright strobe light for very tall broadcast towers (very tall is defined as greater than 500 feet). We have developed a 270,000 candela strobe with very complex system capabilities. First shipments were made in the fourth quarter of 2011 and sales are expected to grow in 2012 and once again Dialight is the only qualified supplier of an LED version of this light.

Overall, Obstruction Lighting should provide significant growth for the Group in the next several years.

Solid State Lighting

Dialight's strategy for Solid State Lighting continues to be a focus on large market niches with defensible barriers to entry and where today's LED technology can deliver strong paybacks for customers. Much of the publicity regarding Solid State Lighting has been around domestic and commercial lighting and even government legislation has been around energy-efficient light bulbs with many countries banning or preparing to ban incandescent light bulbs. Dialight's approach has been to look for applications where LED technology can bring immediate savings and short paybacks to its customers, with or without government help. In order to do this it is essential to look at applications where lighting is used 24 hours a day, maintenance is expensive and inconvenient, lights have to withstand onerous conditions and regulation leads to expensive and complex conventional light fixtures. Heavy and hazardous industrial conditions fit those requirements and therefore this is the key target market in Dialight's lighting strategy.

Having commenced on this strategy in 2009, we have once again grown our business in 2011 by more than 100% to over £25 million. In 2010 almost all of our Industrial Lighting sales came from North America but in 2011 we initiated a plan to grow our sales globally. Investment in sales resource in Western Europe, the Middle East and Asia, along with small acquisitions in Australia and Japan, have positioned Dialight to build on a successful 2011 by expanding its geographical footprint. Even with more than doubling sales in 2011, penetration of the industrial lighting market is insignificant. The conventional hazardous lighting market alone is almost one billion Dollars annually and has an installed base of ten times that size.

Our customer base has increased over the year and includes many of the world's premier companies in the oil and gas, pharmaceutical, mining, power generation and food processing industries. Our sales forces have grown in size over the last year with increases in Western Europe, Dubai, Singapore and of course the acquisitions in Australia and Japan. In addition our North American sales presence has doubled since the beginning of 2011. This will be a continuing trend as we grow our sales and our sales force at the same time and expand our geographical presence to fully address the global markets we serve.

The supply side of LEDs has continued to expand with major capital spends taking place to produce even more chips. This trend has resulted in over-capacity and pressure on LED prices. As a major purchaser of these components, we have been able to take advantage of this better pricing as well as the improved performance that is now available. Not only have our margins improved once again but the performance of our products has also increased. Our latest offering is able to provide an efficiency of 100 lumens/watt and almost 18,000 total lumens versus the best at the end of 2010 of 81 lumens/Watt and 11,500 total lumens. This new fixture is similarly priced to the older product and significantly enhances the value proposition for our customers.

View this section online
ar11.dialight.com/operating_review

Case study: Kimberly-Clark in Malaysia

Kimberly-Clark cuts energy consumption by 60% at Malaysian facility by switching to Dialight DuroSite® LED High Bay fixtures

With a global footprint spanning more than 150 countries, Kimberly-Clark's products have become a trusted part of life for over one billion people around the world. At its family care production facility, at Kluang, in Johor, Malaysia, the company manufactures a wide range of paper products including Kleenex facial tissues and Scott paper towels, among others.

Aiming to reduce energy consumption and improve visibility within the plant, the company recently replaced 114 of its 400W metal halide lighting fixtures with Dialight's DuroSite LED High Bays. Consuming just 123W, the Dialight High Bays have enabled the company to slash energy consumption and dramatically improve visibility, all while making the work environment more comfortable and safer for employees.

View this section online
ar11.dialight.com/ case_studies

123W
consumed by Dialight LED High Bays

60%
cut to energy consumption

It's all about lighting!

The solid state lighting business has again grown by over 100%. Continued investment in sales resources and the expansion of our geographical presence will provide the basis for further penetration of the available market.

Our solutions
Throughout the year our products have targeted the needs of our customer base

Visit us online
www.dialight.com

View this section of the report online
ar11.dialight.com/case_studies

Case study: Offshore platform operator, North Sea


Offshore platform, North Sea

LEDs' instant on/off capability improves safety and production efficiencies by avoiding hot restrike blackouts.

Regulations dictate that periodic inspections of offshore equipment need to be carried out at least once every three years in order to minimise the risk of explosion. Inspecting or changing light sources and control gear on an offshore facility takes two to three man teams and up to three hours per unit at a typical cost of £240.

The typical lifetime of a metal halide fitting is 1.4 years, while for LED fittings it is 6.8 years. This means that with LEDs the offshore operator can reduce the number of inspections from three to one every three years. This is a significant saving in maintenance, burden and cost when an offshore asset can carry several thousand light fittings.

£240
cost of LED inspection over its lifetime

£1,200
cost of traditional light source inspection over its lifetime

Case study: North American natural gas refinery

Gas facility achieves superior lighting for improved safety with Dialight SafeSite® Series High Bay LED fixtures for hazardous locations

The company's compressor station features massive compressors that require ongoing maintenance to keep them running at peak performance 24/7 under some of the harshest conditions.

This customer recently upgraded its compressor station from HPS lighting fixtures to Dialight's Class I Div 2 certified SafeSite® High Bay LED fixtures. The result is vastly improved lighting conditions with the safety assurance and energy efficiency to meet the company's needs on multiple fronts.

67% energy saved

2.75 years' payback

Case study: North American bulk loading terminal

Dialight Class I Div 2 LED High Bay fixtures provide better visibility and dramatic energy savings

This bulk loading terminal handles up to 25,000 barrels of petroleum and gasoline products per day. To improve operational efficiency, achieve sustainability goals and safety at this strategic location, the company recently upgraded four facilities at the terminal from traditional HPS lighting to Dialight's new SafeSite® Class I, Div 2 LED High Bay luminaires for hazards locations. In addition to improved energy efficiency, the new LED High Bays provide better visibility and lower-temperature operation to enhance worker safety and port security, with dramatically reduced maintenance costs.

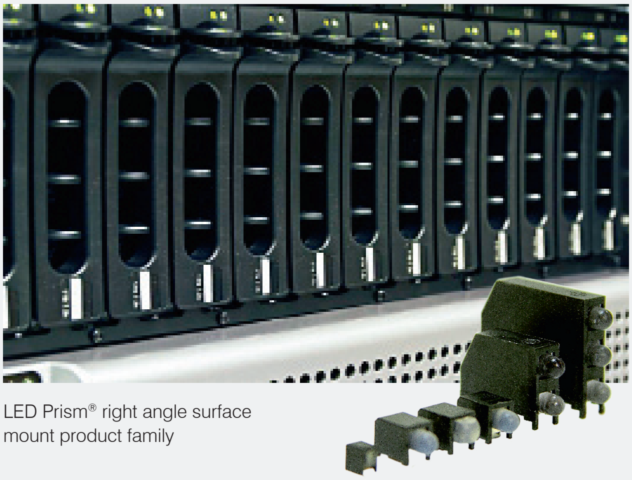
To test the potential of the Dialight LED SafeSite® High Bays, the company first installed a dozen units inside a newly constructed storage warehouse, mounted at 20 feet height. Installation took just 30 minutes per unit. The SafeSite fixtures' high lumen output provided the ideal combination of light clarity and energy efficiency inside the new warehouse.

35 tons of CO_2 saved

less than **2** years' payback

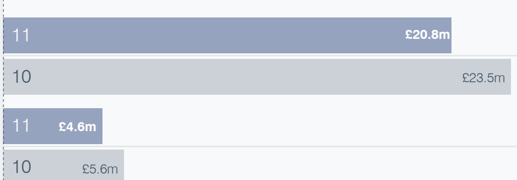
LED Indication Components and Electromagnetic Components

LED Indication Components



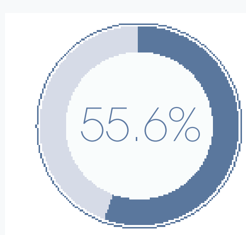
LED Prism® right angle surface mount product family

Segment sales and profits



Revenue and contribution

£20.8m
-11.3%
2010: £23.5m



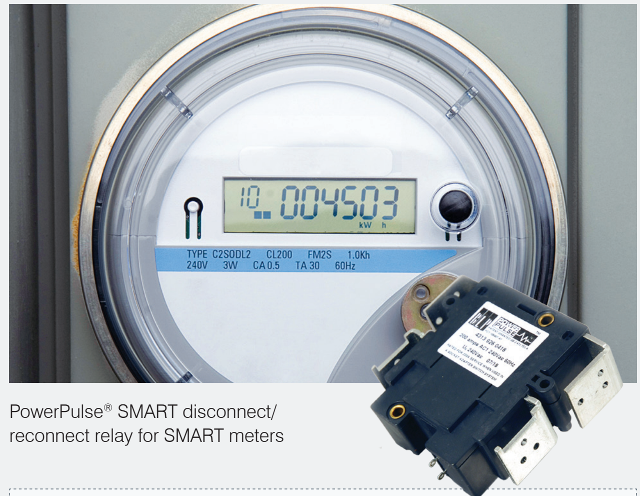
Key applications:

- Servers and server appliances
- Storage and networking devices
- Power supplies
- Fan tray assemblies
- Modems and routers
- Electrical and control panels
- Test and measurement equipment

Key products:

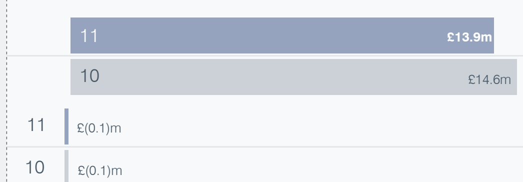
- Prism right angle SMT
- Throughhole circuit board indicators
- Panel mount indicators
- Replacement bulbs

Electromagnetic Components



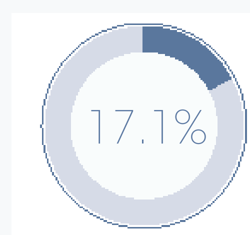
PowerPulse® SMART disconnect/reconnect relay for SMART meters

Segment sales and profits



Revenue and contribution

£13.9m
-5.1%
2010: £14.6m



Key application:

- Residential SMART meters

Key products:

- 200 amp SMART meter disconnect switch
- 100 amp SMART meter disconnect switch

LED Indication Components

The foundation of the Dialight business, LED Indication consists of the supply of small LED assemblies for status indication for use by major OEMs offering equipment for enterprise customers. This niche business is not expected to grow but will cycle with the electronics market. This is a strong generator of profits, carrying healthy margins. These margins have remained stable over many years and are expected to do so for many more. The business is split between sales through distributors, which constitute more than half of the revenues and address over 15,000 Dialight customers. The balance of the business goes through contract manufacturers who assemble for our major OEM customers who supply high-end servers, internet access equipment, cellular infrastructure and storage. During the first half of 2011 sales continued at the same level as the second half of 2010, but the second half of 2011 saw a reduction in orders and sales which resulted in an 11% reduction in sales year-on-year. Sales to end users, however, did not reduce significantly and it appears that we have seen a reluctance for the channel to hold appropriate inventories. We believe the fundamentals of the business remain sound and should provide several years of continued profit input albeit with fluctuations in line with the general electronics market.

Electromagnetic Components

Revenue in this segment was marginally down. Potential growth in sales into the US SMART meter market was not possible due to commodity price increases, which were not accepted by some of our US customer base. Although this segment offers strong growth potential, the Board has decided to investigate the potential for selling this business and this is planned to conclude by the end of the first half of 2012.

Case study: Martisa manufacturing, Barcelona

Replacement of 400W HPS lights with Dialight's highly robust 150W Duosite® High Bays

So much energy was being pumped by this metal processing plant that the HPS lights were constantly dimming and flickering which resulted in irregular colour rendition. With robust LED lighting the plant enjoys good, steady colour rendition as well as 69% reduction in lighting energy use and reduced CO_2 emissions.

69%

reduction in energy use

View this section online
ar11.dialight.com/case_studies

Financial review

"The Group has delivered a strong performance in 2011 against a backdrop of mixed economic conditions."

Mark Fryer

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are described within this Financial review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described below.

The Group has considerable financial resources together with a broad spread of customers across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. The Directors have also considered the Group's forecasts and projections. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Income statement

Revenue in 2011 grew by 14.4% to £113.5 million compared with £99.2 million in 2010. This is a strong performance in mixed market conditions. Overall, sales pricing has remained broadly constant with growth achieved purely in volume alone. The strongest growth lines are within the Signals/Illumination segment and are strategically the two most important: Obstruction with almost 50% growth and Lighting once again more than doubling. Electromagnetic Components revenue was marginally down in 2011 and we are investigating the potential for selling this business, an action that is planned to conclude by the end of the first half of 2012.

Revenue in 2011 is split geographically:

	2011 % of total	2010 % of total
North America	**68.2**	68.7
UK	**10.3**	10.2
Rest of Europe	**11.6**	11.3
Rest of World	**9.9**	9.8

The above chart demonstrates the Group's sensitivity to our North American business and the potential impact of US Dollar exchange rates. The major currencies the Group is exposed to are the US Dollar and the Euro. The following exchange rates were used in translating the income statement and balance sheet of the Group and Company:

	2011 average rate	**2011 at reporting date**	2010 average rate	2010 at reporting date
US Dollar	**1.60**	**1.55**	1,53	1,56
Euro	**1.15**	**1.20**	1.17	1.16

The overall impact of the weaker US Dollar has been to reduce turnover by £3.7 million and operating profit by £0.8 million. This has been very marginally offset by the stronger Euro which has increased turnover by £0.1 million and had no impact on operating profit.

The LED Indication business has had a marginally worse year, as expected, with market conditions weaker following inventory build in the first half of 2010 which was not replicated in 2011. Overall sales reduced by 11.3% to £20.8 million although at constant currency the reduction was only 6.7%.

Our key business segment is Signals/Illumination. The table below demonstrates the major advances that have been made in this business segment which in 2011 generated a return on sales of 18.3% (2010: 14.2%) and contributed in excess of 90% of Group operating profit:

Signals/Illumination	**2011**	2010	2009	2008	2007
Turnover £m	**78.8**	61.1	46.4	43.4	33.4
Operating profit £m	**13.8**	8.7	3.3	1.7	0.1
Return on sales %	**17.5**	14.2	7.1	3.9	0.3
Proportion of Group operating profit %	**91.8**	77.7	60.0	32.2	2.9

A significant contributor to these increasing returns is the impact of the Group's re-engineering and cost reduction initiatives. In 2011, the Group invested over £5.1 million on research and development which largely relates to the Signals/Illumination segment and represents 6.5% of this segment's revenue. Going forward the key focus will be to drive down the material cost of sales which for the Group as a whole represents 48.9% of revenue (2010: 50.9%) compared to direct labour costs of 5.3% of revenue (2010: 5.2%). The largest single material cost item the Group is exposed to is the cost of LEDs. Forecast market price reductions in LEDs as well as increases in light output give the Group confidence to make significant investment in re-engineering to reduce the number of LEDs purchased per product. Apart from the 2.0% improvement in the Group's return on sales from reductions in the level of material costs we have also leveraged administration costs excluding non-underlying administrative expenses, which increased from £8.9 million to £9.2 million, and which added 0.9% to Group return on sales. Sales and marketing costs for Signals/Illumination grew as planned by 42% to £6.4 million (2010: £4.5 million) through the addition of further sales resources, the key to our ability to continue to grow lighting sales by 100%.

Total Group administrative expenses only grew 3.4% to £9.2 million (2010: £8.9 million) mainly through the inclusion of BTI administrative expenses for twelve months in 2011 and only eight months in 2010 (BTI was acquired in April 2010). Our plan is to continue to grow Signals/Illuminations revenues strongly while keeping the level of increases in administrative costs as low as possible. The impact of this was to add 0.9% to Group return on sales.

The operating profit of £15.1 million is up 3.4% from £11.2 million in 2010 and has been achieved through strong sales volume increase of 14.4% (to £113.5 million from £99.2 million in 2010), improved contribution levels as a result of product introduction and re-engineering of 1.8% (to 42.8% in 2011 from 41.0% in 2010) and from the leverage of fixed costs with administration costs in particular adding 0.9% to margins (to 8.1% of sales in 2011 from 9.0% in 2010). Group return on sales, one of our key performance indicators, has increased to 13.3% in 2011 from 11.2% in 2010.

In 2011, the Group managed to successfully buy out the US defined benefit pension scheme for a total cost of £2.3 million. This has resulted in a one-off non-underlying financial expense of £0.7 million (being the cost of securing the liabilities over the deficit in our accounts at the time of the buy-out).

In the first half of 2011, the Group granted a lifetime licence to a third party for the use of a number of our patents. The income from this licence was £2.7 million and is included within non-underlying other operating income.

In the second half of 2011, the Group reached agreement to settle a longstanding dispute with a rail signalling customer concerning a development project started in 2007. This dispute was provided in full for £2.8 million in the first half 2011 and this amount was paid in full in January 2012. The provision is included within non-underlying administrative expenses and non-trade payables at 31 December 2011.

The tax charge for 2011 is £4.7 million (2010: £3.8 million) which represents an effective tax rate of 33.0%. This is lower than the effective rate of 34.0% in 2010 as the mix of profit generated in the UK has increased together with the lower effective rates in the UK. As the trend of increasing UK profits continues together with lower future rates of UK corporation tax the Group should be able to lower the effective rate going forward.

Profit for the period attributable to equity holders of the Company increased by 29.7% to £9.7 million from £7.5 million in 2010.

The underlying earnings per share (excluding the non-underlying loss on the pension) has increased 33.2% to 31.7 pence from 23.8 pence in 2010.

Balance sheet

Group net assets have increased to £54.8 million from £46.2 million in 2010. The main reason for this increase has been the increase in working capital to support the growth of the Group. Overall working capital has increased to £19.5 million from £16.8 million in 2010. However, the working capital to sales percentage has only marginally increased to 17.2% from 17.0%. Other increases have been investment in plant and equipment to support growth and achieve cost saving through in-sourcing and increases in intangibles from the acquisitions in Australia and Japan as well as in new product development capitalised of £1.6 million (31.3% of gross spend).

We have a good mix and ageing of inventory moving forward to achieve our ambitious growth targets.

The split and movement in working capital is outlined below:

	2011 £m	2010 £m
Inventories	**15.8**	9.2
Trade and other receivables	**22.8**	18.9
Trade and other payables	**(19.1)**	(11.3)
	19.5	16.8

Financial review continued

Balance sheet continued

The Group's cash position at 31 December 2011 was £13.7 million compared with £10.4 million at the end of 2010. This is after paying tax of £1.7 million, the acquisitions in Australia and Japan for £0.4 million, dividends of £2.7 million and funding both the buy-out of the US pension scheme and further cash contributions to the UK scheme of £2.8 million.

The Group has no debt other than that potentially owed to its UK pension schemes which currently have a surplus of £0.8 million (2010: £1.4 million deficit which included the US scheme deficit of £1.8 million which has now been disposed of).

Cash flow

The significant improvement in operating profit and prudent management of working capital has generated strong net cash from operations of £12.4 million (2010: £14.0 million). From this we have funded capital expenditure of £2.5 million (2010: £2.8 million), supported new product development to achieve cost savings in product costing and other cost improvement of £1.6 million (2010: £1.2 million). There has also been tax of £1.7 million paid in 2011, a significant reduction on £4.7 million paid in 2010 as the premium paid to buy out the US pension scheme of £2.3 million has been fully allowed for tax, the acquisitions in Australia and Japan have been completed for £0.4 million and dividends of £2.7 million paid.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board considers consolidated total equity as capital. As at 31 December 2011 this totalled £54.8 million (2010: £46.2 million).

The Board's target is to generate a return on capital in excess of 25% excluding cash holdings. In 2011 the return was 36.5% (2010: 31.0%). In addition, the target in respect of EPS is 15% growth per annum. In 2011 the underlying EPS growth was 33.2% (2010: 36.0%).

In respect of dividend, the Board has a progressive dividend policy and aims for three times cover. The result for 2011 was 3.0 times (2010: 3.0 times).

The Board monitors Total Shareholder Return ("TSR") compared to FTSE SmallCap Index and FTSE Electronics/Electrical Index to ensure that Dialight's performance is in line with peer companies.

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

Dividend

In line with the Group's progressive dividend policy it is proposed to pay a final dividend of 6.7 pence giving a total dividend for the year of 10.0 pence, an increase of 25% over 2010 when an interim of 2.8 pence and a final of 5.2 pence was paid (total: 8.0 pence). A total dividend of 10.0 pence would be covered 3.0 times (before the non-underlying costs of the US pension scheme). The final dividend, if approved, would be paid to members on the register at the close of business on 10 April on 9 May 2012.

Banking

The Group has its banking relationships with Barclays Bank PLC and our US subsidiary has its banking relationships with Wells Fargo. The Group has a £3 million overdraft facility as well as a revolving credit facility of £7 million that can be called should a suitable acquisition opportunity arise. The Group has also had discussions with Barclays with regard to term facilities of a further £13 million should the need arise. The US facility with Wells Fargo is for $10 million (£6.3 million) and is unsecured.

The Group has relationships with Capital One in the US and SME EuroFinance in Europe to offer finance facilities to its customers. These facilities are not underwritten by the Group.

Mark Fryer
Group Finance Director

The Board considers its approach to Corporate Social Responsibility ("CSR") to be integral to the successful operation of the business.

CSR covers the Group's many and varied responsibilities to its employees, customers, suppliers and shareholders as well as the impact of the Group's operations on the environment and the wider community.

Dialight is committed to conducting business in accordance with robust and high levels of professional, ethical, legal and regulatory conduct throughout the world. The Board sets the standard for what Dialight believes is acceptable behaviour for its employees as well as dealings with shareholders, customers, suppliers, agents and its impact on the environment and the community.

The Code of Business Conduct

A new Code of Business Conduct ("Conduct Code") was launched at Dialight during 2011 to formalise expected standards of behaviour and conduct that were applicable to employees and third parties engaged on the Group's business. This contains guidance on general standards of conduct, corporate hospitality and gifts, bribery and corruption, conflicts of interest, confidentiality, fraud, political and charitable donations, employment, health and safety, relationships with third parties, the community and the environment. Key parts are underpinned by supporting policies.

Anti-bribery and corruption

Dialight is committed to conducting all its business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate as well as implementing and enforcing effective systems to counter bribery. A new Anti-Corruption and Bribery policy was issued in July 2011.

Health and safety

Dialight provides a safe working environment for employees, customers and visitors through the achievement and maintenance of high standards of health and safety. Although ultimate responsibility for health and safety and the operation of the Group's Health and Safety policy lies with the Group Chief Executive and the Dialight Board, this responsibility is delegated to Plant Managers at each of the Group's manufacturing facilities or nominated Senior Management at all other locations.

During the year, Dialight established a Group Health and Safety Committee to oversee the operation of Group health and safety arrangements as well as consider and agree objectives and standards for implementation and action worldwide.

Health and safety procedures and systems are designed to:

- run training programmes for employees on health and safety matters whilst reinforcing the importance of a culture that is focused on safe working procedures;
- monitor and assess work procedures and to implement changes where required; and
- communicate with all employees to develop a work culture which recognises the importance of health and safety procedures.

A report on health and safety matters is included in the monthly reports submitted to the Group Chief Executive by the regional management. Health and safety performance is also a standing agenda item at Board meetings of Dialight.

Environment

We do not consider that our manufacturing sites have a significant environmental impact as our products do not require capital-intensive manufacturing processes. The Group policy in respect of the manufacturing sites is to operate within systems which monitor, control and where practical minimise any environmental effect. Emissions of gases, chemicals and water are well below government thresholds and, in most cases, undetectable. Principal areas of focus are the reduction of waste and the minimisation of water and energy consumption. All sites operate to increase reuse and recycle materials including packaging.

The other key area of focus is the quantity and type of material used in the products manufactured. The engineering department performs an important role in progressing the programme to reduce the amount of material used in the products and, where practical, to substitute out hazardous material. This action covers own purchases and material used by suppliers. Dialight works to meet and exceed internationally recognised regulations such as RoHS-2002/95/EC, WEEE-2002/96/EC, ELV-200/53/EC dated 27 June 2002 and JGPSSI dated 22 July 2003.

The Group's products are WEEE compliant and compliance with the regulation has not had a material impact on the Group. Many of the Group's products have a positive impact on the global environment, particularly our Signals/Illumination products, as they are proven to reduce significantly energy consumed compared with a similar product using other technology such as fluorescence.

The workplace

Dialight's culture is one of openness, honesty and accountability and recognition that all employees play a part in delivering the Group's business performance in a safe and efficient environment.

Risk management

The following section sets out the principal risks and uncertainties facing the Group. There may be other risks and uncertainties that are not yet known or which are currently considered to be immaterial but later turn out to have a material impact.

Some of the areas set out will be outside of any influence that the Group may exert. Should any of the risks actually materialise then Dialight's business, financial condition, prospects and share price could be materially and adversely affected.

Area of risk	Description and mitigating activity
Macro-economic conditions The Group's sales and profits may be impacted by spending slowdowns and/or increasing inflationary pressures.	A significant slowdown in economic conditions globally and in certain territories such as North America could have a material effect on sales and operating profit in particular for the LED Indication Components segment. The current adverse conditions for public organisations to reduce and/or defer their capital spending budgets may impact on sales of some of our products. **Mitigating activities include:** • Management of the LED Indication Components segment monitors the general electronics demand index as well as industry forecasts so as to become aware of market trends. • The monthly point of sales data which is provided by US distributors is reviewed as this is also considered to provide valuable information on market demand.
Changes in government legislation or policy National and local policies with regard to energy savings in a number of areas such as transport and communication are constantly evolving.	This should favour Dialight's efforts in growing sales in some key niche current and potential opportunities identified by the Signals/Illumination segment. Additionally, legislation may introduce new higher and more exacting specifications for existing products which will require product redesign and regulatory re-certification. Therefore changes in product specifications should favour Dialight in giving it an advantage over competition. **Mitigating activities include:** • It is Dialight's policy to operate in highly regulated markets which require suppliers to achieve compliance with demanding product standards. • Dialight's design and engineering departments have a proven track record in technical ability evidenced by strong working relationships with customers and regulatory boards, the design and introduction of new products and a portfolio of registered intellectual property.
Competitive environment Dialight operates in competitive markets with threats of existing competitors or potential new entrants.	The threat may, for example, come from an extremely aggressive pricing policy for larger traffic contract bids in US and Europe. **Mitigating activities include:** • Dialight's focus on identifying, developing and maintaining sales routes to market, servicing strong customer relationships; competitive and leading-edge product portfolios and cost-efficient manufacturing plants support Dialight as a major player in its chosen markets and helps to reduce the risk of losing market share to competition.
Laws and regulations The Group's operations are subject to a wide range of laws and regulations.	**Mitigating activities include:** • Group policies and procedures are documented and communicated throughout the Group. • All Group companies have an employee handbook detailing employment practices and staff receive the appropriate training and support to operate in their roles. • A new Governance and Risk Committee has been established to monitor compliance with existing policies and procedures and consider improvements and changes to these on an ongoing basis.

Area of risk	Description and mitigating activity
Strategy for revenue growth – LED technology The strategy of the Board includes the following financial goals: • to grow annual sales by compound double-digit percentage; and • compound EPS growth in the mid teens.	Achievement of the goals is dependent on growing sales in the chosen markets within the Signals/Illumination segment such as industrial Solid State Lighting. The adoption by the market of LEDs for new applications is principally dependent on the increased efficiency and reduced cost of LEDs versus existing technologies such as fluorescent or high-intensity discharge. The achievability of the Group's longer-term sales growth would be seriously at risk if the parties who are developing the LEDs did not achieve the expected progress such that new applications did not become feasible. Additionally with the fast-changing technology world that exists there is a possibility of a technology being developed that supersedes LEDs. **Mitigating activities include:** • Dialight's engineers are actively contributing by their presence on industry related boards and their attendance and presentations at industry seminars, so as to be proactively involved and to keep abreast of developments on a regular basis.
Intellectual property The development and ownership of intellectual property is critical in underpinning the growth potential for the business.	The Group operates a stringent policy on the sharing of know-how with third parties as well as having a well defined policy on the in-house identification and registration of patents. If the Group fails to or is unable to protect, maintain and enforce its existing intellectual property, it may result in the loss for the Group to the exclusive right to use technologies and processes which are included or used in its businesses. **Mitigating activities include:** • Plans to improve the quality of the new product introduction systems across the businesses have been implemented with good progress being made as evidenced by the expanding patent portfolio.
Product liability risks Products should conform to agreed specifications.	If a product of the Group does not conform to agreed specifications or is otherwise defective, the Group may be the subject of claims by its customers arising from end-product defects or other such claims. **Mitigating activities include:** • The Group carries appropriate product liability insurance.
Financial markets Turmoil in global financial markets could pose risks to Dialight's financial position.	Any turmoil poses risks to both Dialight's customers and suppliers, as well as the ability of the Group to negotiate bank facilities. **Mitigating activities include:** • There are ongoing reviews of supplier bases to ensure wherever possible that there is not over-reliance on one specific supplier. • The Group has a banking relationship with a number of banks. Currently the Group has not drawn down any borrowings against the existing facility with Barclays Bank plc. Regular contact will be kept with the banks to ensure that they understand the business and its requirements. • Customers are subject to credit checks and there is very close review of trade debtor days outstanding and overdue amounts. Purchase limits are set for all customers.
Currency exchange The Group is exposed to translation exchange rate risk.	As a significant proportion of the Group's results, assets and liabilities are reported in US Dollars and Euros, they are subject to exchange rate risk when translated to UK Sterling for incorporation into the Group's results. **Mitigating activities include:** • Where possible the Group nets such exposures and will maintain a hedging programme utilising foreign exchange forward contracts and currency overdrafts to cover specific contracts and such proportion of other anticipated exposures as can be estimated with reasonable certainty.
Acquisitions Inability to identify suitable acquisition targets and to integrate successfully acquired businesses into the Group.	The successful implementation of Dialight's acquisition strategy depends on its ability to identify targets, successful completion of the transaction, achievement of an acceptable rate of return and a successful and timely integration post-acquisition. **Mitigating activities include:** • The Board plans to make acquisitions of businesses where the targets fit appropriately into the Group strategy by strengthening Dialight's product range and existing technologies, offering new and attractive sales routes to markets, having high performance and motivated management and having a proven profit record.

Board of Directors

The Board is committed to the maintenance of high standards throughout the Group and is accountable to the Company's shareholders for good corporate governance.

The Board operates within defined parameters and in accordance with those Matters Reserved for Board approval and specific Terms of Reference of the Board Committees.

Harry Tee CBE (age 66 years)

Chairman

Harry Tee CBE founded The Roxboro Group (now Dialight plc) in 1990 and has a lifetime's experience in management within the electronics industry. He is now Group Chairman, having retired as Chief Executive of the Group on 29 September 2005 and Chairman of the Nominations Committee. Prior to forming The Roxboro Group he was a main board director at Graseby plc and held a number of senior management posts in Schlumberger and ITT. Harry is currently Chairman of Scientific Digital Imaging plc and was Chairman of The Electronics Leadership Council. He is also Past Master of the Worshipful Company of Scientific Instrument Makers, is a past President of GAMBICA and EECA and a past Vice-President of FEI and Intellect. He is a Fellow of the Institute of Engineering and Technology, a Fellow of the Royal Institution, a Fellow of the Royal Society for the Encouragement of Arts, Manufacture and Commerce and a companion of the Chartered Management Institute. Harry was honoured with a CBE in the Queen's Birthday Honours List in 2008 for services to the electronics industry.

Roy Burton (age 64 years)

Group Chief Executive

Appointed President and CEO of Dialight Corporation in July 2002, Roy Burton became Group Chief Executive of Dialight plc in September 2005. Roy has many years' experience in the electronics industry having started his career in the UK working with Philips Electronics, ITT and Amphenol Corporation with whom he relocated to the US. In 1994 he became Group President Electronics for Thomas and Betts Corporation headquartered in Memphis, Tennessee and prior to his appointment at Dialight was CEO of Coraza Systems Inc. Roy is based at Dialight Corporation's headquarters in Farmingdale, New Jersey.

Harry Tee *Roy Burton* *Mark Fryer*

Mark Fryer (age 44 years)

Group Finance Director

Mark Fryer was appointed as Group Finance Director on 31 August 2010. From 2002 to August 2010 he was Group Finance and Business Development Director of Manganese Bronze Holdings plc. Prior to this he worked at GKN plc as Finance Director of the Industrial Services Division and was latterly Chief Financial Officer of a GKN subsidiary in the US. He was also Financial Controller of Mercury Communications, a subsidiary of Cable & Wireless plc. Mark is a Chartered Accountant, having qualified with Ernst & Young in 1988.

Bill Ronald (age 56 years)

Senior Independent Director

Bill Ronald joined Dialight as a Non-Executive Director in May 2009. He was appointed Senior Independent Director on 25 August 2010, is Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees. He is currently also chairman of the Compleat Food Group and Senior Non-Executive Director for Halfords Group. He was Chief Executive of Uniq plc, a pan-European convenience food business, from 2002 until 2005. Prior to this Bill's career was with the Mars Corporation where, in 1998, he was appointed Managing Director of the UK confectionery operation and a Vice-President of Masterfoods Europe having held a variety of roles in the sales and marketing functions.

Robert Lambourne (age 59 years)

Non-Executive Director

Robert Lambourne joined Dialight as a Non-Executive Director in May 2010. He is both Chairman of the Audit Committee and a member of the Remuneration and Nominations Committees. He is a Chartered Accountant and has held a number of public company executive directorships, most recently as Finance Director of RMC Group Plc and, prior to that, as Finance Director of Hepworth plc. He is an experienced Non-Executive Director of both public and private companies in the UK and overseas. In the UK, he has been a Non-Executive Director of Pace Micro Technology plc, Abacus Group Plc and Analyst Investment Management plc as well as a number of private companies. Outside the UK, he is currently Chairman of Penox SA based in France and of Sokao Holdings SA based in Belgium and was also a Non-Executive Director of Huttig Inc in the US.

Richard Stuckes (age 44 years)

Non-Executive Director

Richard Stuckes joined Dialight as a Non-Executive Director in May 2009 and is a member of the Audit, Remuneration and Nominations Committees. He is currently the managing director of the paints business in EMEA for AkzoNobel who acquired the business from Imperial Chemical Industries ("ICI") in 2008. Richard originally joined ICI Paints on 1 January 2005 as Chief Executive Officer, ICI Paints UK and Ireland. Prior to this, Richard gained extensive experience in the lighting industry through his 13 years with Philips Lighting, including his role as Managing Director for the UK activity and for both the Spanish and Portuguese businesses.

Bill Ronald *Robert Lambourne* *Richard Stuckes*

Directors' report

Dialight recognises the value that good governance adds to all the Group's activities. On behalf of the Board I am pleased to introduce this section of the Annual Report and Accounts for the year ended 31 December 2011. On the following pages you will find information that is required by existing legislation, the UK Listing Rules and current corporate governance requirements. The section starts with the report of the Directors, is followed by the corporate governance statement and concludes with the remuneration report that is introduced by Bill Ronald, the Chairman of our Remuneration Committee.

As the Group grows, its governance framework (existing policies, procedures and processes) under which it operates, is placed under an increasing amount of pressure from a variety of sources to remain 'fit for purpose'. As well as addressing two major new governance developments during the year (the new UK Bribery Act and the new Corporate Governance Code), the Board is continually reviewing and improving this framework. A new Code of Business Conduct ("Conduct Code") and supporting policies were launched in the summer and work has been ongoing to ensure the full implementation and training on these. Responsibility for the monitoring and review of the Group's compliance with all policies, procedures, processes and internal control systems has been delegated to a newly established Governance and Risk Committee. This comprises the two Executive Directors and Company Secretary and, whilst not a formal Board committee, reports into the Group's Audit Committee, meeting as and when required.

Our governance reporting for 2011 has taken place against the new Corporate Governance Code that was issued by the Financial Reporting Council in June 2010 ("FRC Code"). Although this new FRC Code contained relatively few material changes to the existing regime it has meant that the Board has looked again at the way it operates and made changes where required to ensure its continued compliance.

More work is still required to ensure that all new policies and procedures are embedded thoroughly into the organisation. I would like to confirm to shareholders that ensuring the framework provides the correct level of protection, challenge and authority remains a key priority for the coming year.

Harry Tee CBE

Principal activities

The Company is the holding company of the Dialight Group of Companies ("Dialight" or "Group"), the world leader in applied LED technology. The Group's operations comprise three segments: Signals/Illumination; LED Indication Components; and Electromagnetic Components. Details of each segment's operations can be found in the Operating review on pages 12 to 25.

Business review

The Board is required to present a fair view of the business performance of the Group during the financial year ended 31 December 2011, a description of the principal risks and uncertainties facing the Group and the future developments of the business. The information that satisfies the requirements of the Companies Act 2006 can be found in the Overview and Operating Review Sections on pages 1 to 25. Each is incorporated by reference into, and forms part of, this Directors' report.

Results and dividends

Results for the year are set out in the consolidated income statement on page 45. The Board recommends a final dividend of 6.7 pence per ordinary share, making a total dividend for the year of 10.0 pence (2010: 8.0 pence). Subject to the approval of shareholders at the AGM, the final dividend will be paid on 9 May 2012 to shareholders on the register at the close of business on 10 April 2012.

Acquisitions and investments

On 14 June 2011 the Company announced the formation of Dialight Japan and the subsequent acquisition of the assets and contracts of its Japanese distributor I-Spec Limited. This was for an up front consideration of £0.2 million and providing I-Spec Limited with a 25% stake in the new company. This transaction was completed on 1 July 2011.

Corporate governance

A review of the Group's application of the principles and provisions of the FRC Code is set out on pages 32 to 36.

Directors and interests

The names of the Directors currently serving on the Board are shown on pages 26 and 27, together with brief biographical details for each.

The interests of the Directors and their families in the share capital of the Company as well as details of the Directors' remuneration and service contracts can be found in the Remuneration report on pages 37 to 41. None of the Directors had or has an interest in any material contract relating to the business of the Company or any of its subsidiary undertakings.

Directors' indemnities and insurance

During the year the Company maintained liability insurance and third party qualifying indemnity provisions pursuant to the Companies Act 2006 for its Directors and officers.

Financial instruments

The financial risk management objectives and policies of the Company including interest rate, currency and credit risk are outlined in note 22 to the Company's consolidated financial statements.

AGM

The Company's AGM will take place at 11.30am on 18 April 2012 at One Moorgate Place, London EC2R 6EA. An explanation of the business to be transacted at the AGM can be found in the separate circular to shareholders.

At the 2011 AGM shareholders granted the Directors the authority to purchase up to 3,160,023 ordinary shares in the Company, which will expire on 20 April 2012. A resolution to renew this authority will be put to shareholders at the AGM on 18 April 2012.

Political and charitable contributions

During the year the Group made contributions of £1,270 (2010: £1,000) to various charities. It is Group policy that no donations are made for political purposes and as a result there were no such political donations made during the year (2010: £nil).

Employees

Regular communication with employees is key to ensuring that there is clarity which allows all to understand their role in improving the Group's business performance. Regular meetings are held by regional management teams to discuss performance and strategy. All are encouraged to contribute to discussions.

Employment policies are designed to attract, retain and motivate the best people. These cover performance management, employee development, succession planning and recruitment, as well as including guidelines on staff appraisals and consultations between individuals and local management. Training and development is undertaken locally but all employees are given equal opportunities to develop their experience and their careers.

The Group gives full and fair consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Employees who become disabled are provided, where practicable, with continuing employment under normal terms and conditions and are provided with training and career development wherever appropriate.

Research and development

The Group continues to invest resources engaged in technology and product development in the UK, Denmark, Germany and the US and to update and expand its product range. Investment in this area is essential for the Group to retain and increase its market share in its competitive markets.

Payments to suppliers

Terms of payment are agreed with individual suppliers prior to supply. It is the Group's policy to settle with its suppliers as payments fall due, provided the supplier has delivered the goods and services in accordance with agreed terms and conditions. As the Company is a non-trading holding company it has no trade creditors. At 31 December 2011, the Group had an average of 47 days' (2010: 43 days') purchases outstanding in trade creditors.

Share capital structure

Share capital

As at 31 December 2011 the Company had 31,800,231 fully paid ordinary shares of 1.89 pence each in issue which are listed on the London Stock Exchange. The Company has a single class of shares. No shares have been issued that carry any special rights with regard to the control of the Company. Full details of the Company's share capital are given in note 36 to the accounts. During the year the Company issued 200,000 ordinary shares to satisfy existing awards pursuant to the Company's Performance Share Plan ("PSP").

Rights and obligations

The rights and obligations attached to the Company's shares are contained in the Company's Articles of Association ("Articles"), a copy of which can be obtained from the Company Secretary at Dialight plc, Exning Road, Newmarket, Suffolk CB8 0AX ("Registered Office"). The Articles may only be amended by a special resolution of the Company at a general meeting. No one person has any special rights of control over the Company's share capital and all shares are fully paid. Each ordinary share carries the right to one vote at general meetings of the Company.

Dividends

Subject to the relevant statutory provisions and the Articles, holders of ordinary shares are entitled to a dividend declared or paid out of profits available for such purposes. The Directors may withhold a dividend (or any part of a dividend) or other amount payable in respect of shares if a shareholder has not supplied information to the Company in default of a request duly served under Section 793 of the Companies Act 2006 ("Default Shares") and such shares represent at least 0.25% of the class of shares concerned.

Transfer restrictions

There are no specific restrictions on the transfer of the Company's shares, although the Articles contain provisions whereby Directors may refuse to register a transfer of a certificated share which is not fully paid. The Directors may also refuse to register the transfer of a certificated share unless: (1) it is in respect of a share over which the Company has no lien; (2) it is in respect of only one class of shares; (3) it is in favour of a single transferee or not more than four joint transferees; (4) it is duly stamped; and (5) it is delivered to the Registered Office or such other place as the Board may decide, accompanied by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so.

The Directors may also refuse to register a transfer of shares if a shareholder has not supplied information to the Company in default of a request duly served under Section 793 of the Companies Act 2006 and such shares represent at least 0.25% of the class of shares concerned. The Company is unaware of any arrangements between its shareholders that may result in restriction on the transfer of shares and/or voting rights.

Voting restrictions

Subject to special terms as to voting on which shares have been issued, at a general meeting, every member present in person or proxy has one vote per ordinary share. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and seniority is determined by the order in which the names of the holders stand in the register.

Unless the Board otherwise decides, no member is entitled in respect of a share held by him to be present or to vote, either in person or by proxy, at a general meeting or at a separate meeting of the holders of class of shares or on a poll, or to exercise other rights conferred by membership in relation to the meeting or poll, if a call or other amount due and payable in respect of the share is unpaid. This restriction ceases on payment of the amount outstanding and all costs, charges and expenses incurred by the Company by reason of the non-payment. The member is not entitled in respect of the Default Shares to be present or to vote (either in person or by proxy) at a general meeting or at a separate meeting of the holders of a class of shares or on a poll, or to exercise other rights conferred by membership in relation to the meeting or poll.

Subject to existing statutory provisions and the Articles, a poll may be demanded on any question by the Chairman of the meeting; or not less than five members present in person or by proxy and entitled to vote; or a member or members present in person or by proxy representing in aggregate not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or a member or members present in person or by proxy holding shares conferring a right to vote at the meeting, being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right. A demand by a proxy is deemed to be a demand by the member appointing the proxy.

Substantial shareholdings

As at 8 March 2012 the Company had received the following notifications pursuant to DTR 5 of the Disclosure and Transparency Rules of the Financial Services Authority.

Shareholder	Number of voting rights	% of issued share capital/voting rights
BlackRock Inc.	5,114,576	16.08
Standard Life Investments Ltd	3,779,172	11.88
Generation Investment Management LLP	3,209,284	10.09
Impax Asset Management Ltd	1,538,820	4.87
The Tee family	1,453,357	4.57
BlackRock UK Special Situations Fund[1]	1,072,064	3.37
Legal and General Group plc	1,207,443	3.82

1 Note that this holding also forms part of the larger holding of BlackRock Inc, but was notified in its own right.

Variation of rights

Subject to statutory provisions, the rights attached to a class of shares may be varied whether or not the Company is being wound up: (i) in such manner (if any) as may be provided by those rights; or (ii) in the absence of provision, either with the consent in writing of the holders of at least three-fourths of the nominal amount of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate meeting of the holders of the issued shares of that class validly held in accordance with the Articles, but not otherwise.

The rights attached to a class of shares are not, unless otherwise expressly provided in the rights attaching to those shares, deemed to be varied by the creation or issue of further shares ranking pari passu with or subsequent to them or by the purchase or redemption by the Company of its own shares in accordance with existing statutory provisions.

Re-appointment of Directors

The appointment and replacement of Directors of the Company is governed by its Articles and the Companies Act 2006. Further information concerning the appointment and re-appointment of Directors at the AGM can be found in the Corporate governance statement on pages 32 to 36.

The Company must have a minimum of two Directors holding office at all times. There is no maximum number of Directors. The Company may, by ordinary resolution, appoint any person to be a Director. The Board may appoint a person who is willing to act as a Director, either to fill a vacancy or as an addition to the Board. A Director appointed in this way may hold office only until the dissolution of the next AGM unless he or she is re-appointed during the meeting.

Under the Articles, at each AGM of the Company, any Director who: (i) was appointed or re-appointed three years or more prior to the meeting; (ii) was appointed or re-appointed at the third immediately preceding AGM; or (iii) at the time of the AGM has served more than eight years as a Non-Executive Director of the Company (excluding the Chairman) shall retire by rotation and such further Directors must retire by rotation so that in total not less than one-third of the Directors retire by rotation each year. However, the Board has decided to adopt provision B.7.1 of the FRC Code so that all Directors stand for re-election on an annual basis.

Power of Directors

The Directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation and the Articles and any special resolution of the Company passed at a general meeting. The Directors have the power to issue and buy back shares in the Company, as well as to grant options over or otherwise dispose of unissued shares in the Company, to such persons, at such times and on such terms as they think proper.

Change of control

Significant agreements

The Company is not party to any significant agreements that contain any material change of control provisions.

Dialight PSP

The rules of the PSP provide that, in the event of a change of control through a general offer or scheme of arrangement, shares subject to awards under the PSP could be released within one month of the date of notification of the likely change of control.

Dialight Employees' Share Ownership Plan Trust

The Company has established the Dialight Employees' Share Ownership Plan Trust ("ESOT") in which all employees of the Group, including Executive Directors, are potential beneficiaries. The ESOT currently holds 39,216 (2010: 159,621) ordinary shares in the capital of the Company. The Trustees of the ESOT retain the voting rights over the shares held in the ESOT and exercise these rights independent of the interests of the Company.

Going concern

The Directors have reasonable expectations, after making appropriate enquiries, that the Group has adequate resources to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Disclosure of information to the auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the 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 auditors are aware of that information.

Auditors

Resolutions to re-appoint KPMG Audit Plc as auditors to the Company and to authorise the Board to determine the auditors' remuneration will be proposed at the AGM.

By order of the Board

Nick Giles
Company Secretary
8 March 2012

Registered office:
Dialight plc
Exning Road
Newmarket
Suffolk CB8 0AX
Company Number: 2486024

Corporate governance statement

This report, and the Remuneration report contained on pages 37 to 41, describes how the Group has applied and complied with the principles, supporting principles and provisions contained in the FRC Code.

The Board considers that the Company has been in full compliance with the provisions set out in the FRC Code throughout the year ended 31 December 2011.

Further information on the FRC Code can be found on the FRC's website, www.frc.org.uk.

Leadership

The role of the Board

The Board is accountable to the Group's stakeholders, including its shareholders, for the standards of governance operated throughout the Group. It is committed to high standards throughout all of the Group's operating locations.

The Board has adopted a formal schedule of matters that are specifically reserved for its decision including the approval of annual and interim results; the recommendation of dividends; approval of annual budgets; review of Group strategic plans; the approval of larger capital expenditure and investment proposals; review of the overall system of internal control and risk management; and the review of corporate governance arrangements. Specific responsibilities are delegated to the Audit, Remuneration and Nominations Committees and these are documented through the relevant committee terms of reference. The matters reserved for Board decision and the committee terms of reference are reviewed on an annual basis. These are available on the Company's website at www.dialight.com or from the Company Secretary at the Company's Registered Office.

Prior to July 2011, Group policies and procedures that had been adopted by the Board were included in the Group Policies and Procedures Manual ("Manual"). Updates to this Manual are approved by the Board and communicated across the Group as required. In response to the challenges presented by the new Bribery Act, the Board approved a new Conduct Code that set out the standards for what Dialight believes is acceptable behaviour for all employees as well as the Group's dealings with shareholders, customers, suppliers and agents and its impact on the environment and the community. This Conduct Code is underpinned by a number of supporting policies that replace earlier versions of policies that had been contained in the Manual. The Manual also contains Group delegated authorities which are currently being reviewed. It is envisaged that a revised delegated authorities document will be issued in the first half of 2012 to replace the authorities contained in the Manual.

The Board held seven scheduled meetings during 2011 including a two-day annual strategy and planning meeting hosted offsite in the UK as well as meeting on a number of other occasions as the situation and circumstances required. Further details of Directors' attendance at all scheduled meetings of the Board and its Committees can be found in the table below. There are seven Board meetings scheduled to take place in 2012.

Division of responsibilities

There are clearly established roles for the Chairman and Group Chief Executive. Individual, documented role statements are available on the Company's website or from the Company Secretary at the Company's Registered Office.

Number of meetings attended

	Board	Audit Committee	Remuneration Committee
Harry Tee CBE	7/7	n/a	n/a
Roy Burton	7/7	n/a	n/a
Mark Fryer	7/7	n/a	n/a
Robert Lambourne	7/7	4/4	3/3
Bill Ronald	7/7	4/4	3/3
Richard Stuckes	7/7	4/4	3/3

There were no meetings of the Nominations Committee held during 2011. All Directors automatically stand for re-election on an annual basis and so no meeting was required to propose those candidates for re-election.

Group structure

The Board

Nominations Committee	Remuneration Committee	Audit Committee
Members	Members	Members
Harry Tee CBE (Chairman)	**Bill Ronald (Chairman)**	**Robert Lambourne (Chairman)**
Robert Lambourne	Richard Stuckes	Bill Ronald
Bill Ronald	Robert Lambourne	Richard Stuckes
Richard Stuckes		
Roy Burton		

The Group Chief Executive has delegated responsibility for the management of the Group's day-to-day operations. In addition he is responsible for the preparation and presentation of strategic options for the Group's growth in shareholder value and sets the operating plans and budgets required to deliver the agreed strategy. The Group Chief Executive is also responsible for ensuring that the Group maintains appropriate risk management and control mechanisms.

The Chairman

In addition to other matters, the Chairman has responsibility for the leadership of the Board, ensuring the effectiveness of the Board, organising and planning Board meetings and the effective and timely communication of information to shareholders. The Chairman provides advice, counsel and support to the Group Chief Executive as and when required and maintains open and continual contact with the Non-Executive Directors to allow any issues to be addressed outside of the formal scope of the regular Board meetings.

Board agendas are prepared by the Chairman in conjunction with the Group Chief Executive and the Company Secretary. At each meeting the Board is provided with regular and timely information on the financial performance of businesses within the Group, and of the Group as a whole, together with reports on trading, health and safety, performance, markets and other relevant issues. Board and Committee papers are distributed to Directors in advance of Board and Committee meetings to facilitate informed debate at the meeting.

The Non-Executive Directors

The Board currently comprises three independent Non-Executive Directors. Bill Ronald has been the Senior Independent Director since 25 August 2010. All Non-Executive Directors constructively challenge and assist in developing the strategy of the Group and scrutinise the performance of management against the Group's objectives and strategy.

The Chairman holds meetings with the Non-Executive Directors without the Executive Directors present on a range of matters whilst the Senior Independent Director does the same with other Non-Executive Directors as part of the Chairman's annual performance appraisal as well as on such other occasions as required.

Effectiveness

Composition of the Board

In addition to the Non-Executive Directors, the Board also includes three further directors; the Chairman, the Group Chief Executive and the Group Finance Director.

All of the Non-Executive Directors are considered to be independent in accordance with the FRC Code and it is thought that the current balance on the Board ensures that no individual or group dominates the Board's decision making process. The Non-Executive Directors are independent of management and are free from any relationship which could affect the exercise of their independent judgement and therefore meet the criteria set out in the FRC Code. Their biographies appear on pages 26 and 27. These demonstrate a range of experience that brings independent judgement to issues of strategy, performance, resources and standards of conduct which are vital to the future success of the Group. The Board has considered and confirmed that each Non-Executive Director continues to demonstrate that he has sufficient time to devote to the Company's business.

Each Non-Executive Directors' knowledge and understanding of the Group is enhanced by visits to Group facilities and through presentations from members of senior management.

No individuals apart from the Committee chairmen and Committee members are allowed to be present at Committee meetings although other individuals, including the Chairman, Group Chief Executive, Group Finance Director, Group HR Director and external auditors, may attend meetings at the prior invitation of the relevant Committee Chairman.

Appointments to the Board

The Board has established a Nominations Committee to lead the process for all Board appointments, making recommendations where required. Membership details of the Committee can be found in the table above.

All members served throughout the year and, with the exception of Harry Tee CBE and Roy Burton, are considered independent pursuant to the FRC Code.

Corporate governance statement continued

Effectiveness continued

Appointments to the Board continued

The Committee is responsible for reviewing the size, structure and composition of the Board, making recommendations where necessary, giving consideration to the provision of adequate succession planning for Senior Executives and Directors and making recommendations regarding re-election and re-appointment of Directors should this be required. In appropriate cases, recruitment consultants are engaged to assist with any recruitment process. The Committee held no meetings during the year. The Board agreed to annual re-election in 2011 and therefore no decision as to which Directors would have to stand for re-election was required.

Commitment

Service contracts of the Executive Directors and the terms and conditions of appointment of the Non-Executive Directors are available for inspection at the Company's Registered Office during normal business hours on any weekday (except Bank Holidays) and at the AGM. Further details of these can be found in the Remuneration report on pages 37 to 41.

Development

All new Directors receive a full and formal induction programme on joining the Board. This includes the provision of information on the Group, its products and markets, financial information and general advice on Directors' duties under the Companies Act 2006 and the UK Listing Rules. Visits to Group locations also form part of the process as do meetings with key senior management.

Further training needs are provided as required following discussion between individual Directors and the Chairman. Any resources required in this respect are provided by the Company.

Information and support

The Company Secretary, in accordance with guidance from the Chairman, takes the lead on ensuring that the Board and its Committees receive the necessary information that they require to operate efficiently. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible for advising the Board, through the Chairman, on all matters of governance and best practice. In addition, the Company Secretary ensures that the Directors receive appropriate training as necessary. Directors may take independent professional advice on any matter at the Company's expense if they deem it necessary in order to carry out their responsibilities effectively. No such advice was taken during the year.

Evaluation

Evaluation of the Board and its Committees is by way of responses to a questionnaire issued to all members of the Board. Feedback from these questionnaires is then gathered and collated by the Company Secretary for presentation to the Board in order to facilitate discussion. The Chairman is responsible for conducting the performance evaluation of the Group Chief Executive. The Non-Executive Directors, led by the Senior Independent Director, are responsible for evaluating the performance of the Chairman and the Group Chief Executive conducts evaluations of the other Executive Directors and senior management. Further consideration will be given to the possible undertaking of an external evaluation for the coming year.

The questionnaire issued to Board members covers a range of topics including the Board's remit, its objectives and its procedures and administration. The findings from the results of this exercise were submitted to the Board in February 2012. A number of issues were identified and appropriate actions agreed for the future.

Re-election

The Articles state that at each AGM of the Company, any Director who has been appointed or re-appointed three years or more prior to the meeting, any Director who has been appointed or re-appointed at the third immediately preceding AGM, or at the time has served more than eight years as a Non-Executive Director of the Company (excluding the Chairman) shall retire by rotation and such further Directors must retire by rotation so that in total not less than one-third of the Directors retire by rotation each year. In respect of the 2012 AGM and as previously stated the Board has decided to adopt provision B.7.1 of the FRC Code so that all Directors will stand for re-election on an annual basis. Therefore, at the 2012 AGM all members of the Board will retire and submit themselves for re-election.

Audit Committee, accountability and auditors

Financial and business reporting

The basis on which the Company generates and preserves value over the longer term and the strategy for delivering the objectives of the Company can be found in the Business model section on pages 4 to 7.

Risk management and internal control

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness on an annual basis. Such systems can only be designed to manage, and not eliminate, the risk of failure to achieve business objectives. They can provide reasonable, but not absolute, assurance against material misstatement or loss.

The following controls are in place which enable the Board to review the effectiveness of the system of internal control:

- **Management structure**
  The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Each Executive Director has been given responsibility for specific aspects of the Group's affairs. The Executive Directors also meet regularly with the senior management of the operating businesses on a range of issues. New, scheduled Group Executive meetings have also allowed senior management from both Europe and the US to meet and consider aspects of Group strategy alongside the Group Chief Executive and the Group Finance Director.

- **Risk assessment**
  In response to the review of the Group's internal controls that took place in 2010 and 2011, the Board agreed that it would conduct its review of risks and risk management systems twice yearly, in June and December. Risk registers are now produced by each region: the Americas; Europe; and centrally by Dialight plc, on a quarterly basis. Completed registers are then considered and reviewed by the Governance and Risk Committee (comprising the Group Chief Executive and Group Finance Director and representatives from the business, where required). This results in the production of what are considered to be the Group's principal risks for presentation to the Board for consideration and approval.

The registers classify risks as strategic, macro-economic, operational, financial and organisational or health and safety/ compliance risks and include information on the risk, its likely consequences, an assessment of the risks impact, an assessment of the risks likelihood, details of the controls to mitigate risks, a rating of the existing controls and details of the owner of each risk.

- **The Conduct Code and supporting policies**
  The Board approved a new Conduct Code that set out the standards for what Dialight believes is acceptable behaviour for all employees as well as the Group's dealings with shareholders, customers, suppliers and agents and its impact on the environment and the community. This Conduct Code is underpinned by a number of supporting policies. Both the Dialight Conduct Code and the supporting policies contain provisions that cover implementation, compliance and monitoring to ensure consistency of application throughout the Group. The Governance and Risk Committee is responsible for monitoring and reporting on the Group's compliance with the Conduct Code and supporting policies to the Audit Committee.

- **The Manual**
  Responsibility levels are communicated throughout the Group as part of the Manual which sets out delegation of authority and authorisation levels, segregation of duties and other control procedures together with accounting policies and procedures. The Manual is updated as and when required and as set out on page 32 is subject to a review at present. It is envisaged that the Manual will be replaced in the first half of 2012.

- **Quality and integrity of personnel**
  The integrity and competence of personnel is ensured through high recruitment standards and ongoing development and training. High quality personnel are seen as an essential part of the control environment. Ethical standards expected are also communicated through the Conduct Code and relevant supporting policies.

- **Financial information**
  There is a comprehensive strategic planning, budgeting and forecasting system. Each year the Board approves the annual budget and updated business strategic plan. Key risk areas are identified and reported to the Board. Performance is monitored on a monthly basis against budget and the prior year and relevant actions identified.

  The business produces detailed five-year business plans. Plans will include consideration of the financial projections and the evaluation of business alternatives and are presented by the relevant management team to the Board as part of the strategic/planning meeting.

  The Board receives and reviews monthly management accounts together with full year forecasts which are updated monthly. Performance against forecast and budget is closely monitored.

  The Group Chief Executive and the Group Finance Director submit papers to the Board on a monthly basis that focus on key developments, performance and issues in the businesses.

- **Investment appraisal**
  Capital expenditure and research and development projects are regulated by budgetary process and authorisation levels set out in the Manual. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board for approval. Reviews are carried out after the acquisition is complete and, for some projects during the acquisition period, to monitor expenditure; major overruns are investigated. Due diligence work is carried out if a business is to be acquired.

- **Audit Committee**
  The Audit Committee monitors, through reports to it by the Group Finance Director, the controls which are in force and any perceived gaps in the control environment. The Audit Committee also considers and determines relevant action in respect of any control issues raised by these reports or the external auditors, as well as considering issues raised in accordance with the Group's Confidential Disclosure policy.

- **Internal audit**
  The review of the Group's internal audit arrangements concluded that, whilst Dialight remained too small to justify its own internal audit department, it would continue with a series of peer group financial control reviews during 2012 following the successful use of these in 2011. The Audit Committee agrees the annual scope of these reviews in advance. This process will be supplemented with additional procedures to be performed as the Audit Committee deemed necessary.

- **Insurance**
  The Group maintains insurance cover to insure all major risk areas based on the scale of the risk and availability of cover in the external market.

- **Legal and compliance**
  Reports are presented to the Board on any material legal or compliance issues that may impact the Group.

- **Compliance with controls**
  A process of control risk self-assessment is used in the Group where senior managers are required to detail and certify controls in operation to ensure the control environment in their business area is appropriate. They also confirm monthly, in writing, that risk management processes and appropriate controls are in place and are operating effectively.

The Board confirms that it has conducted a review of the system of internal controls in respect of the year ended 31 December 2011 covering all material controls, including financial, operational and compliance controls and risk management systems.

Audit Committee and auditors

Membership details of the Audit Committee can be found on page 33. All members on the Committee served throughout the year and are considered independent pursuant to the FRC Code. The Board considers that the Committee Chairman has recent and relevant financial experience and an understanding of accounting and financial issues relevant to the industries in which the Group operates.

Corporate governance statement continued

Audit Committee and auditors continued

The Committee is responsible for reviewing a wide range of matters including the half year and annual accounts before their submission to the Board for approval and monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The Committee makes recommendations to the Board on the appointment and responsibilities of external auditors and on their remuneration both for audit and non-audit work and discusses the nature, scope and results of the audit with external auditors.

The Committee monitors risk management and internal control processes as part of its responsibilities and reviews reports on the effectiveness of the Group's systems of internal financial control, financial reporting and risk management. The Committee also monitors the integrity of internal financial controls and it will assess the scope and the effectiveness of the established systems to identify, assess, manage and monitor financial and non-financial risks. The Committee has oversight of the internal audit process.

The Committee considers the cost-effectiveness, independence and objectivity of KPMG Audit Plc ("Auditors" or "KPMG"), the external auditors, on a regular basis. It also agrees the level of remuneration of the Auditors and reviews the extent of non-audit services provided by KPMG during the year. The Auditors annually confirm their policies to ensure independence and provide the Committee with a report on their own internal quality control procedures.

Committee meetings are attended by the Auditors at the invitation of the Committee Chairman to ensure full communication of matters relating to the audit. The Committee also meets with the Auditors without the Executive Directors present to discuss the adequacy of controls and any material judgemental areas.

In accordance with the Manual, prior approval of the provision of any non-audit services must be provided by the Group Finance Director, although assignments with proposed fees over £20,000 require the approval of the Committee as a whole. This serves to ensure that other potential providers of the service under discussion have also been adequately considered.

Remuneration Committee

Details of the role and activities of the Remuneration Committee during the year can be found in the Directors' remuneration report on pages 37 to 41. Membership information can be found on page 33.

Relations with shareholders

Dialogue with shareholders

Communications with shareholders are given high priority. The Chairman has overall responsibility for ensuring that there is effective communication with investors including being aware of the views of major shareholders on matters such as corporate governance.

On a day-to-day basis the Board's primary contact with major shareholders is via the Group Chief Executive and Group Finance Director, who have regular dialogue with individual institutional shareholders and deliver presentations to analysts after the full and half year results. Copies of the shareholder presentations are made available on the Company's website.

The Non-Executive Directors are kept appraised of shareholder views through the provision of a report at each Board meeting on shareholder activity. In addition to updates on share price and trading activity, this could include the consideration of recent analyst briefings and feedback from results road shows. In addition all members of the Board are offered invitations to attend all presentations and meetings with shareholders.

Constructive use of the AGM

The AGM presents an additional opportunity to communicate with private and institutional investors. The Chairman aims to ensure that the Chairmen of the Audit, Remuneration and Nominations Committees are available at these meetings to answer questions. Each substantially separate issue is proposed as a separate resolution. Details of resolutions to be proposed at the AGM on 18 April 2012 can be found in the separate circular to shareholders. The Notice of the AGM and related documents are sent to shareholders at least 20 working days before the date of the meeting.

Nick Giles
Company Secretary
8 March 2012

Directors' remuneration report

2011 has seen the publication of a large amount of information, official or otherwise, as well as increasing focus on the debate around remuneration issues. This trend looks set to continue into 2012. The following pages contain the Remuneration report for the year ended 31 December 2011 and include all of the information that is required by the Companies Act 2006, Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the UK Listing Authority and describes how the Company has applied the principles of the FRC Code with regard to remuneration ("Regulations").

These Regulations require the Group's Auditors to report on the audited information within the report and to state if this section of the report has been properly prepared in accordance with the Regulations. To assist with this process this report has been divided into separate sections for that information that is unaudited and audited.

Although the Board remains responsible for the Group's remuneration policy, the determination and review of remuneration packages for the Executive Directors and certain other Senior Executives (including contract terms, remuneration and other benefits such as performance related bonus schemes, long-term incentives, pension rights and compensation payments) has been delegated to the Committee as well as a responsibility to recommend and monitor the structure of the remuneration of the Group's senior management, as defined by the Board.

Membership details of the Committee can be found on page 33. All members served throughout the year and are considered independent in accordance with the FRC Code. Details of the number of meetings held during the year as well as details of attendance at these meetings can be found in the Corporate governance statement on page 32.

A copy of the terms of reference for the Committee can be found on the Company's website or on request from the Company Secretary at the Registered Office. The Committee has access to the advice of the Group Chief Executive, the Chairman, the Group HR Director and the Company Secretary (none of whom participate in any discussion concerning their own remuneration) and external advisers as required. During the year ended 31 December 2011 the Committee consulted Kepler Associates, who provided advice regarding executive remuneration benchmarking, annual bonus plans and long-term incentive design, and Clifford Chance LLP, who advised on the operation of the Group's PSP. Pett Franklin & Co LLP ("Pett Franklin") provided advice and assistance in regard to the Annual Performance Bonus Plan and Deloitte LLP ("Deloitte") provided advice in regard to Executive pension arrangements. Kepler Associates, Pett Franklin and Deloitte provided no other services to the Company. Clifford Chance LLP also provided general corporate legal advice to the Company. Within the report you will find details of the Group's remuneration policy as well as specific details of the Executive Directors' remuneration packages.

As in prior years, this report will be put to shareholders at the forthcoming AGM for an advisory vote. This is in respect of remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration.

Bill Ronald, Chairman
Remuneration Committee

Directors' remuneration report continued

Service contracts of Directors

Name	Contract date	Notice period	Contractual early termination payment
Roy Burton	1 October 2005	12 months (Company) 12 months (Executive)	No provisions exceeding 12 months' emoluments
Mark Fryer	5 August 2010	12 months (Company) 6 months (Executive)	No provisions exceeding 12 months' emoluments

Part 1: Unaudited information

1. Remuneration policy

The objective of Dialight's remuneration policy is to provide packages that are designed to attract, retain and motivate people of high quality and experience.

Remuneration packages currently consist of a basic annual salary, short and long-term incentive schemes, pension arrangements, car allowances or cash alternatives and health care benefits.

The Committee believes that the base salary and benefits for the Executive Directors should represent a fair return for employment but that the maximum total potential remuneration may only be achieved in circumstances where challenging objectives have been met that contribute to Dialight's overall profitability and performance. Performance related elements, including bonuses and the PSP, form a significant proportion of the total remuneration of the Executive Directors aligning their interests with those of the shareholders and providing incentives for performance. A significant part of the Executive Directors' total package is therefore considered to be at risk.

The Committee has reviewed the structure of remuneration for the Executive Directors and certain senior executives in the Group and confirms the policy, as outlined above, has been applied in a consistent way.

2. Executive Directors' remuneration

(i) Basic salary

Salaries are reviewed on an annual basis and any changes take effect from 1 January each year. Base salary is determined by reference to relevant market data and the individual's experience, responsibilities and performance. As the Group Chief Executive is based in the US his salary is paid in US Dollars. Salaries (as well as total remuneration) are benchmarked against a mixture of US and UK companies of a similar size and operating in similar sectors.

The base salaries of the Group Chief Executive and the Group Finance Director were reviewed at a meeting of the Committee on 14 December 2011 and an increase of 2% was awarded. This increase reflected the market positioning of the Company and were made in light of the current pay and employment conditions throughout the Group. Details of current salaries can be found on page 40.

(ii) Annual Performance Bonus Plan

2011 awards

The new Annual Performance Bonus Plan ("Plan") was introduced during the year and approved by shareholders at the AGM on 20 April 2011. The Plan links bonus payments to the growth in Group operating profit and provides maximum bonus opportunities for the Group Chief Executive and the Group Finance Director of 150% and 100% of base salary respectively. Bonuses are paid though a mixture of cash and deferred shares with half of the deferred share element vesting after two years and the balance after three years, subject to continued employment with the Group. For the year ended 31 December 2011, the Group achieved operating profit of £15.1 million, that represented growth of 34.6%, therefore, following consideration at the Committee meeting in February 2012, maximum bonuses were awarded to both the Group Chief Executive and the Group Finance Director, details of which can be found on page 40.

2012 awards

The Committee considered and approved revised operating profit growth objectives for the 2012 Plan at a meeting in December 2011. As a result of the introduction of new 'clawback' provisions in the rules of the Plan, the deferred share portion of any bonus remains at risk until its actual release to the individual participant.

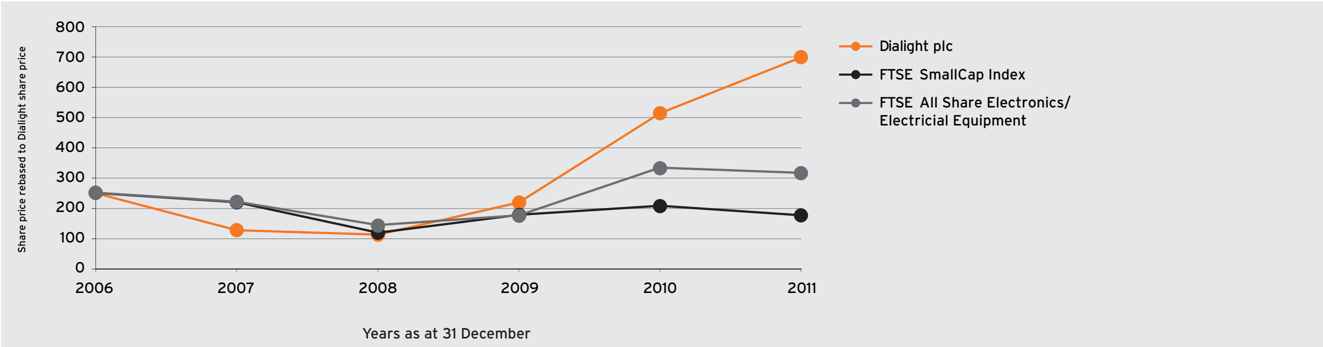
(iii) PSP

The PSP was approved by the shareholders of the Company at an EGM held on 29 September 2005. Executive Directors and other members of senior management, as approved by the Committee, are eligible to receive awards, which are released after three years subject to the satisfaction of performance conditions determined by the Remuneration Committee at the time of grant.

Awards are normally made in the six-week period following the announcement by the Company of its results for any period. The number of shares which are the subject of the award will be calculated by dividing the value of the award by the average price of the Company's ordinary shares on the London Stock Exchange over the 30 trading days prior to the date of the award. The initial value of an award granted in any one financial year will be determined by the Committee. Awards will not normally exceed 100% of an individual's basic salary.

Vesting of existing awards is based on relative TSR, as the Committee believes TSR to be the appropriate measure of long-term Group success, which provides strong alignment between the interests of shareholders and executives. TSR performance is measured relative to two indices (the FTSE All Share Electronics/Electrical Equipment Index and the FTSE SmallCap Index), each index having equal weighting. TSR is measured over a three-year period with the measurement period beginning on the first day of the financial year in which the award is made. If the percentage increase in the Company's TSR is equal to the percentage increase in the TSR of the comparator index, 25% of the ordinary shares subject to an award will vest, rising, on a straight-line basis, to 100% vesting if the percentage increase in the Company's TSR is equal to the increase in the TSR of the index plus 15% per annum.

Dialight plc vs FTSE Small Cap Index and FTSE Electronics/Electrical Equipment



No ordinary shares will vest if the percentage increase in the Company's TSR is below the percentage increase in the TSR of the comparator index.

In the event of a change of control of the Group, the Committee may, at its discretion, release the value of the ordinary shares early. In determining the value of the benefit, the Committee may take into account the length of time between the start of the measurement period and the triggering event as well as the level of performance up to the date of this event.

(iv) Pensions

The Group Finance Director receives Company contributions of 15% of base salary into a Group defined contribution pension scheme. The Group Chief Executive currently receives employer contributions under both a 401(k) plan plus an employer contribution under the Supplemental Executive Pension Plan ("SEP"). In 2010 aggregate employer contributions into both plans equated to around 9% of his base salary.

In looking at executive pension arrangements during the year the Committee noted that the median pension benefit value at UK companies of a similar size to Dialight was around 20% of salary, with most companies delivering such benefit through defined contribution arrangements or salary supplements. In addition, at US companies, defined benefit plans were much more prevalent, with most designed to provide an annual pension of around 45% of salary, after 25 years' service. As a result, the Committee agreed that the Group Chief Executive's pension arrangements were well behind both the UK and US markets.

In light of this, the decision was taken to enhance the Group Chief Executive's current pension arrangements with an additional contribution under the SEP of $100,000 to be made on 30 June of each year. This represented an increase in pension benefit of around 19% of salary, and results in a broadly median level of pension across a blend of the UK and US markets. This pension benefit would be subject to clawback such that any or all of it may be forfeited in the event of embezzlement, theft, gross negligence or other misconduct, until the benefit is transferred to him. Investment options under this scheme will be the same as those available under the 401(k) plan, with the same transfer of any associated investment charges to the executive. No contributions had been made to this scheme as at the 31 December 2011.

(v) Additional benefits

The Group Chief Executive received life assurance and medical benefits during the year. The Group Finance Director received taxable benefits including a car allowance and medical insurance for both him and his immediate family as well as life assurance.

(vi) Service contracts

Details of the service contracts of those individuals that served as Executive Directors during the year can be found on page 38.

(vii) Performance review

The graph above shows the five-year TSR of the Company, compared with the TSR over the same period for the FTSE Small Cap and the FTSE All Share Electronics/Electrical Equipment. These were selected as they were considered to be a broad representation of Dialight's peer group in terms of its size and industry sector.

3. Non-Executive Directors' remuneration

Fees for the Non-Executive Directors are determined by the Chairman, the Group Chief Executive and the Group Finance Director. The Non-Executive Directors do not take part in these discussions. The Non-Executive Directors' fees are subject to review on an annual basis and were considered on 14 December 2011. As a result of this meeting it was agreed that there would be no increase with effect from January 2012 and that Non-Executive fees would only be subject to review every two years with immediate effect. The details of Non-Executive Directors' fees can be found in the emoluments table on page 40.

The Non-Executive Directors do not participate in the Plan or the PSP and they are not eligible for pension scheme membership.

The Non-Executive Directors have standard letters of appointment. Non-Executive Directors' letters of appointment are available for inspection at the Company's Registered Office and will be made available at the AGM.

4. External appointments

No Executive Directors currently hold any external directorships of listed companies.

Directors' remuneration report continued

Part 2: Audited information

Table 1 – Directors' emoluments

The remuneration of the Directors is set out below:

	Salary/fees '000	Bonus paid in cash '000	Bonus paid in shares '000	Pensions[1] '000	Benefits '000	**2011 '000**	2010 '000
Executive Directors							
Roy Burton	US$520	US$520	US$260	US$65	US$25	**US$1,390**	US$988
Mark Fryer	£219	£164	£55	£33	£13	**£484**	£146
Non-Executive Directors							
Harry Tee CBE	£100	—	—	—	—	**£100**	£75
Bill Ronald[2]	£35	—	—	—	—	**£35**	£30
Robert Lambourne[2]	£35	—	—	—	—	**£35**	£18
Richard Stuckes	£30	—	—	—	—	**£30**	£25

1 Figures represent Company contributions to defined contribution arrangements.

2 Robert Lambourne and Bill Ronald receive an additional £5,000 per annum as Chairmen of the Audit and Remuneration Committees respectively.

Table 2 – PSP

Awards under the PSP:

	Date of award	**PSP shares held at 1 January 2011**	PSP shares awarded in year	PSP shares vested in year	PSP shares lapsed in year	**PSP shares held at 31 December 2011**	Earliest vesting date	**Value at 31 December 2011[1] £000**
Roy Burton	09.04.08	**143,360**	—	143,360[2]	—	**—**	—	**—**
	30.04.09[3]	**160,926**	—	—	—	**160,926**	30.04.12	**1,125**
	26.05.10	**127,582**	—	—	—	**127,582**	26.05.13	**892**
	17.02.11[4]	**—**	58,137	—	—	**58,137**	17.02.14	**406**
Total		**431,868**	**58,137**	**143,360**	**—**	**346,645**		**2,423**
Mark Fryer	02.09.10	**37,822**	—	—	—	**37,822**	02.09.13	**264**
	17.02.11[4]	**—**	29,549	—	—	**29,549**	17.02.14	**207**
Total		**37,822**	**29,549**	**—**	**—**	**67,371**		**471**

1 The value of the awards under the PSP shows the number of awards held multiplied by the market price of the Company's shares at 30 December 2011. It has been assumed that the maximum number of awards vested in accordance with the performance conditions set out on page 38. On 30 December 2011 the share price was 699 pence per share.

2 On 11 April 2011 this award vested in full following satisfaction of the performance conditions. 50,251 shares were sold to meet tax and social security liabilities at a price of 775 pence. The remaining 93,109 shares were retained by the Group Chief Executive.

3 Performance conditions in respect of awards granted on 30 April 2009 indicate that 100% of the total award will vest. Vesting and release of these awards is subject to decision of the Committee.

4 The number of shares awarded on 17 February 2011 were the share equivalents of 100% of the base salary of the Group Chief Executive and 75% of the base salary of the Group Finance Director, based on the average of the mid market closing values of the Company's shares for the 30 dealing days ending on 16 February 2011 of 559 pence.

5 The price of an ordinary share on 17 February 2011 was 624 pence. During the year, the range of share prices was 847 pence to 514 pence, with the price on 30 December 2011 being 699 pence.

Overview
Operating review
Governance
Financials
Shareholder information

Part 2: Audited information continued

Table 3 – Directors' interests in shares

The interests of the Directors and their connected persons in the shares of the Company as at 31 December 2011 are set out below:

	31 December 2011	31 December 2010
Executive Directors		
Roy Burton[1]	**182,146**	89,037
Mark Fryer	**—**	—
Non-Executive Directors		
Harry Tee CBE[2]	**1,453,357**	1,453,357
Bill Ronald[3]	**13,500**	10,000
Robert Lambourne[4]	**1,000**	1,000
Richard Stuckes[5]	**24,178**	20,678
Total	**1,674,181**	1,574,072

1 Some of these shares are held through nominees. Roy Burton received 93,109 ordinary shares on 11 April 2011 following the vesting of the awards granted under the PSP in April 2008.

2 Some of these shares are held through nominees.

3 Bill Ronald purchased 3,500 ordinary shares on 26 August 2011 at a price of 720 pence per share. Some of these shares are held through a nominee.

4 Some of these shares are held through nominees.

5 Richard Stuckes purchased 3,500 ordinary shares on 30 August 2011 at a price of 716 pence per share. Some of these shares are held through nominees.

There has been no change in Directors' holdings since 31 December 2011.

By order of the Board

Bill Ronald
Chairman of the Remuneration Committee
8 March 2012

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report, Directors' remuneration report and Corporate governance statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board of Dialight plc

Roy Burton
Group Chief Executive
8 March 2012

Mark Fryer
Group Finance Director

Independent auditor's report to the members of Dialight plc

We have audited the financial statements of Dialight plc for the year ended 31 December 2011 set out on pages 45 to 84. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 auditors' 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 Director's and auditor's

As explained more fully in the Directors' responsibilities statement set out on page 42, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB'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 APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate governance statement set out on pages 32 to 36 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Independent auditor's report continued to the members of Dialight plc

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 32, in relation to going concern;
- the part of the Corporate governance statement on pages 32 to 36 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to Shareholders by the Board on Directors' remuneration.

G.A. Watts
Senior Statutory Auditor
for and on behalf of KPMG Audit Plc
Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH
8 March 2012

Consolidated income statement for the year ended 31 December 2011

	Note	2011 Underlying £'000	2011 Non-underlying £'000 (see note 5)	2011 Total £'000	2010 Total £'000
Continuing operations					
Revenue	4	113,524	—	113,524	99,183
Cost of sales		(80,094)	—	(80,094)	(71,897)
Gross profit		33,430	—	33,430	27,286
Distribution costs		(9,183)	—	(9,183)	(7,212)
Administrative expenses		(9,192)	(2,808)	(12,000)	(8,891)
Other operating income		—	2,741	2,741	—
Results from operating activities	4,9	15,055	(67)	14,988	11,183
Financial income	7	1,265	—	1,265	1,937
Financial expense	7	(1,234)	(704)	(1,938)	(1,821)
Net financing income/(expense)	7	31	(704)	(673)	116
Profit before income tax		15,086	(771)	14,315	11,299
Income tax expense	8	(5,056)	332	(4,724)	(3,846)
Profit for the year		10,030	(439)	9,591	7,453
Attributable to:					
Owners of the parent		10,109	(439)	9,670	7,453
Non-controlling interest		(79)	—	(79)	—
Profit for the year		10,030	(439)	9,591	7,453
Earnings per share					
Basic	18			30.3p	23.8p
Diluted	18			29.5p	23.2p

The accompanying notes form part of the financial statements.

There were no non-underlying items in 2010.

Consolidated statement of comprehensive income for the year ended 31 December 2011

	2011 £'000	2010 £'000
Other comprehensive income		
Exchange difference on translation of foreign operations	**74**	118
Income tax on exchange difference on translation of foreign operations	**(26)**	201
Actuarial losses on defined benefit pension schemes	**(188)**	(1,810)
Income tax on actuarial losses on defined benefit pension schemes	**60**	631
Other comprehensive income for the year, net of tax	**(80)**	(860)
Profit for the year	**9,591**	7,453
Total comprehensive income for the year	**9,511**	6,593
Attributable to:		
Owners of the parent	**9,586**	6,593
Non-controlling interest	**(75)**	—
Total comprehensive income for the year	**9,511**	6,593

Consolidated statement of changes in equity for the year ended 31 December 2011

	Note	Share capital £'000	Merger reserve £'000	Translation Reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
At 1 January 2010		591	546	3,088	2,232	33,647	**40,104**	—	**40,104**
Profit		—	—	—	—	7,453	**7,453**	—	**7,453**
Other comprehensive income:									
Foreign exchange translation differences, net of taxes		—	—	319	—	—	**319**	—	**319**
Actuarial losses on defined benefit pension plans, net of taxes	19	—	—	—	—	(1,179)	**(1,179)**	—	**(1,179)**
Total other comprehensive income		—	—	319	—	(1,179)	**(860)**	—	**(860)**
Total comprehensive income for the year		**—**	**—**	**319**	**—**	**6,274**	**6,593**	**—**	**6,593**
Transactions with owners, recorded directly in equity:									
Issue of shares on acquisition		6	903	—	—	—	**909**	—	**909**
Share-based payments, net of tax		—	—	—	—	785	**785**	—	**785**
Dividends	17	—	—	—	—	(2,228)	**(2,228)**	—	**(2,228)**
Unpaid dividends returned from shareholders		—	—	—	—	6	**6**	—	**6**
Total contributions by and distributions to owners		**6**	**903**	**—**	**—**	**(1,437)**	**(528)**	**—**	**(528)**
Balance at 31 December 2010		**597**	**1,449**	**3,407**	**2,232**	**38,484**	**46,169**	**—**	**46,169**
Balance at 1 January 2011		597	1,449	3,407	2,232	38,484	**46,169**	—	**46,169**
Profit		—	—	—	—	9,670	**9,670**	(79)	**9,591**
Other comprehensive income:									
Foreign exchange translation differences, net of taxes		—	—	44	—	—	**44**	4	**48**
Actuarial losses on defined benefit pension plans, net of taxes	19	—	—	—	—	(128)	**(128)**	—	**(128)**
Total other comprehensive income		—	—	44	—	(128)	**(84)**	4	**(80)**
Total comprehensive income for the year		**—**	**—**	**44**	**—**	**9,542**	**9,586**	**(75)**	**9,511**
Transactions with owners, recorded directly in equity:									
Own shares issued		4	—	—	—	(4)	**—**	—	**—**
Share-based payments, net of tax		—	—	—	—	1,511	**1,511**	—	**1,511**
Deferred bonus share scheme	6	—	—	—	—	230	**230**	—	**230**
Dividends	17	—	—	—	—	(2,683)	**(2,683)**	—	**(2,683)**
Dividends on shares awarded under the PSP	17	—	—	—	—	(115)	**(115)**	—	**(115)**
Unpaid dividends returned from shareholders		—	—	—	—	2	**2**	—	**2**
Total contributions by and distributions to owners		**4**	**—**	**—**	**—**	**(1,059)**	**(1,055)**	**—**	**(1,055)**
Change in ownership interests in subsidiaries:									
Acquisition of subsidiaries with non-controlling interest	12	—	—	—	—	—	**—**	139	**139**
Balance at 31 December 2011		**601**	**1,449**	**3,451**	**2,232**	**46,967**	**54,700**	**64**	**54,764**

At 31 December 2011 the number of shares held by the Group through the Dialight Employees' Share Ownership Plan Trust ("ESOT") trust was 39,216 (2010: 159,621). The market value of these shares at 31 December 2011 is £274,120 (2010: £820,452).

Consolidated statement of financial position for the year ended 31 December 2011

	Notes	2011 £'000	2010* £'000
Assets			
Property, plant and equipment	10	**8,929**	8,218
Intangible assets	11	**12,158**	10,488
Deferred tax assets	13	**1,950**	3,162
Employee benefits	19	**803**	420
Total non-current assets		**23,840**	22,288
Inventories	14	**15,842**	9,187
Trade and other receivables	15	**22,846**	18,856
Cash and cash equivalents	16	**13,700**	10,359
Total current assets		**52,388**	38,402
Total assets		**76,228**	60,690
Liabilities			
Trade and other payables	21	**(19,136)**	(11,265)
Provisions	20	**(434)**	(694)
Tax liabilities		**(1,409)**	(239)
Total current liabilities		**(20,979)**	(12,198)
Employee benefits	19	**—**	(1,861)
Provisions	20	**(485)**	(462)
Total non-current liabilities		**(485)**	(2,323)
Total liabilities		**(21,464)**	(14,521)
Net assets		**54,764**	46,169
Equity			
Issued share capital	17	**601**	597
Merger reserve	17	**1,449**	1,449
Other reserves		**5,683**	5,639
Retained earnings		**46,967**	38,484
		54,700	46,169
Non-controlling interests		**64**	—
Total equity		**54,764**	46,169

* Restated – see note 2a

The accompanying notes form part of the financial statements.

These financial statements were approved by the Board of Directors on 8 March 2012 and were signed on its behalf by:

Roy Burton
Group Chief Executive

Mark Fryer
Group Finance Director

Consolidated statement of cash flows for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Operating activities			
Profit for the year		**9,591**	7,453
Adjustments for:			
Financial income	7	**(1,265)**	(1,937)
Financial expense	7	**1,234**	1,821
Income tax expense	8	**4,724**	3,846
Share-based payments		**391**	312
Deferred bonus share scheme		**230**	—
Depreciation of property, plant and equipment	10	**1,833**	2,012
Amortisation of intangible assets	11	**936**	1,588
Operating cash flow before movements in working capital		**17,674**	15,095
(Increase)/decrease in inventories		**(6,396)**	847
Increase in trade and other receivables		**(3,662)**	(233)
Increase/(decrease) in trade and other payables		**7,807**	(452)
(Decrease)/increase in provisions	20	**(235)**	28
Pension contributions in excess of the income statement	19	**(489)**	(1,269)
Buy out of US pension scheme	19	**(2,331)**	—
Cash generated from operations		**12,368**	14,016
Income taxes paid		**(1,744)**	(4,657)
Interest paid	7	**(30)**	(25)
Net cash generated from operating activities		**10,594**	9,334
Investing activities			
Acquisition of subsidiary, net of cash acquired	12	**(427)**	(2,074)
Interest received	7	**25**	23
Capital expenditure	10	**(2,512)**	(2,767)
Capitalised expenditure on development	11	**(1,637)**	(1,208)
Sale of tangible fixed assets	10	**32**	12
Net cash used in investing activities		**(4,519)**	(6,014)
Financing activities			
Dividends returned		**2**	6
Dividends paid	17	**(2,698)**	(2,228)
Net cash used in financing activities		**(2,696)**	(2,222)
Net increase in cash and cash equivalents		**3,379**	1,098
Cash and cash equivalents at beginning of the year	16	**10,359**	9,092
Effect of exchange rates on cash held		**(38)**	169
Cash and cash equivalents at end of year	16	**13,700**	10,359

Notes to the consolidated financial statements

1. Reporting entity

Dialight plc is a company domiciled in England. The address of the Company's registered office is Exning Road, Newmarket, Suffolk CB8 0AX. The consolidated financial statements of the Company for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs"). The Company has elected to present its parent company financial statements in accordance with UK GAAP.

During the year the Board deemed it was more appropriate to represent the 2010 consolidated statement of financial position for the two UK pension schemes which were in surplus within non-current assets rather than netted off the US pension scheme which was in deficit.

(b) Consolidated basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments which are carried at fair value. The Group's business activities, together with the factors that are likely to affect its future development, performance and position are set out in the Overview and Operating review on pages 8 to 25. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 20 to 22. The financial statements include the statements covering the Group's objectives, policies and processes for managing its capital; management of its financial risk objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources and, as a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

The Directors therefore have a reasonable expectation that the Company has sufficient resources to continue in existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(c) Use of estimates, judgements and assumptions

In the process of applying the Group's accounting policies, management has made a number of judgements. The process of preparing the Group's financial statements inevitably requires the Group to make estimates and assumptions concerning the future and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have the most significant effect on the amounts included in these consolidated financial statements are as follows:

Goodwill (see note 11)

Each year the Group reviews the carrying values of its goodwill balances by carrying out impairment tests. These tests require estimates and judgements to be made of the value in use of its cash generating units ("CGU's") which are dependent on key assumptions such as future cash flows and future growth rates of the CGU's, and discount rates.

Uncertainties associated with the current economic environment could impact key assumptions made as part of this review, although sensitivity analysis has been performed on the carrying of goodwill.

Fair value of intangible assets acquired in a business combination (see note 14)

On the acquisition of a business it is necessary to attribute fair values to any intangible asset acquired (provided they meet the criteria to be recognised). The fair values of these intangible assets are dependent on estimates and judgements of attributable future revenues, profitability and cash flows.

Development costs and deferred costs (see note 11)

The Group capitalises development costs and deferred costs provided they meet certain criteria as set out in the respective accounting policy. Costs are only capitalised where management are satisfied as to the ultimate commercial viability of the projects concerned based on available information.

Impairment of goodwill and intangible assets (see note 11)

The impairment analysis of goodwill and intangible assets is based upon the estimate of future discounted cash flows. Factors like lower than anticipated sales and resulting decreases of net cash flows and changes in discount rates could lead to impairments.

Defined benefit pension plans (see note 19)

The valuation of the defined benefit pension plans are based upon actuarial assumptions related to the measurement of pension liabilities and assets. If the relevant factors developed materially differ from the assumptions used this could have a significant impact on our defined benefit obligation. The main assumptions made in accounting for the Group's pension plans relate to the expected rate of return on investments within the plans, the rate of increase in pensionable salaries, the rate of increase in the retail price index, the mortality rate of plan members and the discount rate applied in discounting liabilities. For each of these assumptions there is a range of possible values. Small changes in these assumptions can have a significant impact on the size of the deficit calculated under IAS 19.

Warranty (see note 20)

The warranty provision is estimated requiring management to make estimates and assumptions with respect to values and conditions which cannot be known with certainty at the time the financial statements are prepared. Estimates are evaluated based on historical results and experience together with any known factors at the time of estimate. If the relevant rate of product returns differed materially from the estimates this may have a material impact on the level of provision required.

2. Basis of preparation continued

(c) Use of estimates, judgements and assumptions continued

Tax (see note 8)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

(a) Basis of consolidation

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions between 1 January 2004 and 1 January 2010

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the acquisition.

Acquisitions prior to 1 January 2004 (date of transition to IFRSs)

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, UK GAAP.

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency translation

For the purpose of presenting consolidated financial statements the assets and liabilities of the Group's overseas operations including goodwill and fair value adjustments arising on consolidation are translated using exchange rates prevailing on the balance sheet date.

Income and expense items of overseas operations are translated at average exchange rates for the period.

Since the transition date, resulting exchange differences are recognised as a separate component of equity within the Group's translation reserve. Such translation differences are recognised in the income statement in the period in which the foreign operation is disposed of. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction.

Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Derivative financial instruments

Derivative financial instruments are recorded initially at cost and are re-measured to fair value at subsequent reporting dates.

The gain or loss on re-measurement to fair value is recognised immediately in the income statement. The fair value of derivatives at 31 December 2011 is £nil (2010: £nil).

(d) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation.

3. Significant accounting policies continued

(e) Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(f) Depreciation and amortisation

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	16–50 years
Plant and equipment	3–10 years
Tooling	2–4 years
Fixtures and fittings	5–10 years

Amortisation

Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives are as follows:

Patents and trademarks	1–4 years
Development costs	3–5 years
Order book	1–2 years
Customer relationships	1–7 years

(g) Goodwill

Goodwill that arises upon acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 3(a).

Subsequent measurement

After initial recognition, goodwill is measured at cost less any accumulated impairment losses until disposal or termination of the previously acquired business when the profit or loss on disposal or termination will be calculated after charging the gross amount at current exchange rates of any such goodwill through the income statement. Goodwill is allocated to the CGUs and is tested at least annually for impairment. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(h) Research and development costs

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes direct cost of material, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(i) Impairment

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit and loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. Significant accounting policies continued

(i) Impairment continued

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

A financial asset, in particular the carrying value of trade receivables, is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Any impairment losses are recognised through the income statement.

(j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their location and condition at the balance sheet date. Items are valued using the first in, first out method. When inventories are used, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. Provision for write-down to net realisable value and losses of inventories are recognised as an expense in the period in which the write-down or loss occurs.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(l) Share capital

(i) Dividends are recognised as a liability in the period in which they are approved by members.

(ii) When share capital recognised as equity is repurchased by the ESOT, the amount of the consideration paid is recognised as a deduction from equity.

(iii) Under the terms of the PSP, dividends accrue on shares not yet vested, however if in the event that the shares lapse or are forfeited then the dividends will not be paid and the accrual is reversed.

(m) Employee benefits

(i) Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

(ii) Defined benefit pension plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned for their service in the current and prior periods; that benefit is discounted to determine its present value and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the Group's obligations. The calculation is performed by an independent qualified actuary using the projected unit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the period until benefits become vested. To the extent that the benefits vest immediately, the expenses are recognised immediately in the income statement.

All actuarial gains and losses are recognised in the period they occur directly into equity through the statement of comprehensive income.

(iii) Share-based payment transactions

The PSP allows Group employees to acquire shares of the Company. The fair value of the award granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the performance period during which the employees become unconditionally entitled to the award.

The fair value of the grants is measured using the Monte Carlo model taking into account the terms and conditions upon which the grants were made. The amount recognised as an expense is only adjusted to reflect forfeitures resulting from failures to meet non-market conditions. The share based payments are equity settled.

Key Group employees are awarded shares in the Company under the Annual Performance Bonus Plan. The fair value of the award granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the performance period during which the employees become unconditionally entitled to the award.

(n) Provisions

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

3. Significant accounting policies continued

(n) Provisions continued

Warranties

A provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

(o) Trade and other receivables

Trade and other receivables are initially recorded at fair value and then subsequently stated at their amortised cost less any impairment losses. The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists the assets' recoverable amounts are estimated being the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of the money and risks specific to the asset. Receivables with a short duration are not discounted.

An impairment loss in respect of trade and other receivables is reversed if there has been a change in the estimates used to determine the recoverable amount.

(p) Trade and other payables

Trade and other payables are initially recorded at fair value and the subsequently stated at amortised cost.

(q) Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and product returns. Revenue represents the invoiced value of goods supplied and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the external customers in line with contractual arrangements and the amount of revenue can be measured reliably and it is probable that the economic benefit associated with the transaction will flow to the Group.

(r) Expenses

(i) Operating lease payments

Payments under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(ii) Net financing costs

Net financing costs comprise interest receivable, interest payable, borrowings, interest on pension assets and liabilities, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the income statement.

(s) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated using tax rates that are enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to profit and loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(t) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Executive to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Segment results that are reported to the Group's Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses and income tax assets and liabilities.

3. Significant accounting policies continued

(t) Segment reporting continued

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and intangible assets excluding goodwill, order book and customer relationships.

(u) New endorsed standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012 and have not been applied in preparing these consolidated financial statements. None of these are expected to have significant effect on the consolidated financial statements of the Group.

(v) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Plant and equipment

The fair value of plant and equipment recognised as a result of a business combination is based on market values. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

Intangible assets

The fair value of patents, customer relationships and trademarks acquired in business combinations is based on the discounted cash flows expected to be derived from the use or eventual sale of the assets.

Inventory

The fair value of inventory acquired in a business combination is based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale and a reasonable profit margin based on the effort required to complete and sell the inventory.

Trade and other receivables and payables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. For receivables and payables with a life of less than one year, the notional amount is deemed to reflect the fair value.

Share-based payments transactions

The fair value of employee stock options is measured using the Monte Carlo model. The fair value is measured at the grant date and spread over the performance period during which the employees become unconditionally entitled to the award. The Monte Carlo model takes into account the terms and conditions upon which the grants were made.

Derivatives

Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

Cash and cash equivalents

The carrying amount reported in the balance sheet approximates to fair value.

4. Operating segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic units offer different products. They require different technology and marketing strategies. The Group's chief operating decision makers review internal reports monthly for each business unit at these aggregated levels. The following summary describes the operations in each of the Group's reportable segments.

The Group comprises the following business segments:

- Signals/Illumination which addresses the increasing demands for energy-efficient lighting solutions through the use of high brightness LEDs and utilisation of a number of associated technologies. Areas of business include Transportation, Traffic, Obstruction Lights and Solid State Lighting products;
- LED Indication Components whose sales are primarily to electronics OEMs for status indication; and
- Electromagnetic Components which supplies SMART meter disconnect switches which are used by utility companies to manage remotely electrical supply to residential and business premises.

There is no inter-segment revenue.

All revenue relates to the sale of goods. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated expenses comprise corporate costs including share-based payments. Unallocated assets and liabilities comprise an element of cash, borrowings, taxation and pension fund liabilities where it has not been possible to allocate to a specific segment.

There are no individual customers representing more than 10% of revenue.

4. Operating segments continued

Reportable segments

2011	Electromagnetic Components £'000	LED Indication Components £'000	Signals/ Illumination £'000	Total £'000
Revenue	13,897	20,796	78,831	113,524
Contribution	2,383	11,570	34,543	48,496
Overhead costs	(2,516)	(7,013)	(20,718)	(30,247)
Segment results	(133)	4,557	13,825	18,249
Unallocated expenses				(3,194)
Non-underlying expense				(67)
Operating profit				14,988
Net financing expense				(673)
Profit before tax				14,315
Income tax expense				(4,724)
Profit from continuing operations				9,591

2010	Electromagnetic Components £'000	LED Indication Components £'000	Signals/ Illumination £'000	Total £'000
Revenue	14,645	23,450	61,088	99,183
Contribution	2,516	12,406	25,753	40,675
Overhead costs	(2,443)	(6,809)	(17,079)	(26,331)
Segment results	73	5,597	8,674	14,344
Unallocated expenses				(3,161)
Operating profit				11,183
Net financing income				116
Profit before tax				11,299
Income tax expense				(3,846)
Profit from continuing operations				7,453

Other information	Electromagnetic Components £'000	LED Indication Components £'000	Signals/ Illumination £'000	2011 Total £'000
Capital additions*	217	653	3,220	4,090
Depreciation and amortisation	(494)	(349)	(1,621)	(2,464)

Other information	Electromagnetic Components £'000	LED Indication Components £'000	Signals/ Illumination £'000	2010 Total £'000
Capital additions*	550	459	2,851	3,860
Depreciation and amortisation	(395)	(627)	(2,374)	(3,396)

* Capital additions include property, plant and equipment, development costs, concessions, patents, licences and trademarks.

Not included above are central asset additions of £59,000 (2010: £115,000) and depreciation and amortisation of £33,000 (2010: £15,000) not allocated to a segment.

4. Operating segments continued

Reportable segments continued

Balance sheet – assets	Electromagnetic Components £'000	LED Indication Components £'000	Signals/ Illumination £'000	2011 Total £'000
Segment assets	**6,713**	**7,509**	**46,932**	**61,154**
Unallocated assets*				**15,074**
Consolidated total assets				**76,228**

Balance sheet – liabilities	Electromagnetic Components £'000	LED Indication Components £'000	Signals/ Illumination £'000	2011 Total £'000
Segment liabilities	**(5,164)**	**(2,656)**	**(10,596)**	**(18,416)**
Unallocated liabilities*				**(3,048)**
Consolidated liabilities				**(21,464)**

Balance sheet – assets	Electromagnetic Components £'000	LED Indication Components £'000	Signals/ Illumination £'000	2010 Total £'000
Segment assets	10,795	8,379	30,011	49,185
Unallocated assets*				11,085
Consolidated total assets				60,270

Balance sheet – liabilities	Electromagnetic Components £'000	LED Indication Components £'000	Signals/ Illumination £'000	2010 Total £'000
Segment liabilities	(3,716)	(1,832)	(6,276)	(11,824)
Unallocated liabilities*				(2,277)
Consolidated liabilities				(14,101)

* Unallocated assets and liabilities comprise an element of cash, borrowings, taxation and pension fund liabilities where it has not been possible to allocate to a specific segment.

Geographical segments

The Electromagnetic Components, LED Components and Signals/Illumination segments are managed on a worldwide basis, but operate in three principal geographic areas: UK, Europe and North America. The following tables provide 1) an analysis of the Group's sales by geographical market, irrespective of the origin of the goods, and 2) an analysis of total assets and non-current assets by location.

All revenue relates to the sale of goods.

Sales revenue by geographical market	2011 £'000	2010 £'000
North America	**77,454**	68,156
UK	**11,702**	10,138
Rest of Europe	**13,160**	11,161
Rest of World	**11,208**	9,728
	113,524	99,183

	Total assets		Non-current assets	
Continuing operations	2011 £'000	2010 £'000	2011 £'000	2010* £'000
North America	**38,692**	31,588	**6,462**	5,125
UK	**22,930**	18,250	**6,035**	5,746
Rest of Europe	**13,090**	10,852	**7,911**	7,835
Rest of World	**1,516**	—	**679**	—
	76,228	60,690	**21,087**	18,706

* 2010 has been restated to exclude deferred tax as per the requirement of IFRS 8.

5. Non-underlying income/expense

In the first half of 2011, the Group granted a lifetime licence to a third party for the use of a number of our patents. The income from this licence of £2,741,000 is included within non-underlying other operating income.

In the second half of 2011, the Group reached agreement to settle a longstanding dispute with a rail signalling customer for which an LED signal had been in development since 2007. This dispute was provided in full for £2,808,000 in the first half of 2011 and this amount was paid in full in January 2012. The provision is included within non-underlying administrative expenses and non-trade payables at 31 December 2011.

In the first half of 2011 the Group successfully bought out the US defined benefit pension scheme. The cost of securing these liabilities was £2,331,000 and as a result there is a one-off non-underlying financial expense of £704,000 which consists of £459,000 net settlement loss (per note 19) and £245,000 of fees and other incidental expenditure.

6. Personnel expenses

	2011 £'000	2010 £'000
Wages and salaries	**17,598**	14,123
Social security contributions	**1,992**	1,657
Equity settled share-based payment transactions	**391**	312
Deferred bonus share scheme	**230**	—
Contributions to defined contribution plans	**530**	741
Total charge for defined benefit plans	**32**	75
	20,773	16,908

The average number of employees by geographical location was:

	2011 Number	2010 Number
UK	**146**	135
US and Mexico	**958**	822
Rest of World	**35**	30
	1,139	987

In 2011 the Group employed an average of 823 direct staff (2010: 852) and 316 indirect staff (2010: 135).

7. Net financing income/(expense)

Recognised in profit and loss

	2011 Underlying £'000	2011 Non-underlying £'000	**2011 Total £'000**	2010 Total £'000
Interest income on bank deposits	**25**	—	**25**	—
Expected return on assets in the defined benefit pension schemes	**1,240**	—	**1,240**	1,937
	1,265	—	**1,265**	1,937
Interest expense on financial liabilities	**(30)**	—	**(30)**	(2)
Settlement costs	**—**	(704)	**(704)**	—
Interest charge on pension scheme liabilities	**(1,204)**	—	**(1,204)**	(1,819)
	(1,234)	(704)	**(1,938)**	(1,821)
Net financing income	**31**	(704)	**(673)**	116

8. Income tax expense

Recognised in the income statement

	2011 £'000	2010 £'000
Current tax expense		
Current year	**3,540**	3,677
Adjustment for prior years	**(100)**	(2)
	3,440	3,675
Deferred tax expense		
Origination and reversal of temporary differences	**1,492**	326
Adjustment for prior years	**(208)**	(155)
Income tax expense	**4,724**	3,846

8. Income tax expense continued

Reconciliation of effective tax rate

	2011 %	2011 £'000	2010 %	2010 £'000
Profit from continuing operations		**9,591**		7,453
Total income tax expense		**4,724**		3,846
Profit excluding income tax		**14,315**		11,299
Income tax using the UK corporation tax rate	**26.5**	**3,793**	28.0	3,164
Effect of tax rates in foreign jurisdictions	**8.2**	**1,178**	8.3	943
Change in tax rate	**0.6**	**90**	0.6	65
Non-deductible expenses	**0.1**	**19**	0.5	60
Unrecognised losses carried forward	**0.5**	**68**	—	—
Losses now recognised	**—**	**—**	(2.0)	(229)
Over provision in prior years	**(2.1)**	**(308)**	(1.4)	(157)
Research and development credits	**(0.5)**	**(75)**	—	—
Other	**(0.3)**	**(41)**	—	—
	33.0	**4,724**	34.0	3,846

The 2011 Budget on 23 March 2011 announced that the UK corporation tax rate will reduce to 23% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1 April 2011) was substantively enacted on 20 July 2010, and further reductions to 26% (effective from 1 April 2011) and 25% (effective from 1 April 2012) were substantively enacted on 29 March 2011 and 5 July 2011 respectively.

This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2011 has been calculated based on the rate of 25% substantively enacted at the balance sheet date.

It has not been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax asset accordingly.

During the year the group recognised an additional deferred tax liability of £451,000 in respect of the acquisition of BTI in 2010. As a result a deferred tax credit of £107,000 was recognised in the income statement. £43,000 related to 2010 and £64,000 related to 2011 (see note 12).

Deferred tax recognised directly in equity

	2011 £'000	2010 £'000
Share-based payments	**1,120**	473

9. Profit for the year

Profit for the year has been arrived at after charging:

Research and development costs	2011 £'000	2010 £'000
Expensed as incurred	**3,703**	2,522
Amortisation charge	**663**	1,399
	4,366	3,921
Depreciation of fixed assets	**1,833**	2,012
Amortisation of order book	**—**	17
Amortisation of customer relationships	**272**	172
Operating leases – property	**760**	815
Operating leases – other	**138**	162

9. Profit for the year continued

Auditor's remuneration:

	2011 £'000	2010 £'000
Audit of these financial statements	**41**	39
Amounts receivable by auditors in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**109**	102
Other amounts pursuant to legislation	**9**	9
Other services relating to taxation	**108**	40
Advisory work in respect of acquisition	**—**	3
Pension and actuarial services:		
Pension advisory services in respect of Group pension	**30**	64
	256	218

10. Property, plant and equipment

	Land and buildings £'000	Plant equipment and vehicles £'000	Total £'000
Cost			
At 1 January 2010	5,426	28,280	33,706
Exchange adjustments	28	743	771
Businesses acquired	11	106	117
Additions	2	2,765	2,767
Disposals	—	(890)	(890)
At 31 December 2010	5,467	31,004	36,471
At 1 January 2011	5,467	31,004	36,471
Exchange adjustments	(37)	24	(13)
Businesses acquired	—	64	64
Additions	52	2,460	2,512
Disposals	(110)	(1,650)	(1,760)
At 31 December 2011	**5,372**	**31,902**	**37,274**
Accumulated depreciation			
At 1 January 2010	(2,804)	(23,654)	(26,458)
Exchange adjustments	(53)	(608)	(661)
Charge for year	(154)	(1,858)	(2,012)
Disposals	—	878	878
At 31 December 2010	**(3,011)**	**(25,242)**	**(28,253)**
At 1 January 2011	(3,011)	(25,242)	(28,253)
Exchange adjustments	6	6	12
Charge for year	(144)	(1,689)	(1,833)
Disposals	111	1,618	1,729
At 31 December 2011	**(3,038)**	**(25,307)**	**(28,345)**
Carrying amount at 31 December 2011	**2,334**	**6,595**	**8,929**
At 31 December 2010	2,456	5,762	8,218
At 1 January 2010	2,622	4,626	7,248

11. Intangible assets

	Concessions, patents, licences and trademarks £'000	Goodwill £'000	Order book and customer relationships £'000	Development costs £'000	Total £'000
Costs					
Balance at 1 January 2010	1,237	6,785	—	5,457	13,479
Additions arising from internal developments	—	—	—	1,208	1,208
Additions acquired through business combinations	—	804	1,821	—	2,625
Effects of foreign exchange movement	—	(343)	—	20	(323)
Balance at 31 December 2010	1,237	7,246	1,821	6,685	16,989
Balance at 1 January 2011	1,237	7,246	1,821	6,685	16,989
Additions arising from internal developments	210	—	—	1,427	1,637
Additions acquired through business combinations	—	769	285	—	1,054
Effects of foreign exchange movement	7	(115)	—	75	(33)
Balance at 31 December 2011	**1,454**	**7,900**	**2,106**	**8,187**	**19,647**
Amortisation and impairment losses					
Balance at 1 January 2010	(1,237)	—	—	(3,653)	(4,890)
Amortisation for the period	—	—	(189)	(1,399)	(1,588)
Effects of foreign exchange movement	—	—	—	(23)	(23)
Balance at 31 December 2010	(1,237)	—	(189)	(5,075)	(6,501)
Balance at 1 January 2011	(1,237)	—	(189)	(5,075)	(6,501)
Amortisation for the period	—	—	(272)	(664)	(936)
Effects of foreign exchange movement	—	—	—	(52)	(52)
Balance at 31 December 2011	**(1,237)**	**—**	**(461)**	**(5,791)**	**(7,489)**
Carrying amounts at 31 December 2011	**217**	**7,900**	**1,645**	**2,396**	**12,158**
At 31 December 2010	—	7,246	1,632	1,610	10,488
At 1 January 2010	—	6,785	—	1,804	8,589

The amortisation charge for the development costs is reflected in research and development costs shown within cost of sales on the face of the income statement. The amortisation charge for concessions, patents, licences and trademarks is shown within administrative expenses on the face of the income statement. The amortisation charge for order book and customer relationships is shown within administrative expenses on the face of the income statement.

Included within intangibles is customer relationships recognised in connection with the acquisition of BTI in 2010. The carrying amount at 31 December 2011 is £1,374,000 (2010: £1,632,000). The remaining amortisation period is 64 months.

Goodwill acquired in a business combination is allocated at acquisition to the CGUs that are expected to benefit from the business combination. The carrying amount of the goodwill had been allocated as follows:

Signals/Illumination segment	**2011 £'000**	2010 £'000
UK Signals	**2,328**	2,328
European Traffic	**3,999**	4,114
European Obstruction	**1,255**	804
Australian Lighting	**113**	—
Japanese Lighting	**205**	—
	7,900	7,246

The change in value in the European Traffic goodwill figure is due to foreign currency. The change in value in the European Obstruction goodwill figure is explained in Note 12.

Overview | Operating review | Governance | Financials | Shareholder information

11. Intangible assets continued

The Group tests goodwill (at the CGU level) annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and growth rates.

Management estimates discount rates using pre-tax rates that reflect current market assessments of a number of factors that impact on the time value of money and any risk specific to the CGU. The rate includes management's assessment of a normal level of debt to equity ratio within similar companies in its sector.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management covering a five-year period. Management have arrived at the five-year plan based upon certain assumptions derived from research carried out by external consultants who specialise in areas of the Group's business and their knowledge of the business. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 1%.

Sensitivity to changes in key assumptions

Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected, and expected long-term growth rates.

Any adverse change in these assumption could reduce the recoverable amount below carrying amount.

The pre-tax rate used to discount the forecast cash flow for the CGU's range from 8.0% to 10.4% (2010: 12.2% to 13.5%). The Group has conducted a sensitivity analysis increasing the discount rate by 5%. Even at this level no impairment would be required to be recorded.

The growth rates management has applied in the value in use calculations for each of the CGUs over the five year period vary due to the nature of the products, industries and countries in which the CGU operates. The Group has conducted a sensitivity analysis significantly reducing the growth rates. Even at this level no impairment would be required to be recorded.

Changes in selling price and direct costs are based upon past results and expectations of future changes in the market. Although cost reduction is key to the Signals/Illuminations business, management has assumed in the forecasts used to calculate the carrying value of the CGUs that the contribution remains flat.

The Directors do not believe that a significant change to the assumptions is probable. Each of the Group's CGU's had significant headroom under the annual impairment review.

12. Acquisition of subsidiary

On 4 January 2011, the Group acquired 75% of the issued share capital of Lightday Investment Pty Ltd trading as Industrial Lighting Solutions ("Lightday"), an Australian company and distributor of ultra efficient lighting products. Lightday was acquired from its management for a consideration of AUD$300,000 (£192,000) which was payable in cash.

The acquisition will serve the large industrial/hazardous/mining sector in Australia and further supports the Group's thrust into the industrial and hazardous lighting market with its ultra efficient lighting products.

Lightday contributed £1,509,000 to revenue and a loss of £179,000 to profit before tax for the period between the date of acquisition and the balance sheet date. The costs incurred of £8,000, in making the acquisition have been expensed as required under the revised standard.

On July 2011, the Group's newly established wholly owned subsidiary Dialight Japan, acquired the assets and contracts of I-Spec Limited, its Japanese distributor. The cash consideration paid at the date of acquisition was USD $350,000 (£222,000) which was $280,000 (£178,000) payable in cash and $70,000 (£44,000) payable as deferred consideration. Dialight Japan was set up in June 2011. Part of the consideration paid for the assets and contacts of I-Spec Limited was 25% of the share capital in Dialight Japan, that was transferred to the sellers of I-Spec Limited on 1 July 2011. The 25% was valued at cost and deemed part of the acquisition of I-Spec and it has been treated as Goodwill.

12. Acquisition of subsidiary continued

Dialight Japan contributed £256,000 to revenue and a loss of £274,000 to profit before tax for the period between the date of acquisition and the balance sheet date. The costs incurred of £38,000, in making the acquisition have been expensed as required under the revised standard.

The acquisition will serve the large industrial and hazardous lighting sector in Japan and further supports the Group's thrust into the industrial and hazardous lighting market with its ultra efficient lighting products.

If the acquisition of I-Spec Limited through Dialight Japan KK had occurred on 1 January 2011, management estimates that consolidated revenue would have been £13.9 million and the Group profit before tax for the year would have been £14.1 million.

Recognised amounts of identifiable assets acquired and liabilities assumed at fair value

	Note	31 December 2011 £000
Property, plant and equipment	10	**64**
Intangible assets – customer relationships	11	**285**
Current assets		**229**
Current liabilities		**(257)**
Deferred tax	13	**(86)**
Net assets acquired		**235**
Goodwill	11	**318**
Non-controlling interest, based on their proportionate interest in the recognised amounts of the assets and liabilities of the acquired companies		**(139)**
Total consideration		**414**
Satisfied by:		
Cash and cash equivalents		**370**
Deferred consideration		**44**
		414
Net cash outflow arising on acquisition		
Cash consideration		**370**
Cash and cash equivalents acquired		**57**
		427

The goodwill of £318,000 arising from the acquisitions represents the workforce and sales teams in the Australian and Japanese markets respectively for Dialight products.

The current assets includes trade receivables of £153,000. None of the goodwill is expected to be deductible for tax purposes.

There were pre-existing relationships between both acquired companies and the Group. These were routine supply relationships and as the terms of the trading agreement remain unchanged, no consideration has been allocated to these relationships. The terms of the relationships were normal market terms at the date of the acquisition and this was an on-market relationship that was settled for nil gain or loss.

Prior year acquisitions

On 28 April 2010, the Group acquired 100% of the issued share capital of BTI Light Systems A/S ("BTI"), a Danish company offering signalling and safety equipment for the wind, marine and airport industries.

12. Acquisition of subsidiary continued

Prior year acquisitions continued

Recognised amounts of identifiable assets acquired and liabilities assumed at fair value

	Note	31 December 2010 £'000
Property, plant and equipment	10	117
Intangible assets – customer relationships	11	1,804
Intangible assets – order book	11	17
Deferred tax	13	66
Inventories		614
Trade and other receivables		877
Cash and cash equivalents		72
Trade and other payables		(918)
Tax liabilities		(205)
Net assets acquired		2,444
Goodwill	11	804
Total consideration		**3,248**
Satisfied by:		
Fair value of shares issued		909
Cash and cash equivalents		2,146
Deferred consideration		193
		3,248
Net cash outflow arising on acquisition		
Cash consideration		2,146
Cash and cash equivalents acquired		(72)
		2,074

The above fair values were amended during the year as shown in the table below.

During the year the fair value relating to BTI was amended.

The Directors do not consider the amendments to be material to the Group, consequently the priors year comparatives have not been restated as would otherwise be required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

	At date of acquisition (28 April 2010) £'000	As at 1 January 2011 £'000	As at 31 December 2011 £'000
Balance sheet			
Intangible assets			
Increase in goodwill	451	451	451
Increase in deferred tax liability	(451)	(408)	(344)
	—	43	107
Income statement			
Taxation	—	(43)	(64)

13. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000	**2011 £'000**	2010 £'000
Property, plant and equipment	**—**	—	**(818)**	(379)	**(818)**	(379)
Intangible assets	**—**	—	**(1,314)**	(548)	**(1,314)**	(548)
Employee benefits	**1,095**	1,364	**—**	—	**1,095**	1,364
Provisions	**1,714**	1,638	**—**	—	**1,714**	1,638
Other items	**1,273**	1,087	**—**	—	**1,273**	1,087
Tax assets/(liabilities)	**4,082**	4,089	**(2,132)**	(927)	**1,950**	3,162
Set off of tax	**(2,132)**	(927)	**2,132**	927	**—**	—
Net tax assets	**1,950**	3,162	**—**	—	**1,950**	3,162

Deferred tax assets have been recognised in respect of all tax losses anticipated to be available.

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred taxation liabilities have not been recognised is £nil (2010: £nil).

Movement in temporary differences during the year

	Property, plant and equipment £'000	Intangible assets £'000	Employee benefits £'000	Provisions £'000	Other short-term timing differences £'000	Total £'000
Balance at 1 January 2010	(234)	(565)	447	1,433	833	1,914
Recognised in income	(141)	8	(226)	134	54	(171)
Exchange	(2)	13	39	(1)	(1)	48
On acquisition	(2)	(4)	—	72	—	66
Recognised in equity	—	—	1,104	—	201	1,305
Balance at 31 December 2010	(379)	(548)	1,364	1,638	1,087	3,162
Balance at 1 January 2011	(379)	(548)	1,364	1,638	1,087	3,162
Recognised in income	(437)	(219)	(883)	42	213	(1,284)
Exchange	(2)	(10)	(55)	34	—	(33)
In respect of prior year acquisitions*	—	(451)	—	—	—	(451)
On acquisition	—	(86)	—	—	—	(86)
Recognised in equity	—	—	669	—	(27)	642
Balance at 31 December 2011	**(818)**	**(1,314)**	**1,095**	**1,714**	**1,273**	**1,950**

* During the year the fair value relating to 'BTI' was amended, see note 12.

14. Inventories

	2011 £'000	2010 £'000
Raw materials and consumables	**9,712**	6,372
Work in progress	**580**	1,702
Finished goods	**5,550**	1,113
	15,842	9,187

Inventories to the value of £55,525,000 (2010: £50,484,000) were recognised as expenses in the year. Included within this figure was the reversal of inventory provisions to net realisable value of £499,000 (2010: write-down of inventory to net realisable value of £413,000).

Notes to the consolidated financial statements continued

15. Trade and other receivables

	2011 £'000	2010 £'000
Trade receivables	**21,507**	17,855
Other non-trade receivables	**265**	251
Prepayments and accrued income	**1,074**	750
	22,846	18,856

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 22.

16. Cash and cash equivalents

	2011 £'000	2010 £'000
Cash and cash equivalents	**13,700**	10,359

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 22.

17. Capital and reserves

Share capital

	2011 Number	2011 £'000	2010 Number	2010 £'000
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**31,800,231**	**601**	31,600,231	597

During the year, 200,000 shares were issued (0.63% of the total ordinary share capital issued) at par. The ordinary shares issued have the same rights as the other shares in issue.

	Ordinary shares	
Issued share capital	2011 Number	2010 Number
In issue at 1 January	**31,600,231**	31,239,501
Shares issued	**200,000**	360,730
Issued and fully paid at 31 December	**31,800,231**	31,600,231

Merger reserve

On acquiring Lumidrives Limited in 2006 the Company issued ordinary shares as part of the consideration. Merger relief was taken in accordance with Section 131 of the Companies Act 1985 and hence £546,000 was credited to the merger reserve.

On acquiring BTI in 2010 the Company issued ordinary shares as part of the consideration. Merger relief was taken in accordance with Section 612 of the Companies Act 2006 and hence £903,000 was credited to the merger reserve.

Translation reserve

The translation reserve comprises all foreign exchange differences from 1 January 2004 arising from the translation of the financial statements of foreign operations for the Company.

Capital redemption reserve

The capital redemption reserve comprises the nominal value of "B" preference shares redeemed since the capital reorganisation in 2005.

Dividends

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided for and there are no income tax consequences for the Company.

Final proposed dividend	2011 £'000	2010 £'000
6.7 pence per ordinary share (2010: 5.2 pence)	**2,131**	1,643

17. Capital and reserves continued

Dividends continued

During the year the following dividends were paid:

	2011 £'000	2010 £'000
Final – 5.2 pence (2010 second interim: 4.3 pence) per ordinary share	**1,643**	1,343
Interim – 3.3 pence (2010: 2.8 pence) per ordinary share	**1,050**	885
Less: dividends on shares held in trust	**(10)**	—
	2,683	2,228
Final dividend – 5.2 pence on shares awarded under the PSP not yet vested	**38**	—
Interim dividend – 3.3 pence on shares awarded under the PSP not yet vested	**24**	—
Dividends accrued on shares awarded under the PSP but not yet vested	**38**	—
Dividends paid on shares awarded under the PSP vested during the period	**15**	—
Total (amount shown in the statement of changes in equity)	**2,798**	2,228

18. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2011 was based on the profit for the year of £9,591,000 (2010: £7,453,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2011 of 31,672,355 (2010: 31,286,691).

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2011 was based on profit for the year of £9,591,000 (2010: £7,453,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2011 of 32,484,865 (2010: 32,081,365) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2011 '000	2010 '000
Weighted average number of ordinary shares	**31,672**	31,287
Effect of share options on issue	**813**	794
Weighted average number of ordinary shares (diluted)	**32,485**	32,081

Underlying earnings per share are highlighted below as the Directors consider that this measurement of earnings gives valuable information on the performance of the Group.

	2011 £'000 Total	2010 £'000 Total
Profit attributable to ordinary shareholders (basic and diluted)	**9,591**	7,453
Earnings per share		
Basic earnings	**30.3p**	23.8p
Non-underlying items	**(1.4)p**	—
Underlying earnings	**31.7p**	23.8p
Diluted earnings	**29.5p**	23.2p
Non-underlying earnings	**(1.4)p**	—
Underlying diluted earnings	**30.9p**	23.2p

19. Employee benefits

Defined benefit pension obligations

The Group makes contributions to two defined benefit plans to provide benefits for employees upon retirement. All plans are closed to new members.

19. Employee benefits continued

Defined benefit pension obligations continued

In the first half of 2011 the Group successfully bought out the US defined benefit pension scheme. The cost of securing these liabilities was £2,331,000 and as a result there is a one-off non-underlying financial expense of £704,000 which consists of £459,000 net settlement loss (per note 19) and £245,000 of fees and other incidental expenditure.

During the year the Board deemed it was more appropriate to represent the 2010 consolidated statement of financial position for the two UK pension schemes which were in surplus within non-current assets rather than netted off the US pension scheme which was in deficit.

Recognised liability for defined benefit obligations

	2011 £'000	2011 £'000	2011 £'000	2010 £'000	2010 £'000	2010 £'000
	UK schemes	US scheme	Total	UK schemes	US scheme	Total
Present value of liabilities	20,273	—	20,273	19,997	14,525	34,522
Fair value of plan assets	(21,076)	—	(21,076)	(20,417)	(12,664)	(33,081)
Recognised (assets)/liability for defined benefit obligations	(803)	—	(803)	(420)	1,861	1,441

Plan assets consist of the following:

	2011 £'000	2011 £'000	2011 £'000	2010 £'000	2010 £'000	2010 £'000
	UK schemes	US scheme	Total	UK schemes	US scheme	Total
Equities	7,638	—	7,638	8,030	—	8,030
Bonds	9,057	—	9,057	8,236	—	8,236
Cash	4,381	—	4,381	4,151	12,664	16,815
	21,076	—	21,076	20,417	12,664	33,081

Movements in the present value of defined benefit obligations

	2011 £'000	2011 £'000	2011 £'000	2010 £'000	2010 £'000	2010 £'000
	UK schemes	US scheme	Total	UK schemes	US scheme	Total
Defined benefit obligations at 1 January	19,997	14,525	34,522	18,434	13,229	31,663
Current service cost	32	—	32	75	—	75
Employee element of service cost	10	—	10	18	—	18
Interest cost	1,075	129	1,204	1,044	775	1,819
Benefits paid	(972)	—	(972)	(856)	(1,022)	—
Liabilities extinguished	—	(14,697)	(14,697)	—	—	—
Actuarial losses	131	1	132	1,282	1,066	2,348
Settlement cost	—	459	459	—	—	—
Currency (gains)/losses	—	(417)	(417)	—	477	477
Defined benefit obligations at 31 December	20,273	—	20,273	19,997	14,525	34,522

Movements in fair value of plan assets

	2011 £'000	2011 £'000	2011 £'000	2010 £'000	2010 £'000	2010 £'000
	UK schemes	US scheme	Total	UK schemes	US scheme	Total
Fair value of plan assets at 1 January	20,417	12,664	33,081	19,302	11,413	30,715
Expected return on scheme assets	1,054	186	1,240	970	967	1,937
Employer contributions	489	2,331	2,820	266	1,077	1,343
Member contributions	10	—	10	18	—	18
Benefits paid	(972)	—	(972)	(856)	(1,022)	(1,878)
Assets distributed	—	(14,697)	(14,697)	—	—	—
Actuarial gains/(losses)	78	(134)	(56)	717	(179)	538
Currency (losses)/gains	—	(350)	(350)	—	408	408
Fair value of plan assets at 31 December	21,076	—	21,076	20,417	12,664	33,081
(Surplus)/deficit	(803)	—	(803)	(420)	1,861	1,441

19. Employee benefits continued

Expense recognised in the income statement

	2011 £'000 UK schemes	2011 £'000 US scheme	2011 £'000 Total	2010 £'000 UK schemes	2010 £'000 US scheme	2010 £'000 Total
Current service costs	32	—	32	75	—	75
Settlement cost	—	459	459	—	—	—
Interest on obligation	1,075	129	1,204	1,044	775	1,819
Expected return on plan assets	(1,054)	(186)	(1,240)	(970)	(967)	(1,937)
	53	402	455	149	(192)	(43)

The expense is recognised in the following line items in the income statement:

	2011 £'000 UK schemes	2011 £'000 US scheme	2011 £'000 Total	2010 £'000 UK schemes	2010 £'000 US scheme	2010 £'000 Total
Cost of sales	—	—	—	41	—	41
Distribution costs	—	—	—	8	—	8
Administrative expenses	32	—	32	26	—	26
Net financing (income)/expense	21	402	423	74	(192)	(118)
	53	402	455	149	(192)	(43)

Expense recognised in other comprehensive income

	2011 £'000 UK schemes	2011 £'000 US scheme	2011 £'000 Total	2010 £'000 UK schemes	2010 £'000 US scheme	2010 £'000 Total
Actuarial gains/(losses) on plan assets	78	(134)	(56)	717	(179)	538
Change in assumptions in respect of liabilities	(739)	—	(739)	(447)	(1,090)	(1,537)
Experience gains/(losses) on liabilities	608	(1)	607	(835)	24	(811)
Net actuarial (loss)/gain recognised in consolidated statement of comprehensive income	(53)	(135)	(188)	(565)	(1,245)	(1,810)
Cumulative actuarial loss recognised in consolidated statement of comprehensive income	—	—	(6,139)	—	—	(5,951)

Historical information

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Defined benefit obligation	(20,273)	(34,522)	(31,663)	(32,473)	(32,417)
Scheme assets	21,076	33,081	30,715	28,004	31,190
Surplus/(deficit)	803	(1,441)	(948)	(4,469)	(1,227)
Actuarial (losses)/gains on liabilities	(132)	(2,348)	(782)	3,788	(405)
Experience (loss)/gain on assets	(56)	538	2,626	(7,195)	67
Experience gain/(loss) on currency	54	(69)	371	(1,066)	23

Liability for defined benefit obligations

The principal assumptions at the balance sheet date (expressed as weighted averages) are:

	UK schemes (% per annum)			US scheme (% per annum)		
	2011	2010	2009	2011	2010	2009
Discount rate at 31 December	4.70	5.50	5.70	n/a	5.00	5.75
Future salary increases	n/a	3.00	4.25	n/a	n/a	n/a
Future pension increases	3.00	3.65	3.65	n/a	n/a	n/a
Inflation – RPI	3.00	3.70	3.75	n/a	n/a	n/a
Inflation – CPI	2.20	3.00	n/a	n/a	n/a	n/a
Deferred revaluation	2.20	3.00	3.75	n/a	n/a	n/a

19. Employee benefits continued

Liability for defined benefit obligations continued

The expected long-term rates of return were:

	UK schemes (% per annum)			US scheme (% per annum)		
	2011	2010	2009	**2011**	2010	2009
Equities	**6.50**	6.50	6.50	**n/a**	n/a	8.65
Bonds	**3.00**	4.20	4.50	**n/a**	n/a	4.80
Cash	**3.00**	4.20	3.75	**n/a**	1.00	2.15

Expense recognised in the income statement

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2011, used SAPS mortality tables based on year of birth (as is published by the Institute of Actuaries). The UK mortality tables are based on the latest mortality investigations and reflect an industry-wide recognition that life expectations have improved. The average life expectancy of an individual currently aged 45 years and retiring at age 65 years is 24.10 years for males and 26.5 years for females. For individuals currently aged 65 years the average life expectancy is 22.2 years for males and 24.6 years for females.

The expected long-term rate of return for investments is based on the portfolio as a whole and not on individual asset categories. The return is based exclusively on historical returns, without adjustments which are crossed checked against market expectations from external sources.

The Group expects that contributions to the UK defined benefit plans in 2011 will be at a similar level to contributions paid in 2010.

Share-based payments

PSP

In September 2005 the shareholders approved the PSP.

During the year an award under the PSP was made to the Executive Directors and senior managers, details of which are set out below:

Date of award	Number of awards at the beginning of year	Number of awards granted during the year	Number of awards vested during the year	Number of awards forfeited during the year	**Number of awards at the year end**	Fair value pence per share	Vesting period	Maturity date
April 2008	292,835	—	(292,835)	—	**—**	97	3 years	April 2011
April 2009	347,955	—	—	(5,464)	**342,491**	56	3 years	April 2012
April 2010	235,681	—	—	(26,688)	**208,993**	186	3 years	May 2013
September 2010	37,822	—	—	—	**37,822**	322	3 years	Sept 2013
February 2011	—	146,600	—	(6,522)	**140,078**	411	3 years	Feb 2014
	914,293	146,600	(292,835)	(38,674)	**729,384**			

Further details of the PSP are included in the Directors' remuneration report on pages 38 to 41.

The fair value of the awards made is measured using the Monte Carlo model with the following inputs:

	February 2011 award	September 2010 award	May 2010 award	April 2009 award
Share price	**£6.24**	£4.01	£2.79	£1.17
Exercise price	**£nil**	£nil	£nil	£nil
Expected volatility	**40%**	42%	41%	40%
Award life	**3 years**	3 years	3 years	3 years
Correlation				
Dialight and the FTSE SmallCap Index	**29%**	30%	33%	18%
FTSE SmallCap Index and the FTSE All Share Electronic/Electrical Equipment Index	**86%**	87%	86%	77%

The employee expense in 2011 is £391,000 (2010: £312,000) (see note 6).

20. Provisions

	Warranty £'000
Balance at 1 January 2011	1,156
Effects of foreign exchange movement	(2)
Provisions made during the year	359
Provisions used during the year	(594)
Balance at 31 December 2011	**919**

20. Provisions continued

	Warranty 2011 £'000	Warranty 2010 £'000
Due within one year	**434**	694
Due between one and five years	**485**	462
	919	1,156

The provision is based on estimates made from historical warranty data associated with similar products.

21. Trade and other payables

	2011 £'000	2010 £'000
Trade payables	**11,424**	6,640
Other taxes and social security	**339**	245
Non-trade payables and accrued expenses	**7,373**	4,380
	19,136	11,265

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

22. Financial risk management

The Group has exposure to credit risk, market risk and liquidity risk from its use of financial instruments.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Trade and other receivables

Credit risk is the risk of financial loss if a customer fails to meet its contractual obligations by not paying the receivables due.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Operationally the Group has no significant concentration of credit risk.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered.

The Group's review includes external ratings when available and in some cases bank references. Purchase limits are set for customers. Customers that do not meet the benchmark creditworthiness may transact with the Group only on a pre-payment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

Exposure to credit risk

The ageing of trade receivables at the reporting date was:

	Gross 2011 £'000	Impairment 2011 £'000	Gross 2010 £'000	Impairment 2010 £'000
Not past due	**17,365**	**—**	11,431	—
Past due 0–30 days	**3,145**	**145**	4,922	204
Past due 31–120 days	**942**	**39**	1,674	48
Past due 121–365 days	**185**	**12**	101	24
More than one year	**105**	**39**	96	93
Total	**21,742**	**235**	18,224	369

Notes to the consolidated financial statements continued

22. Financial risk management continued

Credit risk continued

Exposure to credit risk continued

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	£'000
Balance at 1 January 2011	369
Utilisation of provision	(11)
Provision released	(123)
Balance at 31 December 2011	**235**

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

Other non-trade receivables of £265,000 (2010: £251,000) are not past due and have no impairment.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates which affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group's policy is to manage exposure to interest rate risk setting a proportion of any borrowings to a fixed rate basis. Historically interest rate swaps have been considered and entered into. Currently the Group has no borrowings.

Foreign currency risk

Exposure to currency risk arises in the normal course of the Group's business.

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than each subsidiaries functional currency. The currencies giving rise to risk are primarily Euro and US Dollars.

The Group uses natural hedging within the Group to hedge the majority of its foreign currency risk. Natural hedging is the mechanism whereby the cash inflows in a particular currency are matched to the cash outflows in that currency at the same business or different group company.

In respect of other monetary assets and liabilities held in currencies other than UK Sterling, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	2011 $'000	2011 €'000	2010 $'000	2010 €'000
Trade receivables	**4,945**	**425**	4,758	559
Currency cash	**2,337**	**1,205**	1,044	596
Trade payables	**(5,688)**	**(604)**	(3,874)	(44)
Gross balance sheet exposure	**1,594**	**1,026**	1,928	1,111
Estimated forecast sales	**16,554**	**4,620**	25,569	7,546
Estimated forecast purchases	**(21,957)**	**(4,094)**	(24,403)	(820)
Gross exposure	**(3,809)**	**1,552**	3,094	7,837
Forward exchange contracts	**—**	**—**	—	—
Net exposure	**(3,809)**	**1,552**	3,094	7,837

The following significant exchange rates applied during the year:

	2011 Average rate	2011 At reporting date	2010 Average rate	2010 At reporting date
US Dollar	**1.61**	**1.55**	1.53	1.56
Euro	**1.15**	**1.20**	1.17	1.16

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Group's reputation.

22. Financial risk management continued

Liquidity risk continued

Exposure to liquidity risk

For non-derivative financial liabilities the Group's exposure relates principally to trade and other payables.

Trade and other payables arise in the normal course of business and there are no unusual or onerous terms and conditions.

The following are contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2011 £'000	Carrying amount	Contractual cash flow	2 months or less	2–12 months	1–2 years
Non-derivative financial liabilities					
Trade and other payables	**19,136**	**(19,136)**	**(17,876)**	**(1,260)**	—
	19,136	**(19,136)**	**(17,876)**	**(1,260)**	—

31 December 2010 £'000	Carrying amount	Contractual cash flows	2 months or less	2–12 months	1–2 years
Non-derivative financial liabilities					
Trade and other payables	**11,265**	**(11,265)**	**(10,503)**	**(762)**	—
	11,265	**(11,265)**	**(10,503)**	**(762)**	—

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board considers consolidated total equity as capital. As at 31 December 2011 this totaled £54,764,000 (2010: £46,169,000).

Our target is to generate a return on capital in excess of 25% excluding cash holdings. In 2011 the return was 36.5% (2010: 31.0%). In addition, the target in respect of EPS is 15% growth per annum. In 2011 underlying EPS growth was 33.2% (2010: 36.0%).

In respect of dividend, the Board was progressive dividend policy and aims for three times cover. The result for 2011 was 3.03x (2010: 2.98x).

The Board monitors TSR compared to FTSE SmallCap Index and FTSE Electronics/Electrical Index to ensure that Dialight's performance is in line with peer companies.

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

Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes, in particular in foreign exchange rates, would have an impact on equity value and consolidation earnings.

At 31 December 2011 it is estimated that a general increase of 1% in the value of the Euro and US Dollar against UK Sterling would have reduced the Group's profit before tax by approximately £169,000 for the year ended 31 December 2011 (2010: £112,000), and would have reduced the Group's equity by approximately £76,000 for the year ended 31 December 2011 (2010: £46,000).

Fair values versus carrying amounts

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2011 £'000	**Fair value 2011 £'000**	Carrying amount 2010 £'000	Fair value 2010 £'000
Financial assets				
Cash and cash equivalents	**13,700**	**13,700**	10,359	10,359
Loans and receivables				
Trade and other receivables	**22,846**	**22,846**	18,856	18,856
Total financial assets	**36,546**	**36,546**	29,215	29,215
Financial liabilities at amortised cost:				
Trade and other payables	**(19,136)**	**(19,136)**	(11,265)	(11,265)
Provisions	**(919)**	**(919)**	(1,156)	(1,156)
Total financial liabilities	**(20,055)**	**(20,055)**	(12,421)	(12,421)
Net financial assets	**16,491**	**16,491**	16,794	16,794

Details of the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table are set out in note 3(v).

Notes to the consolidated financial statements continued

23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2011 £'000	2010 £'000
Less than one year	**819**	835
Between one and five years	**1,644**	1,985
More than five years	**1,537**	1,848
	4,000	4,668

Of the £4,000,000 (2010: £4,668,000), £3,841,000 (2010: £4,506,000) relates to property and the balance to plant and equipment.

The Group has no off balance sheet arrangements that need to be disclosed as within the context of Section 410A of the Companies Act 2006.

24. Capital commitments

Capital commitments at 31 December for which no provision has been made in the accounts were:

	2011 £'000	2010 £'000
Contracted	**379**	499

25. Contingencies

During the year the Roxboro UK Pension Fund ("Scheme") was closed to future accrual. As part of the negotiations regarding closure, the Company agreed to grant a parent company guarantee in respect of all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally and in any capacity whatsoever) of Dialight Europe Limited, the principal employer, to make payments in the Scheme up to a maximum amount equal to the entire aggregate liability, on the date on which any liability under the Guarantee arises, of every employer (within the meaning set out in Section 318 of the Pensions Act 2004 and regulations made thereunder) in relation to the Scheme, were a debt under Section 75(2) of the Pensions Act 1995 to have become due on that date.

26. Related parties

The ultimate controlling party of the Group is Dialight plc. Transactions between the Company and its subsidiaries have been eliminated on consolidation. Intra-group transactions are priced on arm's length basis.

Transactions with key management personnel

Directors of the Company and their immediate relatives control 5.26% of the Company.

Details of the remuneration for the Company Directors are set out in the Directors' remuneration report on pages 38 to 41.

The main Board Directors are considered to be the Group's key management personnel. The IFRS 2 charge in respect of Key employees was £241,000 (2010: £179,000).

27. Significant subsidiaries

	Country of incorporation	Percentage owned	Principal activity
Dialight Corporation*	USA	100%	Manufacture and sale of indicators and Signals/ Illumination products
Dialight Garufo GmbH*	Germany	100%	Manufacture and sale of Signals/Illumination products
Dialight Europe Limited	England and Wales	100%	Manufacture and sale of electromagnetic components and manufacture of Signals products
Dialight Lumidrives Limited	England and Wales	100%	Dormant company
Belling Lee Limited (formerly Dialight BLP Limited)	England and Wales	100%	Dormant company
Dialight BTI A/S	Denmark	100%	Manufacture and sale of Signals/Illumination products
Dialight ILS Australia Pty Limited*	Australia	75%	Sale of Signals/Illumination products
Dialight Japan KK*	Japan	75%	Sale of Signals/Illumination products

All of these are included within the consolidation. Those marked with an * are indirectly held.

28. Post balance sheet events

On 9 January 2012, following a strategic review the Group announced that the Board decided to investigate the potential for selling the Electromagnetic Components business.

For information in 2011, the business contributed £10.7 million of sales, contribution of £1.6 million and net profit of £0.4 million. Net assets are £1.0 million.

The Board has considered the requirements of IFRS 5 but as they were not committed to a programme to sell the business at 31 December 2011, it was deemed not to meet the criteria and hence has not been classified as held for sale or presented as a discontinued operation.

Company balance sheet (prepared under UK GAAP) at 31 December 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Tangible assets	32	**134**	106
Investments	33	**16,508**	16,200
Debtors	34	**24,625**	22,437
		41,267	16,306
Current assets			
Debtors	34	**14,947**	11,527
Cash at bank and in hand		**—**	2,377
		14,947	13,904
Creditors			
Amounts falling due within one year			
Other creditors	35	**(4,694)**	(4,961)
Cash at bank and in hand		**(193)**	—
Current liabilities		**(4,887)**	(4,961)
Net current assets		**10,060**	8,943
Total assets less current liabilities		**51,327**	47,686
Net assets excluding pension fund liability		**51,327**	47,686
Pension fund asset/(liability)	39	**13**	(6)
Net assets including pension fund liability		**51,340**	47,680
Capital and reserves			
Called up share capital	37, 38	**601**	597
Capital redemption reserve	38	**2,232**	2,232
Other reserve	38	**1,049**	741
Profit and loss account	38	**47,458**	44,110
Equity shareholder funds		**51,340**	47,680

The accompanying notes form part of the financial statements.

These financial statements were approved by the Board of Directors on 8 March 2012 and were signed on its behalf by:

Roy Burton
Group Chief Executive

Mark Fryer
Group Finance Director

Notes to the Company financial statements

29. Accounting policies

The financial statements have been prepared under historic cost accounting rules and in accordance with UK GAAP.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Under Section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

No STRGL is required under UK GAAP as it is treated as related to the profit and loss account. Actuarial movements and related deferred tax will therefore only appear in the reserves note.

The Company is exempt from the requirement of FRS1 "Cash Flow Statements" to prepare a cash flow statement on the grounds that the Company is consolidated in the Group consolidated financial statements.

Depreciation

Depreciation is calculated so as to write off the cost, less estimated net realisable value, of tangible fixed assets on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Office equipment	between 10% and 20%
Computer equipment	between 20% and 33.3%
Plant, machinery, fixtures and fittings	between 10% and 20%
Motor vehicles	between 25% and 33.3%

Leased assets

The costs of operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate.

Taxation

Deferred taxation is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost, less provisions for impairment in value. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of Section 612 of the Companies Act 2006 apply, the cost represents the nominal value of shares issued together with the fair value of any additional consideration given and costs.

Pension contributions

The Company operates both defined benefit and defined contribution plans. The assets of all the arrangements are held separately from the assets of the Company in independently administered funds. The amount charged against profits in respect of defined contribution arrangements are the contributions payable to those arrangements in the accounting period.

For the defined benefit arrangements the assets are measured at market values. The liabilities are measured using the projected unit method, discounting at the current rate of return of a high quality corporate bond of the appropriate term and currency to the liability, as required under FRS 17.

The defined benefit scheme surplus or deficit is recognised in full and presented on the face of the balance sheet.

The movement in the deficit is split between operating charges, financing items and actuarial gains and losses in the statement of recognised gains and losses.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately recognised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Share-based payments

The PSP allows employees to acquire shares of the Company. The fair value of awards granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to receive the awards. The fair value of the awards granted is measured using a pricing model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of share awards that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Where the Company grants awards over its own shares to the employees of its subsidiaries, it recognised an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiary's financial statements with the corresponding credit being recognised directly in equity.

30. Staff costs

Staff costs during the year were:

	2011 £'000	2010 £'000
Wages and salaries	**926**	612
Social security costs	**124**	65
Equity-settled share-based payment transactions	**83**	47
Deferred bonus share scheme	**230**	—
Pension costs	**55**	76
	1,418	800

The average number of employees (including Executive Directors) employed during the year was:

	2011 Number	2010 Number
UK	**4**	4

Details for each Director of remuneration, pension entitlements and interests in share options are set out in the Directors' remuneration report on pages 38 to 41.

31. Fixed assets

	Plant equipment and vehicles £'000
Cost	
At 1 January 2011	130
Additions	59
At 31 December 2011	**189**
Depreciation	
At 1 January 2011	(24)
Charge for the year	(31)
At 31 December 2011	**(55)**
Net book value at 31 December 2011	**134**
Net book value at 31 December 2010	106

32. Investments

Investments in subsidiary undertakings:

	£'000
Cost	
At 1 January 2011	20,988
Share-based payment	308
At 31 December 2011	**21,296**
Provisions	
At 1 January 2011	(4,788)
Profit and loss account	—
At 31 December 2011	**(4,788)**
Net book value at 31 December 2011	**16,508**
Net book value at 31 December 2010	16,200

In accordance with UITF 41 "Scope of FRS 20 (IFRS 2)" the cost of investment is increased to reflect the cost of share options awarded to employees of the Company's subsidiaries.

Notes to the Company financial statements continued

32. Investments continued

Name	Percentage owned	Country of incorporation and operation
Dialight Corporation*	100%	United States of America
Dialight Europe Limited	100%	England and Wales
Dialight Garufo GmbH*	100%	Germany
Dialight Lumidrives Limited	100%	England and Wales
Belling Lee Limited (formerly Dialight BLP Limited)	100%	England and Wales
Dialight BTI A/S	100%	Denmark
Dialight ILS Australia Pty Limited*	75%	Australia
Dialight Japan KK*	75%	Japan

The investment is held directly by the Company except for those companies where indicated by *.

33. Debtors

	2011 £'000	2010 £'000
Amounts owed by subsidiary undertakings	**39,140**	33,052
Other debtors	**216**	131
Deferred tax asset (note 35)	**216**	781
	39,572	33,964
Less non-current portion: amounts owed by subsidiary undertakings	**(24,625)**	(22,437)
Current portion	**14,947**	11,527

34. Creditors

	2011 £'000	2010 £'000
Amounts falling due within one year:		
Other taxes and social security costs	**35**	14
Amounts owed to subsidiary undertakings	**3,757**	3,445
Corporation tax payable	**158**	—
Accruals and deferred income	**744**	1,502
	4,694	4,961

35. Deferred tax asset

	2011 £'000	2010 £'000
At 1 January	**783**	112
Prior year adjustment	**(91)**	—
Profit and loss account	**(624)**	649
Recognised in equity	**144**	22
At 31 December	**212**	783
An analysis of deferred tax is as follows:		
Capital allowances	**31**	30
Short-term timing differences	**185**	751
Debtors (see note 33)	**216**	781
Pension liability (see note 38)	**(4)**	2
	212	783

Overview
Operating review
Governance
Financials
Shareholder information

36. Called up share capital

	2011 Number	2011 £'000	2010 Number	2010 £'000
Allotted and fully paid Ordinary shares of 1.89 pence each	**31,800,231**	**601**	31,600,231	597
Shares classified as liabilities		**—**		—
Shares classified in shareholder funds		**601**		597
		601		597

During the year, 200,000 shares were issued (0.63% of the total ordinary share capital issued) at par. The ordinary shares issued have the same rights as the other shares in issue.

Share-based payments

PSP

In September 2005 the shareholders approved the PSP.

During the year an award under the PSP was made to the Executive Directors and senior managers, details of which are set out below:

Date of award	Number of awards at the beginning of year	Number of awards granted during the year	Number of awards released during the year	Number of awards forfeited during the year	**Number of awards at the year end**	Fair value pence per share	Vesting period	Maturity date
April 2008	292,835	—	(292,835)	—	**—**	97	3 years	April 2011
April 2009	347,955	—	—	(5,464)	**342,491**	56	3 years	April 2012
April 2010	235,681	—	—	(26,688)	**208,993**	186	3 years	May 2013
September 2010	37,822	—	—	—	**37,822**	322	3 years	Sept 2013
February 2011	—	146,600	—	(6,522)	**140,078**	411	3 years	Feb 2014
	914,293	146,600	(292,835)	(38,674)	**729,384**			

Further details of the PSP are included in the Directors' remuneration report on pages 37 to 41.

The fair value of the awards made is measured using the Monte Carlo model with the following inputs:

	February 2011 award	September 2010 award	May 2010 award	April 2009 award
Share price	£6.24	£4.01	£2.79	£1.17
Exercise price	£nil	£nil	£nil	£nil
Expected volatility	40%	42%	41%	40%
Award life	3 years	3 years	3 years	3 years
Correlation				
Dialight and the FTSE Smallcap Index	29%	30%	33%	18%
FTSE Smallcap Index and the FTSE All Share Electronic/Electrical Equipment Index	86%	87%	86%	77%

37. Capital and reserves

	Share capital £'000	Capital redemption reserve £'000	Other reserve capital contribution £'000	Profit and loss account £'000	Total £'000
At 1 January 2011	597	2,232	741	44,110	47,680
Own shares issued	4	—	—	(4)	—
Net expense recognised in equity	—	—	—	(66)	(66)
Profit for the year	—	—	—	5,768	5,768
Dividends to shareholders	—	—	—	(2,683)	(2,683)
Dividends on shares awarded under the PSP	—	—	—	(115)	(115)
Dividends returned from shareholders	—	—	—	2	2
Share-based payments	—	—	308	216	524
Deferred bonus share scheme	—	—	—	230	230
At 31 December 2011	**601**	**2,232**	**1,049**	**47,458**	**51,340**

At 31 December 2011 the number of shares held by the Group through the ESOT was 39,216 (2010: 159,621). The market value of these shares at 31 December 2011 was £274,120 (2010: £820,452).

37. Capital and reserves continued

The capital contribution reserve is non-distributable and arises from the accounting for share-based payments (see note 37).

The profit for the year was £5,768,000 (2010: £27,441,000). Net expenses recognised directly in equity relate to the net actuarial gain (net of deferred tax) arising in respect of the pension scheme.

	2011 £'000	2010 £'000
Profit and loss reserve excluding pension liability	47,445	44,116
Pension reserve	13	(6)
Profit and loss reserve	47,458	44,110

Reconciliation of movement in shareholders' funds

	2011 £'000	2010 £'000
Profit for the year	5,768	27,441
Own shares issued	—	—
Shares issued on acquisition	—	6
Other gains and losses	(66)	26
Dividends paid	(2,683)	(2,228)
Dividends on shares awarded under the PSP	(115)	—
Dividends returned	2	6
Share-based payments (net of tax)	524	351
Deferred bonus share scheme	230	—
Net addition to shareholder funds	3,660	25,602
Opening shareholder funds	47,680	22,078
Closing shareholder funds	51,340	47,680

Dividends

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided for and there are no income tax consequences for the Company.

Final proposed dividend	2011 £'000	2010 £'000
6.7 pence per ordinary share (2010: 5.2 pence)	2,131	1,643

During the year the following dividends were paid:

	2011 £'000	2010 £'000
Final – 5.2 pence (2010 Second Interim: 4.3 pence) per ordinary share	1,643	1,343
Interim – 3.3 pence (2010: 2.8 pence) per ordinary share	1,050	885
Less: dividends on shares held in trust	(10)	—
	2,683	2,228
Final Dividend – 5.2 pence on shares award under the PSP not yet vested	38	—
Interim Dividend – 3.3 pence on shares award under the PSP not yet vested	24	—
Dividends accrued on shares awarded under the PSP but not yet vested	38	—
Dividends paid on shares awarded under the PSP vested during the period	15	—
Total (amount shown in the statement of changes in equity)	2,798	2,228

38. Pensions

The Company operates both a defined benefit executive scheme and defined contribution plan. The assets of the schemes are held separately from those of the Company. The defined benefit plan is closed to new members.

Recognised asset for defined benefit obligations

	2011 £'000	2010 £'000
Present value of liabilities	**(1,578)**	(1,483)
Fair value of plan assets	**1,595**	1,475
Recognised asset/(liability) for defined benefit obligations	**17**	(8)
Deferred tax (see note 35)	**(4)**	2
Pension asset/(liability) net of deferred tax	**13**	(6)

Plan assets consist of the following:	2011 £'000	2010 £'000
Bonds	**1,503**	1,411
Cash	**92**	64
	1,595	1,475

Movements in the present value of defined benefit obligations

	2011 £'000	2010 £'000
Liabilities at 1 January	**1,483**	1,471
Interest cost	**82**	83
Benefits paid	**(49)**	(47)
Actuarial loss/(gain)	**62**	(24)
Liabilities at 31 December	**1,578**	1,483

Movements in fair value of plan assets

	2011 £'000	2010 £'000
Assets at 1 January	**1,475**	1,339
Expected return on scheme assets	**82**	61
Employer contributions	**85**	85
Benefit paid	**(49)**	(47)
Actuarial gain	**2**	37
Assets at 31 December	**1,595**	1,475

Expense recognised in the profit and loss account

	2011 £'000	2010 £'000
Interest on obligation	**82**	83
Expected return on plan assets	**(82)**	(61)
	—	22

The expense is recognised in the following line items in the profit and loss account:

	2011 £'000	2010 £'000
Administrative expenses	**—**	—
Net financing income	**—**	22
	—	22

Notes to the Company financial statements continued

38. Pensions continued

Expense recognised in statement of recognised gains and losses

	2011 £'000	2010 £'000
Actuarial gain on plan assets	**2**	37
Experience (losses)/gain on liabilities	**(1)**	49
Change in assumptions in respect of liabilities	**(61)**	(25)
Net actuarial (loss)/gain recognised in Statement of recognised gains and losses	**(60)**	61
Cumulative actuarial loss recognised in Statement of recognised gains and losses	**(480)**	(420)

Historical information

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Defined benefit obligation	**(1,578)**	(1,483)	(1,471)	(1,338)	(2,003)
Scheme assets	**1,595**	1,475	1,339	1,273	1,943
Surplus/(deficit)	**17**	(8)	(132)	(65)	(60)
Actuarial (losses)/gain on liabilities	**(62)**	24	(162)	228	(119)
Experience gain/(losses) on assets	**2**	37	79	(290)	(54)

Liability for defined benefit obligations

The principal assumptions at the balance sheet date (expressed as weighted averages) are:

	UK Scheme (% per annum)		
	2011	2010	2009
Discount rate at 31 December	**4.70**	5.50	5.70
Future salary increases	**n/a**	n/a	n/a
Future pension increases	**3.00**	3.65	3.65
Inflation – RPI	**3.00**	3.70	3.75
Inflation – CPI	**2.20**	3.00	n/a
Deferred revaluation	**2.20**	3.00	3.75

The expected long-term rates of return were:

	UK Scheme (% per annum)		
	2011	2010	2009
Equities	**n/a**	n/a	n/a
Bonds	**3.00**	5.50	5.70
Cash	**3.00**	4.20	4.50

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2011, used SAPS mortality tables based on year of birth (as is published by the Institute of Actuaries). The UK mortality tables are based on the latest mortality investigations and reflect an industry-wide recognition that life expectations have improved. The average life expectancy of an individual currently aged 45 years and retiring at age 65 years is 24.10 years for males and 26.5 years for females. For individuals currently aged 65 years the average life expectancy is 22.2 years for males and 24.6 years for females.

The expected long-term rate of return for investments is based on the portfolio as a whole and not on individual asset categories. The return is based exclusively on historical returns, without adjustments which are crossed checked against market expectations from external sources.

The Company expects that contributions to the defined benefit plan in 2012 will be at a similar level to contributions paid in 2011.

39. Related party transactions

The Company has taken advantage of the exemptions conferred by FRS 8 and has not disclosed transactions with wholly owned subsidiaries that are part of the Group or the investees of the Group.

The Company has also taken advantage of the exemptions available under FRS 29 whereby parent companies are not required to apply the disclosure requirements of the standard in their own single entity financial statements, on the basis that the disclosures are included in the consolidated financial statements of the Group.

During the year, loans were made to Dialight Japan and ILS, indirectly held subsidiaries of the Company to the amount of £258,000 and £329,000 respectively, which at the year-end, remained outstanding and are included within debtors due in less than one year.

Five year summary

	Prepared under IFRSs				
	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Turnover	**113.5**	99.2	77.3	77.9	63.4
Research and development expenditure	**5.1**	3.7	3.7	3.2	2.6
Underlying operating profit	**15.0**	11.2	5.5	5.3	3.9
Non-underlying operating loss	**(0.1)**	—	—	—	—
Finance (charges)/income	**(0.7)**	0.1	(0.2)	0.3	0.6
Profit before gain on disposal of discontinued operations and taxation	**14.3**	11.3	5.3	5.6	4.5
Operating cash flow	**12.4**	14.0	11.0	6.0	5.8
Net cash	**13.7**	10.4	9.1	4.1	4.4
Shareholders' funds	**54.8**	46.2	40.1	37.5	30.8

Statistical information	Pence	Pence	Pence	Pence	Pence
Basic earnings per ordinary share from continuing operations	**30.3**	23.8	10.6	11.2	8.8
Dividends per share	**10.0**	8.0	6.6	6.0	5.7
Dividend cover (times)	**3.0**	3.0	2.7	1.9	1.5
Operating margin	**13.2%**	11.3%	7.1%	6.8%	6.2%

	£m	£m	£m	£m	£m
Turnover					
Continuing operations	**113.5**	99.2	77.3	77.9	63.4
Operating profit from continuing operations	**15.0**	11.2	5.5	5.3	3.9

Directory and shareholder information

Company Secretary and Registered Office
Nick Giles FCIS
Exning Road
Newmarket
Suffolk CB8 0AX
Telephone: +44 (0)1638 778640
Registered in England and Wales
Company Number 2486024
Email: info@dialight.com
www.dialight.com

Financial advisers and stockbrokers
Canaccord Genuity Ltd
Cardinal Place
80 Victoria Street
7th Floor
London SW1 5JL

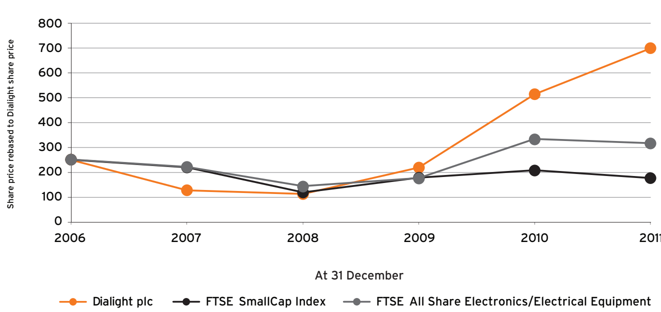
Registrars
Equiniti
34 South Gyle Crescent
South Gyle Business Park
Edinburgh EH12 9EB

Equiniti's Shareholder Contact Centre can be contacted by telephone on 0871 384 2030* (international callers: +44 121 415 7047) between 8.30am and 5.30pm each business day, excluding Bank Holidays.

You can also access details of your shareholding and a range of other shareholder services by registering at www.shareview.co.uk.

* Calls to this number are charged at 8 pence per minute from a BT landline. Charges from other telephone providers may vary and from mobiles will be considerably more.

Share price
Information concerning the day-to-day movement of the share price of the Company can be found on our website www.dialight.com or the London Stock Exchange's website www.londonstockexchange.com.



Forward looking statements
Certain sections of this Annual Report contain forward-looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the Company and its subsidiaries and associates operate. It is believed that the expectations reflected in the Annual Report are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

Dealing service
Equiniti offers Shareview Dealing, a service which allows you to sell your Dialight plc shares or add to your holding if you are a UK resident. You can deal in your shares on the internet or by telephone. For more information about this service and for details of their rates, log on to www.shareview.co.uk/dealing or telephone on 0845 603 7037 between 8.30am and 4.30pm, Monday to Friday. If you wish to deal, you will need your account/shareholder reference number which appears on your share certificate.

Alternatively, if you hold a share certificate, you can also use any bank, building society or stockbroker offering share dealing facilities to buy or sell shares. If you are in any doubt about buying or selling shares, you should seek professional financial advice.

Auditors
KPMG Audit Plc
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

Legal advisers
Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ

Butzel Long
Suite 100
150 West Jefferson Ave
Detroit, MI 48226
USA

Principal bankers
Barclays Bank PLC
PO Box 885
Mortlock House
Station Road
Histon
Cambridge CB24 9DE

Financial calendar 2012/2013

Annual General Meeting	18 April 2012
Half Yearly Financial Report	23 July 2012
Interim Management Statement	November 2012

Regional headquarters
Dialight Corporation
1501 Route 34 South
Farmingdale, NJ 07727
USA
Telephone: +1 732 919 3119
Facsimile: +1 732 751 5778

Dialight Europe Limited
Exning Road
Newmarket
Suffolk CB8 0AX
Telephone: +44 (0) 1638 665161
Facsimile: +44 (0) 1638 660718

designed and produced by
the design portfolio marketing services.
www.design-portfolio.co.uk

Dialight plc
Exning Road
Newmarket
Suffolk CB8 0AX

www.dialight.com