World leader in applied LED Technology
Annual report 2007

Our strategy continues to shine

Dialight

Highlights

Signals/Illumination sales up 17% at constant currency

Group sales up 8% at constant currency

Profit before tax £4.5m – in line with market expectations

Earnings per share of 8.8p (2006: 11.8p)

Operating cash flow increased to £5.8m from £2.4m in 2006

Recommended final dividend increased by 9% to 3.8p

Initial conclusion of Strategic Review to realise full value of LED Indication Components business

Our strategy is to identify and pursue niche markets with strong LED value propositions.

Implementing this strategy, we produce low-brightness LEDs for the electronic equipment market and we manufacture high-brightness LEDs for the signals and illumination sectors.

Our LED traffic signals cut energy and long-term maintenance costs.

Our interior and exterior LED lights make public transport safer and more economical.

In obstruction lighting, our LED flashing beacons warn aircraft of broadcast and communication towers, wind turbines and tall buildings.

In hazardous locations such as petrochemical plants and heliports, our LED lighting cost-effectively helps create safe environments.

Increasingly, our LEDs are used to illuminate buildings, bridges, tunnels and car parks.

As carbon emissions, energy saving, maintenance costs and safety grow in importance, we are in a strong position to capitalise on the many emerging opportunities for LED lighting.

Our proven strategy remains undimmed.

Our business

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

Contribution to group:

£30.0
million in sales

£5.3
million segment result

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. Recent extensions to this product line address the emerging market for high current electricity meter disconnect for the United States' Advanced Meter Infrastructure initiative.

Contribution to group:

£33.4
million in sales

£0.1
million segment result

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 have opened up the possibility of LED based illumination and Dialight now offers these lights for Industrial Lighting, Obstruction Lighting and Interior Bus 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

Harry Tee
Chairman

Dialight's strategy is to address large niche markets which have some measure of regulation or other barriers to entry. Whilst there are many areas where LEDs can be used, Dialight has been careful to select those markets which fit its strategy and allow defensible and profitable growth.

During 2007, the efficiency of white LEDs has improved significantly and a number of new applications are becoming economically viable, bringing new opportunities for the Company. This segment of our business saw significant growth in 2007 and the availability of more efficient white LEDs enabled us to launch some important new products which we expect to deliver continued growth for 2008. Overall this segment grew at 17% for the year at constant currency.

Financial results
With two-thirds of the Group's sales denominated in US$, the US$:£ exchange rate is a major influence on Dialight's results. The average USD:£ rate declined 9% from 1.84 to 2.0 from 2006 to 2007 and as a result, while Group sales in 2007 in constant currency terms increased by 8% to £63.4 million, the effect of the dollar's decline was to constrain the Group's reported revenue growth to 2%.

There were marked differences in the performance of the Group's two business segments. The Signals/Illumination division showed strong growth of 17% at constant currency, versus 10% at actual exchange rates. Within this, the Traffic product line, which is a lower margin Signals product, grew by an impressive 20%. Reported revenue in the Components segment was down by 6% but this decline was principally due to adverse currency movements.

Second half Group sales increased over the first half by 19% to £34.5 million, returning an operating profit for the half of £2.9 million (compared to £966,000 in the first half) at an operating margin of 8.4%. The increase in profitability over the first half was due to higher sales and the successful implementation of the material cost reduction programme delayed in the first half.

19%

increase in second half Group sales over the first half to £34.5 million

Margins for the Group remained healthy; however, the adverse impact of currency reduced the 2006 reported contribution of the Components and Signals/Illumination segments by £1 million and £0.6 million respectively.

There was further investment in resource to support the expanding Signals/Illumination business during the second half of the year, increasing the expected year on year overhead base by 9%. The Components business reported a segment profit of £5.3 million and for the first time the Signals/Illumination business reported a profit at £0.1 million.

Total shareholder return indices
2002-2007

Dialight TSR v FTSE Electronic and Electrical Equipment TSR

before tax decreased by 23% to £4.5 million from £5.8 million; this was a 15% decline on a constant currency basis. Earnings per share were 8.8p compared with 11.8p in 2006. The Group generated net cash inflow from operations of £5.8 million (2006: £2.4 million) representing 149% of operating profit and the Group ended the year with a cash balance of £6.6 million (2006: £4.3 million).

Dividend
The Board is recommending a final dividend of 3.8p per share, an increase of 9% over last year's final dividend. The dividend will be paid on 9 May 2008 to shareholders on the register at close of business on 14 March 2008. The full year dividend is 5.7p per share and the dividend cover is 1.5 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.

Strategic review
In January, the Board announced the commissioning of a strategic review of the Group's businesses. This review has been received and after consideration by the Board it has been concluded that we should explore the possibilities of divesting the LED Indication Components business (from the Group's Components division) with a view to realising the Board's view of appropriate shareholder value and streamlining the profile of the Group to more accurately reflect Dialight as a focused Solid State Lighting business.

The return of our Components segment to normal levels is expected to continue, given no major market downturns, with the added potential for good performance from the 'smart' meter disconnect products in 2008. As reported above, the Board believes that the divesture of the LED Indication Components business may be the most appropriate way to deliver value to shareholders from this part of the Group and to assist the focus on the Solid State Lighting business.

During 2007, the Signals/Illumination segment achieved strong growth and importantly, a number of key new products were introduced. The Dialight Lumidrives line was completely redesigned, SafeSite was successfully launched and the newest version of the White Strobe is showing strong acceptance in the market.
In addition there is a pipeline of other new white light based products for.
The Board is therefore confident that in 2008 and beyond, our strategy for growth in the Signals/Illumination market will show continued success following the double digit sales performance in 2007.

Harry Tee
Chairman

Our strategy in action

Our strategy	What we said	Our performance 2007
Identify niche markets	‣ Focus on niche markets with compelling operational and cost efficiency benefits. ‣ Expand our presence in Identified markets.	‣ Availability of more efficient LEDs enabled launch of new products particularly for hazardous location and aircraft obstruction niche markets. ‣ Expanded list of relationships with OEMs across almost every European country for traffic product. ‣ Supply of "smart" meter disconnect switches to US utility industry.
Focus on research and development	‣ Use technological expertise in thermal management, optics and electronic circuitry to develop products in niche markets.	‣ Excellent pipeline of new products complementing SafeSite and White Strobe products. ‣ Complete new line of lighting products successfully introduced by end of 2007. ‣ Partnership with University of Manchester.
Develop defensible technology	‣ Create Intellectual Property across all research teams. ‣ Develop new products incorporating defensible intellectual property.	‣ 19 patents filed. ‣ 7 patents granted. ‣ 47 patents pending.
Selective acquisitions	‣ Consider acquisitions with valid channel to market, strong geographical coverage and proven technology.	‣ Lumidrives successfully integrated into Group. ‣ Lumidrives coloured products introduced to North America.
Protect profits	‣ Low cost manufacturing base. ‣ Continual review and monitoring of potential cost-saving opportunities in particular reduction of material cost.	‣ Maintain strong presence in Mexico consolidated into larger facility. ‣ Successful implementation of material cost reduction programmes in second half of year. ‣ Redesign of products including red sidelight and white strobe obstruction light to further reduce material cost.

Business review
Our performance

Roy Burton
Group Chief Executive

Performance against our strategy

In line with Dialight's strategy to address large regulated niche markets, a number of new products have been introduced in 2007. Those are in the fields of Hazardous Location, Aircraft Obstruction and Public Transportation amongst others. These developments have been enabled by the improvements in price and performance of high power white LEDs which have become available during the year. This resulted in achievement of strong double-digit growth in Signals/Illumination Segment of our business along with a significant improvement in profitability.

Traffic

Our Traffic Light Business showed growth of 20% year on year with both Europe and North America contributing strongly; however, in Group terms this is a relatively low margin activity. Under normal circumstances, we would expect North American sales to be relatively flat but increased adoption of the 2006 ITE Standard for Traffic Lights helped Dialight to grow. Dialight was the first company to have a comprehensive portfolio of traffic light products that are fully compliant to the new standard and we believe we gained market share for that reason.

In developing lights for the new standard, we have filed several patents to protect our investment in this area. Towards the end of the year, we were awarded a contract to supply over 70,000 traffic lights for Miami Dade County in Florida. A minor portion of this contract was supplied in 2007 and it is expected that the balance will be delivered in 2008. With the exception of major contracts like Miami, the US Traffic Light Business should continue at current levels and will be serviced in the main through our extensive and exclusive network of Traffic Dealers who allow us to maintain our market share in North America. Whilst a majority of the installed base of lights has been converted to LEDs, the earliest installed LED lights are coming to the end of their useful life, after well over five years in service. The cycle of replacement of these lights should sustain this business for the foreseeable future.

20%

growth for our Traffic Light Business with both Europe and North America contributing strongly

European traffic lights have been targeted by Dialight as a major growth opportunity due to the current low adoption of LED traffic lights in Europe. This market is serviced through traffic systems OEMs who are nationally based and standards are set either by the OEM or by the individual countries in Europe. Dialight has increased its list of OEM partners in both Western and Eastern Europe and is well placed to service this market growth.

We have relationships with at least one major OEM in almost every European country. The largest multinational OEM is Siemens and we continue to develop our relationships with them, building on a strong base with Siemens in Germany.

Former US President Bill Clinton has been instrumental through the Clinton Climate Initiative in setting up volume pricing arrangements with companies providing energy efficient products. In November Dialight announced the signing of a volume pricing agreement with the Clinton Foundation to make attractive pricing for our LED traffic lights available to cities on a global basis. It is hoped that this agreement will help to accelerate the adoption of our energy efficient traffic lights by cities around the world.

Obstruction Lights

For the past five years, Dialight has been developing products for the aircraft obstruction light market. This is a true niche market with strong regulation which represents an opportunity to substitute LED based lights in an installed base worth well over $300 million in North America alone, with similar regulatory standards being applied throughout the world. Obstruction lights are positioned on broadcast towers, cellular phone towers, tall buildings and structures and latterly on wind turbines.

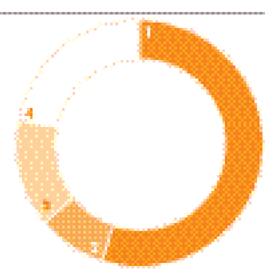
The wind turbine lighting market represents a new build opportunity of several million dollars over the next five years if wind energy projections are met.

Dialight has been the global innovator in the obstruction light market and has established clear market leadership and a growing business for products using red LEDs. However, half of the installations in this obstruction light market use white lighting and up until early in 2007 no qualified white LED products were available; the advent of brighter and less expensive white LEDs has changed that situation.

Early in 2007, we launched a ground breaking white LED strobe light to address the cell phone tower market in North America and for the new wind installations niche in Europe. The initial version of this new light was introduced after extensive development efforts by our scientists and engineers and once again resulted in several patents being filed. This was succeeded by the introduction of an improved version to meet this very demanding specification and in the second half of 2007 we announced the qualification of our new smaller, lighter and lower price product which performed to the same exacting standards as our first generation.

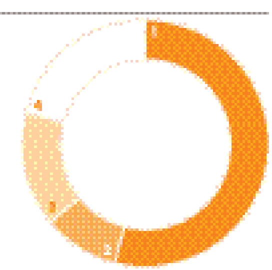
Signals / Illumination
Breakdown by markets
2007

1 Traffic (55%)
2 Obstruction (9%)
3 Illumination (14%)
4 Other (22%)

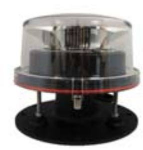


Signals/Illumination
Breakdown by markets
2006

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



The world's first white LED strobe
Our new white LED strobe is the first ever white LED obstruction light designed specifically for use on cell phone and broadcast towers. Unlike conventional obstruction lighting, our strobe can withstand vibration and extreme weather conditions and still has a projected life of more than five years.



Life-saving. Energy-saving
Wind turbines are less of an obstacle to aircraft navigation, following the certification of our new GPS synchronised LED red flashing beacon for North American applications. Robust and energy efficient, our beacon offers substantially lower costs of ownership than traditional light sources.

Less hazardous locations
Our new SafeSite LED fixture demonstrates the viability of white LED lighting in hazardous locations. It provides more effective light distribution and 40% greater energy efficiency than a traditional light source. With a guaranteed life of five years, it also significantly reduces maintenance costs.

In the North American market, there are over 50,000 conventional versions of this light installed on towers and the complete unit is replaced on a 10 year cycle, with a change of strobe tubes six or seven times in this period – our LED light does not need to be replaced. Although our improved product was only launched in the second half of 2007, we sold close to a hundred units by the end of the year, into a market which is inherently cautious of adopting new technology. The Company foresees excellent growth prospects for this product in 2008 which has already been adopted as a standard by one North American cellular operator.

25%

growth in overall sales for Obstruction Lights with large potential for further growth in North America

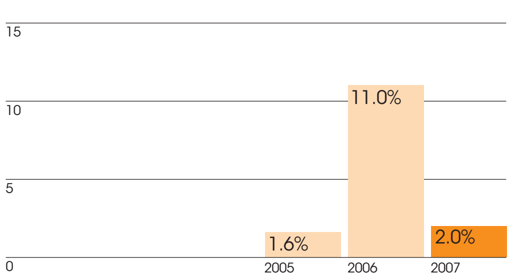
The largest potential for Obstruction Lights is in North America and overall our sales grew by 25% in that market in 2007. As the white strobe light was only in its initial year it made no more than a small contribution to this growth. 2008 should see continued opportunity for this whole product line, helped by aggressive adoption of the white strobe light and by further installations on wind turbines.

Lighting

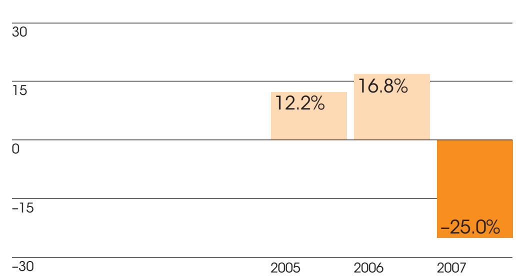
In the LED world, there is much talk of the potential for LEDs to replace conventional light sources for illumination purposes and undoubtedly there is the possibility that in time this will become a reality. Up until now, the majority of LED use for illumination has been in coloured lighting for architectural or entertainment uses and in order to gain a presence in this part of the market, Dialight acquired Lumidrives two years ago. This acquisition has been successfully integrated into the Group and we have been able to bring Lumidrives coloured products to the North American market and to open up opportunities in our distributor channel, due to our existing relationships with those distributors.

Although we have had some success with lighting OEMs in North America, with sophisticated coloured and colour mixing lights using our patented technologies, sales progress has been slower than we would have liked, as the lighting companies themselves take time to roll out their new Dialight offerings and to obtain the appropriate approvals. In May 2007, in conjunction with Hydrel, a division of Acuity Brands, we were awarded a prize for a coloured underwater fixture at the Lightfair Show in New York and we expect to see sales growth of this and similar products in 2008.

Revenue growth
%



EPS growth
%



Growth of the whole Lighting product line was 2% in 2007 although volume sales grew just under 10% offset by some price erosion. Along with the slow adoption by US based OEMs, in Europe we were adversely affected by some delay in the introduction of next generation products for the Dialight Lumidrives line. This in turn resulted in some price erosion as our less sophisticated competition was able to replicate our old range of products. By the end of the year, a complete new line of products had been successfully introduced and we fully expect to get back to good growth in 2008 and be able to distance ourselves once more from the competition.

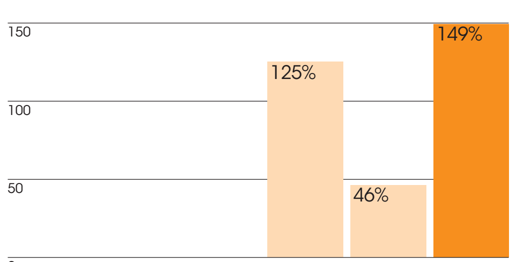
Whilst great technical improvements in white LEDs have been realised in 2007, these devices are still expensive and have no better energy performance than the most efficient conventional light sources. Dialight believes there are applications in industrial white lighting today where LEDs can do a better and more effective job than the incumbent conventional light.

We identified lights qualified for use in hazardous locations as a good potential for LED lighting and in late 2006 "relamped" an existing hazardous location fixture with LEDs.

Encouraged by the favourable reaction to this light, we have developed a custom LED fixture which fulfils the same application and the SafeSite range was shown at the New York Lightfair show with a very complimentary reaction. This light was finally qualified and launched to the market in the fourth quarter of 2007.

SafeSite is designed to emulate an existing 150 watt HID (very efficient) conventional fixture and would be used typically as an area illumination light in oil refineries, offshore rigs, mines, pharmaceutical plants, food processing plants and so on. It is qualified to the appropriate Underwriters Laboratories specifications and is a "sealed for life" product – life being at least five years.

Operating cash
as % of operating profit



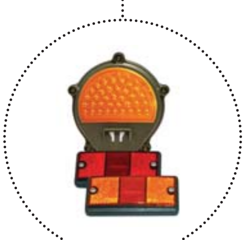
Note: Cash generated from operations as a percentage of operating profit

Although it is noted earlier in this report that LED light sources available today cannot outperform the better conventional light sources (like HID), we have demonstrated that through clever and unique design, the SafeSite fixture can offer a 40% energy saving over its conventional rival, whilst delivering the same amount of useful light. In addition, this is a product which requires no maintenance and is warranted for at least five years – in fact we expect significantly longer life. It sells at close to the price of a conventional light and addresses a market of at least $250 million a year in new installations. There is also a significant installed base of conventional lights which offer potential for retrofit.

While the SafeSite only became available late in the year, we are pleased to have sold some 300 lights, most of which were for initial trial purposes before our customers commit to major adoption or refits. In one case, however, a major US operator of offshore exploration rigs has decided to refit a complete rig with over forty SafeSites and to test it in the field.

Dialight, through its distributor Unimar, has recently reached an agreement with Rio Tinto to install Dialight's LED based SafeSite fixtures throughout many of their coal distribution centres, thus improving safety and decreasing maintenance and energy costs in these locations.

Dialight is in discussion with a number of OEMs to private label this product in addition to opening up its own routes to market. SafeSite provides an immediate value proposition for lighting users in the hazardous location market and there is the potential for Dialight to ship several thousands of these lights in 2008 and beyond.



Rugged illumination
Conforming to US military standards, our specially developed robust, impact-resistant LED lights illuminate transport trucks, trailers and other military vehicles. The new lights provide faster, safer signalling to following vehicles and can easily be retrofitted to existing platforms.

R&D goes streets ahead

Working with the University of Manchester, we are developing new technology platforms for the next generation of LED lighting modules. This applied research programme is being funded by a Technology Grant from the Department of Trade and Industry.

Where we're going
The programme aims to maximise the benefits of LED technology in existing lighting applications such as roadway, architectural and industrial lighting. Our plan is to integrate thermal management, optical control and high reliability drive electronics by producing high output LED modules with light outputs of more than 12,000 lumens.

The joint project's objective is to convince the European lighting industry that LED lighting technology offers great potential across a wide range of areas. In this way, OEMs will be encouraged to adopt LEDs as a major lighting source within their product portfolio.

A little-used route
Although many companies have made demonstrations of LED lighting in existing lighting applications, very little work has been completed in the associated technologies beyond LEDs at the component level. This is the area on which our R&D team is focusing, as they search for significant improvements in cost, efficiency and reliability.

They face a few awkward hurdles. The thermal and electrical challenges represent major barriers to the wider adoption of LED technology. Our research team aims to deliver a high reliability novel solution while achieving a significant cost performance breakthrough.

This hazardous location light is an example of using our strong technical skills to develop a product for a market where today the special attributes of LEDs can make an attractive proposition for the end user. Other examples are in the area of "rough service"; we have been qualified to supply an LED light for use in mobile shelters for field hospitals, communications centres, command posts etc. The rugged nature of LEDs, combined with the ability to offer a low profile light with the certainty that however roughly the shelter has been transported, the LED light will still work, is a very attractive proposition.

19

patents filed by our technical staff during 2007 with 7 granted and a further 47 pending approval

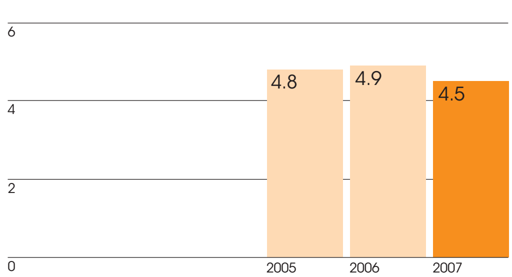
For some years Dialight has been the predominant supplier of coloured LED exterior lights for the US transit bus industry. We have an excellent position and command a major share of this market with a strong reputation for quality based on the lifetime warranty that we provide to the bus operators. As mentioned earlier, the efficiency and economics of white LEDs improved significantly in 2007, enabling us to solve a problem with the interior lighting of these buses. Typically, fluorescent tubes are used for the interior illumination of a bus. These tubes do not perform well due to their sensitivity to shock, vibration, cold and also being switched on and off frequently. This results in a significant maintenance cost for the operators. Dialight has started shipping LED lights to a number of transit authorities to replace these fluorescent tubes. Our LED lights are impervious to vibration and shock and they can be switched off and on any number of times without deterioration. Since they have a warranty for the life of the bus, they eradicate the maintenance issue of conventional lights. Each year there are almost 5,000 new buses built which could use these lights and of course, there is a significant retrofit opportunity for those buses which are already in service.

With the continuing improvements in white LED performance, a number of larger lighting markets such as roadway, tunnel and industrial lighting are beginning to open up. Creating a value proposition against existing technology in these demanding applications means we need to harness all the unique properties of LED technology. To expand our knowledge base we are working with the University of Manchester, with strategic grant support from the UK Technology and Strategy Board, to develop a number of key technologies essential to create reliable and efficient LED lighting systems.

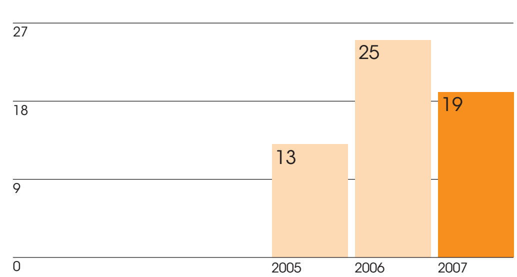
The results of the project can be used to produce new generation street lighting solutions – with levels of reliability, control and performance never before possible and with a superior light quality to today's solutions.

During the year, Dialight's technical staff filed 19 patents and had 7 granted with 47 pending approval. We typically spend over 6% of our Signals/Illumination revenues on R&D as we keep pace with the developments in efficiency and economics of our LED suppliers. Dialight has teams of engineers and scientists from optical, mechanical and electrical/electronic backgrounds, in the USA, UK, Germany and Mexico, working to keep Dialight at the forefront in LED application.

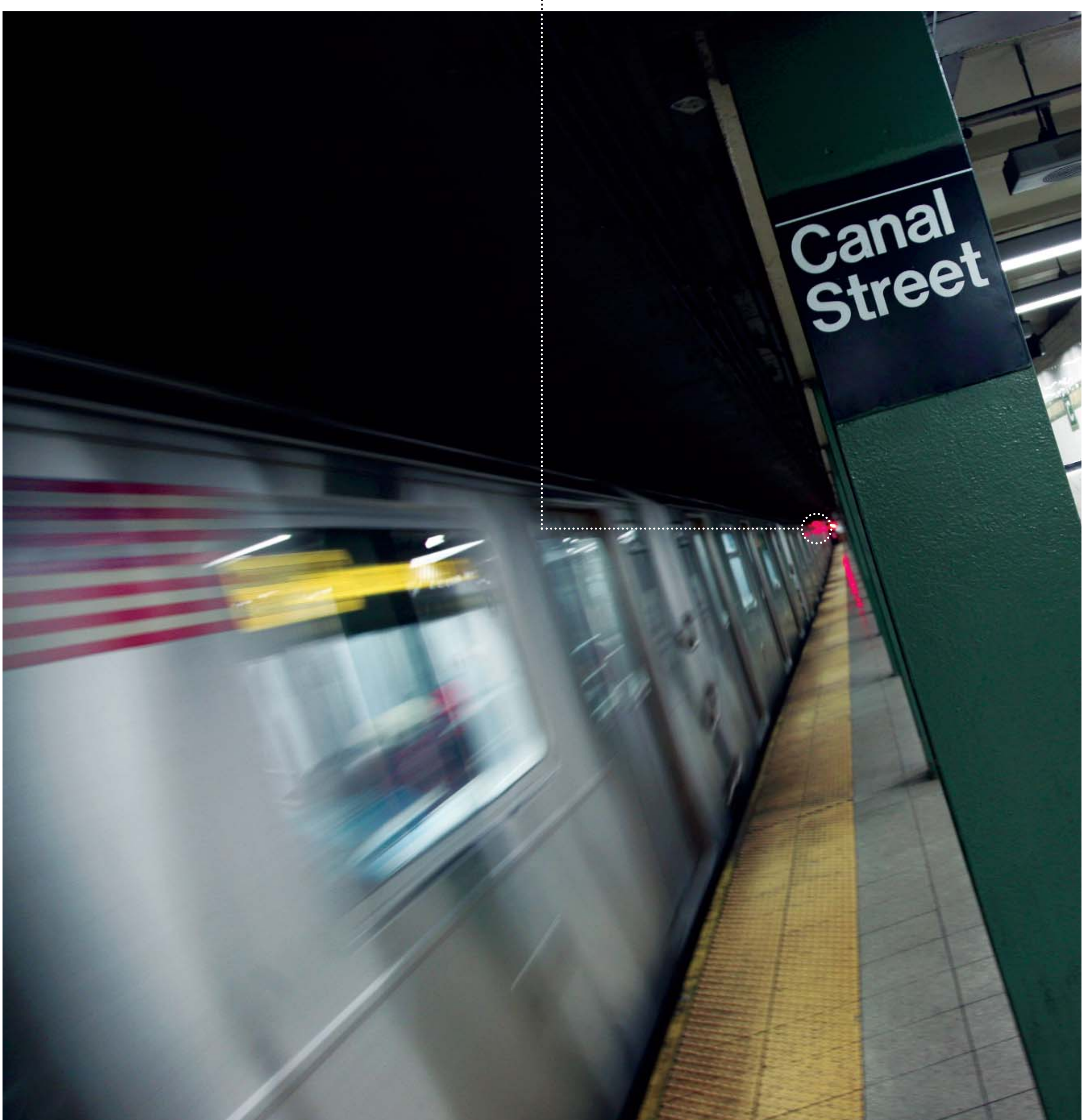
Research and development
as % of revenue

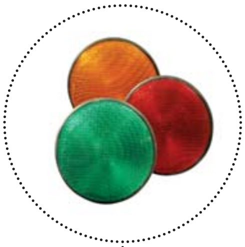


Numbers of patents filed



Light in the tunnel
We have fitted over 50,000 New York subway signals with LED lamp modules, producing annual energy and maintenance savings of $900,000. Using the latest Hi-Flux LED technology and driver circuitry, the new modules have a projected life of 10 years.





LEDs turn green, even when they're red
We are working with the Clinton Foundation to supply energy-efficient lighting products to major cities around the world. Using less than 10 watts of power and guaranteeing at least five years' life, the green credentials of our brighter, clearer traffic lights are self-evident.

Components

	2007	2006
Sales		
LED Indication Components	**£19.0m**	£20.6m
Electromagnetic Components	**£11.0m**	£11.4m
Total sales	**£30.0m**	£32.0m
Segment results		
LED Indication Components	**£5.4m**	£6.6m
Electromagnetic Components	**£(0.1)m**	£0.5m
Total segment result (see page 52)	**£5.3m**	£7.1m

Dialight's Components Business comprises two product areas: LED Indication Components – LED indicator lights supplied to the OEM market; and Electromagnetic Disconnects – "smart" meter disconnect switches which are used by utility companies to manage remotely electrical supply to residential and business premises. As described above, the Group is exploring the possibilities of divesting the LED Indication Components Business which would leave the "smart" meter operation as the segment's sole activity.

Bill Clinton and Roy Burton at the Seattle Conference of Mayors, prior to the Clinton Foundation's announcement of it's energy saving initiatives.

The start of 2007 was adversely affected by a slowdown in orders for indicator lights which had first impacted in December 2006. This was principally as the result of a decision by one of our major distributors to reduce inventory, which had the effect of reducing our revenues in the first quarter. However, as anticipated there was no slowdown in the demand from end users and we saw a recovery to normal revenues by the end of the quarter, which continued for the rest of the year.

Dialight's Indication Business services a mature niche in the electronics marketplace which will exhibit low growth over time. Sales of our US distributors grew at over 3% in the year and our sales to OEMs were steady. Many such components businesses are commodities and are subject to severe price pressures, however, Dialight is in a unique position in a market niche which avoids such major pressures to reduce price and once again our margins have been maintained.

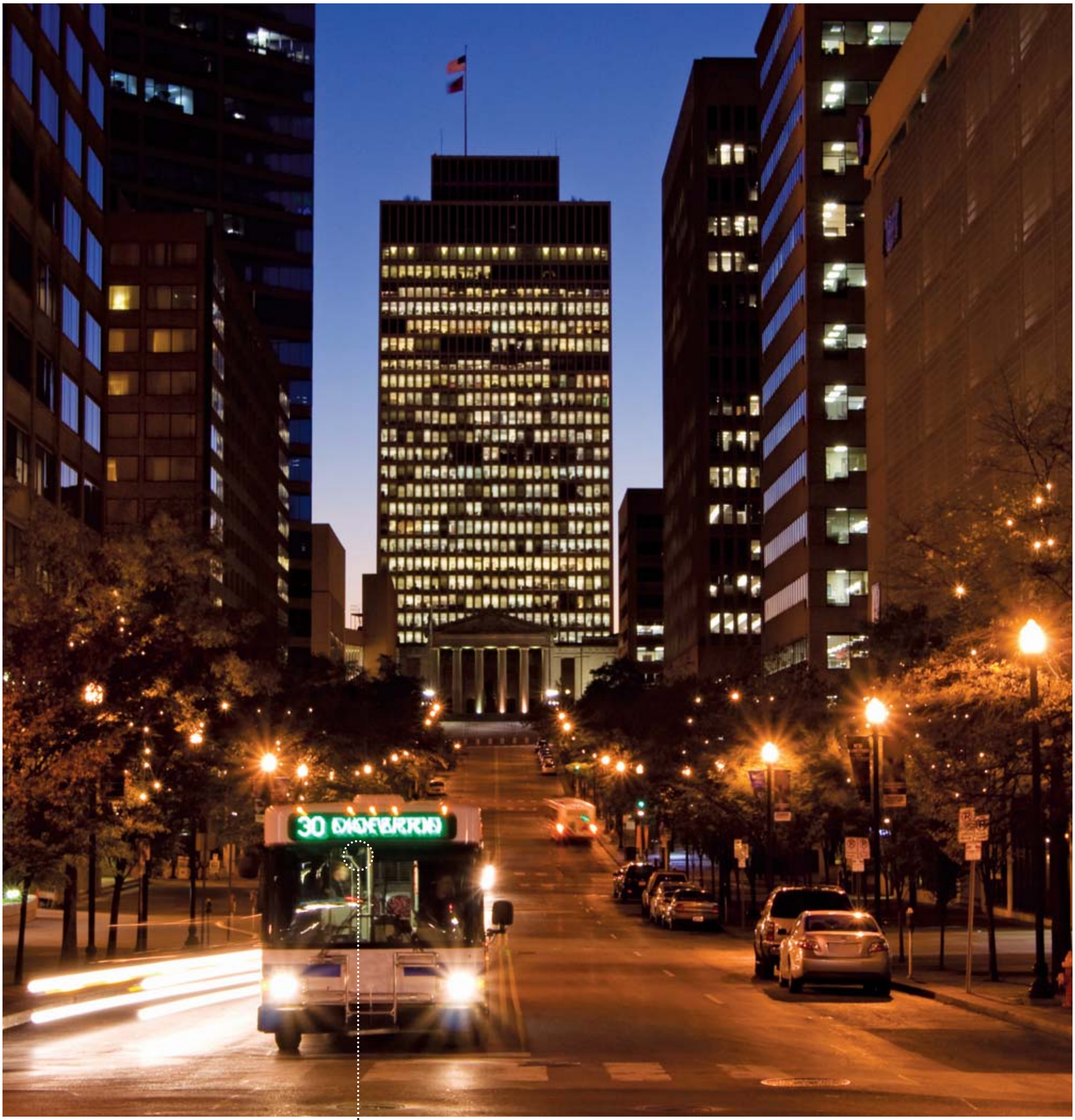
Whilst most of our Components Business relates to LED Indicators, Dialight also supplies "smart" meter disconnect switches to the utility industry. In the United States there is a major move to implement an advanced meter infrastructure in the electricity market. This requires the replacement of up to 130 million electricity meters over the next several years. Each one of these meters may need a switch capable of safely handling 200 amps. Dialight manufactures such a switch and is qualified with three of the top suppliers of these new "smart" meters.

Market projections are that up to 18 million switches will be needed by the end of 2010 and Dialight is well positioned to supply over a quarter of these. The Dialight switch is the result of significant development effort and uses several unique approaches for which patents have been filed. Supply of these switches is expected to drive significant growth for Dialight, beginning this year and Elster, one of the major US smart meter manufacturers, has placed a blanket order for 200,000 switches worth over $4,000,000 of which volume shipment is expected to start late in the first half.

Summary

2007 saw good progress on a number of fronts and our approach to the Signals/Illumination Segment continues as first articulated in 2005 at the inception of Dialight plc. We will continue to follow the developments in LED technology and bring innovative products to market which create strong value for our customers.

Roy Burton
Group Chief Executive



Efficiency in transit
Until recently, bus interiors were lit by inefficient fluorescent tubes. Transit authorities are now switching to our white LEDs, which use around half the power of conventional lights, are longer lasting and more robust. We expect to supply up to a thousand buses during 2008.

Finance Director's review

Cathy Buckley
Finance Director

Group summary

Group revenue increased by £1.1 million (2%) as reported (8% at constant currency rates). Details of the trading by business segment are given below.

Group profit before tax for the year was £4.5 million (2006: £5.8 million). Group profit before tax was adversely affected by the strengthening of sterling by approximately £0.5 million year on year.

Summary of results by business

Signals/Illumination

On a like for like currency basis (using 2007 exchange rates) the segmental results are as follows:

	2007 £m	2006 £m
Sales	**33.4**	28.6
Contribution	**10.8**	10.0
Overheads	**(10.7)**	(10.5)
Segment result	**0.1**	(0.5)
EBITDA	**1.2**	0.5

Note: EBITDA is earnings before interest, taxes, depreciation and amortisation.

The growth in the Signals/Illumination revenue at 17% arises from growth in all product lines. The charts on page 8 show the revenue by product line.

The segment result is contribution less production, sales, engineering and administration costs allocated to the segment on a reasonable basis.

This business reported an increased result of £0.6 million to a reported profit of £0.1 million. The contribution of the Signals/Illumination business increased as a result of high revenue growth and successful material cost reduction programmes.

The contribution on sales was 32.3% reduced from 35% in 2006 due principally to the impact of product mix including strong growth in the sales of traffic product.

Overhead costs increased by a net £0.2 million with continued investment to support the high revenue growth partly offset from a full year saving from the transfer of production from Germany to the UK in the first half of 2006.

Components

On a like for like currency basis (using 2007 exchange rates) the segmental results are as follows:

	Electromagnetic components 2007 £m	Electromagnetic components 2006 £m	**Indication business 2007 £m**	Indication business 2006 £m
Sales	**11.0**	11.4	**19.0**	19.0
Contribution	**2.7**	3.1	**10.5**	10.7
Overheads	**(2.8)**	(2.6)	**(5.1)**	(4.6)
Segment result	**(0.1)**	0.5	**5.4**	6.1
EBITDA	**0.3**	0.9	**5.8**	6.5

Revenues for the electromagnetic components segment were slightly lower than 2006 with the overall segment result impacted by the run out of a high margin contract. This business is well placed for exciting growth from its switch further details of which are included in the business review on page 21.

At constant currency the LED indication business reported sales for 2007 consistent with 2006. After a slow start to the year, orders recovered to a healthy level. Profit and cash generation for this business remained strong reporting a segment result equal to 28% of revenue.

Investment in research and development

Expenditure in research and development in the current year was £2.9 million representing 4.6% of sales. Under IFRS we are required to capitalise certain development expenditure and in 2007 £1.0 million of cost was capitalised and added to the balance sheet. This expenditure represents the Group's investment in new product development. These capitalised costs are amortised over periods ranging from 3 to 5 years.

Earnings per share

Basic earnings per share for the continuing businesses were 8.8p (2006: 11.8p). Details of the calculation are included in Note 16 to the accounts.

Dividends

A final dividend of 3.8p is proposed by the Board which taken with the interim dividend will give a total dividend of 5.7p per share, assuming the final dividend is approved. The total cost of the dividends will be £1,781,000. Dividend cover based on profit before the amortisation of acquired intangibles is 1.5 times.

Finance costs and income

Net financing income was £587,000 (2006: £489,000).

Interest received on bank deposits was £420,000 compared with £328,000 in 2006.

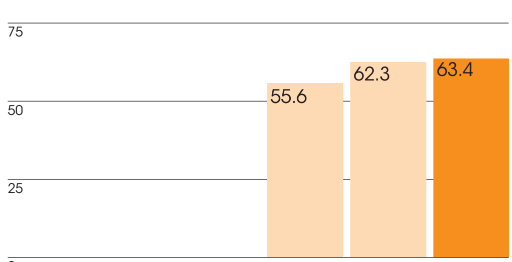
Interest cost on the defined benefit pension plans liabilities was £1,644,000 (2006: £1,565,000) offset by an expected return on pension plan assets of £1,899,000 (2006: £1,799,000).

Following the adoption of IAS 32 and IAS 39 under IFRS dividends paid to preference shareholders is required to be shown as an interest cost. The cost in 2007 was £88,000 (2006: £73,000).

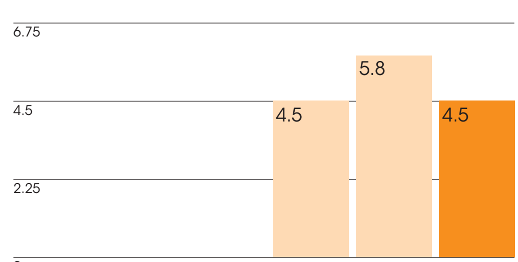
Taxation

The effective tax rate for 2007 was 39.1% (2006: 36.9%). 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.

Sales for continuing businesses
£ million



Profit before tax for continuing businesses
£ million



Cash flow

The Group has generated net cash inflows from operations of £5.8 million (2006: £2.4 million) representing 149% of operating profit. The Group's target is for operating cash to be at least 100% of operating profit. At the year end the Group had a cash balance of £6.6 million (2006: £4.3 million).

Defined benefit pension plans

During 2007 Dialight together with the relevant Trustees continued 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 £650,000. As at 31 December 2007 the net liability before deferred tax in relation to the defined benefit pension plans was £1,227,000 (2006: £1,671,000). 38% 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.

Treasury policy

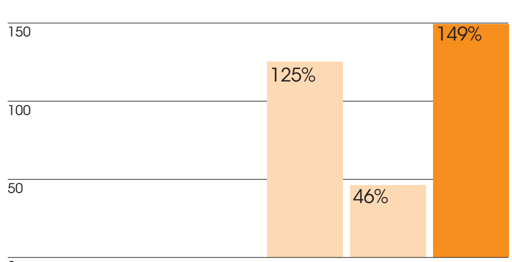
The Group operates a central treasury function that provides a service to the operating businesses within clearly defined guidelines approved by the Board.

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.

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.

Operating cash flow
as % of operating profit



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

	2007	2006
US dollar-average rate	**2.00**	1.84
US dollar-year end rate	**1.96**	1.96
Euro-average rate	**1.47**	1.47
Euro-year end rate	**1.36**	1.48

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. Further details are included in Note 21 to the accounts.

Funding and deposits

The Group utilises short and medium term facilities to finance its operations. The Group has two principal bankers and renewal of the facilities is currently under review. 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.

Cathy Buckley
Group Finance Director

Board of Directors

Executive Directors

Roy Burton (age 60 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 45 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.

Non-Executive Directors

Harry Tee (age 62 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. Mr Tee is 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. He is also Chairman of Pieztog Ltd and a director of SEMTA, the Sector Skills Council for engineering and manufacturing

Robert Jeens (age 54 years)
Robert Jeens joined Dialight as a Non-Executive Director in May 2001. He is the Senior Independent Director and is Chairman of the Audit Committee and 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 59 years)
Bill Whiteley joined Dialight as a Non-Executive Director in September 2001. He is a member of the Audit and Nominations Committees and Chairman of Dialight's Remuneration Committee. 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 Chairman of the British Valve and Actuator Manufacturers Association.

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Company secretary
Cathryn Buckley

Registered office
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Huntingdon PE29 6SR

Registered number
2486024

Roy Burton

Harry Tee

Cathy Buckley

Robert Jeens

Bill Whiteley

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.

An independent firm of health and safety consultants is 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 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 7 to 22.

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 2007.

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, Mexico 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.

Business review
A review of the development and performance of the Group during 2007 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 7 to 22, the Financial review on pages 23 to 25 and the Corporate responsibility report on page 28.

Results and dividends
Results for the year are set out in the income statement on page 43.

The Directors recommend a final dividend of 3.8p per ordinary share, amounting to £1,187,000. This final dividend together with the interim dividend of 1.9p per ordinary share paid on 11 October 2007, which amounted to £594,000, gives a total dividend for the year of 5.7p per ordinary share amounting to £1,781,000. The recommended final dividend, if approved at the Annual General Meeting, will be payable on 9 May 2008, to members on the register at close of business on 14 March 2008.

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 2006 are set out on pages 37 to 40.

Directors
The members of the Board of Directors currently serving on the Board are shown on page 26, together with brief biographical details. Mr J Hewitt retired as Non-Executive Director on 31 August 2007.

In accordance with the Articles of Association, Messrs Tee and Burton will retire at the forthcoming Annual General Meeting by rotation and being eligible offer themselves for re-appointment. Mr Tee is Chairman of the Nominations Committee.

The interests of the Directors and their families in the share capital of the Company are shown in the Remuneration report on page 35.

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 2008 ordinary shares of 1.89p each	Percentage of issued ordinary shares of 1.89p each
Hermes	8,383,804	26.84%
Aberforth Partners	5,695,710	18.23%
H L Tee	1,428,357	4.57%
Impax	1,015,447	3.25%

Details of the Company's share capital are set out in Note 15 to the accounts.

Political and charitable contributions
No contributions were made for political purposes. A total of £1,000 (2006: £1,000) 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 2007, the Group had an average of 40 days (2006: 41 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.

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 the Group's business, financial condition, prospects and share price could be materially and adversely affected. Further details on financial risk management is set out in Note 21.

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 the Group'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 the Group's 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 IPR. Therefore changes in product specifications should favour the Group 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 the Group 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 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 dollars 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 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 not achieve its goals 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 five years the Group has sold businesses in three separate transactions to major US corporations. In each transaction the Company was required to provide certain warranty and indemnities to the purchaser. The terms and nature of the warranties and indemnities were not unusual for these types of transactions. A number of the indemnities principally in relation to taxation are still in place and will expire over time with the last expiring in December 2011. The Company has not received any claims and has not been notified of any potential claims by any of the purchasers in relation to these warranties and indemnities. Management considers that the risk of a material claim by the purchasers to be remote and accordingly no provision is required to be made.

Special business at the Annual General Meeting
The resolutions that will be proposed at the Annual General Meeting on 7 May 2008 are set out in the Notice of Annual General Meeting on pages 78 to 79 of this document. Resolutions 1 to 5, 7 and 9 are resolutions relating to ordinary business, whilst resolutions 6, 8 and 10 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 London Stock Exchange Daily Official List 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 2009 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 3 March 2008 the total number of options to subscribe for ordinary shares outstanding was 613,696 which represents 1.96% of the issued shares at that time and would represent 2.18% 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 2009 and the date 15 months from the date of the passing of the resolution, and will replace a similar authority granted on 9 May 2007 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 2009 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 2007 and which expires at the forthcoming Annual General Meeting.

Resolution 9, which is an ordinary resolution, seeks shareholder approval of the Directors' remuneration report, which is set out on pages 33 to 36 of this document.

Special Resolution 10 proposes to adopt a new set of Articles of Association (the "New Articles") to ensure consistency of the Articles of Association with those provisions of the Companies Act 2006 (the "2006 Act") which have come into force since the date of the last Annual General Meeting and those which will come into force on or before 1 October 2008 and to enable the Company to benefit from those new provisions. If the resolution is passed, the New Articles will take effect from the conclusion of the meeting, with the exception of new Article 105A relating to directors' conflicts of interest which will only operate from 1 October 2008 or such other date as sections 175 and 176 of the Companies Act 2006 come into force. Until such time as Article 105A becomes operational, the provisions of Article 105 (which are the same as the provisions relating to directors' conflicts of interest in the existing Articles of Association) will be effective.

A copy of the Company's existing Articles of Association (the "Existing Articles"), and a copy of the New Articles marked to show the differences from the Existing Articles will be available for inspection during normal business hours on Monday to Friday each week (public holidays excepted) at the Company's registered office at 2B Vantage Park, Washingley Road, Huntingdon PE29 6SR, from the date of the Notice of the Annual General Meeting up to and including the date of the Annual General Meeting and at the place of the Annual General Meeting for at least 15 minutes before and during the meeting.

The key differences between the new and the existing Articles of Association are summarised below:

Directors' conflicts of interest
The 2006 Act sets out directors' general duties, which largely codify the existing law but with some changes. Under the 2006 Act, from the date of implementation of the relevant provisions, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The 2006 Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The New Articles give the Directors authority to approve such situations and, as envisaged by the 2006 Act, include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only independent directors (those who have no interest in the matter being considered) will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. Furthermore, the directors will be able to impose limits or conditions when giving their authorisation, or subsequently, if they think this is appropriate. The proposed New Article 105A(C) allows the Directors to give their authorisation upon such terms as they see fit, and enables them to vary or terminate their authorisation at any time.

The New Articles also contain provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director from being in breach of duty if a conflict of interest or a potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Directors.

Form of resolution
The Existing Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that where an extraordinary resolution is required, a special resolution is also effective. This provision is being amended as the concept of extraordinary resolutions has not been retained under the 2006 Act.

The Existing Articles enable members to act by written resolution. Under the 2006 Act, public companies can no longer pass written resolutions. These provisions have therefore been removed in the New Articles.

Variation of class rights
The proceedings and specific quorum requirements for a meeting convened to vary class rights are contained in the 2006 Act and the relevant provisions have been amended in the New Articles to reflect this.

Resolutions and general meetings – notice periods
The 2006 Act refers to all meetings (not being an annual general meeting) as general meetings and a general meeting (not being an annual general meeting) to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required. The New Articles reflect these changes.

Votes of members
Under the 2006 Act, proxies are entitled to vote on a show of hands and multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect these new provisions.

Age of directors on appointment
The statutory provisions relating to the vacation from office by directors attaining the age of 70 have been repealed and consequently the related provisions have been amended in the New Articles.

General
Generally the opportunity has been taken to clarify the language of the New Articles and to conform the language of the New Articles to the language of those provisions of the 2006 Act which will be in force on 1 October 2008.

By order of the Board

C A Buckley
Company Secretary

3 March 2008

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 by J Hewitt until his retirement from which date W Whiteley was appointed as the Chairman. R Jeens is also a member of the Committee. 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 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 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.

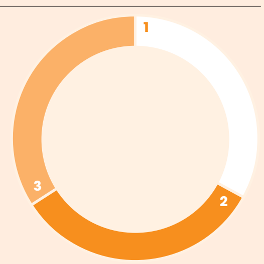
The Committee believes that the base salary and benefits for Executive Directors should represent a fair return for employment but that the maximum total potential remuneration may only be achieved in circumstances where the executive has met challenging objectives that contribute to Dialight's overall 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 2007 67% (2006: 67%) of the potential direct remuneration of the Chief Executive was performance related and for the Finance Director the figure was 60% (2006: 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 grant.

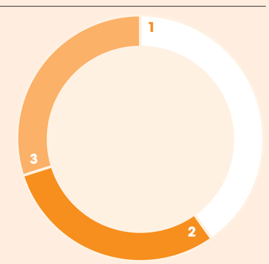
Roy Burton

1 Base salary £213K (33%)
2 Performance related annual bonus £213K (33%)
3 Performance related Share Plan £215K (34%)



Cathy Buckley

1 Base salary £135K (40%)
2 Performance related annual bonus £101K (30%)
3 Performance related Share Plan £101K (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.

The 2008 Bonus plan for certain senior executives is designed around the achievement of both revenue and contribution growth for the Signals/Illumination business. The maximum bonus payable for the year is 50% of salary. For the Executive Directors the annual bonus plan is divided equally between the achievement of targeted growth in revenue and contribution of the Signals/Illumination business and growth in the Group's operating profit. The maximum bonus payable for the year is 100% of salary.

For 2007 the target for the executive annual bonus plan was divided equally between the achievement of targeted growth in revenue of the Signals/Illumination business. and the growth in the Group's operating profit. The maximum bonus payable for the year was 100% of basic salary.

There was no award under the 2007 annual bonus plan as the Group performance failed to meet the required performance levels.

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 second award under the PSP was made to the Executive Directors and senior management of the Group following the announcement of the 2006 financial results. 20 senior employees participated in the 2007 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 a further award will be made following the announcement of the 2007 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 2007 £'000**	Total 2006 £'000
H L Tee	75	–	**75**	132
R Burton[1]	213	4	**217**	228
C A Buckley	135	17	**152**	145
R Jeens	30	–	**30**	30
W Whiteley	25	–	**25**	25
J Hewitt[2]	23	–	**23**	35
	501	21	**522**	595

1 The remuneration for Mr Burton has been translated at the rate of $2.0: £1 (2006: $1.84: £1).

2 Retired 31 August 2007.

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.

Mr Burton and Miss Buckley have been 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
	5 April 2007	100,977	84	3 years
Miss C A Buckley	17 April 2006	36,716	143	3 years
	5 April 2007	47,535	84	3 years

The share price at the date of the 2007 award was £2.13 per ordinary share.

Pension contributions paid on behalf of Directors to money purchase schemes

	Contributions 2007 £'000	Contributions 2006 £'000
Miss C A Buckley	**14**	12
Mr R Burton	**12**	12

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 2007	**B shares at 31 December 2007 and 31 December 2006**	Ordinary shares at 31 December 2006
H L Tee	**1,428,357**	**2,590,922**	1,390,857
R Jeens	**80,000**	**-**	40,000
W Whiteley	**5,000**	**-**	5,000
R Burton	**43,692**	**-**	23,692
C A Buckley	**3,000**	**-**	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 112p per share and highest market mid-point price of 263p per share. On 31 December 2007 the market mid-point price was 128p 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.

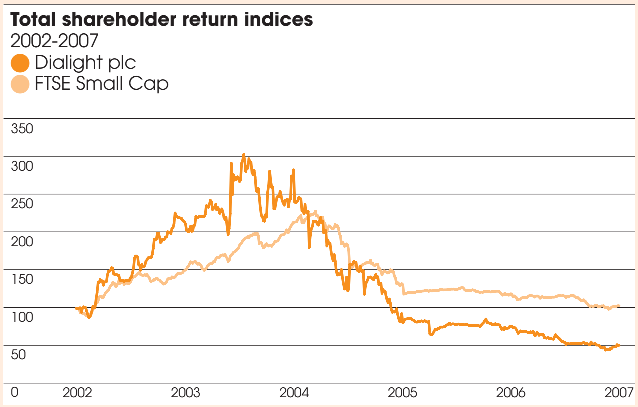
The service contract with Miss C A Buckley, dated 29 September 2005 includes an ongoing terminable period of 12 months if given by the Company and six months if given by Miss Buckley.

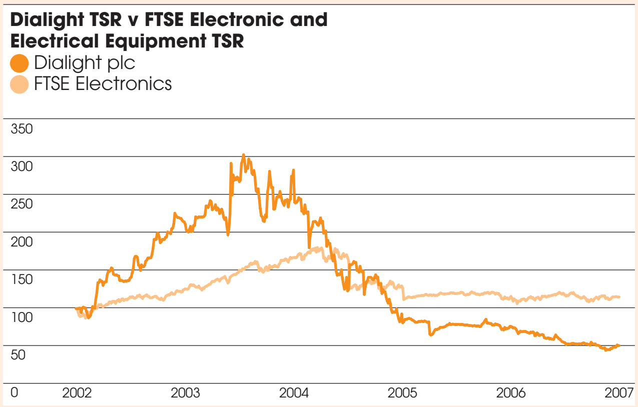
There are no predetermined provisions for compensation on termination within the Executive Directors service contracts which exceed 12 months emoluments for Mr Burton and 12 months emoluments for Miss Buckley.

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 Directors. 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.





W Whiteley
Chairman of the Remuneration Committee
On behalf of the Board

3 March 2008

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 2006. Section 1 of the Combined Code establishes main and 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 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 two independent Non-Executive Directors. J Hewitt has acted as Deputy Chairman and Senior Independent Director until his retirement. R Jeens became Senior Independent Director on 1 September 2007. The Board has announced that it is searching for a further Non-Executive Director with lighting industry experience to achieve a composition which 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 26. 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 or she 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 41 and a statement on going concern is given on page 30.

The Board has a formal schedule of matters 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 third 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 February Board meeting from which a list of actions was agreed.

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 two 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 until his retirement when W Whiteley was appointed as Chairman. The other member is the independent Non-Executive Director, R Jeens. 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 2007 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 33 to 36.

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 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 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 2007 Committee meeting. Both the audit scope and related fees were approved at the meeting.

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

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 of 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 2007
The number of scheduled Board and Committee meetings attended by each Director during 2007 was as follows:

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	8	3	2	1
Harry Tee	8	n/a	n/a	1
Rob Jeens	8	3	2	1
Bill Whiteley	8	3	2	1
Roy Burton	8	n/a	n/a	n/a
Cathy Buckley	8	n/a	n/a	n/a
Jeff Hewitt[1]	5	1	1	1

1 Retired 31 August 2007.

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 7 May 2008 can be found in the Notice of the Meeting on page 78.

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.

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 2007 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and 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 41.

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 2006 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 2007 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 2007;
- 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

3 March 2008

Consolidated income statement

For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Continuing operations			
Revenue	4	**63,408**	62,302
Cost of sales		**(49,137)**	(46,202)
Gross profit		**14,271**	16,100
Distribution expenses		**(5,053)**	(5,126)
Administrative expenses		**(5,325)**	(5,650)
Operating profit	4	**3,893**	5,324
Financial income	6	**2,383**	2,154
Financial expense	6	**(1,796)**	(1,665)
Net financing income	6	**587**	489
Profit before tax from continuing operations		**4,480**	5,813
Income tax expense	7	**(1,751)**	(2,145)
Profit for the year attributable to equity holders of the parent	15	**2,729**	3,668
Earnings per share			
Basic earnings per share	16	**8.8p**	11.8p
Diluted earnings per share	16	**8.6p**	11.7p

Consolidated statement of recognised income and expense

For the year ended 31 December 2007

	2007 £'000	2006 £'000
Exchange difference on translation of foreign operations	**193**	(1,900)
Actuarial (losses)/gains on defined benefit pension schemes	**(339)**	303
Tax on items taken directly in equity	**131**	(133)
Effect of change in UK tax rate	**(64)**	–
Income and expense recognised directly in equity	**(79)**	(1,730)
Profit for the period	**2,729**	3,668
Total recognised income and expense for the period attributable to equity holders of the parent	**2,650**	1,938

Consolidated balance sheet
As at 31 December 2007

	Note	2007 £'000	2006 £'000
Assets			
Property, plant and equipment	9	**6,072**	5,557
Intangible assets	10	**7,913**	7,495
Deferred tax assets	11	**1,209**	1,249
Total non-current assets		**15,194**	14,301
Inventories	12	**9,846**	10,397
Trade and other receivables	13	**15,629**	14,629
Cash and cash equivalents	14	**6,561**	4,346
Total current assets		**32,036**	29,372
Total assets		**47,230**	43,673
Liabilities			
Current liabilities			
Interest-bearing loans and borrowings	17	**(2,172)**	(2,184)
Trade and other payables	20	**(9,271)**	(8,478)
Tax liabilities		**(2,822)**	(765)
Total current liabilities		**(14,265)**	(11,427)
Non-current liabilities			
Employee benefits	18	**(1,227)**	(1,671)
Provisions	19	**(779)**	(802)
Deferred tax liabilities	11	**(110)**	(83)
Total non-current liabilities		**(2,116)**	(2,556)
Total liabilities		**(16,381)**	(13,983)
Net assets		**30,849**	29,690
Equity			
Issued share capital	15	**591**	591
Merger reserve	15	**546**	546
Other reserves	15	**(1,637)**	(1,842)
Retained earnings	15	**31,349**	30,395
Total equity attributable to equity shareholders of the parent company		**30,849**	29,690

These financial statements were approved by the Board of Directors on 3 March 2008 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 2007

	Note	2007 £'000	2006 £'000
Operating activities			
Profit for the year		**2,729**	3,668
Adjustments for:			
Financial income		**(2,383)**	(2,154)
Financial expense		**1,796**	1,665
Income tax expense		**1,751**	2,145
Share-based payments		**196**	130
Depreciation of property, plant and equipment		**1,155**	1,154
Amortisation of intangible assets		**843**	658
Operating cash flow before movements in working capital		**6,087**	7,266
Decrease/(increase) in inventories		**475**	(4,152)
Increase in trade and other receivables		**(1,356)**	(2,062)
Increase in trade and other payables		**800**	1,504
Decrease in pension liabilities		**(192)**	(615)
Transfer from "Restricted Cash"	14	**-**	485
Cash generated from operations		**5,814**	2,426
Income taxes received/(paid)		**423**	(1,623)
Income tax paid on gain on disposals of businesses in 2005		**-**	(2,559)
Interest paid		**(152)**	(100)
Net cash from operating activities		**6,085**	(1,856)
Investing activities			
Interest received		**484**	355
Acquisition of subsidiary (net of cash received)	27	**-**	(2,449)
Capital expenditure		**(1,626)**	(1,207)
Expenditure on development		**(958)**	(976)
Sale of tangible fixed assets		**11**	82
Net cash used in investing activities		**(2,089)**	(4,195)
Financing activities			
Dividends paid		**(1,687)**	(1,484)
Transfer from "Restricted Cash"	14	**-**	2,559
Redemption of preference shares treated as debt		**(12)**	(29)
Own shares acquired		**-**	(308)
Net cash (used in)/generated from financing activities		**(1,699)**	738
Net increase/(decrease) in cash and cash equivalents		**2,297**	(5,313)
Cash and cash equivalents at 1 January		**4,346**	9,829
Effect of exchange rates on cash held		**(82)**	(170)
Cash and cash equivalents at 31 December	14	**6,561**	4,346

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 2007 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 28.

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 impact 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.

(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. The cumulative gain or loss previously recognised in equity remains until the forecast transaction occurs.

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 and amortisation

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

Amortisation

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

The estimated useful lives are as follows:

- Patents and trademarks 0–4 years
- Capitalised development costs 3–5 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 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. 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 effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements.

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Executive in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographic segments (see Note 4). Under the management approach, it is not expected that the Group segment information will change materially.
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.
- IFRIC 14 *IAS 19 – The Limit on a Defined Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will be mandatory for the Group's 2008 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

(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 grant date and spread over the performance period during which the employees become unconditionally entitled to the award. The Monte Carlo model takes into account the terms and conditions upon which the grants were made.
- *Derivatives*
  Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.
- *Cash and cash equivalents/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 the electromagnetic components.

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 primary format used for segmental reporting is by business segment as this reflects the internal management structure and reporting of the Group. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated expenses comprise corporate costs including share-based payments and unallocated assets and liabilities comprise cash, borrowings, taxation and pension fund liabilities. Inter group trading is determined on an arm's length basis.

The 2006 segmental results have been restated in line with the format included in this year's report.

Business segments

2007	**Electromagnetic components £'000**	**Indication business £'000**	**Total components £'000**	**Signals/ Illumination £'000**	**Total £'000**
Revenue	**11,000**	**19,029**	**30,029**	**33,379**	**63,408**
Contribution	**2,656**	**10,525**	**13,181**	**10,774**	**23,955**
Overhead costs	**(2,808)**	**(5,083)**	**(7,891)**	**(10,660)**	**(18,551)**
Segment results	**(152)**	**5,442**	**5,290**	**114**	**5,404**
Unallocated expenses					**(1,511)**
Operating profit					**3,893**
Net financing income					**587**
Profit before tax					**4,480**
Income tax expense					**(1,751)**
Profit after tax					**2,729**

2006	Electromagnetic components £'000	Indication business £'000	Total components £'000	Signals/ Illumination £'000	Total £'000
Revenue	11,361	20,654	32,015	30,287	62,302
Contribution	3,078	11,701	14,779	10,602	25,381
Overhead costs	(2,598)	(5,076)	(7,674)	(10,970)	(18,644)
Segment results	480	6,625	7,105	(368)	6,737
Unallocated expenses					(1,413)
Operating profit					5,324
Net financing income					489
Profit before tax					5,813
Income tax expense					(2,145)
Profit after tax					3,668

4. Segment reporting continued

Other information	**Electromagnetic components £'000**	**Indication business £'000**	**Total components £'000**	**Signals/ Illumination £'000**	**2007 Total £'000**
Capital additions	**222**	**431**	**653**	**973**	**1,626**
Depreciation and amortisation	**441**	**420**	**861**	**1,101**	**1,962**

Other information	Electromagnetic components £'000	Indication business £'000	Total components £'000	Signals/ illumination £'000	2006 Total £'000
Capital additions	209	344	553	654	1,207
Depreciation and amortisation	352	397	749	1,020	1,769

Balance sheet – assets	**Electromagnetic components £'000**	**Indication business £'000**	**Total components £'000**	**Signals/ Illumination £'000**	**2007 Total £'000**
Segment assets	**6,320**	**7,999**	**14,319**	**24,495**	**38,814**
Unallocated assets					**8,416**
Consolidated total assets					**47,230**

Balance sheet – liabilities	**Electromagnetic components £'000**	**Indication business £'000**	**Total components £'000**	**Signals/ Illumination £'000**	**2007 Total £'000**
Segment liabilities	**(1,267)**	**(2,705)**	**(3,972)**	**(5,757)**	**(9,729)**
Unallocated liabilities					**(6,652)**
Consolidated total liabilities					**(16,381)**

Balance sheet – assets	Electromagnetic components £'000	Indication business £'000	Total components £'000	Signals/ Illumination £'000	2006 Total £'000
Segment assets	6,901	7,033	13,934	23,828	37,762
Unallocated assets					5,911
Consolidated total assets					43,673

Balance sheet – liabilities	Electromagnetic components £'000	Indication business £'000	Total components £'000	Signals/ Illumination £'000	2006 Total £'000
Segment liabilities	(1,448)	(1,773)	(3,221)	(5,455)	(8,676)
Unallocated liabilities					(5,307)
Consolidated total liabilities					(13,983)

4. Segment reporting continued

Geographical segments

The Components and Signals/Illumination segments are managed on a worldwide basis, but operate in three principal geographic areas, UK, Europe and North America. The following 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	**2007 Total £'000**	2006 Total £'000
North America	**37,116**	36,386
UK	**11,401**	10,896
Rest of Europe	**7,300**	7,690
Rest of the World	**7,591**	7,330
	63,408	62,302

	Segmental assets		Capital expenditure	
Continuing operations	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000
North America	**26,059**	22,394	**1,125**	899
UK	**14,487**	15,248	**460**	259
Rest of Europe	**6,684**	6,031	**41**	49
	47,230	43,673	**1,626**	1,207

5. Personnel expenses

	2007 £'000	2006 £'000
Wages and salaries	**10,824**	10,699
Social security contributions	**1,303**	1,183
Equity settled share-based payment transactions	**196**	130
Contributions to defined contribution plans	**295**	307
Total charge for defined benefit plans	**146**	134
	12,764	12,453

The average number of employees by geographical location was:

	2007 Number	2006 Number
UK	**181**	179
USA and Mexico	**972**	812
Rest of the World	**24**	28
	1,177	1,019

6. Net financing income

Recognised in profit and loss

	2007 £'000	2006 £'000
Interest income on bank deposits	**484**	355
Expected return on assets in the defined benefit pension schemes	**1,899**	1,799
	2,383	2,154
Interest expense on financial liabilities	**(152)**	(100)
Interest charge on pension scheme liabilities	**(1,644)**	(1,565)
	(1,796)	(1,665)
Net financing income	**587**	489

7. Income tax expense

Recognised in the income statement

	2007 £'000	2006 £'000
Current tax expense		
Current year	**1,825**	1,838
Adjustment for prior years	**(110)**	(209)
	1,715	1,629
Deferred tax expense		
Origination and reversal of temporary differences	**58**	505
Adjustment for prior years	**(22)**	11
Income tax expense	**1,751**	2,145

Reconciliation of effective tax rate

	2007 %	2007 £'000	2006 %	2006 £'000
Profit for the period		**2,729**		3,668
Total income tax expense		**1,751**		2,145
Profit excluding income tax		**4,480**		5,813
Income tax using the UK corporation tax rate of 30%	**30.0**	**1,344**	30.0	1,744
Effect of tax rates in foreign jurisdictions	**6.7**	**302**	6.0	346
Non-deductible expenses	**1.2**	**54**	0.6	37
Research and development credit	**–**	**–**	(0.7)	(41)
Unrecognised losses	**4.3**	**194**	4.4	257
Change in UK tax rate	**(0.2)**	**(11)**	–	–
Over provision in prior years	**(2.9)**	**(132)**	(3.4)	(198)
	39.1	**1,751**	36.9	2,145

Deferred tax recognised directly in equity

	2007 £'000	2006 £'000
Relating to pension accounting	**67**	(133)

8. Profit for the year

Profit for the year has been arrived at after charging:

Research and development costs	Total 2007 £'000	Total 2006 £'000
Expensed as incurred	**1,923**	2,064
Amortisation charge	**677**	492
	2,600	2,556
Depreciation of fixed assets	**1,155**	1,154
Operating leases – Property	**635**	618
Operating leases – Other	**138**	200

Auditors' remuneration:

	2007 £'000	2006 £'000
Audit of these financial statements	**40**	35
Amounts receivable by auditors in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**90**	108
Other services relating to taxation	**70**	84
Pension and actuarial services:		
Pension advisory services in respect of Group Pension Plans	**39**	26
Actuarial advisory on IAS 19 Valuations	**12**	24
	211	242

9. Property, plant and equipment

	Land and buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost			
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
At 1 January 2007	4,420	21,221	25,641
Exchange adjustments	82	(149)	(67)
Additions	146	1,480	1,626
Disposals	–	(237)	(237)
At 31 December 2007	**4,648**	**22,315**	**26,963**
Accumulated depreciation			
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)
At 1 January 2007	(2,058)	(18,026)	(20,084)
Exchange adjustments	4	107	111
Charge for the year	(126)	(1,029)	(1,155)
Disposals	–	237	237
At 31 December 2007	**(2,180)**	**(18,711)**	**(20,891)**
Carrying amount at 31 December 2007	**2,468**	**3,604**	**6,072**
At 31 December 2006	2,362	3,195	5,557
At 1 January 2006	2,436	3,547	5,983

10. Intangible assets

	Concessions, patents, licences and trademarks £'000	Goodwill £'000	Development costs £'000	Total £'000
Costs				
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
Balance at 1 January 2007	1,237	5,556	2,349	9,142
Other acquisitions – internally developed	–	–	958	958
Effects of foreign exchange movement	–	289	37	326
Balance at 31 December 2007	**1,237**	**5,845**	**3,344**	**10,426**
Amortisation and impairment losses				
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)
Balance at 1 January 2007	(739)	–	(908)	(1,647)
Amortisation for the period	(166)	–	(677)	(843)
Effects of foreign exchange movement	–	–	(23)	(23)
Balance at 31 December 2007	**(905)**	**-**	**(1,608)**	**(2,513)**
Carrying amounts at 31 December 2007	**332**	**5,845**	**1,736**	**7,913**
At 31 December 2006	498	5,556	1,441	7,495
At 1 January 2006	–	3,291	1,030	4,321

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:

	2007 £'000	2006 £'000
Signals/Illumination	**5,845**	5,556

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 believe 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 Directors do not believe that a significant change to the assumptions is probable. 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	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000	**2007 £'000**	2006 £'000
Property, plant and equipment	**-**	–	**(6)**	(26)	**(6)**	(26)
Intangible assets	**-**	–	**(663)**	(653)	**(663)**	(653)
Employee benefits	**1,309**	1,555	**-**	–	**1,309**	1,555
Provisions	**693**	540	**-**	–	**693**	540
Other items	**-**	–	**(234)**	(250)	**(234)**	(250)
Tax assets/(liabilities)	**2,002**	2,095	**(903)**	(929)	**1,099**	1,166
Set off of tax	**(793)**	(846)	**793**	846	**-**	–
Net tax assets/(liabilities)	**1,209**	1,249	**(110)**	(83)	**1,099**	1,166

Deferred tax assets have not been recognised in respect of tax losses of £58,000 (2006: £62,000) because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred taxation liabilities have not been recognised is £nil (2006: £nil).

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 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
Balance at 1 January 2007	(26)	(653)	1,555	290	1,166
Recognised in income	20	(6)	(226)	176	(36)
Exchange	–	(4)	(6)	(7)	(17)
Recognised in equity	–	–	67	–	67
Transfer to corporation tax	–	–	(81)	–	(81)
Balance at 31 December 2007	**(6)**	**(663)**	**1,309**	**459**	**1,099**

12. Inventories

	2007 £'000	2006 £'000
Raw materials and consumables	**6,185**	6,389
Work in progress	**1,636**	1,649
Finished goods	**2,025**	2,359
	9,846	10,397

Inventories to the value of £38,769,000 (2006: £31,158,000) were recognised as expenses in the year.

13. Trade and other receivables

	2007 £'000	2006 £'000
Trade receivables	**13,700**	12,487
Other non-trade receivables	**571**	694
Prepayments and accrued income	**402**	492
Restricted cash (see Note 14)	**956**	956
	15,629	14,629

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 21.

14. Cash and cash equivalents

	2007 £'000	2006 £'000
Total bank balances	**7,517**	5,302
Less: Restricted cash (see Note 13)	**(956)**	(956)
Cash and cash equivalents	**6,561**	4,346

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 Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 21.

15. Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £'000	Merger reserve £'000	Translation reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2007	591	546	(1,890)	48	30,395	29,690
Profit for the period attributable to equity holders of the Company	–	–	–	–	2,729	2,729
Net expense recognised directly in equity (See Statement of recognised income and expense)	–	–	193	–	(272)	(79)
Dividends to shareholders	–	–	–	–	(1,687)	(1,687)
Share-based payments	–	–	–	–	196	196
B Shares redeemed	–	–	–	12	(12)	–
Balance at 31 December 2007	**591**	**546**	**(1,697)**	**60**	**31,349**	**30,849**
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

Own shares purchased comprises the cost of the Company's shares held by the Group. At 31 December 2007 the number of shares held by the Group through the Share Ownership Trust was 156,000 (2006: 156,000). The market value of these shares at 31 December 2007 is £200,000 (£392,000).

Called up share capital

	2007 Number	2007 £'000	2006 Number	2006 £'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**	31,239,501	591

The Company has 2,896,336 Preference Shares in issue (2006: 2,911,760). 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.

15. Capital and reserves continued

Issued share capital	Ordinary shares 2007 Number	Ordinary shares 2006 Number	Redeemable "B" Preference shares 2007 Number	Redeemable "B" Preference shares 2006 Number
On issue at 1 January	**31,239,501**	31,015,923	**2,911,760**	2,950,526
Issued for consideration	**-**	223,578	**-**	–
Shares redeemed	**-**	–	**(15,424)**	(38,766)
Issued and fully paid at 31 December	**31,239,501**	31,239,501	**2,896,336**	2,911,760

Redeemable "B" Preference shares
The authorised number of redeemable "B" Preference shares is 2,976,152 (2006: 2,976,152).

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

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

Capital Redemption reserve
The Capital Redemption reserve comprises the nominal value of "B" Preference shares redeemed since the Capital reorganisation in 2005.

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

Final proposed dividend	2007 £'000	2006 £'000
3.8p per ordinary share (2006: 3.5p)	**1,187**	1,093

During the year the following dividends were paid:

	2007 £'000	2006 £'000
Interim – 1.90p per ordinary share (2006: 1.75p)	**594**	547
2006 Final – 3.5p per ordinary share (2005: 3.0p)	**1,093**	937
	1,687	1,484

16. Earnings per share
Basic earnings per share
The calculation of basic earnings per share at 31 December 2007 was based on the profit for the year of £2,729,000 (2006: £3,668,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2007 of 31,084,000 (2006: 31,150,000).

Diluted earnings per share
The calculation of diluted earnings per share at 31 December 2007 was based on profit for the year of £2,729,000 (2006: £3,668,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2007 of 31,619,000 (2006: 31,367,000) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2007 £'000	2006 £'000
Weighted average number of ordinary shares	**31,084**	31,150
Effect of share options on issue	**535**	217
Weighted average number of ordinary shares (diluted)	**31,619**	31,367

17. Interest-bearing loans and borrowings

Redeemable "B" Preference shares

In 2003 the Group issued 56,800,170 redeemable preference "B" shares of which 53,903,834 (2006: 53,888,410) shares had been redeemed at 31 December 2007. At 31 December 2007 there were 2,896,336 (2006:2,911,760) "B" shares outstanding held as a debt liability of £2,172,000 (2006: £2,184,000) 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. For every 1% change in the six month LIBOR this would impact on the annual finance charge by £15,000.

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

	2007 £'000	2006 £'000
Interim	**41**	36
Final	**47**	37
	88	73

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.

Recognised liability for defined obligations

	2007 £'000	2006 £'000
Present value of liabilities	**32,417**	31,734
Fair value of plan assets	**(31,190)**	(30,063)
Recognised liability for defined benefit obligations	**1,227**	1,671

Plan assets consist of the following:

	2007 £'000	2006 £'000
Equities	**19,315**	18,835
Bonds	**10,150**	4,688
Cash	**1,725**	6,540
	31,190	30,063

Movements in the present value of defined benefit obligations

	2007 £'000	2006 £'000
Defined benefit obligations at 1 January	**31,734**	32,464
Current service cost	**131**	134
Past service cost	**15**	–
Employee element of service cost	**28**	32
Interest cost	**1,644**	1,565
Benefits paid	**(1,372)**	(1,361)
Actuarial loss	**405**	509
Currency gains	**(168)**	(1,609)
Defined benefit obligations at 31 December	**32,417**	31,734

Movements in fair value of plan assets

	2007 £'000	2006 £'000
Fair value of plan assets at 1 January	**30,063**	29,360
Expected return on scheme assets	**1,899**	1,799
Employer contributions	**650**	748
Member contributions	**28**	32
Benefits paid	**(1,372)**	(1,361)
Actuarial gains	**67**	812
Currency losses	**(145)**	(1,327)
Fair value of plan assets at 31 December	**31,190**	30,063

18. Employee benefits continued

Expense recognised in the income statement

	2007 £'000	2006 £'000
Current service costs	**131**	134
Past service cost	**15**	–
Interest on obligation	**1,644**	1,565
Expected return on plan assets	**(1,899)**	(1,799)
	(109)	(100)

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

	2007 £'000	2006 £'000
Cost of sales	**81**	89
Distribution costs	**15**	17
Administrative expenses	**50**	28
Net financing income	**(255)**	(234)
	(109)	(100)
Actuarial gain on plan assets	**67**	812
Actuarial loss from liabilities	**(405)**	(509)
Net actuarial (loss)/gain recognised in Consolidated statement of recognised Income and expense	**(339)**	303
Cumulative actuarial loss recognised in Consolidated statement of recognised income and expense	**(2,577)**	(2,238)

	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Defined benefit obligation	**(32,417)**	(31,734)	(32,464)	(38,682)
Scheme assets	**31,190**	30,063	29,360	27,652
Deficit	**(1,227)**	(1,671)	(3,104)	(11,030)
Experience adjustments on liabilities	**(405)**	(509)	(3,283)	(2,054)
Experience adjustments on assets	**67**	812	2,017	860
Experience adjustments on currency	**23**	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)		
	2007	2006	2005	**2007**	2006	2005
Discount rate at 31 December	**5.5**	5.1	4.75	**5.75**	5.75	5.5
Future salary increases	**4.1**	3.6	3.5	**n/a**	n/a	n/a
Future pension increases	**3.6**	3.1	3.0	**n/a**	n/a	n/a
Inflation	**3.6**	3.1	3.0	**n/a**	n/a	n/a

The expected long-term rates of return were:

	UK Schemes (% per annum)			US Scheme (% per annum)		
	2007	2006	2005	**2007**	2006	2005
Equities	**6.5**	6.5	6.5	**7.64**	7.7	7.5
Bonds	**4.8**	5.0	4.5	**4.7**	4.7	4.75
Property	**6.5**	6.5	6.5	**n/a**	n/a	n/a
Cash	**4.5**	4.6	4.1	**2.8**	n/a	n/a

The US Scheme is closed to accrual for future service and salary and pension increases are not applicable.

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2007, used PA 92 medium 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. The average life expectancy of an individual currently aged 45 years and retiring at age 65 years is 22.7 years for males and 25.5 years for females. For individuals currently aged 65 years the average life expectancy is 21.5 years for males and 24.4 years for females.

18. Employee benefits continued

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

The Group expects that contributions to the defined benefit plans in 2008 will be at a similar level to contributions paid in 2007.

Share-based payments

Performance Share Plan

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

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

Date of award	Number of awards at the beginning of year	Number of awards granted during the year	Number of awards forfeited during the year	Number of awards at the year end	Fair value Pence per share	Vesting period	Maturity date
April 2006	293,685	–	(20,319)	273,366	143	3 years	April 2009
April 2007	–	363,495	(23,165)	340,330	84	3 years	April 2010
At end of year	293,685	363,495	(43,484)	613,696			

Further details of the Plan are included in the Report of the Remuneration Committee on pages 33 to 36.

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

	April 2007 Award	April 2006 Award
Share price	**£2.13**	£2.63
Exercise price	**£nil**	£nil
Expected volatility	**30%**	40.8%
Award life	**3 years**	3 years
Correlation premium	**42%**	133.5%

The employee expense in respect of the 2007 and 2006 award is £196,000 (2006 expense: £130,000) (see Note 5).

19. Provisions

	Warranty £'000
Balance at 1 January 2007	802
Provisions made during the year	163
Provisions used during the year	(186)
Balance at 31 December 2007	**779**

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

	2007 £'000	2006 £'000
Trade payables	**5,840**	5,113
Other taxes and social security	**298**	178
Non-trade payables and accrued expenses	**3,133**	3,187
	9,271	8,478

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 21.

21. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

Credit risk/Market risk

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

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

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is supported in this role by an independent firm of internal auditors.

Credit risk

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

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Operationally the Group has no significant concentration of credit risk.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings when available and in some cases bank references. Purchase limits are set for customers. Customers that do not meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

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

Market risk

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

Interest rate risk

The Group's policy is to manage exposure to interest rate risk setting a proportion of any borrowings to a fixed rate basis. Historically interest rate swaps have been considered and entered into. Currently the group has no borrowings 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 Groups' business. Derivative financial instruments are used to hedge exposure to fluctuations in exchange rates. The fair value of derivatives at 31 December 2007 is £4,000 (2006: £4,000).

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.

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).

21. Financial risk management continued

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board monitors total shareholder return compared to certain peer companies and the FTSE All Share index and Electrical and Electronics Index.

From time-to-time the Board will consider whether to purchase its own (shares) in the market; the timing of these purchases depends on market prices. Primarily it is intended that any share purchase would be used for issuing (shares) under the Group's Share Plan. The Group does not have a defined share buy-back plan.

Exposure to credit risk

The aging of trade receivables at the reporting date was:

	Gross 2007 £'000	**Impairment 2007 £'000**	Gross 2006 £'000	Impairment 2006 £'000
Not past due	**9,085**	**-**	7,541	–
Past due 0-30 days	**3,720**	**-**	2,773	–
Past due 31-120 days	**678**	**-**	1,563	5
Past due 121-365 days	**149**	**-**	580	11
More than one year	**220**	**152**	233	187
Total	**13,852**	**152**	12,690	203

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

	2007 £'000
Balance at 1 January	**203**
Impairment loss recognised	**(92)**
Provision created	**41**
Balance at 31 December	**152**

Based on past experience, in particular the good track record with customers the Group believes that no impairment allowance is necessary for trade receivables not past due;

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

Exposure to currency risk

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

	2007 $'000	**2007 Euro**	2006 $'000	2006 Euro
Trade receivables	**1,648**	**257**	2,222	309
Currency overdrafts	**(1,442)**	**(78)**	(298)	(1,620)
Trade payables	**(340)**	**(97)**	(84)	(173)
Gross balance sheet exposure	**(134)**	**82**	1,840	(1,484)
Estimated forecast sales	**12,600**	**6,000**	6,700	4,900
Estimated forecast purchases	**(15,300)**	**(3,100)**	(10,350)	(2,500)
Gross exposure	**(2,700)**	**2,900**	(3,650)	2,400
Forward exchange contracts	**1,000**	**(970)**	1,500	(1,200)
Net exposure	**(1,834)**	**2,012**	(310)	(284)

The following significant exchange rates applied during the year:

	2007 Average rate	**2007 At reporting date**	2006 Average rate	2006 At reporting date
USD	**2.00**	**1.99**	1.84	1.96
Euro	**1.46**	**1.36**	1.47	1.48

21. Financial risk management continued

Exposure to liquidity risk

For non-derivative financial liabilities the Group's exposure relates principally to trade and other payables and redeemable preference shares. Trade and other payables arise in the normal course of business and there are no unusual or onerous terms and conditions. The redeemable preference shares have a variable interest rate which is fixed to six month LIBOR. The final date of redemption is 31 December 2008 (see Note 17).

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 2007 it is estimated that a general increase of one percentage point in the value of the Euro and USD against UK Sterling would have reduced the Group's profit before tax by approximately £54,000 for the year ended 31 December 2007 (2006: £47,000). The forward exchange contracts have been included in this calculation.

Fair values versus carrying amounts

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

	Carrying amount 2007 £'000	**Fair value 2007 £'000**	Carrying amount 2006 £'000	Fair value 2006 £'000
Trade and other receivables	**15,629**	**15,629**	14,629	14,629
Cash and cash equivalents	**6,561**	**6,561**	4,344	4,344
Forward exchange contracts – assets*	**4**	**4**	4	4
Redeemable preference shares	**(2,172)**	**(2,172)**	(2,184)	(2,184)
Dividends on redeemable preference shares	**(47)**	**(47)**	(37)	(37)
Trade and other payables	**(9,224)**	**(9,224)**	(8,441)	(8,441)
	10,751	**10,751**	8,315	8,315

*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:

	2007 £'000	2006 £'000
Less than one year	**746**	788
Between one and five years	**2,401**	2,690
More than five years	**678**	463
	3,825	3,941

Of the £3,825,000 (2006: £3,941,000) £3,566,000 (2006: £3,785,000) 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:

	2007 £'000	2006 £'000
Contracted	**217**	296

24. Contingencies

	2007 £'000	2006 £'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 arms length basis.

Transactions with key management personnel

Directors of the Company and their immediate relatives control 4.99% of the Company.

Details of the remuneration for the Company Directors are set out in the Report of the Remuneration Committee on pages 33 to 36. Details of the IFRS 2 charge is 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 £2.5 million and the balance of £0.55m 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	(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 cashflows from related product sales.

28. 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.

Disposal of businesses
During the last five years the Group 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 these types of transactions. A number of the indemnities principally in relation to taxation are still in place and will expire over time with the last expiring in December 2011. The Company has not received any claims and has not been notified of any potential claims by any of the purchasers in relation to these warranties and indemnities. Management consider that the risk of a material claim by the purchasers to be remote and accordingly no provision is required to be made.

Company balance sheet (prepared under UK GAAP)
At 31 December 2007

	Note	2007 £'000	2006 Restated (Note 33) £'000
Fixed assets			
Tangible assets	32	**48**	83
Investments	33	**13,292**	13,189
		13,340	13,272
Current assets			
Debtors	34	**1,325**	844
Cash at bank and in hand		**9,526**	10,354
		10,851	11,198
Creditors:			
Amounts falling due within one year			
Interest-bearing loans and borrowings	37	**(2,172)**	(2,184)
Other creditors	35	**(3,809)**	(2,509)
Net current assets		**4,870**	6,505
Total assets less current liabilities		**18,210**	19,777
Net assets excluding pension fund asset		**18,210**	19,777
Pension fund (liability)/asset	39	**(43)**	65
Net assets including Pension fund (liability)/asset		**18,167**	19,842
Capital and reserves			
Called up share capital	37	**591**	591
Capital redemption reserve	38	**60**	48
Other reserve	38	**179**	76
Profit and loss account	38	**17,337**	19,127
Equity shareholder funds		**18,167**	19,842

These financial statements were approved by the Board of Directors on 3 March 2008 and were signed on its behalf by:

Roy Burton
Group Chief Executive

C A Buckley
Group Finance Director

Notes to the Company financial statements

29. 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.

The Company has adopted UITF41 :Scope of FRS20 (IFRS2), which represents a change in accounting policy. The effect of this change is set out in Note 33.

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 s230 exemption. Actuarial movements and related deferred tax will therefore only appear in the reserves note.

Classification of financial instruments issued by the Company

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.

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.

29. Dialight plc Company balance sheet continued

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 charges 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 FRS17.

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

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

30. Staff costs

Staff costs during the year were:

	2007 £'000	2006 (restated note 33) £'000
Wages and salaries	**188**	187
Social security costs	**21**	22
Equity settled share-based payment transactions	**93**	54
Pension costs	**21**	17
	323	280

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

	2007 Number	2006 Number
UK	**3**	3

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 33 to 36.

31. Profit before tax

Profit before tax is stated after charging:

	2007 £'000	2006 £'000
Depreciation	**35**	45
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.

32. Fixed assets

	Plant, equipment and vehicles £'000
Cost	
At 1 January 2007	527
Additions	–
Disposals	(219)
At 31 December 2007	**308**
Depreciation	
At 1 January 2007	(444)
Charge for the year	(35)
Disposals	219
At 31 December 2007	**(260)**
Net book value	
At 31 December 2007	**48**
At 31 December 2006	83

33. Investments

Investments in subsidiary undertakings:

	£'000
Cost	
At 1 January 2007	17,901
Prior year adjustment (see below)	76
At 1 January 2007 (as restated)	**17,977**
Share-based payment	103
At 31 December 2007	**18,080**
Provisions:	
At 1 January 2007	(4,788)
Profit and loss account	–
Other movement	–
At 31 December 2007	**(4,788)**
Net book value at 31 December 2007	**13,292**
Net book value at 31 December 2006	13,189

In accordance with UITF 41 "Scope of FRS 20 (IFRS 2)" the cost of investment is increased to reflect the cost of share options awarded to employees of the Company's subsidiaries. Consequently this change in accounting policy increases the cost of investment at 1 January 2007 by £76,000 with a corresponding increase in reserves.

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 *.

34. Debtors

	2007 £'000	2006 £'000
Amounts owed by subsidiary undertakings	**1,005**	564
Other debtors	**42**	62
Deferred tax asset (Note 36)	**278**	218
	1,325	844

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

35. Creditors

	2007 £'000	2006 £'000
Amounts falling due within one year		
Other taxes and social security costs	**12**	19
Amounts owed to subsidiary undertakings	**1,369**	974
Corporation tax	**1,648**	687
Dividends payable on shares classified as debt	**47**	37
Accruals and deferred income	**733**	792
	3,809	2,509

36. Deferred tax asset

	2007 £'000	2006 £'000
At 1 January	**191**	293
Profit and loss account	**55**	6
Recognised in equity	**51**	49
Transfer to corporation tax	**(2)**	(157)
At 31 December	**295**	191
An analysis of deferred tax is as follows:		
Capital allowances	**34**	14
Short-term timing differences	**244**	204
Debtors (see Note 34)	**278**	218
Pension surplus (see Note 39)	**17**	(27)
	295	191

37. Called up share capital

	2007 Number	2007 £'000	2006 Number	2006 £'000
Authorised				
Ordinary shares of 1.89p each	**38,624,400**	**730**	38,624,400	730
Non-equity B shares of 75p each	**3,395,829**	**2,547**	3,395,829	2,547
Issued and fully paid				
Ordinary shares of 1.89p each	**31,239,501**	**591**	31,239,501	591
Non-equity B shares of 75p each	**2,876,336**	**2,172**	2,911,760	2,184
		2,763		2,775
Shares classified as liabilities		**2,172**		2,184
Shares classified in shareholder funds		**591**		591
		2,763		2,775

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.

37. Called up share capital continued

Share capital	Ordinary shares 2007	2006	Redeemable "B" preference shares 2007	2006
On issue at 1 January	**31,239,501**	31,015,923	**2,911,760**	2,950,526
Issued for consideration	**-**	223,578	**-**	–
Shares redeemed	**-**	–	**(15,424)**	(38,766)
Issued and fully paid at 31 December	**31,239,501**	31,239,501	**2,896,336**	2,911,760

Share-based payments

Performance Share Plan

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

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

Date of award	Number of awards at the beginning of year	Number of awards granted during the year	Number of awards forfeited during the year	Number of awards at the year end	Fair value Pence per share	Vesting period	Maturity date
April 2006	293,685	–	(20,319)	273,366	143	3 years	April 2009
April 2007	–	363,495	(23,165)	340,330	84	3 years	April 2010
At end of year	**293,685**	**363,495**	**(43,484)**	**613,696**			

Further details of the Plan are included in the Report of the Remuneration Committee on pages 33 to 36.

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

	April 2006 Award	**April 2007 Award**
Share price	£2.63	**£2.13**
Exercise price	£nil	**£nil**
Expected volatility	40.8%	**30%**
Award life	3 years	**3 years**
Correlation premium	133.5%	**42%**

The employee expense in respect of the 2007 and 2006 award is £93,000 (2006 expense: £54,000) (see Note 30).

38. Capital and reserves

	Share capital £'000	Capital redemption reserve £'000	Other reserve Capital contribution £'000	Profit and loss account £'000	Total £'000
At 1 January 2007 restated	591	48		19,127	19,766
Prior year adjustment (see note 33)	–	–	76	–	76
At 1 January 2007 as restated	591	48	76	19127	19,842
Net expense recognised in equity	–	–		(131)	(131)
Deficit for the year	–	–		(53)	(53)
Dividends to shareholders	–	–		(1,687)	(1,687)
B Shares redeemed	–	12		(12)	–
Share-based payments	–	–	103	93	196
At 31 December 2007	**591**	**60**	**179**	**17,337**	**18,167**

Own shares purchased comprises the cost of the Company's shares held by the Group. At 31 December 2007 the number of shares held by the Group through the Share Ownership Trust was 156,000 (2006: 156,000). The market value of these shares at 31 December 2007 is £200,000 (2006: £392,000).

The Capital Contribution reserve is non-distributable and arises from the accounting for share based-payments (see Note 33).

The loss for the year was £53,000 (2006: restated £64,000). Net expenses recognised directly in equity relate to the net actuarial loss (net of deferred tax) arising in respect of the pension scheme.

	2007 £'000	2006 £'000
Profit and loss reserve excluding pension (liability)/asset	**17,380**	19,062
Pension reserve	**(43)**	65
Profit and loss reserve	**17,337**	19,127

38. Capital and reserves continued

Reconciliation in movement in shareholders' funds

	2007 £'000	2006 £'000
Loss for the year	**(53)**	(64)
Other gains and losses	**(131)**	(112)
Dividends	**(1,687)**	(1,484)
New share capital subscribed	**–**	4
Share-based payments	**196**	130
Own shares purchased	**–**	(308)
Net reduction to shareholder funds	**(1,675)**	(1,834)
Opening shareholder funds (originally £19,766,000 before adding prior year adjustment of £76,000)	**19,842**	21,676
Closing shareholder funds	**18,167**	19,842

Dividends

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

Final proposed dividend	2007 £'000	2006 £'000
3.8p per ordinary share (2006: 3.5p)	**1,187**	1,093

During the year the following dividends were paid:

	2007 £'000	2006 £'000
Interim – 1.90 pence per ordinary share (2006: 1.75p)	**594**	547
2006 Final – 3.5p per ordinary share (2005: 3.0p)	**1,093**	937
	1,687	1,484

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

	2007 £'000	2006 £'000
Interim	**41**	36
Final	**47**	37
	88	73

39. 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

	2007 £'000	2006 £'000
Present value of liabilities	**(2,003)**	(1,791)
Fair value of plan assets	**1,943**	1,883
Recognised (liability)/asset for defined benefit obligations	**(60)**	92
Deferred tax (see Note 36)	**17**	(27)
Pension (liability)/asset net of deferred tax	**(43)**	65

Plan assets consist of the following:

	2007 £'000	2006 £'000
Equities	**477**	438
Bonds	**1,343**	1,337
Cash	**123**	108
	1,943	1,883

39. Pensions continued

Movements in the present value of defined benefit obligations

	2007 £'000	2006 £'000
Liabilities at 1 January	**1,791**	1,587
Current service cost	**30**	22
Past service cost	**15**	–
Employee element of service cost	**5**	4
Interest cost	**91**	76
Benefits paid	**(48)**	(18)
Actuarial loss	**119**	120
Liabilities at 31 December	**2,003**	1,791

Movements in fair value of defined benefit obligations

	2007 £'000	2006 £'000
Assets at 1 January	**1,883**	1,807
Expected return on scheme assets	**101**	88
Employer contributions	**56**	45
Member contributions	**5**	4
Benefit paid	**(48)**	(18)
Actuarial loss	**(54)**	(43)
Assets at 31 December	**1,943**	1,883

Expense recognised in the profit and loss account

	2007 £'000	2006 £'000
Current service costs	**30**	22
Past service cost	**15**	–
Interest on obligation	**91**	76
Expected return on plan assets	**(101)**	(88)
	35	10

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

	2007 £'000	2006 £'000
Administrative expenses	**45**	22
Net financing income	**(10)**	(12)
	35	10
Actuarial loss on plan assets	**(54)**	(43)
Actuarial loss from liabilities	**(119)**	(120)
Net actuarial loss recognised in Statement of recognised gains and losses	**(173)**	(163)
Cumulative actuarial loss recognised in Statement of recognised gains and losses	**(336)**	(163)

	2007 £'000	2006 £'000	2005 £'000
Defined benefit obligation	**(2,003)**	(1,791)	(1,587)
Scheme assets	**1,943**	1,883	1,807
(Deficit)/surplus	**(60)**	92	220
Experience adjustments on liabilities	**(119)**	(120)	(295)
Experience adjustments on assets	**(54)**	(43)	295

39. Pensions continued

Liability for defined benefit obligations

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

			% per annum
	2007	2006	2005
Discount rate at 31 December	**5.5**	5.1	4.75
Future salary increases	**4.1**	3.6	3.5
Future pension increases	**3.6**	3.1	3.0
Inflation	**3.6**	3.1	3.0

The expected long-term rates of return were:

			% per annum
	2007	2006	2005
Equities	**6.5**	6.5	6.5
Bonds	**4.8**	5.0	4.5
Property	**6.5**	6.5	6.5
Cash	**4.5**	4.6	4.1

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2007, 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 reflects 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 23.0 years for males and 25.8 years for females. For individuals currently aged 65 years the average life expectancy is 21.9 years for males and 24.8 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 cross-checked against market expectations from external sources.

The Company expects that contributions to the defined benefit plan in 2008 will be at a similar level to contributions paid in 2007.

40. Operating lease commitments

The Company is committed to the following annual payments under operating leases:

Land and buildings which expire:

	2007 £'000	2006 £'000
Between two and five years	**25**	25

41. Fair value of assets and liabilities

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

	Carrying amount 2007 £'000	**Fair value 2007 £'000**	Carrying amount 2006 £'000	Fair value 2006 £'000
Debtors	**42**	**42**	62	62
Cash and cash equivalents	**9,526**	**9,526**	10,354	10,354
Redeemable preference shares	**(2,172)**	**(2,172)**	(2,184)	(2,184)
Dividends on preference shares	**(47)**	**(47)**	(37)	(37)
Creditors	**(745)**	**(745)**	(811)	(811)
Issued and fully paid at 31 December	**6,604**	**6,604**	7,384	7,384

Further details are set out in Note 21.

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.

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

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Dialight plc (the "Company") will be held on Wednesday 7 May 2008 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 2007, together with the Directors' report, the Directors' remuneration report and the Auditors' report on those accounts.
2. To declare a final dividend for the year ended 31 December 2007 of 3.8p 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 Harry Tee who retires by rotation in accordance with the Company's Articles of Association.
5. To re-appoint Roy Burton 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 each in the capital of the Company ("ordinary shares") provided:

   a. the maximum aggregate number of ordinary shares authorised to be purchase 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 any 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 2009 or within 15 months from the date of 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 to be held in 2009 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 to be held in 2009 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:

   "To approve the Directors Remuneration Report for the financial year ended 31 December 2007".
10. To pass the following as a special resolution:

    "That the adoption by the Company of new Articles of Association in the form of the draft produced to the meeting and initialled by the Chairman for the purposes of identification be and is hereby approved to take effect from the conclusion of the meeting".

By order of the Board

C A Buckley
Company Secretary

3 March 2008

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 exercise all or any of that member's rights to attend, speak and vote at the meeting. The proxy need not be a member of the Company. A member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different shares.

2. A person who is not a member of the Company, but has been nominated by a member of the Company (the "relevant member") to enjoy information rights, (the "nominated person") does not have a right to appoint any proxies under note 1 above. A nominated person may have a right under an agreement with the relevant member to be appointed or to have somebody else appointed as a proxy for the meeting. If a nominated person does not have such a right, or has such as right and does not wish to exercise it, he may have a right under an agreement with the relevant member to give instructions as to the exercise of voting rights.

3. 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, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6ZR not less than 48 hours (excluding any part of a day that is not part of a working day) 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.

4. 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 5 May 2008 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 5 May 2008 shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

5. 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 up to and including the date of the Annual General Meeting and at the place of that meeting for at least 15 minutes before and during the meeting.

   a. the Executive Directors' service contracts

   b. the Non-Executive Directors' terms and conditions of appointment

   c. the Company's existing Memorandum and 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 232 to 237 of the Companies Act 2006

   d. a copy of the Memorandum and Articles of Association of the Company marked to show the changes proposed in resolution 10.

6. At 29 February 2008 (being the last business day prior to the publication of this notice) the issued share capital of the Company consisted of 31,239,501 ordinary shares of 1.89p each, carrying one vote each. Therefore, the total voting rights in the Company as at 29 February 2008 are 31,239,501.

7. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that: (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

Five year summary
For the years ended 31 December

	2007 £m	2006 £m	2005 £m	2004 £m	Prepared under UK GAAP 2003 £m
Turnover	**63.4**	62.3	56.1	118.9	136.8
Research and development expenditure	**2.6**	2.6	2.4	4.9	8.0
Operating profit before goodwill	**3.9**	5.3	3.9	12.7	8.3
Goodwill	**–**	–	–	–	(1.2)
Operating profit	**3.9**	5.3	3.9	12.7	7.1
Finance income/(charges)	**0.6**	0.5	0.5	(0.2)	(0.3)
Profit before gain on disposal of discontinued operations and taxation	**4.6**	5.8	4.5	12.5	6.8
Operating cash flow	**5.6**	2.2	4.9	15.5	10.6
Net cash	**4.4**	2.2	7.6	6.8	2.0
Shareholders' funds	**30.8**	29.7	28.9	50.5	51.7

Statistical information	**Pence**	Pence	Pence	Pence	Pence
Earnings per share – Adjusted	**n/a**	n/a	n/a	n/a	12.6
Earnings per ordinary share – Basic	**8.8**	11.8	10.1	27.4	45.4
Dividends per share	**5.7**	5.25	6.4	11.0	10.0
Dividend cover (times)	**1.5**	2.2	14.1	2.5	6.5
Operating margin before goodwill	**6.2%**	8.5%	8.7%	10.7%	6.0%
Turnover					
– Continuing operations	**63.4**	62.3	56.1	55.3	
– Discontinued operations				63.6	
	63.4	62.3	56.1	118.9	
– Continuing operations	**3.9**	5.3	3.9	4.4	
– Discontinued operations			4.4	8.3	
	3.9	5.3	8.3	12.7	

Note:
2003 reported numbers are prepared under UK GAAP.

2004 to 2007 are reported under IFRS.

Directory of principal activities

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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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