Dialight

World leader in applied LED technology

Annual report 2006

Illuminating our strategy for the future

Group highlights

Sales increased by 11% to £62.3m

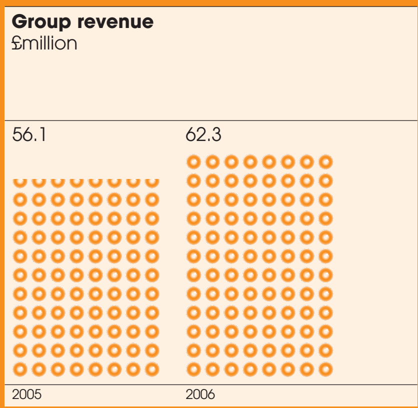
Contribution margins maintained

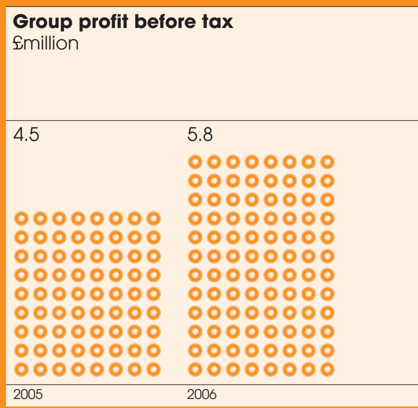
Recommended final dividend increased by 17% to 3.5 pence

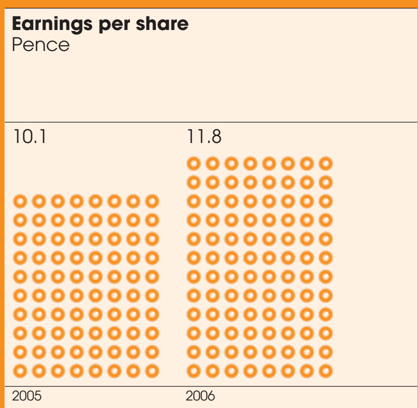
Strong year end balance sheet

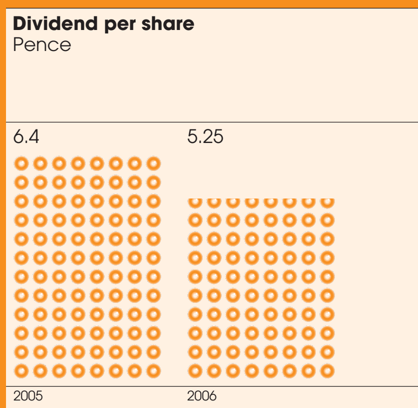
Successful integration of Lumidrives

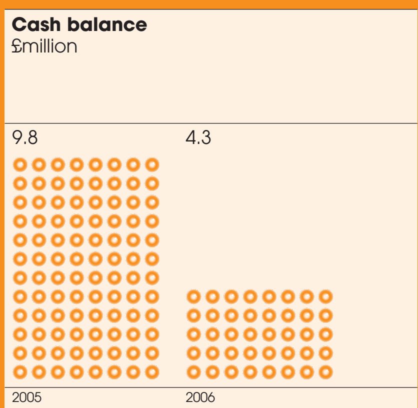
Financial highlights











Illumination is at the core of our business. We illuminate grand buildings, nightclubs and retail outlets. We illuminate bridges, tunnels and car parks. Our beacons send a warning light from radio masts, wind turbines and tall buildings.

We provide safe, low-voltage illumination at oil refineries and chemical plants. Our LEDs illuminate networking equipment, cellular base stations and other electronic devices. On the roads, we illuminate traffic signals and transit buses.

"Illumination" also sums up our approach to new product development. We aim to shed light on innovative processes, new applications and imaginative ways to exploit the proven benefits of LEDs. With the brightest researchers and the most brilliant engineers, we're confident that Dialight will remain the global leader in applied LED technology.

Our business

Dialight is made up of two distinct businesses across a number of global markets.

Contribution to group:

Business:

Components

This was the original business of Dialight. In 1935 when the Company was founded, Dialight manufactured conventional indicator lights for gas heaters. Since that time its indicator lights have been developed to show the status of equipment in many applications. In the early 1960s the invention of the Light Emitting Diode brought a new dimension to Dialight.

These new LEDs were used for status indication in the Electronics Industry – mostly mounted on printed circuit boards. Fortunately for the Company, these new LEDs were not easy to assemble to the circuits for which they were providing status. Dialight's solution was to put the LED into a plastic housing with preformed and cropped leads which could be assembled to the board using automatic assembly equipment. This took Dialight into the electronics market for any piece of equipment which needed indication whether it be on/off status or some fault indicator.

In the 1990s the advent of Local Area Networks, Cellular Phones and increased Data Storage saw the growth in the need for status indication. A Network Hub or Router for instance uses a bicolour LED device to show whether an individual channel is working or not. Each channel in a cellphone Base Station needs an LED device to indicate whether that channel is functioning properly. The growth of these technologies drove a consequent need for LEDs and LEDs that could be assembled automatically. Dialight was there with its range of LED Circuit Board Indicators which generated a whole new line for the Company.

Today Dialight indicator products are used in electrical and electronic equipment throughout the world and Dialight is a leading supplier of these products.

Although most of Dialight's business is centered around LEDs and their application, there continues to be a product line in one of the original Dialight businesses based at Newmarket, which is dedicated to solenoid based disconnects. Under the name of Dialight BLP, these products are sold throughout the world to manufacturers of gas and electricity meters for automatic connection and disconnection of their meters.

Contribution to group:

Business:

Signals and illumination

LEDs started life as low power devices emitting a single wavelength in either red or yellow. In the early 1990s blue and green LEDs were developed and by the middle 1990s higher power devices became available that brought new applications for LEDs where much brighter sources were required.

The initial applications for these new high power devices were in Traffic Lights where power and maintenance savings have driven adoption of LED light sources. Dialight has been a pioneer in the use of LEDs for signalling applications and is now a major supplier of LED Traffic Lights in both North America and Europe.

In addition to Traffic Lights, LEDs are used for Rail Signals where the long life of LEDs improves safety. Dialight has a range of LED based Rail Signals for both trackside and crossing applications.

Broadcast towers, cellular towers, tall buildings near airports are required to carry lighting to warn nearby aircraft of their presence. Dialight was the first to develop lights for this application using red LEDs and is the market leader in this field. Almost all the new Transit Buses in the USA are equipped with Dialight LED stop, tail and turn lights as well as reverse lights and engine compartment lights using white LEDs.

Improvements in LED technology and the advent of white LEDs has opened up the possibility of LED based illumination. Through its subsidiary Dialight Lumidrives, the Group offers a range of lights for architectural, entertainment and industrial applications. These lights can be coloured or white and by mixing combinations of red, green and blue LEDs using sophisticated electronics Dialight is able to offer an almost infinite colour possibility to the lighting community. Working closely with major lighting OEMs, Dialight develops LED based solutions for those OEMs to add to their portfolio of conventionally lit products.

Chairman's statement

"The Board sees particular opportunities in European Traffic where there is very little adoption until now, Obstruction Lighting and the emerging market for both Colour and white lighting."

Introduction

Following the reconstruction of the Group in 2005, this is the first full year of Dialight reporting as a standalone business focused entirely on Applied LED Technology and the emerging Solid State Lighting market.

Over the past 12 months the Board has been implementing the strategy of the Group which has the overall objective of growing sales by a compound double digit rate with the requisite increase in profitability.

The Board sees particular opportunities in European Traffic where there is very little adoption until now, Obstruction Lighting and the emerging market for both Colour and white lighting. Forecasts by industry commentators estimate that by the year 2010 the High Brightness LED market will have worldwide sales of $1 billion and Dialight seeks to realise opportunities within this sector.

During 2006 there were two events which are key initiatives in achieving our strategic objectives. Firstly we acquired Lumidrives in January 2006 giving the Company a position in the European Lighting market. Secondly we signed a licence with Color Kinetics Inc eliminating the potential conflict with this company and providing our customers with Dialight's enhanced product range.

Financial results

On a continuing operations basis sales in 2006 increased by 11% to £62.3 million and profit before tax as reported increased by 30% to £5.8 million. Profit before tax increased by 7% compared with 2005 profit on a pro forma basis* of £5.4 million. Earnings per share showed a gain of 17% to 11.8p per share. Margins for the Group remained good with an improved contribution percentage in the Signals/Illumination segment and a constant margin by product line in the Components segment.

The Group generated net cash inflow from operations of £2.2 million (2005: £4.9 million) representing 41% of operating profit. During the year the Group used £2.5 million cash in acquiring Lumidrives Limited, and a further £309,000 in buying 156,000 ordinary shares for the Share Trust. The Group absorbed £4.1 million of cash into working capital which was principally the build of inventory to support product transition. At the end of the year the Group had a cash balance of £4.3 million (2005: £9.8 million)

**the pro forma basis is extracted from the 2005 Financial Statements adjusted for reduced corporate costs of £1 million following the disposal of the Solartron businesses.*

Dividend

As I stated in my interim report, following the disposal of the Solartron businesses, the dividend policy would be designed to reflect the new profile and growth potential of the continuing Group.

The Board is recommending a final dividend of 3.5p per share an increase of 16.7% over last year's final dividend. The dividend will be paid on 11 May 2007 to shareholders on the register at close of business on 16 March 2007. The full year dividend is 5.25 pence per share and the dividend cover is 2.2 times.

Staff

As always our success depends upon the continuing enthusiasm and commitment of all our staff. There are a number of exciting but challenging opportunities ahead for the Group and the continued support of all staff is critical to their achievement. On behalf of the Board I wish to thank them for their contribution this year.

Outlook

Dialight has strong margins and will continue to focus on increasing market share in its chosen markets whilst maintaining tight control on costs. Demand for Signals/illumination products continues to be encouraging and in particular the prospects for Solid State Lighting, Obstruction and European Traffic remain good.

The demand for our Components business is lower than the same period last year by approximately 20%, primarily as a result of destocking by distributors. The distributors' own customer demand has remained reasonably constant and consequently we expect demand for our Components products to return to the levels of 2006 by the second quarter. Taking this and the translation impact of the currently weak US dollar, the Board takes a cautious view of the outlook for the first half. The Board remains confident of the longer term prospects in 2007 and beyond.

Harry Tee Chairman

Total shareholder return indices
2001-2006
Dialight plc
FTSE Small Cap

Dialight TSR v FTSE Electronic and Electrical Equipment TSR
Dialight plc
FTSE Electronics

Business review
Strategy

Strategy actions

1 Identify niche markets
Further detail on page 12

2 Focus on research and development
Further detail on page 14

3 Develop defensible technology
Further detail on page 16

4 Selective acquisitions
Further detail on page 18

5 Protect profits
Further detail on page 20

Dialight's strategy is to grow its business at a compound double digit rate. The Group will accomplish this by concentrating on growth segments within the High Brightness LED Market and providing new products with strong value propositions to serve those segments. New products will continue to be designed and developed by a strong and focused research and development team with the objective of developing defensible intellectual property which will provide unique benefits for our customers. Dialight likes regulated markets which require suppliers to achieve compliance with demanding and regulated product standards.

As LED technology develops and improves, new applications will open up. By careful evaluation of these new applications, Dialight will be first to market in those niches which fit the growth and Intellectual Property strategy. This approach may result in organic development or selective acquisitions where technology, channel or customer base are appropriate.

Components

The market for Dialight's indicator products has grown historically at a compound annual rate of 4 to 5%, although it is subject to the volatility from the cyclical nature of the electronics market. The route to market for Components products is split fairly evenly between sales to major OEMs and sales through Electronic Distributors. Both pieces of this business require continual "design in" activity but as long as this is maintained the business should continue in the long term and grow with the market.

The OEM sales are to most of the world's professional electronics companies. Significant applications are in Networking and Datacommunications, Cellular Infrastructure, Data Storage and Servers. Most of the OEMs operate with a "preferred supplier" policy and Dialight is generally one of only two or three vendors on the preferred lists. Dialight services these OEMs by providing cost effective products with high quality standards and excellent delivery performance.

Dialight has long standing relationships with most of the major Electronic Distributors around the world. These Distributors service over 10,000 customers and hold over $5 million of inventory in order to support this extensive customer base. Dialight products are specified on tens of thousands of customer drawings which will generate demand through the distribution channel. In order to regenerate and grow this demand, globally Dialight employs both direct sales people and manufacturers' representatives and agents to visit this extensive customer base. It is this extensive base and the continual refreshing of "design ins" that makes the Dialight line so attractive to our distributor network.

"Our plan is to grow the total business at a double digit pace. We will accomplish this by concentrating on growth segments within the High Brightness LED Market, providing new products with strong value propositions."

Dialight BLP has been in the solenoid switch business for many years and has an outstanding reputation for high specification products. Their products are built in our Newmarket facility which is QS 9000 registered and has recently received recommendation for TS 16949 registration which is one of the most stringent quality specifications available. A large part of the market for solenoid switches is to gas and electricity meter manufacturers to enable meters to be connected and disconnected remotely. Many of these manufacturers are developing "smart meters" and the market in the US is forecasted to grow significantly in the next five years with annual demands reaching into the hundreds of thousand units. Dialight BLP is positioned well to take the dominant share of this market and is in dialogue with most of the major meter manufacturers.

Signals/Illumination

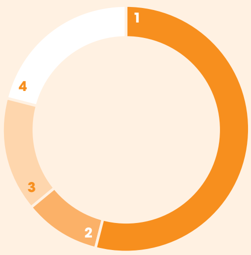
Traffic Lights

The value proposition for LED traffic lights is very simple. A conventional traffic light in North America uses a 150 watt incandescent light bulb emitting white light which is filtered through a coloured lens to give the appropriate red, amber or green colour. Of the white light only a small percentage gets through the lens since unwanted colours are filtered out. An LED signal produces a single wavelength of light, most of which makes its way through the lens therefore much less power is required to achieve the desired illumination. The 150 watt light bulb is today being replaced by an LED array which uses between 5 and 10 watts of power. The energy saving of the LED signal will offset the extra capital cost in less than two years. Dialight offer a five-year warranty with the traffic signal supporting the long life of the product. LEDs, unlike conventional light bulbs, do not fail but fade in brightness over a period of time. In addition to the energy saving the LED offers significant maintenance savings as it removes the requirement to change the conventional light bulb once a year.

The Traffic Light Market in the US has for some years been dominated by LEDs with the first products supplied nearly ten years ago.Over 50% of all the traffic intersections in the US have been converted to LED and all new installations are prescribed by legislation to be LED. The high adoption rate in North America has resulted in a flat but relatively stable marketplace. Dialight is one of three major players in this business and has a leading share. The majority of our market is through a network of Regional Traffic Dealers who sell to Municipal and State Departments of Transport, supplying Dialight's LED traffic lights

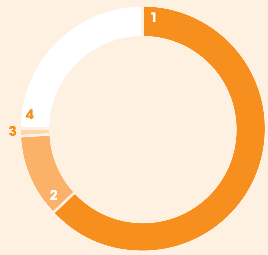
Signals/Illumination
Breakdown by markets
2006

1 Traffic (54%)
2 Obstruction (10%)
3 Illumination (15%)
4 Other (21%)



Signals/Illumination
Breakdown by markets
2005

1 Traffic (63%)
2 Obstruction (11%)
3 Illumination (1%)
4 Other (25%)



and other traffic products such as controllers, video detection systems, signal heads. This network has a strong presence throughout North America and is able to maintain market share. To support this channel, Dialight continues to develop products to the latest specifications and remains competitive by continual examination of costs and incorporation of the most up to date LED technologies. All traffic products are manufactured in Dialight's ISO Registered Mexico facility thus taking advantage of low labour costs and closeness to market.

The balance of the traffic light market in North America consists of one-off tenders to municipalities for large retrofit projects. They vary in size and timing and are awarded on a best price basis after a sealed bidding process. Only qualified suppliers may bid and it is Dialight's strategy to work closely with the authorities to persuade them of the unique merits of its products and to limit the potential bidders to those supplying superior products. Under the expected life cycle of the product, the replacement of previously installed LED lights is expected to increase and this will replace the revenue from new installations in the market as it reaches saturation to maintain a steady revenue stream for the Group.

The LED traffic light situation in Europe has been quite different to North America and whereas North America has rapidly adopted LEDs, adoption across Europe is in the single digit percentage. This is due partly to a value proposition, which although impressive, is not as compelling. Most traffic signals in Europe use a 50 watt Halogen Lamp which has a lower energy consumption than the traditional traffic light in the US, thus reducing the potential energy savings. However, the same compelling maintenance saving proposal applies.

Access to the European traffic market has been dominated by nationally based OEMs who supply complete Traffic Systems with no incentive to supply LED lights. In fact the advent of LEDs will take away the need for lucrative lamp changing contracts which have been serviced by those same OEMs. The LED story in Europe is gaining acceptance due to the obvious value proposition of an LED signal and whilst the channel to market for LEDs is still through Traffic Systems OEMs the end users in Europe are beginning to insist on LED Signals. This is in part due to the establishment of new standards in some countries but is also a reflection of the success of LEDs in North America.

Given that the OEMs in Europe have control over the route to market, Dialight has established the strategy of working with the OEMs to be their provider of certified and warranted LED products with performance that exceeds the national standards and therefore not to be in direct competition. This allows the OEMs to concentrate on other developing aspects of Intelligent Traffic Systems whilst being positioned to supply state of the art LED lights. It is estimated that the European market is potentially as large as that of North America and that LED sales could grow to the same level as North America in the next two to three years if we use our transatlantic experience as a template.

Adoption of LEDs is also very low throughout Asia. Due to the diverse nature of the Asian market with a need for both regulated and unregulated product we consider it important to be selective and to address only those markets where specification and performance are prescribed and upheld and where Dialight's value can be obtained.

Rail

Similar to the traffic light market, there exists a strong value proposition for LED based Rail Signals. The rail market is highly regulated through extensive safety standards and gestation periods for change to products are long. Prospects for growth in the rail market are considered to be longer term. Whilst Dialight has had some success in North America, we will approach this market carefully, seeking OEM partners where possible and combining their market knowledge with Dialight's LED expertise.

Obstruction Lights

Most countries in the world are required to carry visual warning of the presence to aircraft of broadcast towers, cellular towers, wind turbines and tall buildings. This warning is usually either a red light, or a white strobe light or a combination of both. The use of these lights is heavily regulated by the appropriate authorities such as the FAA in the United States and ICAO in Europe. Being situated at the top of tall structures, any failure of the light is expensive and sometimes dangerous to access.

Red LED lights have been introduced by Dialight in 2002 to replace conventional lighting in these applications. The value proposition is very straightforward for red lights; an Obstruction Beacon with a conventional light will use 1240 watts and the light bulb will be changed annually. A Dialight LED Beacon uses about 40 watts and is guaranteed to meet light output specification for at least five years and will remain lit long after that time. The LED solution provides energy saving and for five years eliminates the need to climb in order to change the light and therefore offer significant maintenance savings.

Our strategy is to work with the OEMs who provide conventional lights to the tower operators and to use their relationships with the end users to channel our product. In addition to this, our sales people help drive demand by presenting at trade shows, meetings of professional broadcast engineers and at the offices of the major tower operators.

Until recently, only red lights could be made using LEDs however, at the end of 2006, Dialight announced the introduction of the first white obstruction light. This is a strobe light that may be used in a combination with red or on its own. This opens up a larger market for our products since in the European Wind Tower market each tower over 10 Megawatts requires two combination Red/White Lights. In the North American Cellular market any tower 300 feet and over has to be lit with a white strobe light during daylight hours and a flashing red light at night. There are over 10,000 such cellular towers in North America with a 10 year light replacement cycle. New production of Wind Towers in Europe is forecasted to be at over 2,500 per year over the next five years. This opens up a potential market of over 5,000 units a year for replacement and new build – our strategy is to take this value proposition of an energy saving, maintenance free lighting system which is guaranteed for five years.

Illumination

To understand our strategy in Illumination, it is necessary to look at white lighting and coloured lighting separately and to examine the advantages of LEDs in each situation.

Coloured lighting is used mostly in architectural and entertainment applications where aesthetics are probably the most important factor. Since LEDs are semi-conductors, they can be easily controlled using digital techniques and by mixing red green and blue LEDs using sophisticated software algorithms, an almost infinite variety of colour is available.

The route to market is key in defining a strategy for LED lighting. The Lighting Market is very fragmented being served by a large number of companies which specialise in one type of light fixture. There are lighting companies which offer only underwater lighting solutions; there are companies which specialise in lights for Houses of Worship; companies which specialise in "In Ground Lighting" and so on. The route to market is difficult for a company specialising in LED solutions only since a particular project will use a number of different light sources and LEDs will be only a part of the project. It is therefore our strategy to position and work with Lighting OEMs, to be their LED specialist to enable them to fill out their package without the need to become expert in LEDs themselves. In the field of coloured lighting, Dialight took the strategic initiative to sign a licensing agreement with Color Kinetics covering Color Kinetics' extensive patent portfolio in coloured LED Lighting. This agreement allows us to offer our OEM customers a "pass through" licence without their need to negotiate a separate licence for themselves. The products that we offer include complete fixtures to be "private labelled" by the OEMs and also combinations of LED arrays called "Light Engines" and the appropriate electronics and thermal management to enable the OEMs to install LED technology in their own fixtures.

In addition to utilising a direct route to these OEMs, Dialight has signed agreements with a number of leading Distributors and the Dialight Sales Teams work extensively with the Sales Groups of these Distributors to reach and service a wider customer base with ready access to inventory of lighting modules. These Electronic Distributors have recognised the potential of the growing LED lighting market and are making significant investments to make sure that they are a part of it.

Future Electronics has for some time been the exclusive distributor for Philips Lumileds, the leading supplier of High Power LEDs. Arrow Electronics has recently signed a franchise with Cree Inc. another major LED manufacturer and Electrocomponents, Farnell and Digikey, all major catalogue based distributors are entering the Solid State Lighting world. Dialight is positioned with all of these companies through the Components business.

Currently white LEDs cannot compete with the most efficient conventional light sources for energy efficiency. LEDs however have other attributes which can promote the use of LEDs for white lights. The life of an LED fixture depends on a number of issues but properly designed and managed a lifetime in excess of 50,000 hours is achievable with no failure. LEDs only fade away and the lifetime of 50,000 hours is when the light output has dropped to 50% of its original brightness.

LEDs are rugged, have no filament to break and can withstand shock and vibration to a greater extent than conventional light sources. They have a cool beam (i.e. no infra red component) and are useful where heat is a problem. An LED light is powered by a low voltage DC source so they are safer to use in areas where flammability is an issue. These are just some of the properties of white LEDs which suggest applications where an LED light gives a significant advantage over a conventional light. At this stage in the development of white LEDs, energy saving is not the major driver; as time passes and the millions of dollars that are being invested in research produce a return, LEDs will be more energy efficient and cost effective than conventional light sources – we are not there yet.

Our strategy is to take the other properties of white LEDs and to identify niche applications. For instance, Dialight has developed an LED light fixture for hazardous locations where explosive gases may be present. The low voltages used and the lack of a possibility of a spark make LEDs a natural for this type of application. In military shelters which are deployed in battlefield situations, the ruggedness of LEDs and their long life make them an ideal solution for lighting such structures.

As the efficiency of white LEDs improves in lumens/watts (lumen being a measure of light output) or unit of light and the cost/lumen decreases more applications open up. It is our strategy to be at the leading edge of these developments and to be first to market with viable LED solutions for these ever growing application niches. We see that over the next few years more and more industrial lights, street lights, parking garage lights and so on will succumb to the inherent advantages of white LEDs. Dialight will use its extensive expertise in the application of LEDs to identify and service these applications with unique and defensible technology which will bring value to the end user. Although our preferred route to market is to go through an established Lighting OEM and to be seen to be a partner not a competitor, as white lighting evolves and in some cases may threaten to replace conventional lighting in one of these niches, it may be that the disruption caused to an existing OEM may be a disincentive to them to drive adoption of LEDs. Where that is the case, Dialight will adopt a direct route to market and establish sales channels accordingly.

Principal risks and uncertainties of the business are set out on pages 37 and 38 of the report.

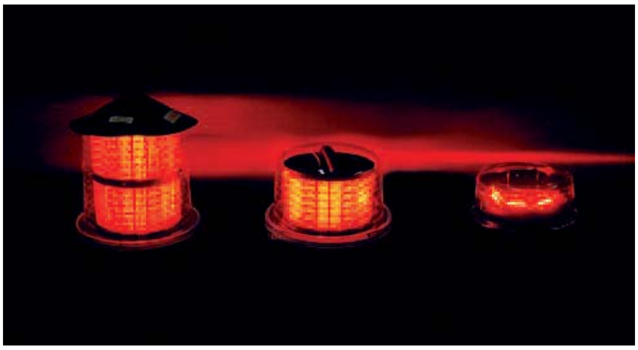
We identify niche markets

We focus on niche markets in which LED lighting offers compelling operational and cost-efficiency benefits. These markets include traffic signals in Europe, obstruction lighting, coloured lighting for buildings and white lighting in hazardous locations, streets and car parks. Dialight is actively involved in all these markets and we're working hard to expand our presence.

While the mature US traffic signal market is well supplied with LEDs, the market in Europe is more youthful. The prospects are good, as end users are beginning to insist on LED signals and new LED-based standards are being established.

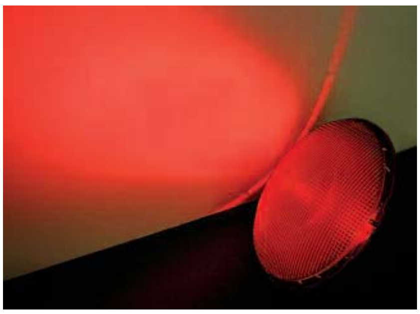
A incandescent red light on top of a tall obstruction can use 1240 watts and the bulb must be changed each year. A Dialight LED beacon uses about 40 watts and is guaranteed for at least five years. End users are quick to see the benefits and we're quick to exploit the market potential.

LED lights, powered by a low voltage DC source are spark-free. They're safer in places where explosive gases might be present. We're attacking the market for petrochemical sites and other hazardous locations.



Early in 2006 we launched the third generation of our L864 Beacon, used in obstruction locations. This new product is less than half the weight and consumes one-third of the power of its predecessor. We expect it to consume more market share than its successful predecessor.

Our R&D programme to develop traffic lights with low power consumption and a bright, uniform appearance came to fruition during the year. We introduced the 438 Series of LED lights to an enthusiastic European market.



We focus on research and development

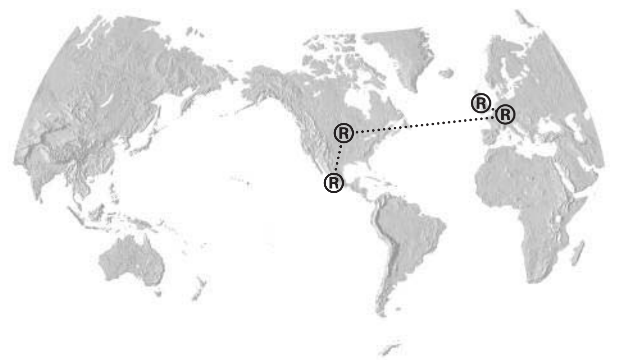
As soon as we identify a niche we develop a suitable technology. We then turn that technology into a new product. Using our vast experience of managing LEDs, we look for breakthroughs in thermal management, optics and electronic circuitry. These technological advances help us create new niche markets while growing our share of existing markets.

As the efficiency of white LEDs goes up and the cost goes down, more market opportunities will open up. Industrial lighting, street lighting and parking garage lighting are likely applications. We intend to be first to market with viable LED solutions in these and other sectors.

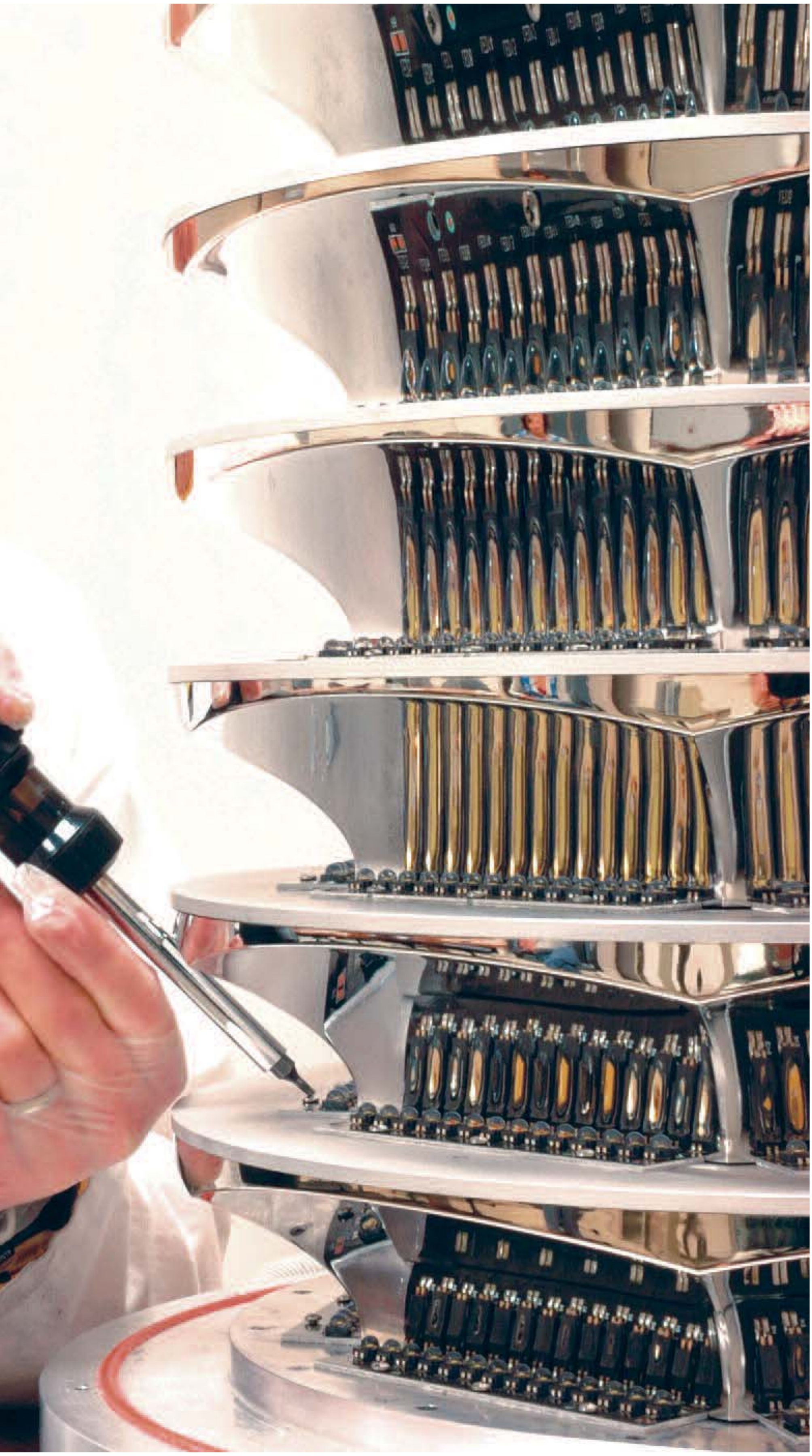
We develop defensible technology

We don't simply create innovative products. We create intellectual property that earns us a defensible position in the market. This property also earns us a higher margin and higher budgets to invest in further innovation. At the same time, of course, developing new products incorporating defensible intellectual property also provides unique benefits for our customers.

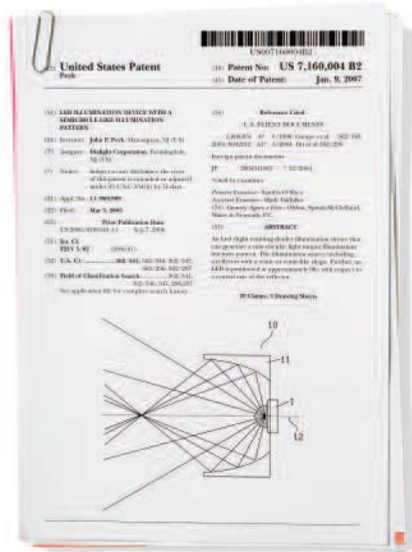
Research teams around the world



Our research teams in the US, UK, Germany and Mexico are building valuable intellectual property.



The life cycle of a new LED product can be less than a year-and-a-half, as new research-led innovations are ours and are based on defensible intellectual property.



United States Patent

Patent No.: US 7,160,004 B2

Date of Patent: Jan. 9, 2007

Within Europe, wind turbines must be fitted with a red light for night operations and a very bright white strobe light for daytime use. To meet this standard, our engineers developed the world's first ultra bright white LED strobe. One of our European customers is currently testing the product, which is protected by a number of pending patents.

Our technical sales teams drive demand by making presentations at the offices of major customers, at trade shows and at meetings of professional broadcast engineers.

Dialight Lumidrives exhibiting at Light Fair in Las Vegas.

Lumidrives ticked all the boxes (and more) of our acquisition strategy and the company is now a valued – and value-enhancing – member of the Dialight Group.

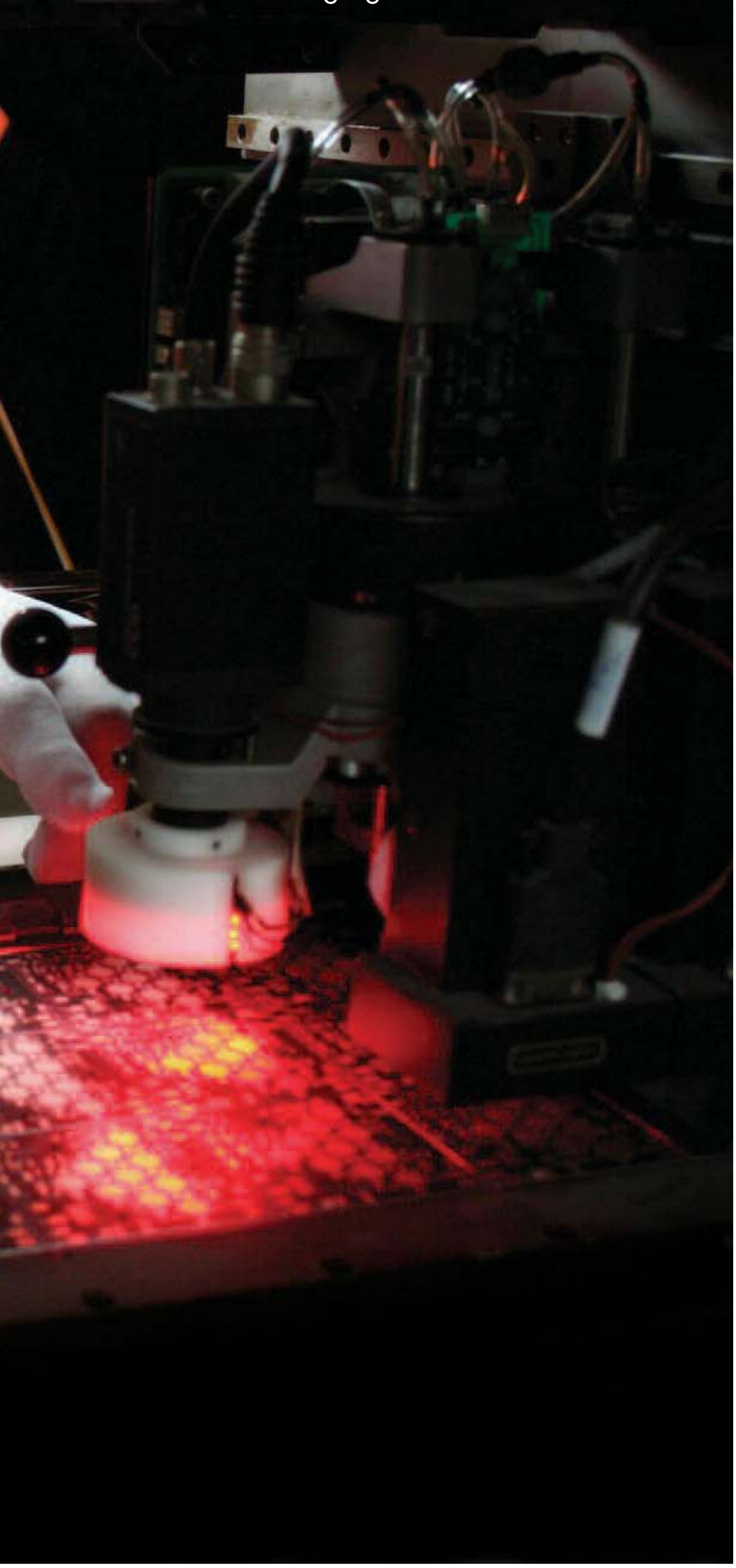
Selective acquisitions

Not *any* acquisitions. To be considered, a potential Dialight subsidiary must fulfil some strict conditions. It must have a valid channel to market. It must have viable, proven technology. It must have the potential to create valuable intellectual property. And it must have high-volume geographical coverage. If all these criteria are met, we'll take a close look at the prospects.

We protect our profits

We once bought driver parts from Norway, lenses from Michigan, housing components from Austria and light engines from Thailand. Now we buy most of our components and assemblies within a 50-mile radius of our low cost manufacturing base in Mexico.

We are working closely with our supplier base to cut production costs by re-engineering components while maintaining high standards.



We constantly monitor the potential cost-saving opportunities in other locations. So far, Mexico has the advantage because it is not only near our main component suppliers but also near one of our main markets – North America.

Low labour costs don't result in a lowering of quality. Our manufacturing facilities in Mexico, North Carolina and Newmarket are all ISO registered which we are proud of.

Business review
Our performance

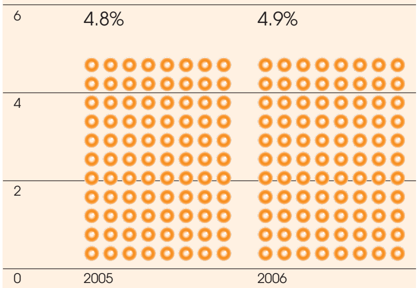
In Dialight plc's first full year of trading, our strategy for growth in the Signals/Illumination Segment continues to play out. Not all segments of our business are expected to support our objective of double digit growth therefore we need to identify market niches which will drive growth in excess of our objectives. At this time the growth for the Company is expected to come primarily from Solid State Lighting, Obstruction Lighting and European Traffic Lights. As LED technology advances in both technical and economic performance, we will seek to identify new growth segments as they are enabled and to develop LED products for those markets.

Lighting

In January we completed the acquisition of Lumidrives, a UK based supplier of Solid State Lighting for the architectural market. Lumidrives provides not only a platform for the European Lighting Market but also a ready made range of fixtures and modules that we have introduced to the North American market. Our sales of Solid State Lighting grew by almost 30% when compared to 2005 (including Lumidrives in both years) and we signed agreements with a number of global distributors who have recognised the potential of the Solid State Lighting Market. In June we signed a licence agreement with Color Kinetics in the USA allowing Dialight to provide "pass through" licences to our OEM customers in North America.

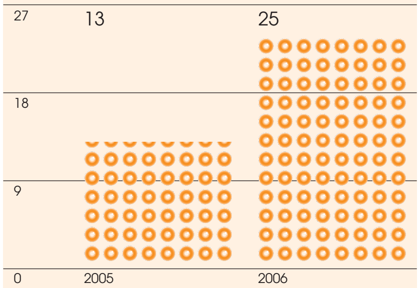
The Lumidrives acquisition addresses mostly coloured lighting for architectural applications. Solid State white Lighting remains expensive and is not yet efficient enough to replace conventional light sources across the board. There are however areas where LEDs provide a strong value proposition today. In the early part of the year, Dialight introduced a white downlight for use in Hazardous Locations. Due to the inherent safety of LED lights and their long life and robustness, areas like offshore rigs and petrochemical establishments are ideally suited

Research and development
as % of revenue



(Note: Calculated using expenditure incurred before capitalisation as a percentage of revenue).

Number of patents filed



as applications for these lights. There exists around the world a large installed base of conventional Hazardous Location Lights for which LEDs would make an ideal replacement, bringing strong value to the users. We continue to look at the use of LEDs in other industrial applications where robustness and long life are important. It is expected that areas such as street lighting, parking garage and tunnel and bridge lighting will be viable areas for LED lighting in the next two to three years.

Obstruction

In 2002 Dialight introduced a range of red LED lights qualified for use as Aircraft Obstruction Lights on Broadcast Towers, Wind Turbines, Cellular Towers and tall buildings. During the last three years the products have been refined and improved and although still quite low, adoption is accelerating. In 2005 the Company benefited from some large orders in Poland which did not repeat in 2006. Underlying growth however is still good and the introduction in early 2006 of the third generation of our L864 Beacon with even lower power consumption, has significantly improved the value proposition for users of these lights. In November 2006, Dialight once again proved itself to be the innovator in LED Lighting with the introduction of a white LED strobe light. This product is used specifically in the Cellular Tower Market in North America and in the Wind Turbine Market in Europe. Products are in test at customers for Wind Turbines in Europe and we expect to ship products for trial in the US shortly.

Dialight has extended our product range through the qualification of a number of products for use in the petrochemical industry, where their use is not only as aircraft warning lights but also as signal lights to indicate the location of safety appliances.

Dialight's new ITE Traffic Signals being installed.

Traffic

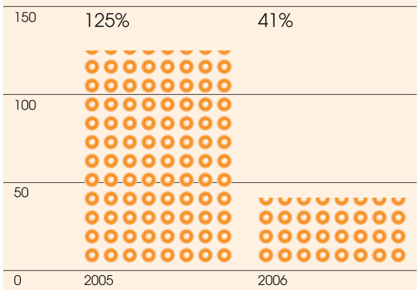
Dialight has been a leader in the LED Traffic Light market since the introduction of the products in the late 1990s. Most of the sales to date have been in North America. Adoption in Europe has been low to this point but 2006 saw an acceleration of use of these products across many European countries which helped grow our sales. In addition, Dialight's position as a supplier to Traffic Systems OEMs has enabled us to take market share through a number of key customers. We are pleased with the relationship established with Siemens and the development of new products in conjunction with them. Siemens is the largest supplier of Intelligent Traffic Systems in Europe.

Sales of Traffic Lights in North America declined in 2006. Although the base business continued to be steady, timing of some major contracts affected the sales in the year. In 2006, Dialight introduced a new range of products that conform to the newly released Institute of Traffic Engineers' Standards. This was a major undertaking to conform to a particularly stringent standard and to date Dialight is the only supplier that has fully conforming product for all three of red, yellow and green signals. This new standard whilst not mandatory is gaining adoption throughout North America and inventory has been increased to support this transition.

Transport

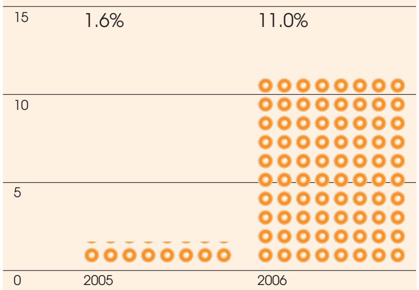
Although we are not a major player in the Automotive market, Dialight is a significant supplier to US City Transit Authorities for their bus programmes. So far this has been for brake, rear and turn indicator lights using red and yellow LEDs. As white LEDs become more efficient the possibility of replacing interior fluorescent lighting becomes more of a reality. First trials of an LED interior light have taken place. The market potential for white lights is in fact greater than for exterior bus lighting and we will continue to work with this existing customer base to expand our product range.

Operating cash
as % of operating profit

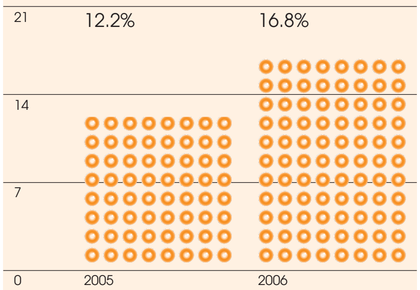


(Note: Cash generated from continuing operations expressed as a percentage of operating profit from continuing operations).

Revenue growth
%



EPS growth
%



White LED lights for fluorescent replacement provide significant maintenance savings for US Transit Buses.

Components

Although we have characterised our Components Business as being relatively low growth, 2006 saw sales increase over 20%. The general electronics market was favourable and Dialight's position continues to be strong both through its Distribution channel and through its preferred status with many of the world's OEMs in the professional electronics market. In December we experienced a slowdown in order intake as a number of customers reduced their inventory. This slower order rate has continued through the first two months of 2007 being a 20% reduction on the same two months last year. We see no market reason for this to continue and expect demand will recover to the prior year levels in the second quarter. In 2006, revenues benefited from one-off major contracts for the meter disconnect products of Dialight BLP. For the first time we have seen significant US sales for BLP and the Company is well positioned to take advantage of the growing North American market for "smart meters".

A key component of our strategy is to invest in Research and Development and to obtain as much intellectual property protection as possible. During the year we were granted 10 patents and applied for 25 more. These patents covered Thermal Management, Optics, Electronics, Mechanical Packaging and Communications as well as unique LED applications. New products were introduced in all market sectors including new ranges of Traffic Products for both Europe and North America, the White Strobe Light in Obstruction, white fluorescent replacements for the bus market, new drivers and light engines in Solid State Lighting and many others. During the year we increased our spending in R & D by 12% and we expect to maintain this percentage and to continue to increase our patent activity each year.

Since a major driver for our markets is the value propositions that we can bring to our customers, it is important for us to be focused on the costs and reliability of our products. The majority of our manufacturing takes place in our Ensenada Mexico facility, a low-cost labour area. Whilst we believe we are well positioned with respect to labour costs, the Company continues to look at opportunities in low labour cost areas and whilst no geographical expansion of manufacturing is planned at this time establishing manufacturing in Asia or Eastern Europe is quite possible given the appropriate regional sales to support it.

Dialight's LED fixtures can light up bridges where access to change lightbulbs is difficult.

During the year we completed the successful transition of European traffic manufacturing from Munich to Newmarket. Transferring production to this ISO 9001 registered plant has enabled excellent service and record shipments of traffic lights in Europe. In addition, the Newmarket facility has been recommended for TS16949 – the newest and most stringent Automotive quality standard. At this time all of our operations are ISO registered with the exception of our two smallest units.

Every year we spend significant time in cost reducing the materials used in our products either by better purchasing or by cost reducing our designs. As a result we are able to substantially hold or improve our margins in the various product lines in spite of the commodity price inflation which has occurred.

Inventories excluding Lumidrives, rose by approximately £3 million in the year due mainly to an unusually low starting point and the need to provision for both new and old traffic standards in the US. We expect this to fall to more normal levels as the adoption of the new standards stabilises which should occur during the first part of 2007.

One of the biggest challenges to our strategy is to secure economic and sustainable channels to market. To date we have chosen primarily to sell through OEMs who currently address our markets with conventional products. In some instances, this requires these OEMs to cannibalise their existing businesses and their desire to grow the LED business may not be as strong as ours. Our Sales and Technical staffs will work to increase the demand for our products by providing strong value propositions and communicating them to potential end users where either new uses for LED Lighting become viable or where significant retrofit opportunities open up.

Roy Burton Chief Executive

Cautionary Note

The Business Review has been prepared solely to assist shareholders to assess the Board's strategies and their potential to succeed. It should not be relied on by any other party for any other purposes. Forward looking statements have been made by the Directors in good faith using information available up until the date that they approved the Report. Forward looking statements should be regarded with caution because of the inherent uncertainties in economic trends and business risks.

Finance Director's review

Group summary

Revenue from continuing operations increased by £6.2 million (11%) of which £3.8 million (7%) came from Lumidrives which was acquired on 11 January 2006. Underlying organic growth was therefore 4%. Group profit before tax from continuing businesses increased by 30% to £5,813,000 and after adjusting for the acquisition during the year growth was 22%. Group profit before tax increased by 7% compared with 2005 profit on a pro-forma basis* of £5.4 million. Currency movement reduced sales by £500,000 and profit before tax by £70,000.

**the pro forma profit is extracted from the 2005 financial statements adjusted for reduced corporate costs of £1 million following the disposal of the Solartron businesses.*

Summary of results from continuing operations

On a like for like currency basis (using 2006 exchange rates) the segmental results are as follows:

	Sales		Contribution	
	2005 £m	**2006 £m**	2005 £m	**2006 £m**
Components	26.3	**32.0**	13.2	**14.8**
Signals/Illumination	29.3	**30.3**	9.8	**10.6**
	55.6	**62.3**	23.0	**25.4**

The growth in the Components business is from a combination of an increase in market demand from the general electronics sector and significant one-off orders for our meter disconnect product. The Components business contribution fell marginally in the current year as the meter disconnect product commands a lower margin than the Components LED business.

The growth in Signals/Illumination sales over the previous year is 2.4%. An analysis of sales by business segment is shown on page 7. Growth in European traffic met our expectations however global sales of traffic product compared with the prior year fell due to the lower than anticipated number of large US municipality contracts. The most significant growth was in the illumination market due principally to the successful acquisition of Lumidrives.

Revenue increased to all our geographical destinations and is shown by the table below:

2006 revenue from continuing operations by destination

	Revenue £m	% change on 2005
North America	36.4	3.3
UK	10.9	44.8
Rest of Europe	7.7	3.4
Rest of world	7.3	22.8
	62.3	11.0

Unallocated overheads increased by £788,000 to £20,057,000 and the increase in the overheads is set out in the table below:

	£m
2005 Unallocated overheads	19.3
Exchange impact	(0.2)
Corporate savings	(1.0)
Lumidrives including amortisation of intangible asset	1.2
Other including investment in sales and engineering functions	0.8
2006 Unallocated overheads	20.1

Investment in research and development

Expenditure in research and development in the current year was £3.4 million, an increase of 12% over the previous year and representing 4.9% of sales. Under IFRS we are required to capitalise certain development expenditure and in 2006 £1.0 million of cost was capitalised and added to the balance sheet. This represents an increase of £300,000 over 2005 and signifies the Group's investment in new product development. These capitalised costs are amortised over periods ranging from three to five years.

Earnings per share

Basic earnings per share for the continuing businesses were 11.8p (2005: 10.1p) an increase of 16.8% from the previous year. Details of the calculation are included in Note 16 to the accounts.

Dividends

A final dividend of 3.5p is proposed by the Board which taken with the interim dividend will give a total dividend of 5.25p per share, assuming the final dividend is approved. The total cost of the dividends will be £1,640,000. Dividend cover is 2.2 times.

Finance costs and income

Net financing income was £489,000 (2005: £510,000).

Interest received on bank deposits was £328,000 compared with £750,000 in 2005.

Interest cost on the defined benefit pension plans liabilities was £1,565,000 (2005: £1,649,000) offset by an expected return on pension plan assets of £1,799,000 (2005: £1,484,000). The increase in the expected return is principally due to a full year return on the additional company contributions to the pension plans in the last quarter of 2005.

Following the adoption of IAS 32 and IAS 39 under IFRS dividends paid to preference shareholders are required to be shown as an interest cost. The cost in 2006 was £73,000 (2005: £75,000).

Taxation

For the continuing group the effective tax rate for 2006 was 36.9% (2005: 31.5% excluding tax on disposals). The rate is higher than the underlying rate for the UK as it is impacted by higher overseas rates, particularly the US, and by the losses incurred in Europe for which there is no tax relief available. The rate was reduced by certain one-off adjustments including a tax credit of £41,000 for research and development expenditure in the UK.

The increase in the tax rate over 2005 relates mainly to the one-off tax relief received in 2005 on the exercise of options.

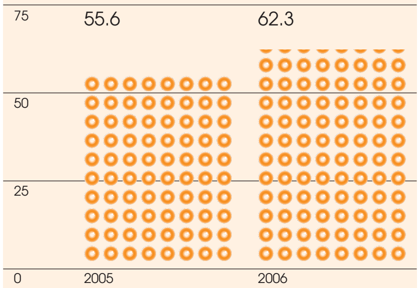
Cash flow

The Group has generated net cash inflows from operations of £2.2 million (2005: £4.9 million) representing 41% of operating profit. During the year the Group used £2.5 million cash in acquiring Lumidrives and a further £309,000 in buying 156,000 ordinary shares for the Share Trust. The Share Trust was established to hold shares against which awards have been made under the Performance Share Plan.

At the year end the Group had a cash balance of £4.3 million (2005: £9.8 million), and a net cash balance (after preference shares) of £2.2 million (2005: £7.6 million).

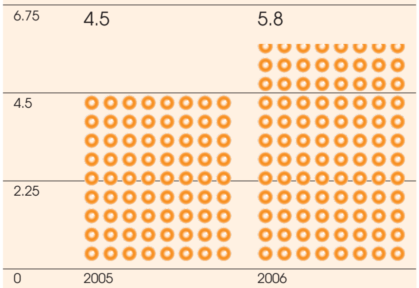
The Group absorbed £4.1 million of cash into working capital, principally inventory. After adjusting for Lumidrives the Group's inventory increased by £3 million over 2005. As discussed in the interim report traffic material inventory in the US had increased at the half year due to the requirement to be able to build product to both the old and new traffic standard. The requirement to carry inventory to support the product transaction continued through to the end of the year although we are seeing a stabilisation in the market between the old and new standards, which should result in a more normal level of inventory being held.

Sales for continuing businesses*
£million

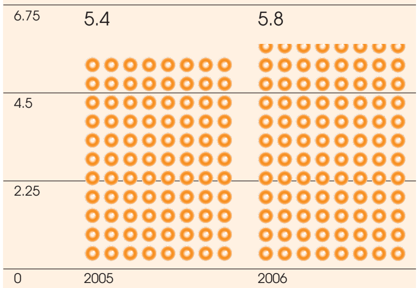


* Adjusted for exchange rates.

Profit before tax for continuing businesses
£million



Profit before tax for continuing businesses on pro-forma basis*
£million



* See note on page 27.

Defined Benefit Pension Plans

During 2006 Dialight together with the relevant Trustees continue to monitor the funding and asset allocation policies of the UK and US Defined Benefit Pension plans. The Group has adopted a funding policy that targets the accrued benefit obligations. Total contributions paid into the plans during the year were £849,000. As at 31 December 2006 the net liability before deferred tax in relation to the defined benefit pension plans was £1,671,000 (2005: £3,104,000). 37% of the assets of the plans are invested in lower risk assets being cash and bonds. Details of the market value of the plans, pension obligations and amounts recognised in the balance sheet are set out in Note 18 to the accounts.

Acquisition

On 11 January 2006 the Group acquired the entire share capital of Lumidrives for a gross consideration of £3,076,000 (including expenses of £76,000). Of the net consideration £2,450,000 was settled in cash and £550,000 was settled by the issue of ordinary shares. Lumidrives contributed £360,000 to Group operating profit in 2006.

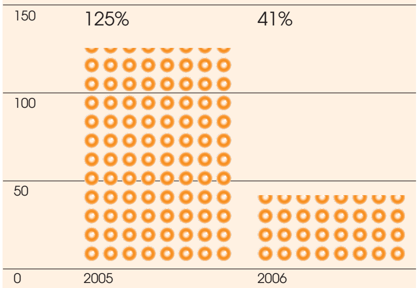
Net assets acquired were £748,000 resulting in goodwill on acquisition of £2,328,000. The net assets acquired include an intangible asset created on acquisition of £664,000 relating to trademarks and intellectual property. This intangible asset is being amortised over a period of four years.

Treasury policy

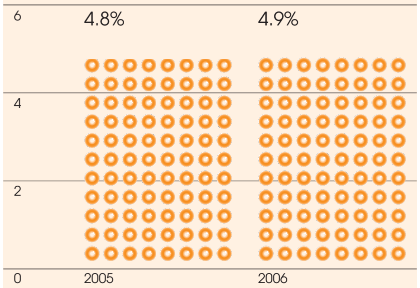
The Group operates a central treasury function that provides a service to the operating businesses within clearly defined guidelines approved by the Board.

The treasury function is not a profit centre and no speculative transactions are undertaken. The Group treasury policy is to ensure that adequate financial resources are available for the business operations whilst managing its currency and interest rate risk.

Operating cash flow
as % of operating profit



Research and development
as % of revenue



Note: Calculated using expenditure incurred before capitalisation as a percentage of revenue.

Currency translation

The results of the Group's overseas businesses are translated into sterling at the average exchange rates for the relevant year. The balance sheets of overseas businesses are translated into sterling at the relevant closing exchange rates. Any gains or losses from translating these items from one year to the next are recorded in reserves.

The principal translation currencies to which the Group is exposed are US dollars and the Euro. The average exchange rates and the closing year end rates and the comparatives are as detailed in the following table:

Currency translation rates used	**2006**	2005
US dollar-average rate	**1.84**	1.82
US dollar-year end rate	**1.96**	1.72
Euro-average rate	**1.47**	1.46
Euro-year end rate	**1.48**	1.46

Currency transaction exposure

As with the majority of international companies, the Group's UK and overseas businesses purchase and sell some of its products in non functional currencies. Where possible, the Group nets such exposures and maintains hedging programmes utilising foreign exchange forward contracts and currency overdrafts to cover specific contracts and such proportion of other anticipated exposure as can be estimated with reasonable certainty. The Group's principal exposure is to US dollar and Euro currency fluctuations.

Funding and deposits

The Group utilises short- and medium-term facilities to finance its operations. The Group has two principal bankers. At the year end the Group had unutilised facilities of £7.5 million with one bank with negotiations in progress in respect of renewing a facility of £7.5 million with the second of the principal bankers. The Group may borrow in selected currencies at both fixed and floating rates of interest. Fixed rates of interest may be managed by interest rate swaps to limit the Group's exposure to interest rate fluctuations. Surplus funds are placed on short term deposit utilising banks approved by the Board.

C. A. Buckley

Cathy Buckley Finance Director

Board of Directors

Executive Directors

Roy Burton (age 59 years)
Group Chief Executive

Appointed President and CEO Dialight Corporation in July 2002, Roy Burton became Group Chief Executive in September 2005. Now with many years' experience in the electronics industry, Roy started his career in the UK working with Philips Electronics, ITT and Amphenol Corporation with whom he transferred to the US. In 1994 he became Group President Electronics for Thomas and Betts Corporation headquartered in Memphis, and prior to his appointment at Dialight was CEO of Coraza Systems Inc.

Cathryn Buckley (age 44 years)
Group Finance Director

Cathy joined Dialight plc (formerly The Roxboro Group PLC) in 1999 as Company Secretary and was appointed as Group Finance Director in September 2005. Previously she qualified and spent 12 years post qualification at KPMG, Birmingham.

Advisers

Financial advisers

Close Brothers Corporate Finance
10 Crown Place
London EC2A 4FT

Stockbrokers

JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA

Auditors

KPMG Audit Plc
2 Cornwall Street
Birmingham B3 2DL

Legal advisers

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ

Piliero Goldstein Kogan & Miller, LLP
10 East 53rd Street
New York
New York 10022
USA

Registrars

Lloyds TSB Registrars
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ

Principal bankers

HBOS plc
Corporate Banking Division
PO Box 39900
7th Floor Bishopsgate Exchange
155 Bishopsgate
London EC2M 3YB

National Westminster Bank
First Floor
Conqueror House
Vision Park
Chivers Way
Histon
Cambridge CB4 9BY

Company secretary

Cathryn Buckley

Registered office

2B Vantage Park
Washingley Road
Huntingdon PE29 6SR

Registered number

2486024

Harry Tee (age 61 years)
Chairman

Harry Tee founded The Roxboro Group (now Dialight plc) in 1990 and has over 30 years' experience in management within the electronics industry. He is now Chairman having retired as Chief Executive of the Group on 29 September 2005. He is Chairman of the Nominations Committee. Prior to forming Roxboro he was a main board director at Graseby plc and previously held a number of senior management posts in Schlumberger and ITT. He is Chairman of Pera International and Piezotag Ltd and is a director of Information Technology Telecommunications and Electronics Association Ltd (Intellect). Mr Tee is also Chairman of the Electronics Leadership Council, established jointly by the electronics industry and Government to give strategic management and leadership within the UK electronics industry.

Non-executive Directors

Jeffrey Hewitt (age 59 years)
Non-Executive Director

Jeff Hewitt joined Dialight as a non-executive director in September 2001. He is Deputy Chairman of Dialight plc, having been the Senior Independent Director since April 2003, and chairs the Remuneration Committee. He is also a member of the Audit and Nominations Committees. Jeff is Chairman of Plasmon Plc and is a non executive director of the Cookson Group plc, TDG plc and Technetix Group Limited. He is also a non executive member of the John Lewis Partnership Audit Committee. Until August 2005, he was Deputy Chairman and Finance Director of Electrocomponents plc, which he joined in 1996 from Unitech plc where he was Finance Director. He joined Unitech from Coats Viyella plc and was previously with The Boston Consulting Group and Arthur Andersen.

Robert Jeens (age 53 years)
Non-Executive Director

Robert Jeens joined Dialight as a non executive director in May 2001. He is Chairman of the Audit Committee and is a member of both the Remuneration Committee and Nominations Committee. He was previously Group Finance Director of Woolwich plc and prior to that Finance Director of Kleinwort Benson Group plc. Rob is Chairman of nCipher plc and is also currently a non executive director of The Royal London Mutual Assurance Society Limited, TR European Growth Trust plc, Bank Insinger de Beaufort N.V. and a number of other private companies.

Bill Whiteley (age 58 years)
Non-Executive Director

Bill Whiteley joined Dialight as a non-executive director in September 2001. He is a member of the Audit, Remuneration and Nominations Committees. He became Chief Executive of Rotork plc in 1996 and has been a main board director since 1984. He is also a non-executive director of Spirax-Sarco Engineering plc and is Vice Chairman of the British Valve and Actuator Manufacturers Association.

Corporate responsibility report

We believe that good corporate responsibility is integral to the successful operation of a business. Corporate responsibility in this context would incorporate our manner and approach to employees, customers, suppliers, shareholders and of course the impact of certain environmental and ethical considerations on decisions and actions taken.

Health and safety

Dialight is committed to achieving and maintaining highest reasonable standards of health and safety across all its businesses so as to provide a safe environment for employees, customers and visitors. The management of each business is responsible for ensuring compliance with the Group's policy and relevant local health and safety regulations. At Board level the Chief Executive has overall responsibility on health and safety.

Each business has staff who have received the appropriate level of training to manage the local policy and who report to the General Manager on a regular basis. The business procedures and systems are designed to:

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

The businesses conduct a continuous self assessment of their operating systems and controls. A report on health and safety matters is included in the monthly reports submitted to the Chief Executive by the businesses.

In 2006 an independent firm of Health and Safety Consultants were engaged to perform random visits to each of the business sites and to submit a report of their findings to both local management and Dialight's Board. The programme of random visits will continue throughout 2007. The independent reviews have not produced any significant findings.

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 re-use 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, 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 products, as they are proven to reduce significantly energy consumed compared with a similar product using other technology such as fluorescence. Further details on the importance of the energy savings resulting from Dialight's products are set out in the business review on pages 6 to 26.

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.

Regular communication with employees is key to ensuring that employees understand their role in improving the Group's business performance. Local management teams hold quarterly meetings on site to discuss performance and strategy. This is in addition to regular meetings held within functional teams. All employees are encouraged to contribute to discussions.

Group employment policies are designed to attract, retain and motivate the best people. The policies cover performance management, employee development, succession planning, and recruitment. Staff appraisals and consultations take place between individuals and local management with training and development undertaken locally. 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.

Directors' report

The Directors present their annual report and the audited accounts of the Group and of the Company for the year ended 31 December 2006.

Principal activities
The Group is a world leader in LED applications. The Group's operations are formed into two segments being Components and Signals/Illumination. The Components business which has operations in the US and UK is a traditional indicator business and also has a range of electromagnetic based products. The Signals/Illumination business which has operations in the US, UK and Germany is a high brightness LED based business which comprises the manufacture and sale of traffic lights, rail signals, obstruction lights and Solid State Lighting products.

Business review
A review of the development and performance of the Group during 2006 and of its financial position at the end of year, together with information on environmental matters and employees, and a description of the principal risks and uncertainties facing the Group are included in this report and in the business review on pages 6 to 26, the Financial review on pages 27 to 31 and the Corporate responsibility report on page 34.

Results and dividends
Results for the year are set out in the income statement on page 49.

The Directors recommend a final dividend of 3.5p per ordinary share, amounting to £1,093,000. This final dividend together with the interim dividend of 1.75p per ordinary share paid on 26 October 2006, which amounted to £547,000, gives a total dividend for the year of 5.25p per ordinary share amounting to £1,640,000. The recommended final dividend, if approved at the Annual General Meeting, will be payable on 11 May 2007, to members on the register at close of business on 16 March 2007.

Significant acquisitions
In January 2006 the Company completed the acquisition of the entire issued share capital of Lumidrives Limited for a total consideration of £3 million. Details of the acquisition are set out in Note 27 to the accounts.

Corporate governance
Details of the Company's corporate governance procedures and application of the principles of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 are set out on pages 43 to 46.

Directors
The members of the Board of Directors who served during 2006 are shown on pages 32 and 33, together with brief biographical details.

In accordance with the Articles of Association, Messrs Jeens and Whiteley will retire at the forthcoming Annual General Meeting by rotation and being eligible offer themselves for re-appointment. Mr Jeens is Chairman of the Audit Committee and is a member of the Remuneration and Nominations Committees. Mr Whiteley is a member of the Audit, Remuneration and Nominations Committees.

The interests of the Directors and their families in the share capital of the Company are shown in the Remuneration report on page 41.

Certain Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Substantial shareholdings
The following shareholders, other than Directors, had notified the Company of a holding of 3% or more of the issued share capital of the Company:

	1 March 2007 ordinary shares of 1.89p each	Percentage of issued ordinary shares of 1.89p each
Aberforth Partners	**5,480,892**	**17.55%**
Hermes	**7,629,389**	**24.42%**
H L Tee	**1,390,857**	**4.45%**
Aviva	**1,328,662**	**4.25%**

Political and charitable contributions
No contributions were made for political purposes. A total of £1,000 (2005: £2,000) was donated to various charities.

Employees
Regular communication with employees is key to ensuring that employees understand their role in improving the Group's business performance. Local management teams hold quarterly meetings on site to discuss performance and strategy. This is in addition to regular meetings held within functional teams. All employees are encouraged to contribute to discussions.

Group employment policies are designed to attract, retain and motivate the best people. The policies cover performance management, employee development, succession planning, and recruitment. Staff appraisals and consultations take place between individuals and local management with training and development undertaken locally. 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.

Engineering technology
The Group continues to invest resources engaged in technology and product development in the UK, Germany and the USA, 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.

Creditor payment policy and practice
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 therefore has no trade creditors. At 31 December 2006, the Group had an average of 41 days (2005: 46 days) purchases outstanding in trade creditors.

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 accounts.

Special business at the Annual General Meeting
The resolutions that will be proposed at the Annual General Meeting on 9 May 2007 are set out in the Notice of Annual General Meeting on page 82 of this document. Resolutions 1 to 5, 7 and 10 are resolutions relating to ordinary business, whilst Resolutions 6, 8 and 9 are resolutions relating to special business. Details of the resolutions relating to special business are set out below:

Special Resolution 6 seeks to renew the authority from shareholders to enable the Company to purchase its own ordinary shares. This authority will apply for 3,123,951 ordinary shares, representing 10% of the Company's issued ordinary share capital. Purchases will only be made on the London Stock Exchange at a maximum price per share equal to 105% of the average middle market quotations for an ordinary share of the Company taken from the Daily Official List of the United Kingdom Listing Authority for the five business days immediately before the day on which the ordinary shares are purchased. If granted, the authority will expire at the conclusion of the Annual General Meeting in 2008 or within 15 months of the passing of this resolution, whichever is the earlier.

The Directors will determine whether any ordinary shares acquired to this authority are to be cancelled or held in treasury at the time that they resolve to exercise the authority. As at 5 March 2007 the total number of options to subscribe for ordinary shares outstanding was 293,685 which represents 0.9% of the issued share capital at that time and would represent 1.0% of the issued share capital if the Directors used the full authority (both existing and being sought) to purchase shares.

The Directors are of the opinion that this authority, if renewed, will continue to give them greater flexibility to manage the issued share capital of the Company, for the benefit of the shareholders and would only use this authority if it is for the benefit of the shareholders as a whole. The Directors have no present intention of exercising the authority conferred by this resolution.

Ordinary Resolution 7 gives authority to the Directors to allot ordinary shares up to an aggregate nominal amount of £139,574 being the authorised ordinary share capital less issued share capital, and representing approximately 24% of the ordinary share capital in issue at the date of the Notice of the Annual General Meeting. If granted, the authority will expire at the earlier of the conclusion of the Annual General Meeting to be held in 2008 and the date 15 months from the date of the passing of the resolution, and will replace a similar authority granted on 9 May 2006 and which expires at the conclusion of the forthcoming Annual General Meeting. Save for any ordinary shares issued pursuant to the exercise of options granted under the Share Option Schemes, the Directors have no present intention of exercising the authority conferred by this resolution.

Special Resolution 8 seeks authority for the Directors, until the earlier of the conclusion of the Annual General Meeting to be held in 2008 and the date 15 months from the date of the passing of the resolution, to make issues of equity securities for cash made otherwise than to existing shareholders in proportion to their existing shareholdings up to an aggregate nominal amount of £29,521 being the equivalent of approximately 5% of the ordinary share capital in issue on the date of the Notice of the Annual General Meeting. The power will, if granted, replace the similar power conferred on the Directors on 9 May 2006 and which expires at the forthcoming Annual General Meeting.

Special Resolution 9 proposes to amend the Company's Articles of Association to enable the Company to benefit from broader powers under the Companies Act 2006 (the "2006 Act") in relation to the sending or supplying of documents or information by or to the Company in electronic form (including, without limitation, via a website). Although the Company's Articles of Association currently contain provisions relating to electronic communications, the provisions of the 2006 Act, which were brought into force on 20 January 2007, permit all documents or information to be sent or supplied in electronic form and via the Company's website. The Directors believe that it is in the interests of the Company to take advantage of these broader powers and, subject to the passing of this resolution, the Company intends to make use of these provisions in the future. Enclosed with the Report and Accounts is a letter setting out further information on how, subject to the passing of this resolution, the Company intends to take advantage of these new powers.

A copy of the Company's existing Articles of Association, and a copy marked to show the differences between the existing Articles of Association and the articles of association as proposed to be amended pursuant to Resolution 9, will be available for inspection up to the time of the Annual General Meeting at the registered office of the Company during usual business hours and at the place of the Annual General Meeting for at least 15 minutes before and during the meeting.

Resolution 10, which is an ordinary resolution, seeks shareholder approval of the Directors' remuneration report, which is set out on page 39 to 42 of this document.

Disclosure of information to the auditor

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 information of which the Company's auditors are unaware; and each Director has taken steps that they ought to have taken as Directors to make themselves 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 auditor and to authorise the Directors to determine its remuneration will be proposed at the Annual General Meeting.

Principal risks and uncertainties

The following section sets out the principal risks and uncertainties facing the Group. There may be other risks and uncertainties which 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 business 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.

Macro-economic conditions

Changes in economic conditions globally and in certain territories such as North America could have a material effect on sales and contribution for the Components segment. Management monitor the general electronics demand index as well as industry forecasts so as to become aware of market trends. In addition the monthly Point of Sales data which is provided by US customers is reviewed on a monthly basis as this is also considered to provide healthy 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 business.

Additionally legislation may introduce new higher and more exacting specifications for existing products which will require product redesign and regulatory re-certification. It is Dialight policy to operate in highly regulated markets which require suppliers to achieve compliance with demanding product standards. Our 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 the portfolio of registered IP. Therefore changes in product specifications should favour Dialight in giving us an advantage over competition.

Competitive environment

We operate in competitive markets and there exists a threat that existing competitors or potential new entrants will be successful in taking market share. The threat may, for example, come from an extremely aggressive pricing policy or development of a product using new technology. This could result in reduced sales and profit for the Group and/or failure to achieve the sales growth set out in the Strategic Plan.

Our 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 supports Dialight as a major player in our 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 including employment, environmental and health and safety legislation. All Group companies have an employee handbook detailing employment practices and staff who receive the appropriate training and support to operate in their roles. Each site has a health and safety manager responsible for compliance and performance in this area.

LED technology

The strategy of the Board includes the following financial goals:

1. To grow sales by compound double digit percentage.
2. Compound EPS growth in the mid teens.

The achievement of the goals is dependent in growing sales in the chosen markets within the Signals/Illumination business such as industrial white 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. Our engineers are actively contributing by their presence on industry related boards, attendance and presentations at industry seminars etc, so as to be proactively involved and keep abreast of developments on an 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 of the Group to the exclusive right to use technologies and processes which are included or used in its businesses. Over the last couple of years a plan to improve the quality of the New Product Introduction systems across the businesses has been implemented with good progress being made as evidenced by the expanding Patent portfolio.

Product liability risks
If a product of the Group does not conform to agreed specifications or is otherwise defective, the Group may be the subject to claims by its customers arising from end-product defects or other such claims. The Group carries product liability insurance.

Currency exchange rate risk
The Group is exposed to translation exchange rate risk as a significant proportion of the Group's results and assets and liabilities are reported in US dollar and Euros and are therefore subject to translation to Sterling for incorporation into the Group's results. In addition, transactions are carried out by Group companies in currencies other than Sterling leading to transactional foreign exchange risk. Where possible the Group's nets such exposures and maintains 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.

Acquisition strategy
The Group's acquisition strategy may be unsuccessful due to an inability to identify suitable acquisition targets and to integrate successfully acquired businesses into the Group.

The Board plans to make acquisitions of businesses if the targets fit appropriately into the strategy by strengthening our product range and existing technologies, offering new and attractive sales routes to markets, have high performance and motivated management, and have a proven profit record.

The successful implementation of our acquisition strategy depends on our ability to identify targets, in completing the transaction, achievement of an acceptable rate of return, and a successful and timely integration post acquisition.

Disposal of businesses
During the last four years Dialight Plc has sold businesses in three separate transactions to major US Corporations. In each transaction Dialight was required to provide certain warranty and indemnities to the purchaser. The terms and nature of the warranties and indemnities were not unusual for the type of transaction. A number of the indemnities are still in place and there is a risk to the Group of a claim being received from a purchaser under an indemnity.

By order of the Board

C A Buckley
Company Secretary

5 March 2007

Directors' remuneration report

Remuneration strategy
The Board considers itself to be responsible for the Group's remuneration policy, however it has charged the Remuneration Committee with determining and maintaining a remuneration package for the Company's Executive Directors and the Group's senior executives that aligns executive rewards with shareholder value creation, motivates executives to attain challenging performance levels and considers both individual and company performance.

Remuneration Committee
The Remuneration Committee was chaired throughout the year by J Hewitt with the other Non-Executive Directors, R Jeens and W Whiteley, as members. During the last financial year the Committee met on two occasions to determine, on behalf of the Board, the framework of executive remuneration.

In determining the remuneration packages, the Remuneration Committee may seek the view of other Board members. The Committee also draws on advice from independent consultants to provide independent market information and remuneration advice. During the year the Committee asked Kepler Associates for advice in respect of executive remuneration. The Committee consults with the Chief Executive on matters relating to the performance and remuneration of other senior executives within the Group. The Chief Executive was present for part of some of the Remuneration Committee meetings, but not when his own remuneration was discussed.

Remuneration policy
The objective of the remuneration policy is to provide packages for Executive Directors and senior managers that are designed to attract, retain and motivate people of high quality and experience.

The remuneration package for the Executive Directors and senior executives consists of an annual salary, short- and long-term incentive schemes, pension arrangements, car or cash alternative and health care benefits.

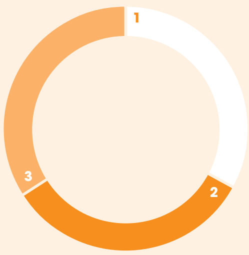
The Committee believes that the base salary and benefits for Executive Directors should represent a fair return for employment but that the maximum total potential remuneration may only be achieved in circumstances where the executive has met challenging objectives that contribute to Dialight's overall profitability and performance. Performance-related elements, being the annual performance bonus and the long-term Performance Share Plan, form a significant proportion of the 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 required to be at risk.

The Remuneration Committee has reviewed the structure of the remuneration of all the executives in the Group and confirms the Committee's policy, as outlined above, has been applied in a consistent way.

Executive Directors potential direct remuneration
In 2006 67% of the potential direct remuneration of the Chief Executive was performance related and for the Finance Director the figure was 60% (see charts below). These calculations are made on the basis that all the performance targets would or will have been met. The annual bonus is valued on a full payout basis and the benefit of the Performance Share Plan is calculated using the value of shares at the date of the award.

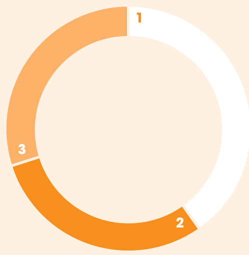
Roy Burton

1 Base salary (33%)
2 Performance related annual bonus (33%)
3 Performance related Share Plan (34%)



Cathy Buckley

1 Base salary (40%)
2 Performance related annual bonus (30%)
3 Performance related Share Plan (30%)



Basic salary and benefits
The basic salaries of the Executive Directors are reviewed annually and take effect from 1 January each year. The base salary is determined by reference to relevant market data and the individuals experience, responsibilities and performance. Benefits principally comprise pension arrangements, a fully expensed company car or cash alternative and private healthcare.

Performance-related bonuses
The bonus for Group Executive Directors and certain senior executives is calculated on formulae which are determined at the start of each financial year by the Remuneration Committee. For each of the Group Executive Directors and certain senior executives, the formula measures the Group's performance against specified targets relating to the operational performance of the Group or its subsidiaries and which align executives' interests with those of shareholders.

For 2006 the target for the executive annual bonus plan was set against growth in the Group's 2005 operating profit (on a pro forma basis for the continuing group).

There was no award under the 2006 annual bonus plan as the Group performance failed to meet the required performance levels.

A new annual bonus plan has been implemented for the year ending 31 December 2007 which is designed to align more closely the bonus with the strategy of the Group and therefore to the interests of the shareholders. For the Executive Directors and senior managers of the Group the bonus plan is divided equally between the achievement of targeted growth in revenue of the Signals/Illumination business, and growth in the Group's operating profit. The maximum bonus payable for the year is 50% of basic salary.

The maximum bonus payable to the Chief Executive is 100% of basic salary, however, 50% of this award is dependent on the operating profit for 2008 being at least 5% higher than the 2007 operating profit. The maximum bonus payable to the Finance Director is 75% of basic salary, a bonus of 25% is dependent on the operating profit for 2008 being at least 5% higher than 2007.

Performance Share Plan

The Performance Share Plan ("PSP") was approved by shareholders at the EGM held on 29 September 2005 and is an equity settled arrangement.

The PSP uses relative total shareholder return ("TSR") as the performance condition as the Committee believes TSR to be an appropriate measure which best aligns the Group's success with the interests of shareholders and executives. TSR performance will be measured relative to two indices (FTSE All Share Electronic/Electrical Equipment Index and FTSE Small Cap 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. 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.

Awards may normally be made in the six week period following the announcement by the Company of its results for any period. The number of awards which are the subject of the award will be calculated by dividing the value of the award by the average price of the ordinary share on the London Stock Exchange over the 30 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 Remuneration Committee with the policy that awards will not normally exceed 100% of an individual's basic salary.

The first award under the PSP was made to the Executive Directors and senior management of the Group following the announcement of the 2005 financial results. 21 senior employees participated in the first award with awards ranging from 15% to 50% of base salary for senior management. The Group Chief Executive and Group Finance Director received awards equal to 100% and 75% of base salary respectively. It is expected that the second award will be made following the announcement of the 2006 financial results.

In the event of a change of control of the Group the Remuneration Committee may at its discretion release the value of the ordinary shares early. In determining the value of the benefit the Remuneration Committee will 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 the triggering event.

The PSP contains a limit such that the number of ordinary shares issued under the Plan in any 10 year period or that may be issued on the exercise of options granted in that 10 year period under all the Company's employer share schemes may not exceed such number as represents 10% of the ordinary share capital in issue.

Directors' remuneration and pension entitlements

The auditors have audited the information contained in this section of the report.

The remuneration, excluding pensions, of the Directors is set out below:

	Salary/fees £'000	Taxable benefits £'000	**Total 2006 £'000**	Total 2005 £'000
H L Tee	102	30	**132**	781
R Burton	224	4	**228**	58
C A Buckley	129	16	**145**	34
J Hewitt	35	–	**35**	24
R Jeens	30	–	**30**	23
W Whiteley	25	–	**25**	21
Sir Alan Cockshaw	–	–	**–**	50
A Vaisey	–	–	**–**	1,144
	545	50	**595**	2,135

1 The remuneration for Mr Burton has been translated at the rate of $1.84: £1 (2005: $1.82: £1).

2 Fees payable to Mr Tee reduced from £125,000 to £75,000 in May 2006. Mr Tee had use of a company car until December 2006.

3 The amounts payable to Mr Tee in 2005 include his remuneration as Chief Executive until September 2005 and his fees as Chairman from that date. The amount for 2005 includes a gain on share options exercised of £478,000.

4 The remuneration shown for Mr Vaisey in 2005 includes a gain on share options exercised of £381,000, a bonus of £180,000 together with a payment of £358,000 as a payment for retaining his services up to the completion of the disposal transactions.

Fees for the provision of W Whiteley's services are payable to Rotork plc.

The Non-Executive Directors receive a set fee for their services, which can be enhanced for taking on or providing additional responsibilities or services.

No additional payments were made during the year.

On 17 April 2006 Mr Burton and Miss Buckley were granted the following awards under the Performance Share Plan:

	Date of grant	Award number of shares	Fair value pence per share	Vesting period
Mr R Burton	17 April 2006	88,122	143	3 years
Miss C A Buckley	17 April 2006	36,716	143	3 years

The share price at the date of the award was £2.63 per ordinary share.

Pension contributions paid on behalf of Directors to money purchase schemes

	2006 £'000	2005 £'000
Miss C A Buckley	**12**	3
Mr R Burton	**12**	3

As part of the pension arrangements, Miss Buckley is entitled to life assurance cover equal to four times basic salary.

Directors' beneficial interests
Directors' beneficial interests in the shares in the Company are set out below:

	Ordinary shares at 31 December 2006	**B shares at 31 December 2006 and 31 December 2005**	Ordinary shares at 31 December 2005
H L Tee	**1,390,857**	**2,590,922**	1,370,857
J Hewitt	**9,293**	**-**	4,232
R Jeens	**40,000**	**-**	10,000
W Whiteley	**5,000**	**-**	–
R Burton	**23,692**	**-**	3,692
C A Buckley	**3,000**	**-**	–

There has been no change in Directors' holdings since the year end date.

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.

Share price
The share price range for the ordinary shares during the period was a lowest market mid-point of 197p per share and highest market mid-point price of 302p per share. On 31 December 2006 the market mid-point price was 251.5p per share.

Service contracts
The service contract with R Burton, dated 1 October 2005 includes an ongoing terminable period of 12 months if given by the Company and 12 months if given by R Burton.

The service contract with Miss C A Buckley, dated 29 September 2005 includes an ongoing terminable period of 12 months if given by the Company and six months if given by Miss Buckley.

There are no predetermined provisions for compensation on termination within the Executive Directors' service contracts which exceed 12 months' emoluments for Mr Burton and 12 months' emoluments for Miss Buckley.

Remuneration policy for Non-Executive Directors

Fees for the Non-Executive Directors are determined by the Board as a whole. The Non-Executive Directors do not take part in these discussions. The Non-Executive Directors do not participate in the Company's Bonus Schemes or Share Schemes, and they are not eligible for Pension Scheme membership.

The agreement with Non-Executive Directors is that they have an initial term of three years. This may be extended by a further three year period by mutual consent of the Director and the Board and thereafter for one-year periods upon agreement between the Company and the Non-Executive Director. All agreements with the Non-Executive Directors include notice periods of three months.

Performance review

The following graphs show the five year total shareholder return performance of the Company, compared with the total shareholder return over the same period for the FTSE Small Cap Index and the FTSE Electronics Index. 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.

Total shareholder return indices
2001-2006
Dialight plc
FTSE Small Cap

Dialight TSR v FTSE Electronic and Electrical Equipment TSR
Dialight plc
FTSE Electronics

J Hewitt
Chairman of the Remuneration Committee
On behalf of the Board

5 March 2007

Corporate governance

The Board remains committed to maintaining high standards of corporate governance throughout the Group. The Board is accountable to the Company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance ("Combined Code") issued by the Financial Reporting Council in July 2003. Section 1 of the Combined Code establishes 14 main principles and 21 supporting principles of good governance in four areas: Directors; Remuneration of Directors; Accountability and Audit; and Relations with Shareholders. The following sections, together with the Remuneration Report, give details of how the principles of the Combined Code have been applied.

Statement by the Directors on compliance with the provisions of the Combined Code

The Board considers that the Company has been in full compliance with the provisions set out in Section 1 of the Combined Code throughout the year:

The Directors' statement regarding compliance with requirements relating to internal control is dealt with below.

The workings of the Board and its committees

The Board

The Board comprises the Chairman, two Executive Directors and three independent Non-Executive Directors. J Hewitt has acted as Deputy Chairman and Senior Independent Director throughout the year. The Board considers that its current composition reflects an appropriate balance of Executive and Non-Executive Directors. All of the Non-Executive Directors are considered to be independent, provide a solid foundation for good corporate governance for the Group, and ensure that no individual or group dominate 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 Combined Code. Their biographies appear on page 33. These demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group. Each Non-Executive Director continues to demonstrate that he has sufficient time to devote to the Company's business.

The Non-Executive Directors constructively challenge and assist in developing the strategy of the Group. They scrutinise the performance of management against the Group's objectives and also monitor the reporting of performance. 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 matters, markets and other relevant matters.

Directors are encouraged to update their knowledge and familiarity with the Group through visits to the individual businesses both in the UK and overseas as well as receiving presentations from senior management.

There are clearly defined roles for the Chairman and Chief Executive. The Chairman is responsible for leadership of the Board, ensuring the effectiveness of the Board in all aspects, conducting Board meetings and the effective and timely communication of information to shareholders. The Chairman is also available to provide advice, counsel and support to the Chief Executive. The Chief Executive has direct charge of the Group's day-to-day activities, prepares and presents to the Board strategic options for growth in shareholder value and sets the operating plans and budgets required to deliver the agreed strategy. The Chief Executive is also responsible for ensuring that the Group has in place appropriate risk and management and control mechanisms.

The Executive Directors, led by the Chief Executive, have been delegated responsibility by the Board for the management of the Group within the control and authority framework set by the Board.

The Board is collectively responsible for the performance of the Company and is responsible to shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the accounts is set out on page 47 and a statement on going concern is given on page 36.

The Board has a formal schedule of matter specifically reserved to it for decision including the approval of annual and interim results and recommendation of dividends, approval of annual budgets, review of Group strategic plans, approval of larger capital expenditure and investment proposals, review of the overall system of internal control and risk management and review of corporate governance arrangements. Other responsibilities are delegated to the Board committees, being the Audit, Remuneration and Nominations Committees, which operate within clearly defined terms of reference, and which report back to the Board. 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. In addition, the Company Secretary ensures that the Directors receive appropriate training as necessary.

Relevant papers are distributed to members in advance of Board and Committee meetings. Directors' knowledge and understanding of the Group is enhanced by visits to the operations and by receiving presentations by senior management on the results and strategies of the business units. 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. No such advice was taken during the year. The Company has continued to secure appropriate insurance cover for Directors and officers.

Performance evaluation
For the second successive year the Chairman issued a board questionnaire to all Board members for the purposes of evaluating the Board's corporate governance procedures and compliance. The questionnaire covered such topics as (i) the role of Directors, (ii) the performance of the Board, the Chairman and the Non-Executive Directors, (iii) Board committees, (iv) leadership and culture, (v) corporate governance, (vi) relations with shareholders and (vii) Board accountability and audit. The responses from the questionnaires were collated independently and a summary report distributed to all Directors. The Board discussed the summary findings at the December Board meeting from which a list of actions was agreed.

The Non-Executive Directors, led by Jeff Hewitt in his capacity as Senior Independent Director, met to review the performance of the Chairman, taking into account the views of the Executive Directors.

The process confirmed that all directors continue to contribute effectively and with proper commitment including of time to their roles.

Board committees
The following committees deal with the specific aspects of the Group's affairs.

Nomination Committee
The Nomination Committee comprises the Chairman and the Non-Executive Directors. The Committee is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. In appropriate cases, recruitment consultants are used to assist the process. Non-Executive Directors are appointed for an initial three year term. The Committee is also involved in the selection and recruitment of Managing Directors of the operations. Terms of reference of the Committee are available on the Company's website at www.dialight.com.

Remuneration Committee
The Group's Remuneration Committee was chaired by J Hewitt throughout the year with the other members being the independent Non-Executive Directors, R Jeens and W Whiteley. The Committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance-related bonus schemes, pension rights and compensation payments. The Committee calls for advice by leading firms of remuneration consultants as they consider appropriate.

During the year the work of the Committee included approving the 2005 Remuneration Report, reviewing and approving the performance criteria for the annual cash bonus plan, approving the annual award under the Performance Share Plan and reviewing the base salary of the Executive Directors and senior managers of the Group.

Further details of the Company's policies on remuneration, service contracts and the remuneration of Directors are given in the Remuneration report on pages 39 to 42.

The Board itself determines the remuneration of the Non-Executive Directors.

A copy of the Terms of Reference for the Remuneration Committee can be found on the Company's website at www.dialight.com.

Audit Committee
The Audit Committee, which is chaired by R Jeens, comprises the Non-Executive Directors and meets not less than twice annually and more frequently if required.

The Board considers that each of the members of the Audit Committee has recent and relevant financial experience, and an understanding of accounting and financial issues relevant to the industries in which Dialight operates. The Committee provides a forum for reporting by the Group's external auditors. Meetings are also attended by invitation to the Chairman and Executive Directors.

The Audit Committee is responsible for reviewing a wide range of matters including the half-year and annual accounts before their submission to the Board, and monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The Audit 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 Audit Committee is responsible for monitoring risk management and internal control processes which include overseeing the internal audit function for which an independent firm is used. The primary function of the internal audit function is to review the systems and controls for financial reporting. The Audit Committee receives copies of the reports prepared by the internal audit firm. The internal audit firm will attend the Audit Committee as requested to report directly on any significant findings.

The Committee is also responsible for monitoring the performance including cost effectiveness, independence and objectivity of KPMG Audit Plc, the external auditor, and agreeing the level of remuneration and extent of non-audit services. The scope of the external audit for each business, together with the audit fees were presented by KPMG Audit Plc at the September 2006 Committee meeting. Both the audit scope and related fees were approved at the meeting.

Audit independence
The Board and Audit Committee place great emphasis on the objectivity of the Group's auditors, KPMG Audit Plc. Audit Committees are attended by the auditors to ensure full communication of matters relating to the audit and the Audit Committee meets with the auditors without the Executive Directors present to discuss, amongst other matters, the adequacy of controls and any material judgemental areas.

The Group Finance Director must give prior approval for any non-audit work before it is undertaken by the auditors. Part of this review is to ensure that other potential providers of the service have been adequately considered. For fees over £20,000, the approval of the Audit Committee is required.

The auditors annually confirm their policies on ensuring auditor independence and provide the Committee with a report on their own internal quality control procedures.

Attendance at meetings in 2006
The number of scheduled Board and Committee meetings attended by each Director during 2006 was as follows:

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	8	2	2	1
Harry Tee	8	n/a	n/a	1
Jeff Hewitt	8	2	2	1
Rob Jeens	8	2	2	1
Bill Whiteley	8	2	2	1
Roy Burton	8	n/a	n/a	n/a
Cathy Buckley	8	n/a	n/a	n/a

Retirement of Directors by rotation
All Directors are required to submit themselves for re-election at least every three years. Additionally new Directors are subject to election by shareholders following their appointment.

The service contracts of the Executive Directors and the terms and conditions of appointment of the Non-Executive Directors are available for inspection at the registered office of the Company during normal business hours on any weekday (except bank holidays) and at the Annual General Meeting.

Relations with shareholders
Communications with shareholders are given high priority. The Chairman of the Board has overall responsibility for ensuring that there is effective communication with investors including 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 Chief Executive and Finance Director, who have regular dialogue with individual institutional shareholders and deliver presentations to analysts after the full and half year results. Such dialogue is controlled by written guidelines to ensure protection of share price sensitive information that has not already been made available generally to the Company's shareholders. Similar guidelines also apply to communications between the Company and parties such as financial analysts, brokers and the press. Copies of the shareholder presentations are made accessible on the Company's website.

The Senior Independent Director and other members of the Board are also available to meet major investors on request.

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the Chairman of the Audit, Remuneration and Nomination Committees are available at these meetings to answer questions. Details of resolutions to be proposed at the Annual General Meeting on 9 May 2007 can be found in the Notice of the Annual General Meeting on page 82.

Internal control
The Board has overall responsibility for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness in accordance with the guidance set out in "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull Guidance). The Directors have reviewed the effectiveness of the system of internal controls in operation throughout the year. The role of the Group's management is to implement Board policies on risk and control. Internal control systems are designed to meet the particular needs of the business concerned and the risks to which it is exposed and by their nature can provide reasonable but not absolute assurance against material misstatement or loss.

The Group's management operates an ongoing risk management process for identifying, evaluating and managing the significant risks faced by Dialight. The process is reviewed by the Board during the year.

The key procedures, which the Directors have established to review and confirm the effectiveness of the system of internal control, include the following:

- **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 Managing Directors and management teams of the subsidiary businesses.
- **Risk assessment** Each business is required to maintain a Risk Register. The Risk Register identifies the key risks facing the business, the probability of those risks occurring, the impact should the risk occur, and the actions being taken to manage those risks to the approved level. Each business must submit the register to the Board on an annual basis. The risk assessment is performed on a continual basis and reports are submitted to the Board on a periodic basis to update them on progress as appropriate.
- **Corporate accounting and procedures manual** Responsibility levels are communicated throughout the Group as part of the corporate accounting and procedures manual which sets out, inter alia, the general ethos of the Group, delegation of authority and authorisation levels, segregation of duties and other control procedures together with accounting policies and procedures. The manual is updated regularly.
- **Quality and integrity of personnel** The integrity and competence of personnel is ensured through high recruitment standards and subsequent training courses. High quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated through the corporate accounting and procedures manual.
- **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 prior year and relevant actions identified.

The business produces detailed three year business plans. The plan will include consideration of the financial projections and the evaluation of business alternatives. The Business Plans are presented by each management team to the Board as part of the Strategic Review 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 Chief Executive prepares a monthly report for the Board 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. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board. 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 senior financial personnel and internal auditors, 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.

The Group does not have an in-house internal audit function, but engages a firm of independent auditors to perform internal audit reviews at each of the main businesses. The programme of visits to each of the main sites has continued throughout the year and reports issued to the Audit Committee. The firm of independent auditors does not provide any other services to the Group and their appointment is considered to enhance the monitoring process already in place. 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.

Terms of reference for the Audit Committee are available on the Company's website at www.dialight.com.

Statement of Directors' responsibilities in respect of the annual report and accounts

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).

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

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 proper accounting records that 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 1985. 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 comply 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.

Independent auditors' report to the members of Dialight plc

We have audited the Group and parent company financial statements (the "financial statements") of Dialight plc for the year ended 31 December 2006 which comprise the Consolidated income statement, the Consolidated and Company balance sheets, the Consolidated cash flow statement, the Consolidated statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' remuneration report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities on page 47.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the annual report that is cross referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2006;
- the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham

5 March 2007

Consolidated income statement

For the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Continuing operations			
Revenue	4	**62,302**	56,129
Cost of sales		**(46,202)**	(41,432)
Gross profit		**16,100**	14,697
Distribution expenses		**(5,126)**	(4,485)
Administrative expenses		**(5,650)**	(6,266)
Operating profit	4	**5,324**	3,946
Financial income		**2,154**	2,201
Financial expense		**(1,665)**	(1,691)
Net financing income	6	**489**	510
Profit before tax from continuing operations		**5,813**	4,456
Income tax expense	7	**(2,145)**	(1,403)
Profit after tax from continuing operations		**3,668**	3,053
Profit from discontinued operations, net of tax	28	**-**	24,945
Profit for the year attributable to equity holders of the parent	15	**3,668**	27,998
Earnings per share			
Basic earnings per share	16	**11.8p**	92.2p
Diluted earnings per share	16	**11.7p**	92.2p
Continuing operations			
Basic earnings per share	16	**11.8p**	10.1p
Continuing operations			
Diluted earnings per share	16	**11.7p**	10.1p

Consolidated statement of recognised income and expense

For the year ended 31 December 2006

	2006 £'000	2005 £'000
Exchange difference on translation of foreign operations	**(1,900)**	1,100
Exchange realised on disposal of businesses	**–**	(13)
Actuarial gains/(losses) on defined benefit pension schemes	**303**	(1,266)
Tax on items taken directly in equity	**(133)**	424
Income and expense recognised directly in equity	**(1,730)**	245
Profit for the period	**3,668**	27,998
Total recognised income and expense for the period attributable to equity holders of the parent	**1,938**	28,243
Effect of change in accounting policy		
Impact of adoption of IAS 32 and IAS 39 (net of tax) to		
– retained earnings: cash flow hedges		190
– share capital: reclassification of preference shares		(2,280)
Attributable to members		(2,090)

Consolidated balance sheet

As at 31 December 2006

	Note	2006 £'000	2005 £'000
Assets			
Property, plant and equipment	9	**5,557**	5,983
Intangible assets	10	**7,495**	4,321
Deferred tax assets	11	**1,249**	2,405
Total non-current assets		**14,301**	12,709
Inventories	12	**10,397**	6,742
Trade and other receivables	13	**14,629**	16,685
Cash and cash equivalents	14	**4,346**	9,829
Total current assets		**29,372**	33,256
Total assets		**43,673**	45,965
Liabilities			
Current liabilities			
Interest-bearing loans and borrowings	17	**(2,184)**	(2,213)
Trade and other payables	20	**(8,478)**	(7,477)
Tax liabilities		**(765)**	(3,364)
Total current liabilities		**(11,427)**	(13,054)
Non-current liabilities			
Employee benefits	18	**(1,671)**	(3,104)
Provisions	19	**(802)**	(890)
Deferred tax liabilities	11	**(83)**	(53)
Total non-current liabilities		**(2,556)**	(4,047)
Total liabilities		**(13,983)**	(17,101)
Net assets		**29,690**	28,864
Equity			
Issued share capital	15	**591**	587
Merger reserve	15	**546**	–
Other reserves	15	**(1,842)**	29
Retained earnings	15	**30,395**	28,248
Total equity attributable to equity shareholders of the parent company		**29,690**	28,864

These financial statements were approved by the Board of Directors on 5 March 2007 and were approved by:

R Burton
Group Chief Executive

C A Buckley
Group Finance Director

Consolidated cash flow statement

For the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Operating activities			
Profit for the year		**3,668**	27,998
Adjustments for:			
Financial income		**(2,154)**	(2,399)
Financial expense		**1,665**	1,993
Income tax expense		**2,145**	2,742
Gain on disposal of discontinued operations		**–**	(22,022)
Depreciation of property, plant and equipment		**1,154**	1,423
Amortisation of intangible assets		**658**	567
Operating cash flow before movements in working capital		**7,136**	10,302
(Increase)/decrease in inventories		**(4,152)**	1,017
Increase in trade and other receivables		**(2,062)**	(3,115)
Increase/(decrease) in trade and other payables		**1,634**	(168)
Decrease in pension liabilities		**(849)**	(418)
Transfer from "Restricted Cash"	14	**485**	–
Cash generated from operations		**2,192**	7,618
Income taxes paid		**(1,623)**	(2,777)
Income tax paid on gain on disposals of businesses in 2005		**(2,559)**	(5,237)
Interest paid		**(1,665)**	(1,986)
Net cash from operating activities		**(3,655)**	(2,382)
Investing activities			
Interest received		**2,154**	2,399
Disposal of discontinued operations		**–**	65,689
Acquisition of subsidiary (net of cash received)	27	**(2,449)**	–
Capital expenditure		**(1,207)**	(2,228)
Expenditure on development		**(976)**	(1,505)
Sale of tangible fixed assets		**82**	44
Net cash (used in)/generated from investing activities		**(2,396)**	64,399
Financing activities			
Dividends paid		**(1,484)**	(3,341)
Proceeds from the issue of shares		**–**	2,089
Transfer from/(to) "Restricted Cash"	14	**2,559**	(4,000)
Special contributions to pension funds		**–**	(7,374)
Redemption of preference shares treated as debt		**(29)**	(67)
Own shares acquired		**(308)**	–
Return to shareholders following disposal of businesses		**–**	(46,524)
Net cash generated/(used) in financing activities		**738**	(59,217)
Net (decrease)/increase in cash and cash equivalents		**(5,313)**	2,800
Cash and cash equivalents at 1 January		**9,829**	6,768
Effect of exchange rates on cash held		**(170)**	261
Cash and cash equivalents at 31 December	14	**4,346**	9,829

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 2B Vantage Park, Washingley Road, Huntingdon PE29 6SR. The consolidated financial statements of the Company for the year ended 31 December 2006 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 ("Adopted IFRSs"). The Company has elected to present its parent company financial statements in accordance with UK GAAP.

(b) 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.

(c) Use of estimates and judgements
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual amounts may differ from these estimates. See also Note 29.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Impairment of goodwill and intangible assets (see Note 10)
The impairment analysis of goodwill and intangible assets is based upon 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 18)
The valuation of the defined benefit plans is based upon actuarial assumptions related to the measurement of pension liabilities and assets. If the relevant factors developed materially differently from the assumptions used this could have a significant on our defined benefit obligation.

Warranty (see Note 19)
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.

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.

The comparative income statement reflects a change in presentation to show the profit from the discontinued operations separately on one line (see Note 28).

(a) Basis of consolidation
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 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 profit or loss 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 momentary assets and liabilities denominated in foreign currencies are recognised in the income statement.

In order to hedge its exposure to certain foreign exchange risks the Group enters into forward contracts (see (below) (c) for details of the Group's accounting policies in respect of such derivative financial instruments).

3. Significant accounting policies continued

(c) Derivative financial instruments – Cash flow hedges

Derivative financial instruments are recorded initially at fair value, 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 profit or loss. However where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity. Any ineffective portion is recognised immediately in the income statement. If the cash flow hedge is a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then at the time the asset or liability is recognised, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods which the hedged forecast transaction affects profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. When the hedged item occurs or is no longer expected to occur any cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

(d) Property, plant and equipment

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

(e) 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
Fixture and fittings	5–10 years

(f) Goodwill

Acquisitions prior to 1 January 2004

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2004. In respect of acquisitions prior to 1 January 2004, goodwill represents the amount recognised under the Group's previous GAAP.

Acquisitions on or after 1 January 2004

For acquisitions on or after 1 January 2004, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Subsequent measurement

After the 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 cash generating units and is tested at least annually for impairment. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(g) 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.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.The estimated useful lives of the current development cost projects are between three and five years.

3. Significant accounting policies continued

(h) 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 cash-generating unit exceeds its recoverable amount. A cash generating unit 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 are 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 cash generating unit 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.

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.

(i) 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.

(j) 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.

(k) Share capital

(i) Preference share capital

Preference share capital is classified as a liability if it is redeemable on a specific date or if dividends are not discretionary. Dividends thereon are recognised in the income statement as a finance charge.

(ii) Dividends

Dividends on preference shares are recognised as a liability and expressed on an accrual basis. Other dividends are recognised as a liability in the period in which they are declared.

(iii) When share capital recognised as equity is repurchased by the Share Ownership Trust, the amount of the consideration paid is recognised as a deduction from equity.

(l) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit 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 is 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 recognised income and expense.

3. Significant accounting policies continued

(iii) Share-based payment transactions

The Performance Share Plan 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 changes in non-market conditions such as the actual number of forfeitures.

(m) 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.

(i) 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.

(n) Trade and other receivables

Trade and other receivables are stated at their 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 amount is 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.

(o) Trade and other payables

Trade and other payables are stated at amortised cost.

(p) Revenue recognition

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyers, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. 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.

(q) 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, dividends on redeemable preference shares, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

(r) 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.

3. Significant accounting policies continued

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or in providing products in a particular economic environment which is subject to risks and rewards that are different from those of the other segments.

(t) New endorsed standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations and not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements.

- IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative disclosures on the nature and extent of risks. IFRS 7 and IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to the Group's financial instruments and share capital.
- IFRIC 8 Scope of IFRS 2 Share-Based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, however it is not expected to have any impact on the consolidated financial results.
- IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39 respectively (ie 1 January 2004). The adoption of IFRIC 10 is not expected to have any impact on the consolidated financial statements.

(u) 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 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/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/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 award 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 awards 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/Redeemable preference shares*
  The carrying amount reported in the balance sheet approximates to fair value.
- *Dividends on redeemable preference shares*
  Dividends on redeemable shares are paid at a variable rate being 70% of UK six month LIBOR for the relevant period.

4. Segment reporting

The primary format used for segmental reporting is by business segment as this reflects the internal management structure and reporting of the Group. Intra group trading is determined on an arm's length basis.

Business segments

The Group comprises the following business segments:

a. Components comprising the indication businesses and electromagnetic disconnects.

b. Signals/Illumination which includes Traffic and Rail Signals, Obstruction Lights and Solid State Lighting products.

All revenue relates to the sale of goods. The result shown below for the continuing operations represents sales less direct costs incurred by each business segment. All indirect costs including production overheads, sales and marketing and administration costs are included in unallocated expenses as due to the shared nature of these functions any allocation would be arbitrary.

Business segments

2006	**Components £'000**	**Signals/ Illumination £'000**	**Total £'000**
Revenue	**32,015**	**30,287**	**62,302**
Contribution	**14,779**	**10,602**	**25,381**
Unallocated expenses from continuing operations			**(20,057)**
Operating profit from continuing operations			**5,324**
Net financing income			**489**
Profit before tax from continuing operations			**5,813**
Income tax expense			**(2,145)**
Profit after tax from continuing operations			**3,668**

2005	Components £'000	Signals/ Illumination £'000	Total £'000
Revenue	26,564	29,565	56,129
Contribution	13,313	9,902	23,215
Unallocated expenses from continuing operations			(19,269)
Operating profit from continuing operations			3,946
Net financing income			510
Profit before tax from continuing operations			4,456
Income tax expense			(1,403)
Profit after tax from continuing operations			3,053

Profit attributable to the discontinued operations in 2005 is shown in Note 28.

Other information	**Components £'000**	**Signals/ Illumination £'000**	**2006 Total £'000**
Capital additions	**553**	**654**	**1,207**
Depreciation and amortisation	**749**	**1,020**	**1,769**

Other information	Components £'000	Signals/ Illumination £'000	Discontinued operations £'000	2005 Total £'000
Capital additions	458	839	931	2,228
Depreciation and amortisation	941	1,017	32	1,990

Balance sheet – assets	**Components £'000**	**Signals/ Illumination £'000**	**2006 Total £'000**
Segment assets	**13,934**	**23,828**	**37,762**
Unallocated assets			**5,911**
Consolidated total assets			**43,673**

4. Segment reporting continued

Balance sheet – liabilities	Components £'000	Signals/ Illumination £'000	2006 Total £'000
Segment liabilities	**(3,221)**	**(5,455)**	**(8,676)**
Unallocated liabilities			**(5,307)**
Consolidated total liabilities			**(13,983)**

Balance sheet – assets	Components £'000	Signals/ Illumination £'000	2005 Total £'000
Segment assets	11,937	17,376	29,313
Unallocated assets			16,652
Consolidated total assets			45,965

Balance sheet – liabilities	Components £'000	Signals/ Illumination £'000	2005 Total £'000
Segment liabilities	(2,892)	(4,307)	(7,199)
Unallocated liabilities			(9,902)
Consolidated total liabilities			(17,101)

Geographical segments

The Components and Signals/Illumination segments are managed on a worldwide basis, but operate in three principal geographic areas, UK, mainland Europe and North America. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods. All revenue relates to the sale of goods.

Sales revenue by geographical market

	Continuing operations		Discontinued operations		Total	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
North America	**36,386**	35,201	**–**	7,630	**36,386**	42,831
UK	**10,896**	7,523	**–**	8,276	**10,896**	15,799
Rest of Europe	**7,690**	7,435	**–**	13,242	**7,690**	20,677
Rest of the World	**7,330**	5,970	**–**	9,875	**7,330**	15,845
	62,302	56,129	**–**	39,023	**62,302**	95,152

	Segmental assets		Capital expenditure	
Continuing operations	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
North America	**22,394**	23,996	**899**	1,016
UK	**15,248**	15,412	**259**	198
Rest of Europe	**6,031**	6,557	**49**	83
	43,673	45,965	**1,207**	1,297

5. Personnel expenses

	2006 £'000	2005 £'000
Wages and salaries	**12,264**	22,882
Social security contributions	**1,183**	2,385
Equity settled share-based payment transactions	**130**	–
Contributions to defined contribution plans	**307**	865
Total charge for defined benefit plans	**134**	990
	14,018	27,122

The average number of employees by geographical location was:

	2006 Number	2005 Number
UK	**179**	468
USA and Mexico	**812**	652
Rest of the World	**28**	109
	1,019	1,229

6. Net financing income

	2006 £'000	2005 £'000
Interest income	**355**	750
Expected return on assets in the defined benefit pension schemes	**1,799**	1,484
	2,154	2,234
Interest expense	**(100)**	(75)
Net foreign exchange losses	**–**	–
Interest charge on pension scheme liabilities	**(1,565)**	(1,649)
	(1,665)	(1,724)
Net financing income	**489**	510

7. Income tax expense

Recognised in the income statement

	2006 £'000	2005 £'000
Current tax expense		
Current year	**1,838**	2,335
Adjustment for prior years	**(209)**	(308)
	1,629	2,027
Deferred tax expense		
Origination and reversal of temporary differences	**505**	616
Adjustment for prior years	**11**	99
Income tax expense excluding tax on sale of discontinued operations in income statement	**2,145**	2,742
Income tax expense from continuing operations	**2,145**	1,403
Income tax expense from discontinued operations (excluding gain on sale)	**–**	1,339
	2,145	2,742

Reconciliation of effective tax rate

	2006 %	2006 £'000	2005 %	2005 £'000
Profit for the period		**3,668**		27,998
Total income tax expense		**2,145**		11,704
Profit excluding income tax		**5,813**		39,702
Income tax using the UK corporation tax rate of 30%	**30.0**	**1,744**	30.0	11,911
Effect of tax rates in foreign jurisdictions	**6.0**	**346**	0.9	354
Effect of lower rate on gain on sale of discontinued operations	**–**	**–**	(0.8)	(334)
Non-deductible expenses	**0.6**	**37**	0.1	40
Research and development credit	**(0.7)**	**(41)**	–	–
Unrecognised losses	**4.4**	**257**	0.7	302
Deduction for gain on share options	**–**	**–**	(0.9)	(360)
Over provision in prior years	**(3.4)**	**(198)**	(0.5)	(209)
	36.9	**2,145**	29.5	11,704

Deferred tax recognised directly in equity

	2006 £'000	2005 £'000
Relating to pension accounting	**(133)**	424

8. Profit for the year

Profit for the year has been arrived at after charging:

	Continuing operations		Discontinuing operations		Total	
Research and development costs	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
Expensed as incurred	**2,064**	2,051	**–**	1,786	**2,064**	3,837
Amortisation charge	**492**	360	**–**	32	**492**	392
	2,556	2,411	**–**	1,818	**2,556**	4,229
Depreciation of fixed assets	**1,154**	1,423	**–**	–	**1,154**	1,423
Operating leases – Property	**618**	431	**–**	712	**618**	1,143
Operating leases – Other	**200**	265	**–**	280	**200**	545

8. Profit for the year continued

Auditors' remuneration:

	2006 £'000	2005 £'000
Audit of these financial statements	**35**	38
Amounts receivable by auditors in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**108**	100
Other services relating to taxation	**84**	85
Pension and actuarial services:		
Pension advisory services in respect of Group Pension Plans	**26**	15
Actuarial advisory on IAS 19 Valuations	**24**	16
Advice given to pension schemes and not recharged to the schemes	**–**	57
Advisory re. Mobrey and Solartron disposals and capital restructuring*	**–**	496
Other	**–**	3
Other advisory re. IFRS adoption	**–**	23
	242	795

*Charged against the gain on sale of discontinued operations.

9. Property, plant and equipment

	Land and buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost			
At 1 January 2005	6,657	33,093	39,750
Exchange adjustments	155	1,633	1,788
Additions	4	2,224	2,228
Disposals	(15)	(385)	(400)
Disposal of businesses	(2,233)	(14,199)	(16,432)
At 31 December 2005	4,568	22,366	26,934
At 1 January 2006	4,568	22,366	26,934
Exchange adjustments	(245)	(2,079)	(2,324)
Additions	97	1,110	1,207
Disposals	–	(215)	(215)
Acquisition through business combinations	–	39	39
At 31 December 2006	**4,420**	**21,221**	**25,641**
Accumulated depreciation			
At 1 January 2005	(2,451)	(25,836)	(28,287)
Exchange adjustments	(145)	(1,339)	(1,484)
Charge for the year	(163)	(1,260)	(1,423)
Disposals	10	341	351
Disposal of businesses	617	9,275	9,892
At 31 December 2005	(2,132)	(18,819)	(20,951)
At 1 January 2006	(2,132)	(18,819)	(20,951)
Exchange adjustments	179	1,709	1,888
Charge for the year	(105)	(1,049)	(1,154)
Disposals	–	133	133
At 31 December 2006	**(2,058)**	**(18,026)**	**(20,084)**
Carrying amount			
At 31 December 2006	**2,362**	**3,195**	**5,557**
At 31 December 2005	2,436	3,547	5,983
At 1 January 2005	4,206	7,257	11,463

10. Intangible assets

	Concessions, patents, licences and trademarks £'000	Goodwill £'000	Development costs £'000	Total £'000
Costs				
Balance at 1 January 2005	573	15,555	3,772	19,900
Other acquisitions – internally developed	–	–	1,505	1,505
Disposal of businesses		(12,165)	(3,807)	(15,972)
Effects of foreign exchange movement	–	(99)	–	(99)
Balance at 31 December 2005	573	3,291	1,470	5,334
Balance at 1 January 2006	573	3,291	1,470	5,334
Other acquisitions – internally developed	–	–	977	977
Acquisitions through business combinations	664	2,328	–	2,992
Effects of foreign exchange movement	–	(63)	(98)	(161)
Balance at 31 December 2006	**1,237**	**5,556**	**2,349**	**9,142**
Amortisation and impairment losses				
Balance at 1 January 2005	(398)	–	(248)	(646)
Amortisation for the period	(175)	–	(392)	(567)
Disposal of businesses	–		200	200
Balance at 31 December 2005	(573)	–	(440)	(1,013)
Balance at 1 January 2006	(573)	–	(440)	(1,013)
Amortisation for the period	(166)	–	(492)	(658)
Effects of foreign exchange movement	–	–	24	24
Balance at 31 December 2006	**(739)**	**-**	**(908)**	**(1,647)**
Carrying amounts at 31 December 2006	**498**	**5,556**	**1,441**	**7,495**
At 31 December 2005	–	3,291	1,030	4,321
At 1 January 2005	175	15,555	3,524	19,254

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.

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

	2006 £'000	2005 £'000
Signals/Illumination	**5,556**	3,291

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 CGU's 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 the time value of money and any risk specific to the CGU. The growth rates are based on management view of growth in the emerging market supported by industry projections.
The Group prepares cash flow forecasts derived from the most recent budget and three year business plan and extrapolates cash flows for a further 17 years based on an estimated growth rate of 5%. Management believes that this forecast period was justified due to the long-term nature of the LED lighting business. Any adverse change in this assumption could reduce the recoverable amount below carrying amount. The rate used to discount the forecast cash flow for Signals/Illumination is 11%.

11. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'000	**2006 £'000**	2005 £'000
Property, plant and equipment	**-**	–	**(26)**	(214)	**(26)**	(214)
Intangible assets	**-**	–	**(653)**	(347)	**(653)**	(347)
Employee benefits	**1,555**	2,399	**-**	–	**1,555**	2,399
Provisions	**540**	764	**-**	–	**540**	764
Other items	**-**	–	**(250)**	(250)	**(250)**	(250)
Tax assets/(liabilities)	**2,095**	3,163	**(929)**	(811)	**1,166**	2,352
Set off of tax	**(846)**	(758)	**846**	758	**-**	–
Net tax assets/(liabilities)	**1,249**	2,405	**(83)**	(53)	**1,166**	2,352

Deferred tax assets have not been recognised in respect of tax losses of £62,000 (2005: £62,000) because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

Movement in temporary differences during the year

	Property, plant and equipment £'000	Intangible assets £'000	Employee benefits £'000	Other short-term timing differences £'000	Total £'000
Balance at 1 January 2005	(477)	(1,073)	3,243	860	2,553
Recognised in income	56	(356)	(280)	(135)	(715)
Exchange	(39)	–	80	78	119
Recognised in equity	–	–	424	–	424
Other movements	–	–	(592)	305	(287)
Disposal of businesses	247	1,082	(476)	(595)	258
Balance at 31 December 2005	(213)	(347)	2,399	513	2,352
Balance at 1 January 2006	(213)	(347)	2,399	513	2,352
Recognised in income	166	(135)	(322)	(225)	(516)
Exchange	24	28	(52)	(80)	(80)
Recognised in equity	–	–	(133)	–	(133)
Transfer to corporation tax	–	–	(337)	73	(264)
Acquisition through business combinations	(3)	(199)	–	9	(193)
Balance at 31 December 2006	**(26)**	**(653)**	**1,555**	**290**	**1,166**

12. Inventories

	2006 £'000	2005 £'000
Raw materials and consumables	**6,389**	3,906
Work in progress	**1,649**	1,180
Finished goods	**2,359**	1,656
	10,397	6,742

Inventories to the value of £31,158,000 (2005: £40,865,000) were recognised as expenses in the year.

13. Trade and other receivables

	2006 £'000	2005 £'000
Trade receivables	**12,487**	11,303
Other non-trade receivables	**694**	1,034
Prepayments and accrued income	**492**	348
Restricted cash (see Note 14)	**956**	4,000
	14,629	16,685

14. Cash and cash equivalents

	2006 £'000	2005 £'000
Total Bank balances	**5,302**	13,829
Less: Restricted cash (see Note 13)	**(956)**	(4,000)
Cash and cash equivalents	**4,346**	9,829

As part of the Capital Reduction approval in 2005 the Court required certain cash to be set aside into a separate bank account "Creditors Account" for the protection of actual, prospective or contingent liabilities of the Company.

The movement in restricted cash during the year relates principally to payment of tax due on the 2005 disposal of the Solartron businesses together with certain other liabilities due at the time of the Capital Reduction held in other creditors.

15. Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £'000	Share premium £'000	Merger reserve £'000	Translation reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2006	587	–	–	10	19	28,248	28,864
Profit for the period attributable to equity holders of the Company	–	–	–	–	–	3,668	3,668
Net expense recognised directly in equity (See Statement of recognised income and expense)	–	–	–	(1,900)	–	170	(1,730)
Dividends to shareholders	–	–	–	–	–	(1,484)	(1,484)
Share-based payments	–	–	–	–	–	130	130
B Shares redeemed	–	–	–	–	29	(29)	–
New shares issued	4	–	546	–	–	–	550
Own shares purchased	–	–	–	–	–	(308)	(308)
Balance at 31 December 2006	**591**	**-**	**546**	**(1,890)**	**48**	**30,395**	**29,690**
At 1 January 2005	2,849	6,049	–	(1,077)	40,372	2,294	50,487
Impact of adoption of IAS 32 and IAS 39	(2,280)	–	–	–	–	190	(2,090)
At 1 January 2005 as restated	569	6,049	–	(1,077)	40,372	2,484	48,397
Profit for the period attributable to equity holders of the Company	–	–	–	–	–	27,998	27,998
Net expense recognised directly in equity (See Statement of recognised income and expense)	–	–	–	1,087	–	(842)	245
Dividends to shareholders	–	–	–	–	–	(3,341)	(3,341)
Capital reorganisation	31,137	(8,120)	–	–	(40,420)	17,403	–
Return of Capital to shareholders in November 2005	(31,137)					(15,387)	(46,524)
Transfer to capital redemption reserve	–	–	–	–	67	(67)	–
Share options exercised	18	2,071	–	–			2,089
Balance at 31 December 2005	587	–	–	10	19	28,248	28,864

Own shares purchased comprises the cost of the Company's shares held by the Group. At 31 December 2006 the number of shares held by the Group through the Share Ownership Trust was 156,000 (2005: nil). The market value of these shares at 31 December 2006 is £392,000.

In 2005 the Company underwent a Capital reorganisation following which a total of £27 million was returned to shareholders.

15. Capital and reserves continued

Called up share capital

	2006 Number	2006 £'000	2005 Number	2005 £'000
Authorised ordinary shares of 1.89p each	**38,624,000**	**730**	38,624,000	730
Issued and fully paid ordinary shares of 1.89p each	**31,239,501**	**591**	31,015,923	587

The Company has 2,911,760 Preference Shares in issue (2005: 2,950,526). Each B share has a nominal value of 75p. The holders of B shares are not entitled to receive notification of any general meeting of the Company, or to attend, speak or vote at any such general meeting unless the business of the meeting includes the consideration of a resolution for the winding-up of the Company, in which case the holders of the B shares shall have the right to attend the general meeting and shall be entitled to speak and vote only on any such resolution. B shares carry the right to a dividend paid at a rate of 70% of six month LIBOR, in arrears on a semi-annual basis. The shares may be redeemed at six monthly intervals on every 30 June and 31 December. Unless redeemed earlier the Company will redeem the outstanding B shares on 31 December 2008. From 1 January 2005 the preference shares have been classified as debt.

	Ordinary shares		Redeemable "B" Preference shares		C shares	
Issued share capital	2006 Number	2005 Number	2006 Number	2005 Number	2006 Number	2005 Number
On issue at 1 January	**31,015,923**	30,102,090	**2,950,526**	3,039,521	**–**	–
Issued for cash	**–**	913,833	**–**	–	**–**	–
Issued for consideration	**223,578**	–	**–**	–	**–**	–
Shares redeemed	–	–	**(38,766)**	(88,995)	**–**	–
Shares created from reserves	**–**	–	**–**	–	**–**	31,015,923
Shares cancelled	**–**	–	**–**	–	**–**	(31,015,923)
Issued and fully paid at 31 December	**31,239,501**	31,015,923	**2,911,760**	2,950,526	**–**	–

Redeemable "B" Preference shares

The authorised number of redeemable "B" Preference shares is 2,976,152 (2005: 2,976,152).

Merger reserve

On acquiring Lumidrives Limited 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.

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 recommended by the Directors. The dividends have not been provided for and there are no income tax consequences for the Company.

Final recommended dividend	2006 £'000	2005 £'000
3.5p per ordinary share (2005: 3.0p)	**1,093**	937

During the year the following dividends were paid:

	2006 £'000	2005 £'000
Interim – 1.75p per ordinary share (2005: 3.4p)	**547**	1,053
2005 Final – 3.0p per ordinary share (2004: 7.6p)	**937**	2,288
	1,484	3,341

16. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2006 was based on the profit for the year of £3,668,000 (2005: £27,998,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 31,150,000 (2005: 30,369,000).

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2006 was based on profit for the year of £3,668,000 (2005: £27,998,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 31,367,000 (2005: 30,371,000) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2006 £'000	2005 £'000
Weighted average number of ordinary shares	**31,150**	30,369
Effect of share options on issue	**217**	2
Weighted average number of ordinary shares (diluted)	**31,367**	30,371

Earnings per share for continuing and discontinued operations

	2006 Pence	2005 Pence
Continuing operations	**11.8**	10.1
Profit from discontinued operations	**–**	82.1
	11.8	92.2

In 2005 the earnings per share for continuing and discontinued operations was calculated using the same figures as the basic earnings per share except that the profit for the period used in the calculation is the profit relating to continuing operations of £3,053,000 and the one relating to discontinued operations of £2,923,000. The calculation of the earnings per share from the gain of discontinued operations was calculated using the weighted average number of shares shown above and the gain after tax on the disposals of £22,022,000.

17. Interest-bearing loans and borrowings

Redeemable "B" Preference shares

In 2003 the Group issued 56,800,170 redeemable "B" Preference shares of which 53,888,410 (2005: 53,849,644) shares had been redeemed at 31 December 2006. At 31 December 2006 there were 2,911,760 (2005: 2,950,526) "B" shares outstanding held as a debt liability of £2,184,000 (2005: £2,213,000) on the balance sheet. The shares had been redeemed at six monthly intervals on every 30 June and 31 December. Unless redeemed earlier the Company will redeem the outstanding shares on 31 December 2008. The Company has the option to compulsorily redeem the outstanding "B" shares at any time.

The "B" shares earn the right to a dividend paid at the rate of 70% of six month LIBOR in arrears on a semi-annual basis. "B" shares "rights" are described in Note 15.

The following finance charges have been paid to the holders of the "B" shares:

	2006 £'000	2005 £'000
Interim	**36**	39
Final	**37**	36
	73	75

18. Employee benefits

Defined benefit pension obligations.

The Group makes contributions to three defined benefit plans to provide benefits for employees upon retirement. One of the plans is overseas. All three plans are closed to new members. In 2005 a fourth defined benefit plan was transferred with the sale of the Mobrey business (see Note 28).

Recognised liability for defined benefit obligations

	2006 £'000	2005 £'000
Present value of liabilities	**31,734**	32,464
Fair value of plan assets	**(30,063)**	(29,360)
Recognised liability for defined benefit obligations	**1,671**	3,104

18. Employee benefits continued

Plan assets consist of the following:

	2006 £'000	2005 £'000
Equities	**18,835**	18,392
Bonds	**4,688**	4,939
Cash	**6,540**	5,915
Property	**–**	114
	30,063	29,360

Movements in the present value of defined benefit obligations

	2006 £'000	2005 £'000
Liabilities at 1 January	**32,464**	38,682
Current service cost	**134**	497
Employee element of service cost	**32**	133
Interest cost	**1,565**	1,871
Benefits paid	**(1,361)**	(1,415)
Actuarial loss	**509**	3,283
Liabilities extinguished on settlements	**–**	(11,961)
Currency (gains)/losses	**(1,609)**	1,374
Liabilities at 31 December	**31,734**	32,464

Movements in fair value of plan assets

	2006 £'000	2005 £'000
Assets at 1 January	**29,360**	27,652
Expected return on scheme assets	**1,799**	1,682
Employer contributions	**748**	9,084
Member contributions	**32**	133
Benefits paid	**(1,361)**	(1,415)
Actuarial gains	**812**	2,017
Assets distributed on settlement	**–**	(10,870)
Currency (losses)/gains	**(1,327)**	1,077
Assets at 31 December	**30,063**	29,360

Expense recognised in the income statement

	2006 £'000	2005 £'000
Current service costs	**134**	497
Interest on obligation	**1,565**	1,871
Expected return on plan assets	**(1,799)**	(1,682)
Settlement gain	**–**	(1,092)
	(100)	(406)

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

	2006 £'000	2005 £'000
Cost of sales	**89**	227
Distribution costs	**17**	63
Administrative expenses	**28**	700
Net financing income	**(234)**	189
Profit on sale of discontinued operations	**–**	(1,585)
	(100)	(406)
Actuarial gain on plan assets	**812**	2,017
Actuarial loss from liabilities	**(509)**	(3,283)
Net actuarial gain/(loss) recognised in Consolidated statement of recognised income and expense	**303**	(1,266)
Cumulative actuarial loss recognised in Consolidated statement of recognised income and expense	**(2,238)**	(2,541)

18. Employee benefits continued

	2006 £'000	2005 £'000	2004 £'000
Defined benefit obligation	**(31,734)**	(32,464)	(38,682)
Scheme assets	**30,063**	29,360	27,652
Deficit	**(1,671)**	(3,104)	(11,030)
Experience adjustments on liabilities	**(509)**	(3,283)	(2,054)
Experience adjustments on assets	**812**	2,017	860
Experience adjustments on currency	**282**	(297)	216

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)	
	2006	2005	**2006**	2005
Discount rate at 31 December	**5.1**	4.75	**5.75**	5.5
Future salary increases	**3.6**	3.5	**n/a**	n/a
Future pension increases	**3.1**	3.0	**–**	–
Inflation	**3.1**	3.0	**n/a**	n/a

The expected long-term rates of return were:

	UK Schemes (% per annum)			US Scheme (% per annum)		
	2006	2005	2004	**2006**	2005	2004
Equities	**6.5**	6.5	6.5	**7.7**	7.5	8.0
Bonds	**5.0**	4.5	5.0	**4.7**	4.75	4.75
Property	**6.5**	6.5	6.5	**n/a**	n/a	n/a
Cash	**4.6**	4.1	4.5	**n/a**	n/a	n/a

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2006, used PA 92 short cohort tables based on year of birth (as is published by the Institute of Actuaries). For its US pension arrangements the mortality tables are RP 2000 Generational Mortality Table. Both UK and US mortality tables are based on the latest mortality investigations and reflect an industry-wide recognition that life expectations have improved. For the UK plans the average life expectancy of an individual currently aged 45 years and retiring at age 65 years is 22.3 years for males and 25.1 years for females. For individuals currently aged 65 years the average life expectancy is 21.1 years for males and 24 years for females.

For the US plan, the average life expectancy for a 45 year old is 40.2 years for a female, and 38.7 years for a male, and the average life expectancy for a 65 year old is 21.1 years for a female and 19.1 years for a male.

The expected long-term rate of return for investments is based on the portfolio on 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 defined benefit plans in 2007 will be at a similar level to contributions paid in 2006.

Share-based payments

Performance Share Plan

In September 2005 the shareholders approved the Performance Share Plan ("the Plan").

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

Number of awards granted 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
311,746	(18,061)	293,685	143	3 years	April 2009

Further details of the Plan are included in the Report of the Remuneration Committee on pages 39 to 42.

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

Share price	£2.63
Exercise price	£nil
Expected volatility	40.8%
Award life	3 years
Correlation premium	133.5%

The employee expense in respect of the 2006 award is £130,000 (see Note 5).

No. 3 Executive Share Option Scheme

The No. 3 Executive Share Options Scheme made grants of options before 7 November 2002.

18. Employee benefits continued

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price Pence 2006	**Number of options 2006**	Weighted average exercise price Pence 2005	Number of options 2005
Outstanding at the beginning of the period	**246**	**7,500**	229	936,333
Forfeited during the year	**246**	**(7,500)**	246	(15,000)
Exercised during the year	**-**	**-**	229	(913,833)
Outstanding at the end of the period	**-**	**-**	246	7,500
Exercisable at the end of the period	**-**	**-**	246	7,500

19. Provisions

	Warranty £'000
Balance at 1 January 2006	890
Subsidiary acquired	130
Provisions made during the year	674
Provisions used during the year	(892)
Balance at 31 December 2006	**802**

Warranty

The provision is based on estimates made from historical warranty data associated with similar products. The Group expects to expend the funds over the next five years.

20. Trade and other payables

	2006 £'000	2005 £'000
Trade payables	**5,113**	4,087
Other taxes and social security	**178**	112
Non-trade payables and accrued expenses	**3,187**	3,278
	8,478	7,477

21. Financial instruments

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers requiring credit over a certain amount. At the balance sheet date there was no significant concentration of credit risk.

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 other than the outstanding liability of the preference shares. The interest payable on the preference shares is set at 70% of six month LIBOR for the relevant period.

Foreign currency risk

Exposure to currency risks arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in exchange rates.

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than UK Sterling. 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. The Group uses forward exchange contracts to hedge any risk outside of the "natural" hedging programme. The forward exchange contracts have maturities of less than one year after the balance sheet date.

In respect of other monetary assets and liabilities held in currencies other than 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.

21. Financial instruments continued

Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of "net financing costs" (see Note 6).

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 consolidation earnings.

At 31 December 2006 it is estimated that a general decrease of one percentage point in the value of the Euro and US dollar against UK Sterling would have reduced the Group's profit before tax by approximately £47,000 for the year ended 31 December 2006 (2005: £30,000). The forward exchange contracts have been included in this calculation.

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2006 £'000	**Fair value 2006 £'000**	Carrying amount 2005 £'000	Fair value 2005 £'000
Trade and other receivables	**14,629**	**14,629**	16,685	16,685
Cash and cash equivalents	**4,344**	**4,344**	9,829	9,829
Forward exchange contracts – assets*	**4**	**4**	1	1
Redeemable preference shares	**(2,184)**	**(2,184)**	(2,213)	(2,213)
Dividends on redeemable preference shares	**(37)**	**(37)**	(36)	(36)
Trade and other payables	**(8,478)**	**(8,478)**	(7,477)	(7,477)
	8,278	**8,278**	16,789	16,789

* Included in trade and receivables.

Estimation of fair values

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(u).

22. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2006 £'000	2005 £'000
Less than one year	**788**	625
Between one and five years	**2,690**	1,234
More than five years	**463**	235
	3,941	2,094

Of the £3,941,000 (2005: £2,094,000) £3,785,000, (2005: £1,781,000) relates to property and the balance to plant and equipment.

23. Capital commitments

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

	2006 £'000	2005 £'000
Contracted	**296**	290

24. Contingencies

	2006 £'000	2005 £'000
Performance guarantees and indemnities	**100**	100

25. 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 an arm's length basis.

Transactions with key management personnel

Directors of the Company and their immediate relatives control 4.65% of the Company.

Details of the remuneration for the Company Directors are set out in the Report of the Remuneration committee on pages 39 to 42. Details of the IFRS 2 charge set out in Note 5. The main Board Directors are considered to be the Group's key management personnel.

26. Significant subsidiaries

	Country of incorporation	Principal activity
Dialight Corporation	USA	Manufacture and sale of indicators and Signals/Illumination products
Dialight Garufo GmbH	Germany	Manufacture and sale of indicators and Signals/Illumination products
Dialight Europe Limited	Great Britain	Sale of Signals/Illumination products
Dialight Lumidrives Limited	Great Britain	Manufacture and sale of Illumination products
Dialight BLP Limited	Great Britain	Manufacture and sale of electromagnetic components and manufacture of Signals products

The Group owns all of the equity of the above companies either directly or indirectly through an intermediate holding company.

27. Acquisition of subsidiary

On 11 January 2006 the Company completed the acquisition of the entire issued share capital of Lumidrives Limited for a total consideration of £3 million. The consideration was satisfied in part by cash of £2.45 million and the balance of £0.55 million satisfied by the issue of 223,578 Dialight plc ordinary shares. The ordinary shares were issued at a price of £2.46 being the market price of the 1.89p ordinary shares at the close of business on the day immediately preceding completion.

In the period 11 January 2006 to 31 December 2006 the subsidiary contributed profit of £360,000. If the acquisition had occurred on 1 January 2006, management estimates that consolidated revenue would have been £62,361,000 and consolidated profit for the period would have been £5,861,000.

The acquisition had the following effect on the Group's assets and liabilities:

	Pre-acquisition carrying amounts £'000	Fair value adjustments £'000	Recognised values on acquisition £'000
Property, plant and equipment (see Note 9)	39	–	39
Intangible assets	12	(12)	–
Intangible assets (see Note 10)	–	664	664
Inventories	383	–	383
Trade and other receivables	426	(14)	412
Cash and cash equivalents	77	–	77
Deferred tax liabilities (see Note 11)	(3)	(190)	(193)
Trade and other payables	(508)	4	(504)
Provisions (see Note 19)	(100)	(30)	(130)
Net identifiable assets and liabilities	326	422	748
Goodwill on acquisition (see Note 10)			2,328
Consideration			3,076
Consideration satisfied by the issue of shares			550
Consideration satisfied by cash			2,526
Cash acquired			(77)
Net cash outflow			2,449

The goodwill recognised on the acquisition relates to the premium paid on the acquisition and is attributable mainly to the skills and technical talent of the acquired businesses management and workforce and the growth potential in the Solid State Lighting market. Lumidrives brings with it certain know how and intellectual property recognised as an intangible asset on acquisition. This intangible asset is being amortised from the date of acquisition over a period of four years based on future discounted cash flows from related product sales.

28. Disposal of businesses

On 15 July 2005 and 26 September 2005 the Group completed the disposals of the Mobrey and Solartron businesses respectively. Together these businesses comprised the Solartron business segment.

The Solartron businesses were classified as "discontinued operations" in the 2005 full year end accounts.

The comparative income statement has been restated to show the profit from discontinued operations separately on one line.

28. Disposal of businesses continued

Profit attributable to the discontinued operations for the year ended 31 December 2005 was as follows:

	£'000
Revenue	39,023
Cost of sales	(24,639)
Gross profit	14,384
Distribution costs	(6,381)
Administrative expenses	(3,637)
Operating profit	4,366
Net finance costs	(104)
Profit before tax	4,262
Income tax expense	(1,339)
Profit after tax but before gain on sale (net of tax)	2,923
Gain on sale of discontinued operations (net of tax)	22,022
Profit for the period	24,945

The net assets of the businesses at the date of disposal were as follows:

	Mobrey £'000	Solartron £'000	Total £'000
Intangible assets	1,781	1,826	3,607
Tangible assets	3,171	3,373	6,544
Inventories	5,344	2,913	8,257
Trade receivables	10,021	5,549	15,570
Bank balance and cash	2,055	(664)	1,391
Retirement benefit obligations	(1,585)	–	(1,585)
Deferred tax	415	(673)	(258)
Trade payables	(5,660)	(4,386)	(10,046)
Provisions	(809)	(70)	(879)
Attributable goodwill	9,648	2,517	12,165
Exchange recycled through reserves	33	(46)	(13)
	24,414	10,339	34,753
Gain on disposal	2,974	28,010	30,984
Total consideration – satisfied by cash (net of expenses)	27,388	38,349	65,737

Net cash inflow arising on disposals

	Mobrey £'000	Solartron £'000	Total £'000
Cash consideration received	28,731	38,349	67,080
Cash and cash equivalents disposed of	(2,055)	664	(1,391)
	26,676	39,013	65,689

The tax charge arising from the disposals of the businesses has been estimated at £8,962,000.

During the year ended 31 December 2005, Solartron and Mobrey had cash inflows from operating activities of £417,000, cash outflows from investing activities of £1,762,000, and cash flows from financing activities of £nil.

Earnings per share in respect of discounted operations is shown in Note 16.

29. Accounting estimates and judgements

Management discussed with the Audit Committee the disclosure of critical accounting policies and estimates.

Key sources of estimation uncertainty

Note 10 contains information about the assumptions and their risk factors relating to goodwill impairment; In Note 21 detailed analysis is given of the foreign exchange exposure and risks in relation to foreign exchange movements.

Note 18 contains information on the Group's Defined benefit pension plans. 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 19)

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.

Company balance sheet (prepared under UK GAAP)

At 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Tangible assets	33	**83**	130
Investments	34	**13,113**	9,947
		13,196	10,077
Current assets			
Debtors	35	**844**	5,135
Cash at bank and in hand		**10,354**	13,110
		11,198	18,245
Creditors:			
Amounts falling due within one year			
Interest-bearing loans and borrowings	38	**(2,184)**	(2,213)
Other creditors	36	**(2,509)**	(4,587)
Net current assets		**6,505**	11,445
Total assets less current liabilities		**19,701**	21,522
Net assets excluding pension fund asset		**19,701**	21,522
Pension fund asset	40	**65**	154
Net assets including pension fund asset		**19,766**	21,676
Capital and reserves			
Called up share capital	38	**591**	587
Capital redemption reserve	39	**48**	19
Profit and loss account	39	**19,127**	21,070
Shareholders' funds		**19,766**	21,676

These financial statements were approved by the Board of Directors on 5 March 2007 and were signed on its behalf by:

Roy Burton
Group Chief Executive

C A Buckley
Group Finance Director

Notes to the Company financial statements

30. Dialight plc Company balance sheet

Accounting policies

The financial statements have been prepared under historic cost accounting rules except that certain financial instruments are held at fair value. The financial statements are prepared under UK GAAP.

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

In these financial statements the following amendment to FRS 17 "Retirement benefits" has been adopted for the first time:

The measurement of scheme assets and disclosure requirement amendments to FRS 17 "Retirement benefits" has been adopted early in the financial statements. The adoption of the amendment has resulted in more extensive disclosures and changing the measurement of quoted securities held by the scheme from mid-market to bid price. The adoption has had no material effect.

The Company has chosen not to take advantage of the ability to adopt the following standards and amendments to standards early:

- FRS 29 "Financial instruments: disclosures"
- The amendment to FRS 26 "Financial instruments: measurement" recognition and derecognition.

FRS 29 will become mandatory for the Company's 2007 financial statements and require extensive additional disclosures with respect to the Company's financial instruments and share capital.

The amendments to FRS 26 will become effective for the Company's 2007 financial statements and will require either application of the derecognition rules for the first time in its accounts for the year ended 31 December 2007 with transactions entered into in the prior year requiring restatement or applying the rules from an earlier date of the Company's choosing provided appropriate information was obtained at the time of initially accounting for these transactions.

Under Section 230(4) of the Companies Act 1985, 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 and can therefore be omitted under the Section 230 exemption. Actuarial movements and related deferred tax will therefore only appear in the reserves note.

Classification of financial instruments issued by the Company

Following the adoption of FRS 25 in the prior year, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

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. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments.

30. Dialight plc Company balance sheet continued

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 131 of the Companies Act 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 on 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 authorised 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 share option programme allows 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 award date and spread over the period during which the employees become unconditionally entitled to the award. The fair value of the options granted 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 changes in non-market conditions such as the actual number of forfeitures.

31. Staff costs

Staff costs during the year were:

	2006 £'000	2005 £'000
Wages and salaries	**187**	1,377
Social security costs	**22**	174
Equity settled share-based payment transactions	**130**	–
Pension costs	**17**	210
	356	1,761

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

	2006 Number	2005 Number
UK	**3**	8

Details for each Director of remuneration; pension entitlements and interests in share options are set out in the Report of the remuneration committee on pages 39 to 42.

32. Profit before tax

Profit before tax is stated after charging:

	2006 £'000	2005 £'000
Depreciation	**45**	54
Operating lease costs	**25**	25

Amounts paid to the Company's auditors in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

33. Fixed assets

	Plant, equipment and vehicles £'000
Cost	
At 1 January 2006	594
Additions	2
Disposals	(69)
At 31 December 2006	**527**
Depreciation	
At 1 January 2006	(464)
Charge for the year	(45)
Disposals	65
At 31 December 2006	**(444)**
Net book value	
At 31 December 2006	**83**
At 31 December 2005	130

34. Investments

Investments in subsidiary undertakings:

	£'000
Cost	
At 1 January 2006	15,371
Subsidiaries acquired	2,530
At 31 December 2006	**17,901**
Provisions:	
At 1 January 2006	(5,424)
Profit and loss account	62
Other movement	574
At 31 December 2006	**(4,788)**
Net book value at 31 December 2006	**13,113**
Net book value at 31 December 2005	9,947

Details of the principal subsidiary companies are as follows:

Name	Country of incorporation and operation
Dialight Corporation*	United States of America
Dialight Europe Limited	Great Britain
Dialight Garufo GmbH*	Germany
Dialight Lumidrives Limited	Great Britain
Dialight BLP Limited	Great Britain

The Group owns all of the equity of the above companies. The investment is held directly by the Company except for those companies where indicated by*.

On 11 January 2006 the Company acquired the entire issued share capital of Lumidrives Limited for a total consideration of £3,076,000 (including expenses of £76,000). The consideration included shares in Dialight plc with a value of £550,000. Under Section 131 of Companies Act 1985 the consideration for Lumidrives is stated at cash being £2,526,000 (including expenses) and the nominal value of the shares being £4,000.

35. Debtors

	2006 £'000	2005 £'000
Amounts owed by subsidiary undertakings	**564**	4,061
Other debtors	**62**	715
Deferred tax asset (Note 37)	**218**	359
	844	5,135

The deferred tax asset is due after more than one year.

36. Creditors

	2006 £'000	2005 £'000
Amounts falling due within one year		
Other taxes and social security costs	**19**	28
Amounts owed to subsidiary undertakings	**974**	1,376
Corporation tax	**687**	1,946
Dividends payable on shares classified as debt	**37**	36
Accruals and deferred income	**792**	1,201
	2,509	4,587

37. Deferred tax asset

	2006 £'000	2005 £'000
At 1 January	**293**	301
Profit and loss account	**6**	(8)
Recognised in equity	**49**	–
Transfer to corporation tax	**(157)**	–
At 31 December	**191**	293
An analysis of deferred tax is as follows:		
Capital allowances	**14**	25
Short-term timing differences	**204**	334
Debtors (see Note 35)	**218**	359
Pension surplus (see Note 40)	**(27)**	(66)
	191	293

38. Called up share capital

	2006 Number	2006 £'000	2005 Number	2005 £'000
Authorised				
Ordinary shares of 1.89p each	**38,624,400**	**730**	38,624,400	730
Non-equity "B" shares of 75p each	**2,976,152**	**2,232**	2,976,152	2,232
Issued and fully paid				
Ordinary shares of 1.89p each	**31,239,501**	**591**	31,015,923	587
Non-equity "B" shares of 75p each	**2,911,760**	**2,184**	2,950,526	2,213
		2,775		2,800
Shares classified as liabilities		**2,184**		2,213
Shares classified in shareholder funds		**591**		587
		2,775		2,800

The holders of "B" shares are not entitled to receive notification of any general meeting of the Company or to attend, speak or vote at any such general meeting unless the business of the meeting includes the consideration of a resolution for the winding-up of the Company, in which case the holders of the "B" shares shall have the right to attend the general meeting and shall be entitled to speak and vote only on any such resolution.

"B" shares carry the right to a dividend paid at the rate of 70% of six month LIBOR, in arrears on a semi-annual basis.

The "B" shares may be redeemed at six monthly intervals on every 30 June and 31 December. Unless redeemed earlier, the Company will redeem the outstanding "B" shares on 31 December 2008.

The Company has the option to compulsorily redeem the outstanding "B" shares at any time.

	Ordinary shares		Redeemable "B" Preference shares		C shares	
Issued share capital	2006	2005	2006	2005	2006	2005
On issue at 1 January	**31,015,923**	30,102,090	**2,950,526**	3,039,521	**-**	–
Issued for cash	**-**	913,833	**-**	–	**-**	–
Issued for consideration	**223,578**	–	**-**	–	**-**	–
Shares redeemed	**-**	–	**(38,766)**	(88,995)	**-**	–
Shares created from reserves	**-**	–	**-**	–	**-**	31,015,923
Shares cancelled	**-**	–		–	**-**	(31,015,923)
Issued and fully paid at 31 December	**31,239,501**	31,015,923	**2,911,760**	2,950,526	**-**	–

38. Called up share capital continued
Share-based payments
Performance Share Plan
In September 2005 the shareholders approved the Performance Share Plan ("the Plan").

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

Number of awards granted 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
311,746	(18,061)	293,685	143	3 years	April 2009

Further details of the Plan are included in the Report of the remuneration committee on pages 39 to 42.

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

Share price	£2.63
Exercise price	£nil
Expected volatility	40.8%
Award life	3 years
Correlation premium	133.5%

The employee expense in respect of the 2006 award is £130,000 (see Note 31).

No. 3 Executive Share Option Scheme
The No. 3 Executive Share Option Scheme made grants of options before 7 November 2002.

	Roxboro No. 3 Executive Share Option Scheme	
	Shares	Pence per share
Options granted in previous years	7,500	246
Options granted at 1 January 2006	7,500	
Options lapsed during year	(7,500)	246
At 31 December 2006	**–**	

39. Capital and reserves

	Share capital £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2006 restated	587	19	21,070	21,676
Net expense recognised in equity	–	–	(112)	(112)
Deficit for the year	–	–	(140)	(140)
Dividends to shareholders	–	–	(1,484)	(1,484)
"B" Shares redeemed		29	(29)	–
Share-based payments	–	–	130	130
New share issue	4	–	–	4
Own shares purchased	–	–	(308)	(308)
At 31 December 2006	**591**	**48**	**19,127**	**19,766**

In 2005 the Company underwent a capital reorganisation following which a total of £27 million was returned to shareholders.

Own shares purchased comprises the cost of the Company's shares held by the Group. At 31 December 2006 the number of shares held by the Group through the Share Ownership Trust was 156,000 (2005: nil). The market value of these shares at 31 December 2006 is £392,000.

The loss for the year was £140,000 (2005: £8,643,000). Net expenses recognised directly in equity relate to the net actuarial loss (net of deferred tax) arising in respect of the pension scheme.

	2006 £'000	2005 £'000
Profit and loss reserve excluding pension asset	**19,062**	20,916
Pension reserve	**65**	154
Profit and loss reserve	**19,127**	21,070

39. Capital and reserves continued

Reconciliation in movement in shareholders' funds

	2006 £'000	2005 £'000
Balance at 1 January 2006	**21,676**	78,095
Loss for the year	**(140)**	(8,643)
Other gains and losses	**(112)**	–
Dividends	**(1,484)**	(3,341)
Special dividend	**–**	(19,850)
New share capital subscribed	**4**	2,089
Share-based payments	**130**	–
Own shares purchased	**(308)**	–
Cancellation of C shares	**–**	(26,674)
Balance at 31 December 2006	**19,766**	21,676

Dividends

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

Final recommended dividend	2006 £'000	2005 £'000
3.5p per ordinary share (2005: 3.0p)	**1,093**	937

During the year the following dividends were paid:

	2006 £'000	2005 £'000
Interim –1.75p per ordinary share (2005: 3.4p)	**547**	1,053
2005 Final – 3.0p per ordinary share (2004: 7.6p)	**937**	2,288
	1,484	3,341

The following dividends have been paid to the holders of the "B" shares:

	2006 £'000	2005 £'000
Interim	**36**	39
Final	**37**	36
	73	75

40. 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

	2006 £'000	2005 £'000
Present value of liabilities	**(1,791)**	(1,587)
Fair value of plan assets	**1,883**	1,807
Recognised asset for defined benefit obligations	**92**	220
Deferred tax (see Note 37)	**(27)**	(66)
Pension asset net of deferred tax	**65**	154

Plan assets consist of the following:

	2006 £'000	2005 £'000
Equities	**438**	399
Bonds	**1,337**	1,338
Cash	**108**	70
	1,883	1,807

40. Pensions continued

Movements in the present value of defined benefit obligations

	2006 £'000	2005 £'000
Liabilities at 1 January	**1,587**	3,630
Current service cost	**22**	145
Employee element of service cost	**4**	15
Interest cost	**76**	195
Benefits paid	**(18)**	(17)
Actuarial loss	**120**	295
Liabilities extinguished on settlements	**–**	(2,676)
Liabilities at 31 December	**1,791**	1,587

Movements in fair value of plan assets

	2006 £'000	2005 £'000
Assets at 1 January	**1,807**	2,717
Expected return on scheme assets	**88**	163
Employer contributions	**45**	1,804
Member contributions	**4**	15
Benefit paid	**(18)**	(17)
Actuarial(loss)/gain	**(43)**	295
Assets distributed on settlement	**–**	(3,170)
Assets at 31 December	**1,883**	1,807

Expense recognised in the profit and loss account

	2006 £'000	2005 £'000
Current service costs	**22**	145
Interest on obligation	**76**	195
Expected return on plan assets	**(88)**	(163)
Settlement loss	**–**	494
	10	671

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

	2006 £'000	2005 £'000
Administrative expenses	**22**	639
Net financing income	**(12)**	32
	10	671
Actuarial (loss)/gain on plan assets	**(43)**	295
Actuarial loss from liabilities	**(120)**	(295)
Net actuarial loss recognised in Statement of recognised gains and losses	**(163)**	–
Cumulative actuarial loss recognised in Statement of recognised gains and losses	**(163)**	–

	2006 £'000	2005 £'000
Defined benefit obligation	**(1,791)**	(1,587)
Scheme assets	**1,883**	1,807
Surplus	**92**	220
Experience adjustments on liabilities	**(120)**	(295)
Experience adjustments on assets	**(43)**	295

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

	UK Schemes (% per annum)	
	2006	2005
Discount rate at 31 December	**5.1**	4.75
Future salary increases	**3.6**	3.5
Future pension increases	**3.1**	3.0
Inflation	**3.1**	3.0

The expected long-term rates of return were:

	UK Schemes (% per annum)		
	2006	2005	2004
Equities	**6.5**	6.5	6.5
Bonds	**5.0**	4.5	5.0
Property	**6.5**	6.5	6.5
Cash	**4.6**	4.1	4.5

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2006, used PA92 medium cohort tables based on year of birth (as is published by the Institute of Actuaries). The UK mortality table is 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 23 years for males and 25.8 years for females. For individuals currently aged 65 years the average life expectancy is 21.8 years for males and 24.7 years for females.

The expected long-term rate of return for investments is based on the portfolio on 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 2007 will be at a similar level to contributions paid in 2006.

41. Operating lease commitments
The Company is committed to the following annual payments under operating leases:

Land and buildings which expire:

	2006 £'000	2005 £'000
Between two and five years	**25**	25

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

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held on Wednesday 9 May 2007 at 11.30 am at The City of London Club, 19 Old Broad Street, London EC2N 1DS for the following purposes:

1. To receive the Company's annual accounts for the financial year ended 31 December 2006, together with the Directors' report, the Directors' remuneration report, the Auditors' report on those accounts.
2. To declare a final dividend of 3.5p per ordinary share.
3. To re-appoint KPMG Audit Plc as auditors to hold office from the conclusion of this meeting until the conclusion of the next general meeting of the Company at which accounts are laid and to authorise the Directors to fix their remuneration.
4. To re-appoint Robert Jeens who retires by rotation in accordance with the Company's Articles of Association.
5. To re-appoint Bill Whiteley who retires by rotation in accordance with the Company's Articles of Association.
6. To pass the following resolution as a special resolution:
   "To authorise the Company generally and unconditionally to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 1.89p in the capital of the Company ("ordinary shares") provided that:
   (a) the maximum aggregate number of ordinary shares authorised to be purchased is 3,123,951 (representing 10% of the issued ordinary share capital);
   (b) the minimum price which may be paid for an ordinary share is 1.89p;
   (c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made;
   (d) this authority expires at the conclusion of the Annual General Meeting of the Company to be held in 2008 or within 15 months from the date of the passing of this resolution whichever is earlier; and
   (e) the Company may make a contract or contracts to purchase ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract or contracts."
7. To pass the following resolution as an ordinary resolution:
   "To renew the authority conferred upon the Directors under Article 4(B) of the Company's Articles of Association for the period expiring at the earlier of the conclusion of the Annual General Meeting of the Company held in 2008 and 15 months after the date of the passing of this resolution and for that period the "section 80 amount" is £139,574."
8. To pass the following resolution as a special resolution:
   "To renew the authority conferred upon the Directors under Article 4(C) of the Company's Articles of Association for the period expiring at the earlier of the conclusion of the Annual General Meeting of the Company held in 2008 and 15 months after the date of the passing of this resolution and for that period the "section 89 amount" is £29,521."
9. To pass the following as an ordinary resolution:
   "That the adoption and inclusion of a new Article 136B in the Company's Articles of Association as set out in the draft amended articles of association produced to the meeting and initialled by the Chairman for the purpose of identification be and is hereby approved".
10. To pass the following as an ordinary resolution:
   "To approve the Directors remuneration report for the financial year ended 31 December 2006".

By order of the Board

C A Buckley
Company Secretary

5 March 2007

Registered Office:

2B Vantage Park, Washingley Road
Huntingdon PE29 6SR

Notes

1. A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. The proxy need not be a member of the Company.
2. To be effective, the instrument appointing a proxy and (if required by the Directors) a power of attorney or other authority under which it is executed (or a copy of it notarially certified or certified some other way approved by the Directors) must be deposited at the Company's registrars, Lloyds TSB Registrar Services, The Causeway, Worthing, West Sussex, BN99 6ZR not less than 48 hours before the time for holding the meeting. A form of proxy is enclosed with this notice. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting. An instrument of proxy not delivered in accordance with this Note is invalid.
3. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 11.30 am on Monday 7 May 2007 shall be entitled to attend or vote at this Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 11.30 am on Monday 7 May 2007 shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.
4. A copy of each of the following documents will be available for inspection at the Company's registered office during normal business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this Notice until the Annual General Meeting for at least 15 minutes before and during the meeting.
   a. the register of Directors' interests kept by the Company under Section 325 of the Companies Act 1985;
   b. the Executive Directors' service contracts;
   c. the Non-Executive Directors' terms and conditions of appointment; and
   d. the Company's Articles of Association as the Directors have the benefit of an indemnity provision in Article 143 which constitutes a "qualifying third-party indemnity provision" for the purposes of Sections 309A to 309C of the Companies Act 1985.

Five year summary

For the years ended 31 December

		Prepared under IFRS		Prepared under UK GAAP	
	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Turnover	**62.3**	56.1	118.9	136.8	156.0
Research and development expenditure	**2.6**	2.4	4.9	8.0	9.5
Operating profit before goodwill	**5.3**	3.9	12.7	8.3	8.6
Goodwill	**–**	–	–	(1.2)	(1.1)
Operating profit	**5.3**	3.9	12.7	7.1	7.5
Finance income/(charges)	**0.5**	0.5	(0.2)	(0.3)	(0.9)
Profit before gain on disposal of discontinued operations and taxation	**5.8**	4.5	12.5	6.8	6.6
Operating cash flow	**2.2**	4.9	15.5	10.6	13.0
Net cash/(borrowings)	**2.2**	7.6	6.8	2.0	(11.7)
Shareholders' funds	**29.7**	28.9	50.5	51.7	56.0

Statistical information	**Pence**	Pence	Pence	Pence	Pence
Earnings per share – Adjusted	**n/a**	n/a	n/a	12.6	9.1
Earnings per ordinary share – Basic	**11.8**	10.1	27.4	45.4	7.2
Dividends per share	**5.25**	6.4	11.0	10.0	10.0
Dividend cover (times)	**2.2**	14.1	2.5	6.5	0.7
Operating margin before goodwill	**8.5%**	8.7%	10.7%	6.0%	5.5%
Turnover					
– Continuing operations	**62.3**	56.1	55.3		
– Discontinued operations			63.6		
	62.3	56.1	118.9		
Operating profit before goodwill					
– Continuing operations	**5.3**	3.9	4.4		
– Discontinued operations		4.4	8.3		
	5.3	8.3	12.7		

Note:

2002 to 2003 reported numbers are prepared under UK GAAP.

2004 to 2006 are reported under IFRS.

2005 – continuing operations.

Directory of principal activities

Dialight plc
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Long Marston
York YO26 7WH
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Facsimile: 0845 6346160
Email: sales@lumidrives.com
www.lumidrives.com

If you have sold or otherwise transferred all your Dialight shares you should pass this document and Accompanying Form of Proxy to the person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Designed and produced by **Radley Yeldar**

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Huntingdon PE29 6SR

www.dialight.com