Dialight

World leader in applied LED technology
Annual Report 2008

Our proven strategy:

Further illumination...

30%
Signals/Illumination sales up 30% (21% at constant currency)

23%
Group sales up 23% (16% at constant currency)

£5.3m
Operating profit up 37% to £5.3m – in line with market expectations

26%
Profit before tax up 26% to £5.6m

11.2p
Earnings per share up 27% to 11.2p (2007: 8.8p)

£6m
Strong operating cash flow of £6m (2007: £5.8m)

3.9p
The recommended final dividend increased to 3.9p

Bright prospects.

Shedding more light on the opportunities driving our business forward…

Our products:

High-brightness LEDs for the signals and illumination market.

Some shining examples...

↓

SafeSite LED luminaire

Replacing conventional lighting in hazardous locations, our SafeSite 250 series LED luminaire delivers energy savings of 60% and improved safety via its pure white light. Shock resistant, it needs little maintenance.

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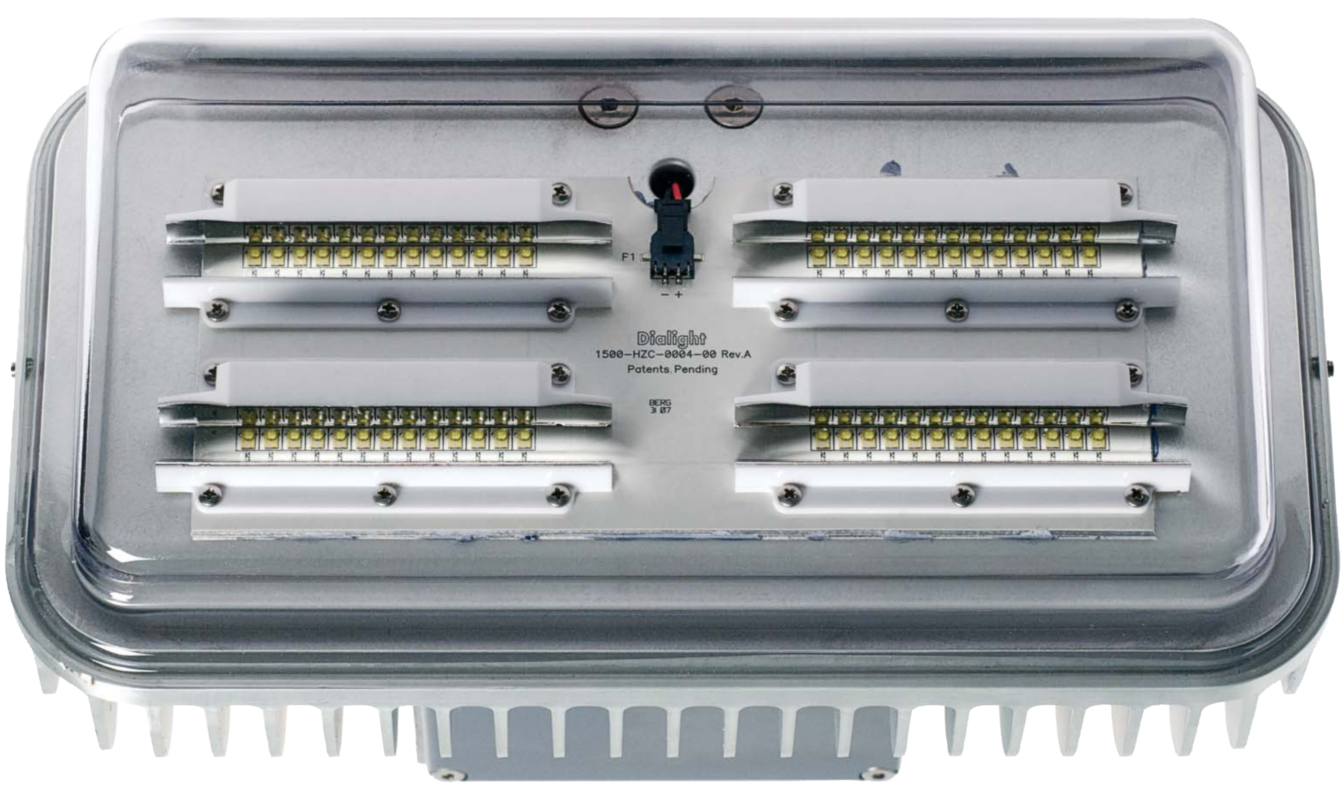
LEDPAK Series Linear Fixture

Unlike traditional fluorescent fixtures in industrial, commercial and roadway applications, this LED light requires little maintenance, reaches full illumination instantly and can be switched on/off or dimmed by a proximity switch.



Dual Red / White LED Beacon

Designed for radio masts, wind turbines and communication towers, our dual strobe beacon lasts up to 10 years with no maintenance, no local light pollution and no interference with mobile phones.

White LED Street Light

Our rugged StreetSense light delivers a higher quality light with greater efficiency.
It uses less energy, needs less maintenance and permits better quality CCTV images than conventional street lighting.

Our strategy: Glowing, growing

We identify and pursue niche markets with strong LED value propositions. As new LED applications evolve, we develop new products targeted towards our global customer base.

Obstruction lighting: Flashes of brilliance
Our strategic alliance with Flash technology is bringing superior LED technology and unique product offerings to the obstruction lighting market. We've jointly produced the first integrated LED red beacon solely for the wind turbine industry, capturing the majority of US wind farm sales in its first year.

Traffic signals: Post-hurricane clean-up
Local authorities installing our LED traffic signals in the US Gulf Coast hurricane zone are gaining an attractive two-year payback. With a five-year guaranteed lifespan, rather than one year for conventional signals, maintenance costs are minimal and the financial benefits increase as energy costs rise.

Strobe lighting: Testing…Testing
An independent laboratory carried out 22 tests on our new strobe light during 2008, checking both the system and the function of the photocell after each test. Seventeen tests simulated a nearby lightning strike and five were direct hits on the strobe. Our strobe light successfully passed all tests.

Architectural lighting: New lines
Partnering Juno Lighting Group, we've launched a series of ultra-slim linear LED lighting solutions, suitable for cove and cornice lighting, shelf lighting, display cases, task lighting and handrails. Our systems are low on energy use, cool to the touch and last for up to ten years operating 12 hours a day.

Drilling rigs: Safety and Savings
In the first installation of its kind, our SafeSite illumination has been retrofitted on a drilling rig of a major oil and natural gas producer. Along with energy savings and safety benefits, SafeSite instantly delivers more useful light and requires no maintenance during its five-year warranty period.

The environment: Going green with white light

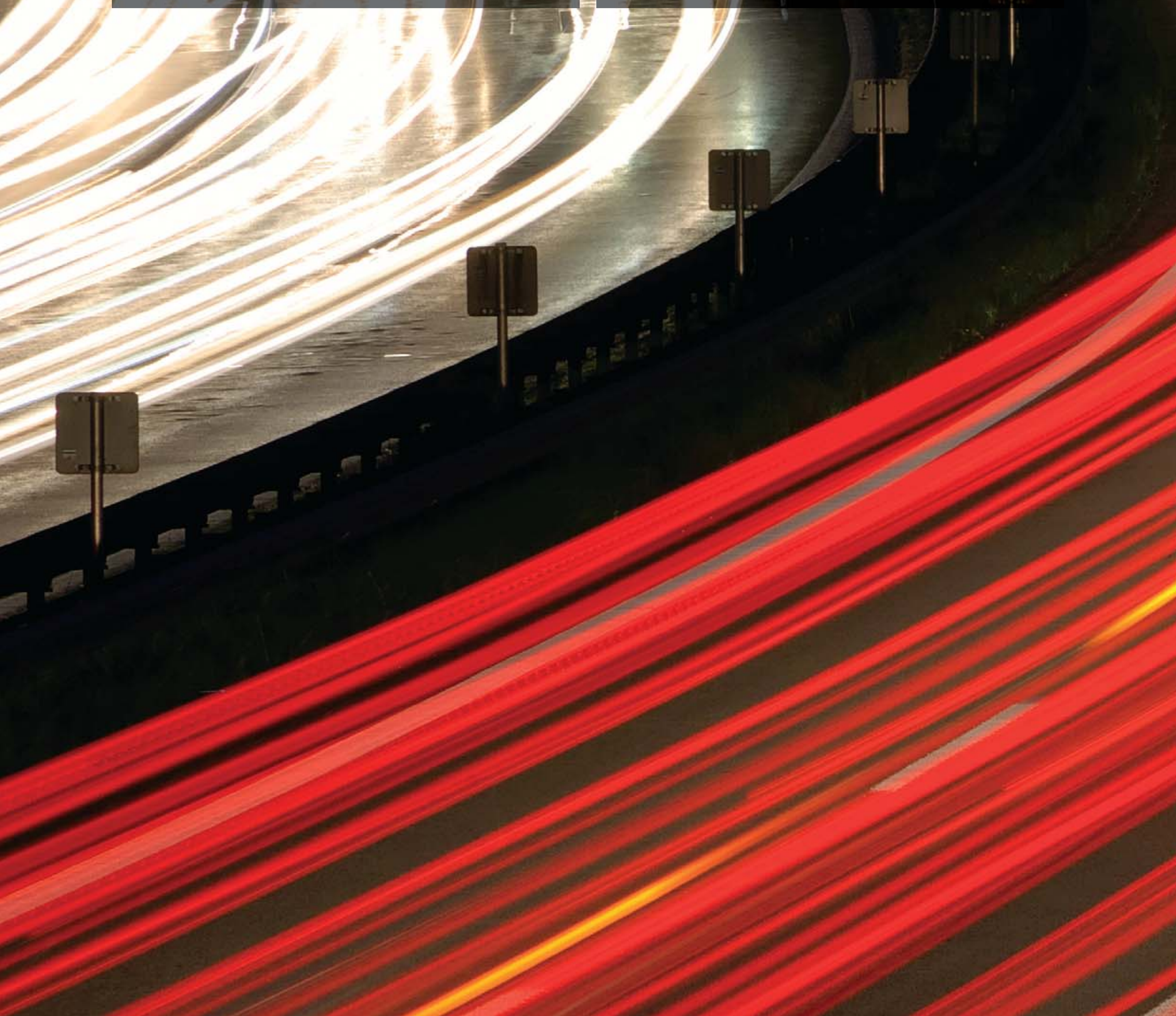
Lighting, mainly outside the home, accounts for over 20% of world electricity consumption. Conversion to LED lighting could cut world electricity consumption by 10%... that's a lot of CO_2.

Our SafeSite "white-light" systems cut CO_2 emissions, improve energy efficiency and lower the overall cost of ownership. Putting these benefits into effect, we joined forces with Valero, the largest refiner in North America, to implement a new environmentally friendly, energy-efficient approach to lighting.

As a result, the refiner reduced energy consumption, cut the number of lighting fixtures by 50% and gained a five-year warranty, resulting in lower maintenance and lower cost of ownership. With such clear advantages, it's hardly surprising that the US Department of Energy states that no other lighting technology can match LED's potential to save energy and enhance the quality of the built environment.

US Bridge
The bridge owners specified our LED technology to overcome lighting failures caused by shock & vibration, rain damage and burning out of the fluorescent lighting previously used. Lighting failures caused traffic lanes or the entire bridge to be shut down - problems our rugged fixtures with guaranteed five-year lifespan will overcome.

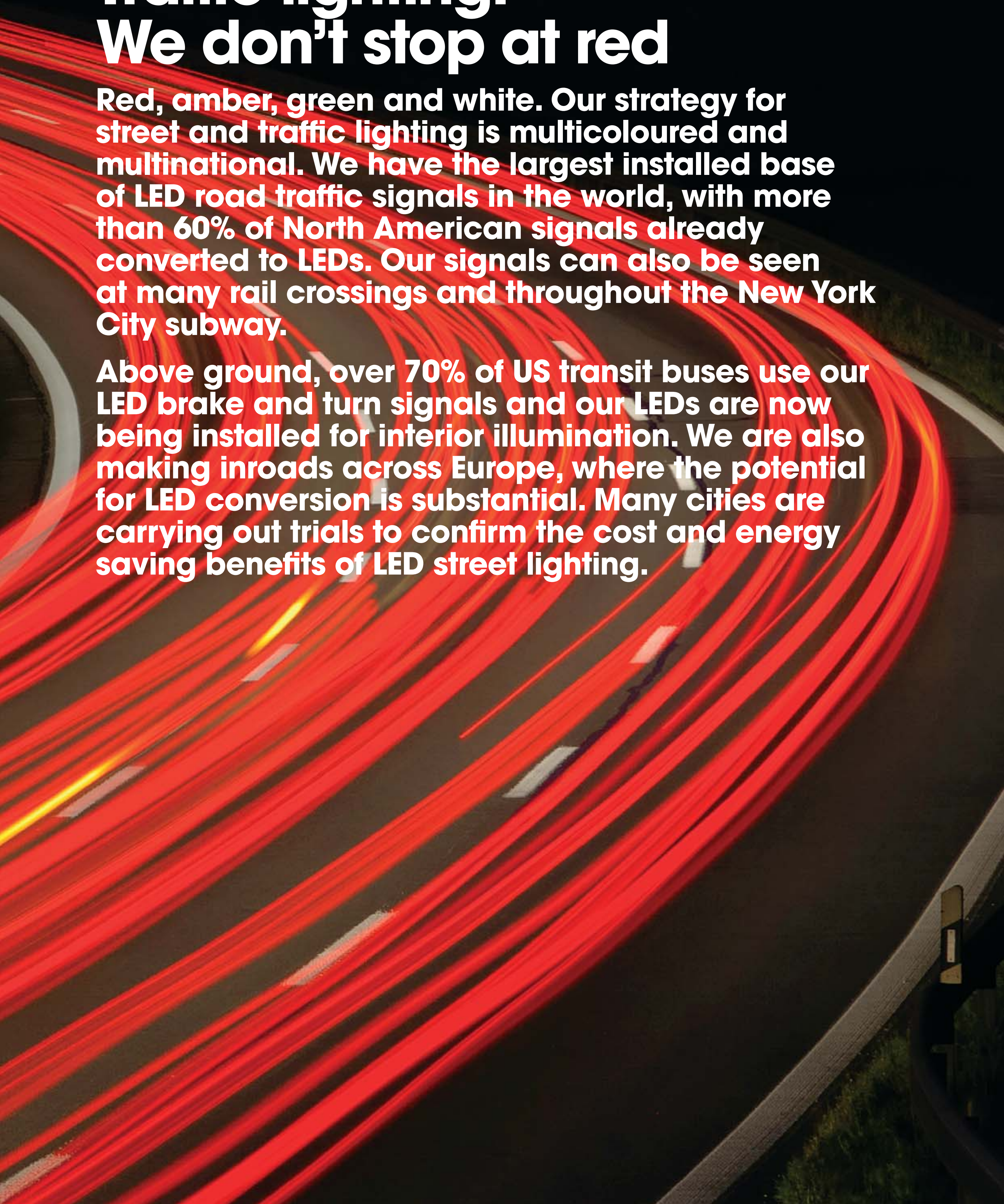
US Tunnel
Designed to withstand serious shock & vibration, our prototype tunnel fixtures avoid upkeep costs by providing a maintenance - free LED solution. Like bridges, tunnels face lengthy shutdown periods for lighting maintenance and this test installation at a major US tunnel proves that LED can show the way forward.



Traffic lighting: We don’t stop at red

Red, amber, green and white. Our strategy for street and traffic lighting is multicoloured and multinational. We have the largest installed base of LED road traffic signals in the world, with more than 60% of North American signals already converted to LEDs. Our signals can also be seen at many rail crossings and throughout the New York City subway.

Above ground, over 70% of US transit buses use our LED brake and turn signals and our LEDs are now being installed for interior illumination. We are also making inroads across Europe, where the potential for LED conversion is substantial. Many cities are carrying out trials to confirm the cost and energy saving benefits of LED street lighting.



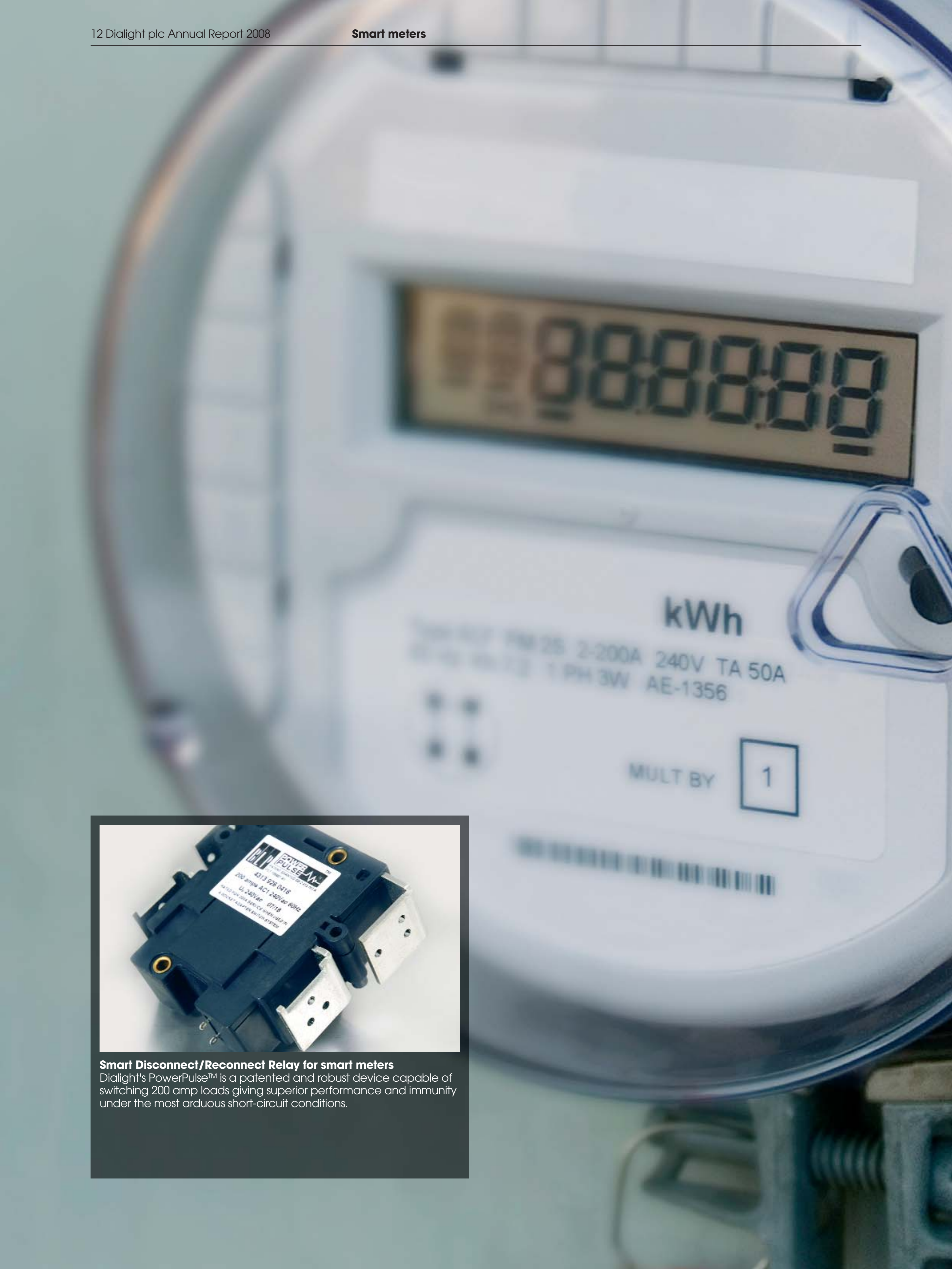
Obstruction lighting: We face few hazards

Our strong position in the obstruction lighting market has been reinforced by our collaboration with Flash, the specialist in controller and monitoring systems. Dialight and Flash, the two leading suppliers to the distribution tower market are now positioned to gain greater sales and market share. Already, the partnership has achieved 40% growth and we now control over 50% of the market.

Alongside this new business partnership, our R&D specialists have made further technological advances. We continue to develop obstruction lighting beacons that deliver financial, operational and environmental benefits. The US wind turbine market, in particular, has been keen to adopt our technologically superior products.

Flashing White/Red Strobe
By reducing the weight and height of our Red Medium Intensity Beacon we've significantly cut its wind loading, power consumption and CO_2 emissions. The strobe's compact size and reduced weight also makes installation easier. These improvements followed Dialight advances in LED and optical technology.

Red Medium Intensity Beacon
Independent tests confirm that our L-864 beacon has the lowest power consumption in the market and is the only beacon meeting stringent European ICAO and US FAA standards. It consumes just 48 watts and, with the sector's tightest beam pattern, eliminates almost all light pollution.



Smart Disconnect/Reconnect Relay for smart meters
Dialight's PowerPulse™ is a patented and robust device capable of switching 200 amp loads giving superior performance and immunity under the most arduous short-circuit conditions.

Smart meters: We seize the initiative

The United States Advanced Meter Infrastructure Initiative is a move to introduce "smart" meters, allowing remote connection and disconnection. Over 100 million electricity meters must be replaced over the coming years.

We're smart. Our patented 200 amp remote disconnect switch has been qualified with three of the top suppliers of these new meters and we have started shipping these products in volume.

Chairman's statement

Harry Tee CBE
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.

The Signals/Illumination segment addresses the increasing demands for Energy Efficient Lighting solutions. Through the use of high brightness LEDs and utilisation of a number of associated technologies Dialight creates and delivers compelling value propositions to our customers. Dialight continues to work closely with LED developers to identify and bring to market Solid State Lighting and Signalling Products which deliver value to its customers through savings in energy and significantly improved product lifetimes and reliability.

Financial results

Dialight performed well in the year ended 31 December 2008 and recorded a 26% increase in profit before tax to £5.6 million (2007: £4.5 million), with turnover up 23% to £77.9 million (2007: £63.4 million) and earnings per share up 27% to 11.2p per share (2007: 8.8p per share). Two-thirds of the Group's sales are denominated in US$ and the strengthening of the US dollar against Sterling has had a positive influence on Dialight's results. The average US$:£ rate improved in 2008 compared with 2007 from 2.0 to 1.85. At constant currency, Group sales increased by 16% to £73.3 million and profit before tax increased by 16% to £5.2 million.

This year it is pleasing to report that sales in our Signals/Illumination segment grew by 30% (21% at constant currency). Over the last three years this segment has grown by 47%. Within Signals/Illumination all major product lines delivered strong growth driven by a combination of increased market share and new products.

In addition, the continuing process of reducing material costs in the Signals/Illumination business has resulted in improved contribution.

Investment has continued in Sales and Engineering personnel to drive future growth in Solid State Lighting products and to open up new market opportunities within this emerging market.

The Group continues to generate positive net cash flow from operations this year totalling £6.0 million (2007: £5.8 million) representing 113% of operating profit.

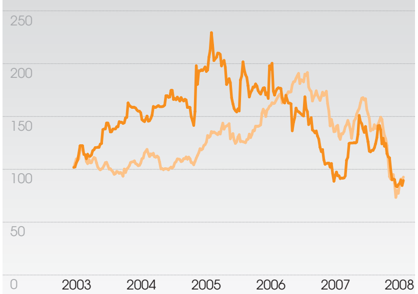
At the year end the cash balance was £4.1 million and the Company has no debt on the balance sheet following the £2.2 million redemption of the final B shares during the year.

Dividend

The Board is recommending a final dividend of 3.9p per share (2007: 3.8p). The dividend will be paid on 15 May 2009 to shareholders on the register at close of business on 13 March 2009. The full year dividend is 6p per share and the dividend cover is 1.85 times.

Total shareholder return indices
2003-2008
Dialight plc
FTSE Small Cap

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



Board change

Bill Whiteley has decided to retire as a Non-Executive Director at the forthcoming Annual General Meeting. We thank Bill for his significant contribution to the Group over the last eight years. We are currently recruiting to replace Mr Whiteley and further announcements will be made in due course.

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.

Current trading and outlook

In present economic circumstances forecasting is particularly difficult. Whilst the sustained weakness of Sterling is likely to benefit our reported results and the Group's funding position is a continued source of strength, other factors are mixed.

Reduced LED Indication Component product line demand will have a significant adverse impact on the performance on this part of the Group even after taking action on costs. Prospects for US Meter Disconnect however should support the Electromagnetic Disconnect product line performance over the year.

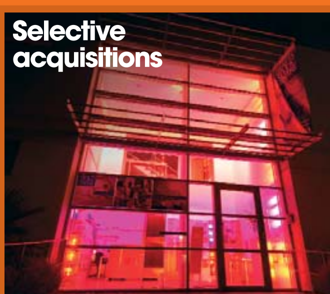
Indications continue to be positive for our Signals/Illumination product lines although after an excellent 2008 less is expected in 2009 from US Traffic sales. Sales of both SafeSite Lights for the industrial market and Strobes for the Aircraft Obstruction market should show good increases due to the low penetration of these products. European Traffic Light sales should once again show an increase but perhaps less aggressively than 2008 as Europe feels the pinch of weak economies. We expect our Vehicle sales in the US to grow over 2008 due to continued Federal funding of Transit Programmes and military spending.

The proposed economic stimulus package in the US details a wide range of initiatives a number of which could potentially have significant impact in accelerating and increasing the take up of Dialight's products. It is however too early to judge what impact may in practice arise although any impact is likely to occur predominantly in the latter part of the year.

The Board remains confident that the Company will continue to perform robustly through its strategy of pursuing growth market niches to which our Ultra Efficient Lighting solutions bring superior value.

Harry Tee CBE
Chairman

Our strategy in action

Our strategy	What we said	Our performance in 2008
 **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. In 2008 sales from these new products gained real momentum. Products are in development for potential new markets including street lighting. ▸ Expanded list of relationships with OEMs across almost every European country for traffic product agreements signed with major US Lighting distributor and additional European partners. Partners found for White light industrial products. ▸ Supply of "smart" meter disconnect switches to US utility industry through three key OEMs.
 **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 other white products. ▸ Partnership with University of Manchester in the UK.
 **Develop defensible technology**	▸ Create Intellectual Property across all research teams. ▸ Develop new products incorporating defensible intellectual property.	▸ 13 patents filed. ▸ 7 patents granted. ▸ 72 patents pending.
 **Selective acquisitions**	▸ Consider acquisitions with valid channel to market, strong geographical coverage and proven technology.	▸ Final stage of successful integration of Lumidrives into Group with transfer of manufacturing to our Newmarket site. ▸ Building on brand name in Europe and the US.
 **Protect our profits**	▸ Low cost manufacturing base. ▸ Continual review and monitoring of potential cost-saving opportunities in particular reduction of material cost.	▸ Key manufacturing processes brought in-house in US and UK resulting in significant gross margin enhancement. ▸ Successful implementation of material cost reduction programmes during year improved gross margin on signals and lighting products.

Business review
Our performance

Roy Burton
Group Chief Executive

47%

Overall sales in the Signals/Illumination business have grown by 47% over the last three years. 2008 saw good progress in all our product lines within this business.

Signals/Illumination

	Change	2008	2007
Sales	+30%	**£43.3m**	£33.4m
Segment result (see page 65)		**£1.7m**	£0.1m

At constant currency sales in the Signals/Illumination business grew by 21%. Overall sales in the Signals/Illumination business have grown by 47% over the last three years. 2008 saw good progress in all our product lines within this business.

Traffic

Our Traffic Light Business once again showed growth with an increase of 20% year on year in constant currency with both Europe and North America contributing to that growth. Whilst we would normally expect North American sales to be relatively flat due to the relative maturity of that market, major contracts in Florida, the Gulf Coast and other areas and the success of our range of ultra energy efficient ITE Standard Traffic Lights helped Dialight to grow market share. Dialight was the first company to introduce traffic lights using phosphor converted LEDs, fully compliant to the new standard and giving a significant energy saving versus the older LED technology.

As reported last year, we had been awarded a contract to supply traffic lights to Miami Dade County in Florida, the majority of which shipped in the early part of 2008 and in the latter half of the year, we shipped significant volumes of traffic lights to the Gulf Coast area to replace lights damaged by Hurricane Ike and a number of other city retrofits.

With the exception of major contracts, the US Traffic Business will continue to be serviced through our extensive and exclusive network of Traffic Dealers who allow us to maintain our market share in North America. With a majority of the installed base of traffic lights now 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 traffic lights with newer technology should sustain this business for the foreseeable future. In the immediate term however, the economic climate makes funding unsure and we would expect to see some deferral of discretionary spending by the municipalities and states who buy our traffic lights absent specific incentives from the Federal Government.

Growth of European traffic lights was a healthy 32% driven by increased adoption of LED traffic lights in the European Market and continued expansion of our OEM partnerships throughout the region. This market has been targeted by Dialight as a major growth opportunity due to the current low adoption of LED traffic lights in the region. Emphasis on global warming and reduction in carbon footprints should motivate continued adoption of LED traffic lights.

Dialight is the clear leader in the market for LED-based Obstruction Lights. These lights are used to warn aircraft of tall structures such as broadcast towers, telecommunications and cellphone towers, tall buildings and wind turbines.

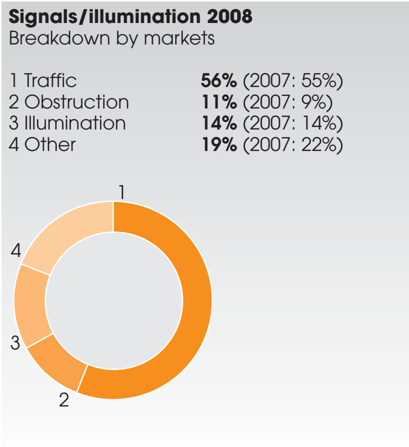
Our partnerships with Traffic Systems OEMs remain sound and our relationship with Siemens continues to grow. The UK market has been somewhat slower in the adoption of LED traffic lights but 2008 saw the first significant shipments of our high brightness products to this country.

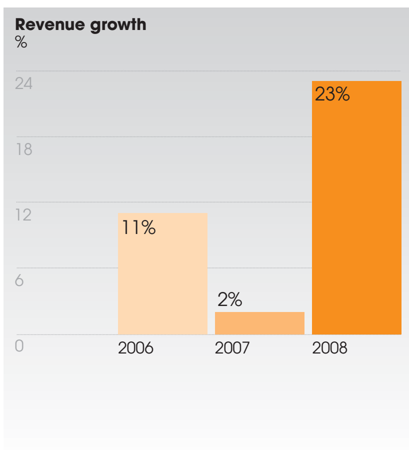
It is our policy to work where possible, in regulated markets where we do not have to compete against inferior or low grade products. Nevertheless, it is important for Dialight to be cost competitive and to offer the most attractive value propositions to its customers in order to drive LED adoption. During 2008, we invested in further vertical integration in our manufacturing facilities in both North America and the United Kingdom. We have converted almost all of our Traffic products to the latest high brightness LEDs and moved where possible to lower cost materials. These efforts have improved our supply chain effectiveness and allowed us to increase margins in the product line.

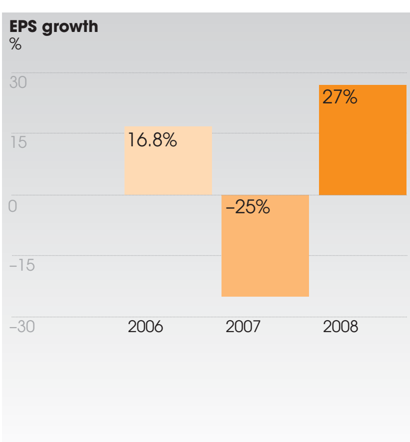
Obstruction Lights

Dialight is the clear leader in the market for LED based Obstruction Lights. These lights are used to warn aircraft of tall structures such as broadcast towers, telecommunications and cellphone towers, tall buildings and wind turbines. These lights are subject to strict regulation by the FAA in the United States and by ICAO elsewhere. Failure to comply may result in fines and sanctions for the operators of these tall structures and therefore reliability and long life is important. Suffice to say that having to climb to the top of a tall tower to change a light bulb is both expensive and potentially dangerous.

2008 saw a surge in the installation of Wind Turbines in the United States which generated good growth in the sales of our Red LED Beacon. It is estimated that for every three turbines, there is a demand for two such beacons and we saw a significant increase in sales of this product during the year.







Over the past five years, Dialight has been supplying LED-based products for the aircraft obstruction light market using red LEDs, the colour red being used as a warning in a number of these applications. Dialight has been the global innovator in LED applications and in early 2007 introduced a strobe light using white LEDs which addressed a substantial and new segment of this market. A white flashing strobe light is used in many installations of cellphone towers in North America, the white light being generated by a xenon strobe tube. These xenon lights have issues with reliability, robustness and the potential to interfere with cellphone transmissions. Over the last two years Dialight has been shipping small quantities of the new LED strobe lights, whilst simultaneously improving and developing the product in response to user inputs.

The product which started out weighing over 40kg has been most recently qualified in a version which weighs a mere 20kg and uses significantly fewer but much brighter LEDs. We appear to have reached the "tipping point" in the adoption of this product and in 2008, we shipped over 300 of these units and more importantly, have now shipped to almost all of the major cell tower operators in North America. The installed base for white strobes is estimated to be over $300 million in North America. Current calculations show a payback period of less than two years for our product, which has a potential life of up to ten years and a guaranteed life of at least five.

Overall growth in sales for this product line was 47% at constant currency with penetration of the White Strobe market at less than 5% of the available annual needs.

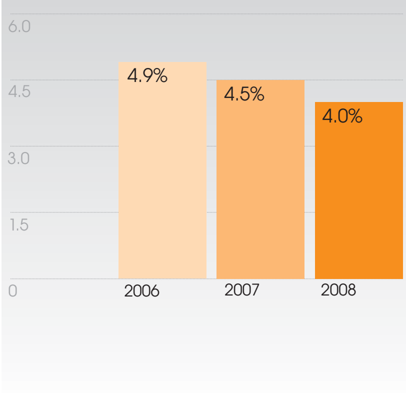
Solid State Lighting

Once again 2008 saw rapid development in the performance of white LEDs from a number of semiconductor manufacturers, opening up yet more applications for Solid State Lighting. Whilst there is much noise made about LEDs revolutionising the world of lighting, at this stage of development the "revolution" will occur in specific market niches where all the attributes of LEDs can be brought to bear in creating a real value proposition for the user. To date much of the use of LEDs has been for coloured lighting, where the objective is to create effect rather than useful illumination. Dialight successfully markets a range of products for coloured lighting but the major potential is envisaged in white applications.

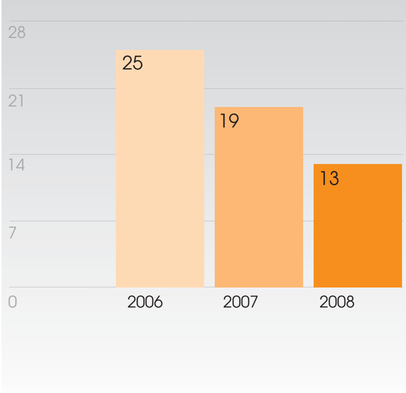
One of Dialight's first developments into white lighting has been with products for hazardous location and industrial markets. In late 2007, we introduced SafeSite, an LED-based downlight which has been qualified for use in areas where explosive gases and dust may be present. In 2008, SafeSite was bought for initial trials by many users in the oil and petrochemical industries, in mining, chemical, food processing and other industries where long life and high reliability, the ability to withstand extremes of shock and vibration and inherent safety are valuable attributes in a lighting system. The original SafeSite is designed to replace a 150 watt H.I.D. downlight, whilst using only 90 watts to achieve the same illumination.

The product has been well received and we registered sales of almost 1,500 units in 2008, most of which were for initial trials. The product has been well received by many key customers such as BP, Valero, Dow Chemical, Rio Tinto Mining and many others. Recently an extension to the SafeSite range has been introduced called SafeSite 250. This new light, using essentially the same amount of power as its earlier counterpart, is designed to replace a 250 watt High Pressure Sodium light and offers our customers a 60% power saving over the conventional alternative.

Research and development
as % of revenue



Numbers of patents filed



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In 2008 we filed 13 patents and had seven patents granted with 72 pending.

We believe the value proposition provided by our LED lights is such that users can get a return on their investment, due to power saving and maintenance, in less than 18 months. Having successfully "seeded" the market in 2008, we expect SafeSite to take further share in 2009 from conventional lighting in the Hazardous and Industrial Lighting Market.

Following the Lumidrives acquisition in 2006, Dialight has developed and introduced new products for the Architectural Market using both coloured and white LEDs. Due to the fragmented nature of this market, we have chosen to partner with Lighting OEMs who will add the Dialight LED range to their conventional lighting portfolio. In 2008, we signed partnership agreements with Juno Lighting in the USA and Illuma Lighting in the UK. This activity is ongoing as we open up these OEM channels to more geographies and more lighting segments.

Our activities within the Traffic market have opened up relationships with municipalities and Departments of Transport who also have needs for lighting in tunnels, for bridges, illuminated road signs and so on. Dialight is a known brand in this market, with a reputation for state of the art LED products delivering great savings and with high reliability. We are now in discussions with a number of potential users for LED applications other than just traffic lights. In December 2008, we delivered almost 5,000 feet of lighting to the State of New Jersey for a major bridge in Atlantic City. These lights are for illuminating a pedestrian walkway and will replace fluorescent tubes which had proved to be a significant maintenance headache. The LED fixtures are warranted to last at least seven years and will result in significant savings for the State.

At the end of 2008, Dialight introduced "Street Sense" – a range of LED street lights. A number of towns and cities have resorted to turning off their street lights at night in order to save energy – an expedient which somewhat defeats the purpose of having street lights in the first place! LED lights offer a number of potential benefits to a city or town council. They give a significant energy saving, they can be dimmed in order to save more energy when no-one is present and the light can be more precisely directed, avoiding light pollution and the "orange glow" that hovers over many of our cities at night. The adoption of LED street lights is at a very early stage but Dialight has been chosen to install a trial in a major UK city. It is expected that this will be operational by the middle of 2009.

White LED Lighting is in the early phases of development and Dialight is well placed to address new applications as they reach viability and to continue to drive significant revenue growth for the foreseeable future.

In order to progress these new developments, Dialight employs teams of engineers and scientists in North America and Europe, using the most up to date software tools and techniques to design new optical, electronic, thermal and communications solutions for its Ultra Efficient Lighting products. In 2008 we filed 13 patents and had seven patents granted with 72 pending. Our R&D spend was over £3 million representing 7% of Signals/Illumination revenues.

At the end of 2008, Dialight introduced "Street Sense" – a range of LED street lights. A number of towns and cities have resorted to turning off their street lights at night in order to save energy – an expedient which somewhat defeats the purpose of having street lights in the first place!

Components

	2008	2007
Sales		
LED Indication Components	**£19.4m**	£19.0m
Electromagnetic Disconnects	**£15.1m**	£11.0m
Total sales	**£34.5m**	£30.0m
Segment results		
LED Indication Components	**£4.9m**	£5.4m
Electromagnetic Disconnects	**£0.5m**	£(0.1)m
Total segment result (see page 65)	**£5.4m**	£5.3m

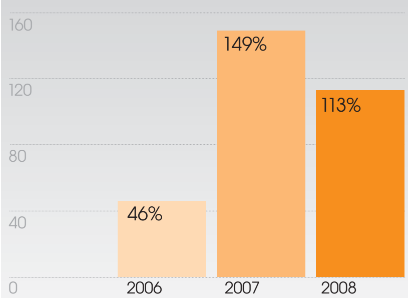
Dialight's Components business comprises two product areas: LED Indication Components – LED indicator lights supplied to the OEM market; and Electromagnetic Disconnects – "smart" meter disconnect switches which are used by utility companies to manage remotely electrical supply to residential and business premises.

Dialight's LED Indication business services a mature niche in the electronics market place which, whilst it will exhibit modest growth over the long term, will fluctuate with the general electronics marketplace. Whilst the first half of 2008 was strong, demand in the marketplace softened late in the second half and was down by approximately 7% versus the first half. Orders from both our Distributors and Contract Manufacturers have continued to reduce due to inventory reduction in the channel and further business deterioration. The last three months trading would indicate a decline of almost 35% in volumes. Other than the current economic downturn, there has been no fundamental change to the business and relationships with both OEM customers and distributors continue to be strong. There was some minor erosion of margin in the year due primarily to product mix.

Once again 2008 saw rapid development in the performance of white LEDs from a number of semiconductor manufacturers, opening up yet more applications for Solid State Lighting.

Our SafeSite lighting, on the left, illuminates the advantages of LED over traditional light sources, on the right.

Operating cash
as % of operating profit



The Electromagnetic Disconnects product line grew by 37% in 2008 driven by demand for Dialight's 200 amp Disconnect Switch. The US Advanced Meter Infrastructure programme is at the initial stages of its roll out and has the potential for 130 million smart meters to be installed, each incorporating a high current switch. Dialight has been shipping switches to three of the major suppliers of these smart meters and is working with others to qualify its switch and therefore increase its customer base. Whilst the timescale for implementation of this programme is uncertain, the latest stimulus bill in the United States contains a significant sum for this smart meter initiative.

As previously reported, the Dialight switch is a high reliability device, not easy to replicate and is the subject of a number of patents.

Summary

The results for 2008 are pleasing in that by continuation of its strategy, the Company has achieved good growth in all of its product lines within the Signal/Illumination Segment. Whilst 2009 will be a challenging year due to the global economic downturn, we remain confident in the Company's ability to show long-term growth in its chosen segments.

Roy Burton
Group Chief Executive

Finance Director's review

Cathy Buckley
Group Finance Director

Group summary

Group revenue increased by 23% to £78 million (2007: £63 million). Demand for our Signals/Illumination products accelerated with revenue for this segment increasing by 30%.

Gross profit increased by 14% to £16.3 million (2007: £14.3 million) as the Group gross profit margin for the year reduced slightly to 21% from 23%. This reduction was due to the mix of sales with an increased proportion of Signals/Illumination revenue which generally has a lower gross margin than Components. During the second half of the year we improved gross margins on individual product lines through the continued reduction in operational costs including product material costs. We expect to achieve further benefits from better operational and cash management during the current year despite the difficult market conditions.

Group profit before tax for the year was £5.6 million (2007: £4.5 million). Group profit before tax benefited year on year from the strengthening of US dollar against Sterling by approximately £0.4 million.

Before depreciation and amortisation charges the Group delivered an operating profit of £8.0 million (2007: £5.9 million).

Summary of results by business

Signals/Illumination

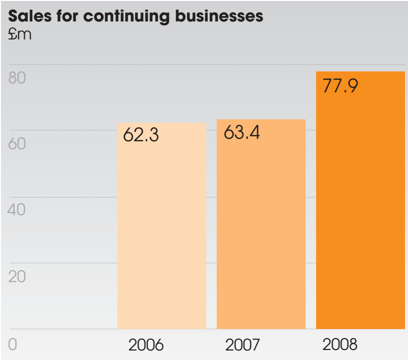
On a like for like currency basis (using 2008 exchange rates) the segmental results are as follows:

	2008 £m	2007 £m	Year on year change
Sales	**43.4**	36.0	21%
Contribution	**14.2**	11.6	22%
Overheads	**(12.5)**	(11.5)	8%
Segment result	**1.7**	0.1	
EBITDA	**3.5**	1.2	

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

The growth in Signals/Illumination sales over the previous year is 21%. An analysis of sales by product line is as follows:

	2008 £m	2007 £m	Year on year change
Traffic	**24.4**	20.5	19%
Obstruction	**4.6**	3.1	48%
Solid State Lighting	**6.1**	4.5	36%
Transportation	**8.3**	7.9	5%
	43.4	36.0	21%



The Group increased sales in all of the segments highlighted in the Group's strategy as the potential growth areas. The growth in Traffic sales was driven by two significant city contracts in US together with a further year of growth in Europe. The growth in obstruction sales was principally driven by the US wind market. Solid State Lighting revenue is beginning to benefit from sales of our industrial white product to complement revenue from our coloured light products. The transportation segment consists of the US vehicle business of transit bus lights together with military vehicle lights, and rail signals. Both parts of the vehicle business saw impressive growth in 2008 however included in the 2007 transportation revenue is a one-off rail contract of nearly $2 million.

The increase in overheads reflect continued investment in engineers and sales people in addition an increase in operating costs to support the higher level of activity. The increased operating cost also includes an element of cost from bringing some manufacturing processes in house. This additional cost was more than offset from the saving on the third-party finished product cost.

In the last quarter of 2008 production was relocated from our Lumidrives site in Yorkshire to our excellent manufacturing site at Newmarket. This will result in additional operational efficiencies in 2009. The contribution for the Signals/Illumination Segment is stated after charging £260,000 for lease costs for the vacant part of the Yorkshire site.

Components

On a like for like currency basis (using 2008 exchange rates) the segmental results are as follows:

	Electromagnetic components 2008 £m	Electromagnetic components 2007 £m	**Indication business 2008 £m**	Indication business 2007 £m
Sales	**15.1**	11.0	**19.4**	20.6
Contribution	**3.5**	2.7	**10.3**	11.4
Overheads	**(3.0)**	(2.8)	**(5.4)**	(5.6)
Segment result	**0.5**	(0.1)	**4.9**	5.8
EBITDA	**0.9**	0.3	**5.5**	6.2

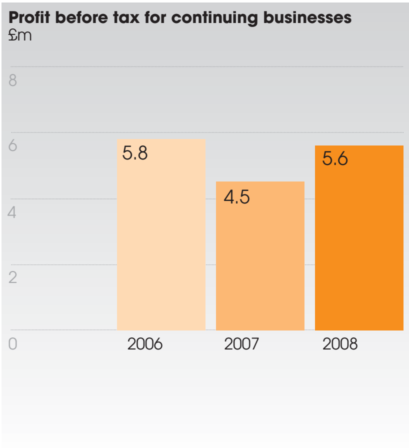
Note: EBITDA is earnings before interest, taxes, depreciation and amortisation.

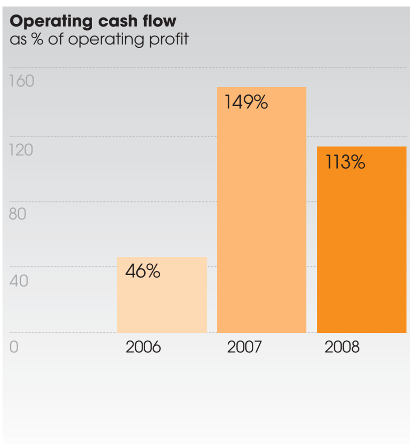
The growth in electromagnetic components sales is principally driven by sales to US Utility OEMs for our disconnect switch for the Advanced Meter Infrastructure programme.

Year on year sales of the Indication business have fallen by 6%. After a strong first half to the year market conditions toughened significantly during the latter part of the year with a resulting fall off in demand from our customers.

Investment in research and development

Expenditure in research and development in the current year was £3.1 million representing 4.0% of Group sales. Under IFRS we are required to capitalise certain development expenditure and in 2008 £0.8 million of cost was capitalised and added to the balance sheet. This expenditure represents the Group's investment in new product development. The amortisation change in 2008 was £0.9 million compared with £0.7 million in 2007. The carrying value of capitalised development at 31 December 2008 was £1.9 million (2007: £1.7 million) to be amortised over periods ranging from three to five years.





Earnings per share

Basic earnings per share for the continuing businesses were 11.2p (2007: 8.8p) an increase of 27% from the previous year. Details of the calculation are included in Note 16 to the accounts.

Dividends

A final dividend of 3.9p is proposed by the Board which taken with the interim dividend will give a total dividend of 6.0p per share, assuming the final dividend is approved. The total cost of the dividends will be £1,874,000. Dividend cover based on profit before the amortisation of acquired intangibles is 1.94 times.

Finance costs and income

Net financing income was £316,000 (2007: £587,000).

Interest received on bank deposits was £127,000 compared with £420,000 in 2007.

Other finance income comprises the net expected return on pension scheme assets after deducting the interest cost of defined benefit obligation. This resulted in a credit of £236,000 for the year ended 31 December 2008 compared with £255,000 for the previous year. This is expected to reduce next year to a charge of £100,000.

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 2008 was £47,000 (2007: £88,000). The final B shares in issue were redeemed during 2008 and there will be no future interest cost.

Taxation

The effective tax rate for 2008 was 38.5% (2007: 39.1%). 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.

In the current year tax charge there is an amount of £70,000 being the tax written off on the awards under the Share Plan which had lapsed at the end of the year.

Cash flow

The Group has generated net cash inflows from operations of £6 million (2007: £5.8 million) representing 113% of operating profit. The Group's target is for operating cash to be at least 100% of operating profit.

During the year £2.2 million of cash was used to redeem the balance of the B shares.

At the year end the Group had a cash balance of £4.1 million (2007: £6.6 million).

The Group absorbed £1.2 million of cash into working capital, principally due to higher receivables at the year end. The balance of trade receivables at the year end is related to the timing of sales and across all operations there was a high level of sales during the last few weeks of the year end relative to 2007. Across the Group, debtor days have reduced from 2007 with the one exception of the sales of the disconnect switch to the US market where extended terms were given to support the first significant sales to programmes. Credit terms have now returned to usual levels.

The balance sheet shows an increase of £3.1 million in inventory. In local currency inventory increased by £0.4 million with the balance of the increase due to the fall in the year end rate of Sterling to US dollar. However the level of inventory is higher than management expectations and rigorous plans to reduce inventory have been actioned. This should result in a reduction in inventory by next year end. Included in the year end inventory is material with a value of £1.5 million which had been purchased to support sales of "new" products. This inventory will reduce as sales for the new products are booked and shipped.

With a combination of receivables returning to more normal levels and the planned reduction to inventory, working capital on the balance should reduce and therefore generate cash.

Defined benefit pension plans

During 2008 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 £1.1 million. At as 31 December 2008 the net liability before deferred tax in relation to the defined benefit pension plans was £4,469,000 (2007: £1,227,000). 48% 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. The funding position of the plans has deteriorated with the weak equity markets in both the UK and US. The fall in investment values has been partly offset by higher AA corporate bond yields, which under IAS 19, are used to discount pension liabilities.

The reported pension deficit is extremely sensitive to changes in underlying assumptions and will be volatile from year to year.

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.

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

	2008	2007
US dollar-average rate	**1.85**	2.00
US dollar-year end rate	**1.46**	1.96
Euro-average rate	**1.26**	1.47
Euro-year end rate	**1.05**	1.36

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 three principal bankers with a facility of £7.5 million at one of the banks. The facility is currently the subject of renewal discussions. At the year end the Group had cash on the balance sheet and no drawn down against the facility 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.

Summary

Demand for our energy efficient lighting solutions has increased our revenue for the third successive year since the re-launch of Dialight in 2005. Operating profit has likewise increased and it is particularly pleasing to report a profit of £1.7 million for our growth segment, Signals/Illumination. We retain a strong balance sheet with a positive cash balance and no debt.

C A Buckley

Cathy Buckley
Group Finance Director

Board of Directors

Executive Directors

Roy Burton (age 61 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 46 years)
Group Finance Director
Cathy Buckley joined Dialight plc (formerly The Roxboro Group PLC) in 1999 as Company Secretary and was appointed as Group Finance Director in September 2005. Previously she qualified and spent 12 years post qualification at KPMG, Birmingham.

Advisers

Financial advisers
Close Brothers Corporate Finance
10 Crown Place
London EC2A 4FT

Stockbrokers
CanaccordAdams
7th Floor
Cardinal Place
80 Victoria Street
London SW1 5JL

Auditors
KPMG Audit Plc
2 Cornwall Street
Birmingham B3 2DL

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

Butzel Long
380 Madison Avenue
22nd Floor
New York NY 10017
USA

Non-Executive Directors

Harry Tee CBE (age 63 years)
Chairman
Harry Tee CBE 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 Scientific Digital Imaging plc, Piezotag Ltd and The Electronics Leadership Council and is a director of SEMTA. He is a Fellow of the Institute of Engineering and Technology, a Fellow of the Royal Institution and a Fellow of the Royal Society for the Encouragement of Arts, Manufacture and Commerce. Mr Tee was honoured with a CBE in the Queen's Birthday Honours List in 2008 for services to the electronics industry.

Robert Jeens (age 55 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 is currently also a non-executive director of TR European Growth Trust PLC, The Royal London Mutual Assurance Society Limited and a number of private companies.
His previous non-executive appointments include Chairman of nCipher plc and Deputy Chairman of Hepworth plc and he was formerly Group Finance Director of Woolwich plc and prior to that Finance Director of Kleinwort Benson Group plc.

Bill Whiteley (age 60 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 was Chief Executive of Rotork plc from 1996 until his retirement in 2008.
He is a non-executive director of Spirax-Sarco Engineering plc, Renishaw plc, Brammer plc, and is Chairman of the British Valve and Actuator Manufacturers Association.

Registrars
Equiniti
34 South Gyle Business Park
Edinburgh
EH12 9EB

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

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

Company secretary
Cathryn Buckley

Registered office
2B Vantage Park
Washingley Road
Huntingdon PE29 6SR

Registered number
2486024

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 reuse and recycle materials including packaging.

The other key area of focus is the quantity and type of material used in the products manufactured. The engineering department performs an important role in progressing the programme to reduce the amount of material used in the products and, where practical, to substitute out hazardous material. This action covers own purchases and material used by suppliers. Dialight works to meet and exceed internationally recognised regulations such as RoHS-2002/95/EC, WEEE-2002/96/EC, ELV-200/53/EC dated 27 June 2002, 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 17 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 2008.

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 2008 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 17 to 22, the Finance Director's review on pages 23 to 27 and the Corporate responsibility report on pages 30 and 31.

Results and dividends
Results for the year are set out in the Consolidated income statement on page 53.

The Directors recommend a final dividend of 3.9p per ordinary share, amounting to £1,218,000. This final dividend together with the interim dividend of 2.1p per ordinary share paid on 18 September 2008, which amounted to £656,000, gives a total dividend for the year of 6.0p per ordinary share amounting to £1,874,000. The recommended final dividend, if approved at the Annual General Meeting, will be payable on 15 May 2009 to members on the register at close of business on 13 March 2009.

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 June 2006 are set out on pages 45 to 49.

Directors and interests
The members of the Board of Directors currently serving on the Board are shown on pages 28 and 29, together with brief biographical details.

The interests of the Directors and their families in the share capital of the Company are shown in the Remuneration report on page 43.

Bill Whiteley has decided to retire at the forthcoming Annual General Meeting. We thank him for his contribution to the Group over the last eight years. We are currently recruiting to replace Mr Whiteley and further announcements will be made in due course.

The appointment and replacement of Directors of the Company is governed by its Articles of Association and the Companies Acts. The Articles of Association may be amended by special resolution of the shareholders.

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

At each Annual General Meeting (AGM) of the Company, any Director who was appointed or reappointed three years or more prior to the meeting; any Director who was appointed or reappointed at the third immediately preceding AGM; or at the time has served more than eight years as a Non-Executive Director of the Company (excluding the Chairman), shall retire by rotation and such further Directors must retire by rotation so that in total not less than one-third of the Directors retire by rotation each year.

In accordance with the Articles of Association, Mr Jeens and Miss Buckley will retire at the forthcoming Annual General Meeting by rotation and being eligible offer themselves for reappointment. Mr Jeens is Chairman of the Audit Committee and is a member of the Remuneration Committee and Nominations Committee.

Power of Directors

The Directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation and the Memorandum and Articles of Association.

At the Annual General Meeting held on 7 May 2008, the Directors were given the power to:

(1) Purchase its own shares in the market up to a limit of 10% of its issued share capital;

(2) Allot ordinary shares up to an aggregate nominal amount of £139,574 being the authorised ordinary share capital less issued share capital;

(3) Issue 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.

These powers shall expire at the conclusion of the next AGM or on the date falling 15 months following the AGM held on 7 May 2008, whichever is earlier.

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

Agreements regarding compensation for loss of office on takeover

There are no special agreements between the Company and the Directors or employees to provide for compensation for loss of office or employment that results from a takeover bid.

Structure of share capital

As at 31 December 2008 the Company's authorised share capital of £2,962,000 comprised 38,624,400 ordinary shares of 1.89p each and 2,976,152 preference shares of 75p each.

As at 31 December 2008 the Company had 31.2 million ordinary shares in issue with a nominal value of 1.89p each.

During the year the Company redeemed 2,896,336 preference shares at the nominal value of 75p each.

Full details of the Company's share capital are given in Note 15 to the accounts.

Rights and obligations of ordinary shares

No one person has any special rights of control over the Company's share capital and all shares are fully paid.

Each ordinary share carries the right to one vote at general meetings of the Company.

Subject to the relevant statutory provisions and the Company's Articles of Association, holders of ordinary shares are entitled to a dividend when declared or paid out of profits available for such purposes. Subject to the relevant statutory provisions and the Company's Articles of Association, on a return of capital on a winding up, holders of ordinary shares are entitled to participate in such a return.

Restrictions on the transfer of shares

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

The Directors may refuse to register a transfer of shares if a shareholder has not supplied information to the Company in default of a request duly served under section 793 of the Companies Act 2006 and such shares represent at least 0.25% of the class of shares concerned.

The Company is unaware of any arrangements between its shareholders that may result in restriction on the transfer of shares and/or voting rights.

Substantial shareholdings

The following shareholders had notified the Company of a holding of 3% or more of the issued share capital of the Company:

	1 March 2009 ordinary shares of 1.89p each	Percentage issued of ordinary shares of 1.89p shares
Hermes Small Companies Focus Fund	**8,521,304**	**27.3%**
Aberforth Partners	**6,445,617**	**20.6%**
Impax	**2,216,176**	**7.1%**
North Atlantic Value LLP	**1,665,782**	**5.3%**
H L Tee	**1,453,357**	**4.7%**

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

Control of share scheme shares

The Company has established an employee benefit trust in which all employees of the Group, including Executive Directors, are potential beneficiaries. The Trustees of the employee benefit trust retain the voting rights over the shares held in the trust and exercise these rights independent of the interests of the Company.

Change of control – significant agreements

There are no agreements containing a change of control clause which would have a significant impact on the trading of the Group should a takeover bid be successful.

Political and charitable contributions

No contributions were made for political purposes. A total of £1,000 (2007: £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 2008, the Group had an average of 42 days (2007: 40 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 reappoint KPMG Audit Plc as auditor and to authorise the Directors to determine its remuneration will be proposed at the Annual General Meeting.

Principal risks and uncertainties
The following section sets out the principal risks and uncertainties facing the Group. There may be other risks and uncertainties which are not yet known or which are currently considered to be immaterial but later turn out to have a material impact. Some of the areas set out will be outside of any influence that the business may exert. Should any of the risks actually materialise then Dialight's business, financial condition, prospects and share price could be materially and adversely affected. Further details on financial risk management are set out in Note 21.

Macro-economic conditions
A continuing significant slowdown in economic conditions globally and in certain territories such as North America could have a material effect on sales and operating profit in particular for the LED Indication business. Management of the LED Indication business 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 valuable information on market demand.

Increasing inflationary pressures on areas such as raw material and sub-contract costs may have an adverse impact on operating margins.

The current adverse economic conditions may cause both private and public organisations to reduce and/or defer their capital spending budgets which may impact on sales of almost all of our products.

Changes in government legislation or policy
National and local policies with regard to energy savings in a number of areas such as transport and communication are constantly evolving. This should favour Dialight's efforts in growing sales in some key niche current and potential opportunities identified by the Signals/Illumination business.

Additionally legislation may introduce new higher and more exacting specifications for existing products which will require product redesign and regulatory re-certification. It is Dialight policy to operate in highly regulated markets which require suppliers to achieve compliance with demanding product standards. Our design and engineering departments have a proven track record in technical ability evidenced by strong working relationships with customers and regulatory boards, the design and introduction of new products and the portfolio of registered IPR. Therefore changes in product specifications should favour Dialight in giving us an advantage over competition.

Competitive environment
We operate in competitive markets and there exists a threat that existing competitors or potential new entrants will be successful in taking market share. The threat may, for example, come from an extremely aggressive pricing policy for larger traffic contract bids in US and Europe.

Our focus on identifying, developing and maintaining sales routes to market, servicing strong customer relationships, competitive and leading edge product portfolios and cost efficient manufacturing plants supports Dialight as a major player in our chosen markets and helps to reduce the risk of losing market share to competition.

Laws and regulations
The Group's operations are subject to a wide range of laws and regulations including employment, environmental and health and safety legislation. All Group companies have an employee handbook detailing employment practices and staff who receive the appropriate training and support to operate in their roles. Each site has a health and safety manager responsible for compliance and performance in this area.

Strategy for revenue growth – 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 on 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 a regular basis.

Intellectual property
The development and ownership of intellectual property is critical in underpinning the growth potential for the business. The Group operates a stringent policy on the sharing of know how with third-parties as well as having a well defined policy on the in house identification and registration of patents. If the Group fails to or is unable to protect, maintain and enforce its existing intellectual property, it may result in the loss of the Group to the exclusive right to use technologies and processes which are included or used in its businesses. Over the last couple of years a plan to improve the quality of the New Product Introduction systems across the businesses has been implemented with good progress being made as evidenced by the expanding Patent portfolio.

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

Financial markets
Recent turmoil in global financial markets could pose risks to the financial position of both our customers and suppliers and also to the ability of the Group to renegotiate bank facilities.

Customers are subject to credit checks and there is very close review of trade debtors, days outstanding and overdue amounts. Purchase limits are set for all customers.

There are ongoing reviews of supplier bases to ensure wherever possible that there is not over-reliance on one specific supplier.

The Group has built up long standing relationships with the principal Group bankers. Currently the Group has no draw down against the existing facility. Regular contact will be kept with the banks to ensure that they understand the business and its requirements.

Currency exchange rate risk
The Group is exposed to translation exchange rate risk as a significant proportion of the Group's results and assets and liabilities are reported in US dollar and Euros and are therefore subject to translation to Sterling for incorporation into the Group's results. In addition, transactions are carried out by Group companies in currencies other than Sterling leading to transactional foreign exchange risk. Where possible the Group's nets such exposures and maintains a hedging programme utilising foreign exchange forward contracts and currency overdrafts to cover specific contracts and such proportion of other anticipated exposures as can be estimated with reasonable certainty.

Acquisition strategy
The Group's acquisition strategy may 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 six 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 Board is aware of situations where claims arising from the indemnities are possible, but having taken legal advice, the Board considers that the risk of a material claim by any of the purchasers is sufficiently remote that no provision is required to be made.

Annual General Meeting

The resolutions that will be proposed at the Annual General Meeting on 13 May 2009 are set out in the Notice of Annual General Meeting on pages 97 to 99 of this document. Resolutions 1 to 5 and 9 are resolutions relating to ordinary business, whilst resolutions 6 to 8, 10 and 11 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 earlier of the conclusion of the Annual General Meeting of the Company held in 2010 and 30 June 2010 (the last date by which the Company must hold an Annual General Meeting in 2010).

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 27 February 2009, the latest practicable date prior to publication of the Notice of Annual General Meeting, the total number of options to subscribe for ordinary shares outstanding was 594,353 which represents 1.90% of the issued shares at that time and would represent 2.11% 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 is divided into two parts. Paragraph (a) of the resolution would give the Directors the authority to allot ordinary shares up to an aggregate nominal amount equal to £196,808 (representing a maximum of 10,413,121 ordinary shares of 1.89p each). This amount represents approximately one-third of the issued ordinary share capital of the Company as at 27 February 2009, the latest practicable date prior to publication of the Notice of Annual General Meeting.

In line with recent guidance issued by the Association of British Insurers, paragraph (b) of the resolution would give the Directors authority to allot ordinary shares in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount equal to £393,617 (representing a maximum of 20,826,296 ordinary shares), as reduced by the nominal amount of any shares issued under paragraph (a) of the resolution. This amount (before any reduction) represents approximately two-thirds of the issued ordinary share capital of the Company as at 27 February 2009, the latest practicable date prior to publication of the Notice of Annual General Meeting.

The authorities sought under paragraphs (a) and (b) of the resolution will expire at the earlier of the conclusion of the Annual General Meeting of the Company held in 2010 and 30 June 2010 (the last date by which the Company must hold an annual general meeting in 2010).

The Directors have no present intention to exercise either of the authorities sought under the resolution, except, if necessary under paragraph (a), to satisfy the exercise of options granted under the Share Option Schemes.

As at the date of the Notice of Annual General Meeting, no ordinary shares are held by the Company in treasury.

Special Resolution 8 would give the Directors the authority to allot ordinary shares (or sell any ordinary shares which the Company elects to hold in treasury) for cash without first offering them to existing shareholders in proportion to their existing shareholdings.

Except as provided in the next paragraph, this authority would be limited to allotments or sales in connection with pre-emptive offers and offers to holders of other equity securities if required by the rights of those shares or as the board otherwise considers necessary, or otherwise up to an aggregate nominal amount of £29,521 (representing a maximum of 1,561,957 ordinary shares). This aggregate nominal amount represents approximately 5% of the issued ordinary share capital of the Company as at 27 February 2009, the latest practicable date prior to publication of the Notice of Annual General Meeting.

Allotments made under the authorisation in paragraph (b) of resolution 7 would be limited to allotments by way of a rights issue only (subject to the right of the Board to impose necessary or appropriate limitations to deal with, for example, fractional entitlements and regulatory matters).

The authority will expire at the earlier of the conclusion of the Annual General Meeting of the Company held in 2010 and 30 June 2010 (the last date by which the Company must hold an Annual General Meeting in 2010).

Resolution 9, which is an ordinary resolution, seeks shareholder approval of the Directors' remuneration report, which is set out on pages 40 to 44 of this document.

Special Resolution 10 is required to reflect the proposed implementation in August 2009 of the Shareholder Rights Directive. The regulation implementing this Directive will increase the notice period for general meetings of the Company to 21 days. The Company is currently able to call general meetings (other than an Annual General Meeting) on 14 clear days' notice and would like to preserve this ability. In order to be able to do so after August 2009, shareholders must have approved the calling of meetings on 14 days' notice. Resolution 10 seeks such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Directive before it can call a general meeting on 14 days' notice.

Resolution 11 proposes that the authorised ordinary share capital of the Company be increased from £730,001.16 to £984,044.9997, representing a percentage increase of approximately 35%. This increase is being sought in order to give the Company sufficient authorised share capital to take full advantage of the ability to allot ordinary shares under the authorities proposed in resolution 7.

Your Directors consider that all the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. Your Directors will be voting in favour of them and unanimously recommend that you do as well.

By order of the Board

C A Buckley
Company Secretary

2 March 2009

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 W Whiteley throughout the year. 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.

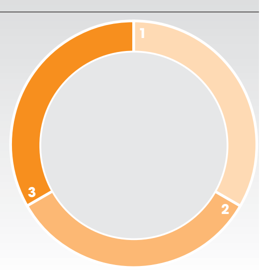
The Remuneration Committee has reviewed the structure of the remuneration of all the executives in the Group and confirms the Committee's policy, as outlined above, has been applied in a consistent way.

Executive Directors potential direct remuneration

In 2008 67% (2007: 67%) of the potential direct remuneration of the Chief Executive was performance related and for the Finance Director the figure was 60% (2007: 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.

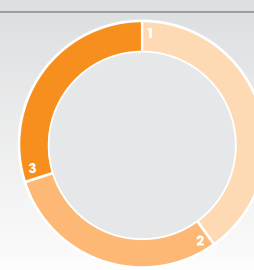
Roy Burton

1 Base salary £231K (33%)
2 Performance related annual bonus £231K (33%)
3 Performance related Share Plan £231K (34%)



Cathy Buckley

1 Base salary £139K (40%)
2 Performance related annual bonus £104K (30%)
3 Performance related Share Plan £104K (30%)



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

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

For 2008 the bonus plan for certain senior executives was designed around the achievement of both revenue and contribution growth for the Signals/Illumination business. The maximum bonus payable for the year was 50% of salary. For the Executive Directors the annual bonus plan was 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.

Based on the growth achieved in Signals/Illumination sales in 2008 a bonus of 25% was paid to the Group's senior executives, amounting to £60,000. The bonus paid to the Group Chief Executive was £107,000 being 45% of salary and the bonus paid to the Group Finance Director was £47,000 being 34% of salary. Both of these bonuses were based on the percentage growth in Signals/Illumination sales (calculated at constant currency) and on the growth achieved in the operating profit compared with the prior year.

For 2009 the annual bonus plan for the Executive Directors has been divided between the achievement of a predetermined Group operating profit for the year and the delivery of an agreed level of operating cash defined as a percentage of operating profit. The bonus is split 75% on the Group operating profit target and 25% on the achievement of the predetermined operating cash targets. No bonus will be paid under the operating cash plan if a predetermined operating profit has not been achieved.

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 third award under the PSP was made to the Executive Directors and senior management of the Group following the announcement of the 2007 financial results. 12 senior employees participated in the 2008 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 2008 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 ten year period or that may be issued on the exercise of options granted in that ten 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	Bonus £'000	**Total 2008 £'000**	Total 2007 £'000
H L Tee	75	–	–	**75**	75
R Burton[1]	231	4	107	**342**	217
C A Buckley	139	17	47	**203**	152
R Jeens	30	–	–	**30**	30
W Whiteley	25	–	–	**25**	25
J Hewitt[2]	–	–	–	**-**	23
	500	21	154	**675**	522

1 The remuneration for Mr Burton has been translated at the rate of $1.85: £1 (2007: $2.0: £1).

2 Retired 31 August 2007.

Fees for the provision of W Whiteley's services for the four months to April 2008 were paid 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	Lapsed	**Fair value pence per share**	Vesting period
Mr R Burton	17 April 2006	88,122	(88,122)	**143**	3 years
	5 April 2007	100,977	–	**84**	3 years
	9 April 2008	143,360	–	**97**	3 years
Miss C A Buckley	17 April 2006	36,716	(36,716)	**143**	3 years
	5 April 2007	47,535	–	**84**	3 years
	9 April 2008	67,283	–	**97**	3 years

The share price at the date of the 2008 award was £1.55 per ordinary share.

Pension contributions paid on behalf of Directors to money purchase schemes:

	Contributions 2008 £'000	Contributions 2007 £'000
Miss C A Buckley	**16**	14
Mr R Burton	**21**	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 2008	**Ordinary shares at 31 December 2007**	B shares at 31 December 2007
H L Tee	**1,453,357**	**1,428,357**	2,590,922
R Jeens	**100,000**	**80,000**	–
W Whiteley	**5,000**	**5,000**	–
R Burton	**43,692**	**43,692**	–
C A Buckley	**3,000**	**3,000**	–

Mr Tee redeemed all his B shares during the year.

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 103p per share and highest market mid-point price of 193p per share. On 31 December 2008 the market mid-point price was 113p per share.

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

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

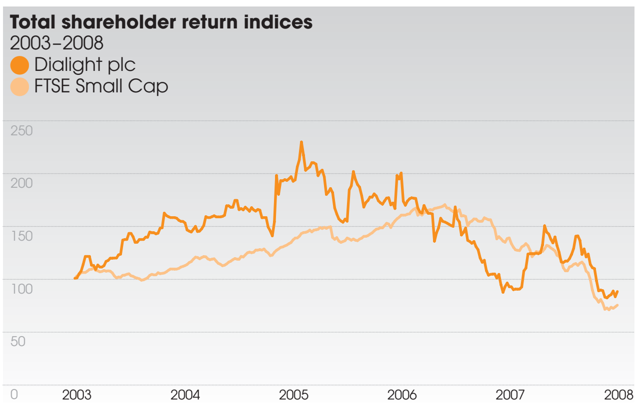
There are no predetermined provisions for compensation on termination within the Executive Directors service contracts which exceed 12 months emoluments for Mr Burton and 12 months emoluments for Miss Buckley.

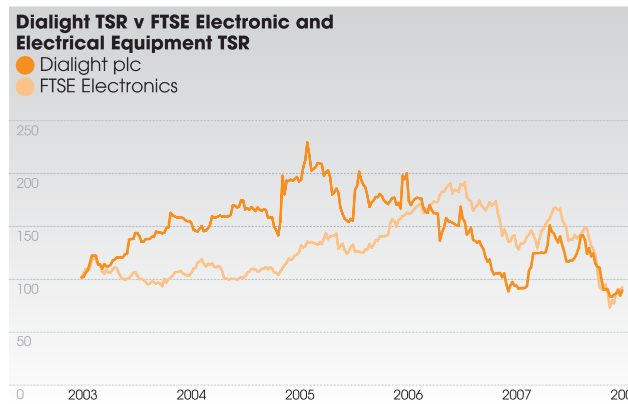
Remuneration policy for Non-Executive Directors
Fees for the Non-Executive Directors are determined by the Board as a whole. The Non-Executive Directors do not take part in these discussions. The Non-Executive Directors do not participate in the Company's Bonus Schemes or Share Schemes, and they are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

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

Performance review

The following graphs show the five year total shareholder return performance of the Company, compared with the total shareholder return over the same period for the FTSE Small Cap Index and the FTSE Electronics Index. These were selected as they were considered to be a broad representation of Dialight's peer group in terms of its size and industry sector.





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

2 March 2009

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. R Jeens was the Senior Independent Director throughout the year. 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 pages 28 and 29. These demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group. Each Non-Executive Director continues to demonstrate that he has sufficient time to devote to the Company's business.

The Non-Executive Directors constructively challenge and assist in developing the strategy of the Group. They scrutinise the performance of management against the Group's objectives and also monitor the reporting of performance. The Board is provided with regular and timely information on the financial performance of businesses within the Group, and of the Group as a whole, together with reports on trading matters, markets and other relevant matters.

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

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

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

The Board is collectively responsible for the performance of the Company and is responsible to shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the accounts is set out on page 50 and a statement on going concern is given on page 35.

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

The process confirmed that all Directors continue to contribute effectively and with proper commitment including 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 W Whiteley throughout the year. 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 2008 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 Directors' remuneration report on pages 40 to 44.

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 and has W Whiteley, a Non-Executive Director, as a member, 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 October 2008 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 2008

The number of scheduled Board and Committee meetings attended by each Director during 2008 was as follows:

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	8	3	2	1
Harry Tee CBE	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

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 13 May 2009 can be found in the Notice of Annual General Meeting on page 97.

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 2008 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, the Parent company reconciliation of movements in shareholders' funds 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 50.

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 2008 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 2008;
- 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

2 March 2009

Consolidated income statement

For the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Continuing operations			
Revenue	4	**77,855**	63,408
Cost of sales		**(61,595)**	(49,137)
Gross profit		**16,260**	14,271
Distribution expenses		**(5,146)**	(5,053)
Administrative expenses		**(5,793)**	(5,325)
Operating profit	4	**5,321**	3,893
Financial income	6	**2,177**	2,383
Financial expense	6	**(1,861)**	(1,796)
Net financing income	6	**316**	587
Profit before tax from continuing operations		**5,637**	4,480
Income tax expense	7	**(2,168)**	(1,751)
Profit for the year attributable to equity holders of the parent	15	**3,469**	2,729
Earnings per share			
Basic earnings per share	16	**11.2p**	8.8p
Diluted earnings per share	16	**10.9p**	8.6p

Consolidated statement of recognised income and expense

For the year ended 31 December 2008

	2008 £'000	2007 £'000
Exchange difference on translation of foreign operations	**7,183**	193
Actuarial losses on defined benefit pension schemes	**(3,407)**	(339)
Tax on items taken directly in equity	**1,289**	131
Effect of change in UK tax rate	**-**	(64)
Income and expense recognised directly in equity	**5,065**	(79)
Profit for the period	**3,469**	2,729
Total recognised income and expense for the period attributable to equity holders of the parent	**8,534**	2,650

Consolidated balance sheet

As at 31 December 2008

	Note	**2008 £'000**	2007 £'000
Assets			
Property, plant and equipment	9	**7,793**	6,072
Intangible assets	10	**8,932**	7,913
Deferred tax assets	11	**3,042**	1,209
Total non-current assets		**19,767**	15,194
Inventories	12	**12,994**	9,846
Trade and other receivables	13	**20,366**	15,629
Cash and cash equivalents	14	**4,145**	6,561
Total current assets		**37,505**	32,036
Total assets		**57,272**	47,230
Liabilities			
Current liabilities			
Interest-bearing loans and borrowings	17	**-**	(2,172)
Trade and other payables	20	**(11,059)**	(9,271)
Tax liabilities		**(2,786)**	(2,822)
Total current liabilities		**(13,845)**	(14,265)
Non-current liabilities			
Employee benefits	18	**(4,469)**	(1,227)
Provisions	19	**(1,307)**	(779)
Deferred tax liabilities	11	**(147)**	(110)
Total non-current liabilities		**(5,923)**	(2,116)
Total liabilities		**(19,768)**	(16,381)
Net assets		**37,504**	30,849
Equity			
Issued share capital	15	**591**	591
Merger reserve	15	**546**	546
Other reserves	15	**7,718**	(1,637)
Retained earnings	15	**28,649**	31,349
Total equity attributable to equity shareholders of the parent company		**37,504**	30,849

These financial statements were approved by the Board of Directors on 2 March 2009 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 2008

	Note	2008 £'000	2007 £'000
Operating activities			
Profit for the year		**3,469**	2,729
Adjustments for:			
Financial income		**(2,176)**	(2,383)
Financial expense		**1,860**	1,796
Income tax expense		**2,168**	1,751
Share-based payments		**154**	196
Depreciation of property, plant and equipment		**1,598**	1,155
Amortisation of intangible assets		**1,075**	843
Operating cash flow before movements in working capital		**8,148**	6,087
(Increase)/decrease in inventories		**(421)**	475
Increase in trade and other receivables		**(1,041)**	(1,356)
Increase in trade and other payables		**297**	800
Decrease in pension liabilities		**(994)**	(192)
Cash generated from operations		**5,989**	5,814
Income taxes (paid)/received		**(2,382)**	423
Interest paid		**(47)**	(152)
Net cash from operating activities		**3,560**	6,085
Investing activities			
Interest received		**125**	484
Capital expenditure		**(1,796)**	(1,626)
Expenditure on development		**(771)**	(958)
Sale of tangible fixed assets		**–**	11
Net cash used in investing activities		**(2,442)**	(2,089)
Financing activities			
Dividends paid		**(1,843)**	(1,687)
Redemption of preference shares treated as debt		**(2,172)**	(12)
Own shares acquired		**(190)**	–
Net cash used in financing activities		**(4,205)**	(1,669)
Net (decrease)/increase in cash and cash equivalents		**(3,087)**	2,297
Cash and cash equivalents at 1 January		**6,561**	4,346
Effect of exchange rates on cash held		**671**	(82)
Cash and cash equivalents at 31 December	14	**4,145**	6,561

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 2008 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 27.

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).

(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 and loss previously recognised in equity remains there 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

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.

3. Significant accounting policies continued

(e) Depreciation continued

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.

3. Significant accounting policies continued

(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.

(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.

3. Significant accounting policies continued

(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.

(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.

3. Significant accounting policies continued

(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 2008, and have not been applied in preparing these consolidated financial statements.

- Amendment to IFRS 3 – Business combinations and IAS 27 – Consolidated and separate financial statements (effective prospectively for annual periods beginning on or after 1 July 2009). These revised standards implement substantial revisions in the application of acquisition accounting, notably with respect to the treatment of acquisition costs, step and partial acquisitions, minority interests and contingent consideration. The Group is currently assessing the impact of these revised standards on its 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.
- Amendment to IAS 23 – Borrowing costs becomes mandatory for the Group's 2009 financial statements. The amendment to IAS 23 generally eliminates the option to expense as incurred borrowing costs attributable to the acquisition, construction or production of a qualifying asset, and instead requires the capitalisation of such borrowing costs as part of the cost of specific assets. The Directors do not anticipate that the adoption of this standard will have a material impact on the financial statements of the Group.
- IFRIC 16 – Hedges of a net investment in a foreign operation. Effective for the Group's 2009 financial statements the IFRIC clarifies certain aspects of IAS 39 with respect to hedge accounting. The impact of this interpretation on the Group's financial statements is not expected to be material.

The Directors do not consider that any other standards or interpretations issued by the IASB or the IFRIC, either applicable in the current year or not yet applicable, have, or will have, a significant impact on the consolidated financial statements.

(u) Determination of fair values

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

- *Plant and equipment*
  The fair value of plant and equipment recognised as a result of a business combination is based on market values. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.
- *Intangible assets*
  The fair value of patents and trademarks acquired in business combinations is based on the discounted cash flows expected to be derived from the use or eventual sale of the assets.
- *Inventory*
  The fair value of inventory acquired in a business combination is based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

3. Significant accounting policies continued

- *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.

4. Segment reporting continued
Business segments

2008	Electromagnetic components £'000	Indication business £'000	Total Components £'000	Signals/ Illumination £'000	Total £'000
Revenue	**15,073**	**19,389**	**34,462**	**43,393**	**77,855**
Contribution	**3,516**	**10,250**	**13,766**	**14,187**	**27,953**
Overhead costs	**(2,990)**	**(5,342)**	**(8,332)**	**(12,475)**	**(20,807)**
Segment results	**526**	**4,908**	**5,434**	**1,712**	**7,146**
Unallocated expenses					**(1,825)**
Operating profit					**5,321**
Net financing income					**316**
Profit before tax					**5,637**
Income tax expense					**(2,168)**
Profit after tax					**3,469**

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

4. Segment reporting continued

Other information	**Electromagnetic components £'000**	**Indication business £'000**	**Total Components £'000**	**Signals/ Illumination £'000**	**2008 Total £'000**
Capital Additions	**475**	**180**	**655**	**1,141**	**1,796**
Depreciation and amortisation	**411**	**582**	**993**	**1,661**	**2,654**

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

Balance sheet – assets	**Electromagnetic components £'000**	**Indication business £'000**	**Total Components £'000**	**Signals/ Illumination £'000**	**2008 Total £'000**
Segment assets	**8,099**	**9,854**	**17,953**	**31,756**	**49,709**
Unallocated assets					**7,563**
Consolidated total assets					**57,272**

Balance sheet – liabilities	**Electromagnetic components £'000**	**Indication business £'000**	**Total Components £'000**	**Signals/ Illumination £'000**	**2008 Total £'000**
Segment liabilities	**(2,009)**	**(2,805)**	**(4,814)**	**(6,832)**	**(11,646)**
Unallocated liabilities					**(8,122)**
Consolidated total liabilities					**(19,768)**

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)

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	**2008 £'000**	2007 £'000
North America	**50,848**	37,116
UK	**9,740**	11,401
Rest of Europe	**8,823**	7,300
Rest of World	**8,444**	7,591
	77,855	63,408

	Segmental assets		Capital expenditure	
Continuing operations	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000
North America	**34,631**	26,059	**1,246**	1,125
UK	**13,746**	14,487	**521**	460
Rest of Europe	**8,895**	6,684	**29**	41
	57,272	47,230	**1,796**	1,626

5. Personnel expenses

	2008 £'000	2007 £'000
Wages and salaries	**11,516**	10,824
Social security contributions	**1,443**	1,303
Equity settled share-based payment transactions	**154**	196
Contributions to defined contribution plans	**361**	295
Total charge for defined benefit plans	**147**	146
	13,621	12,764

The average number of employees by geographical location was:

	2008 Number	2007 Number
UK	**154**	181
USA and Mexico	**1,033**	972
Rest of the World	**27**	24
	1,214	1,177

6. Net financing income
Recognised in profit and loss

	2008 £'000	2007 £'000
Interest income on bank deposits	**127**	484
Expected return on assets in the defined benefit pension schemes	**2,049**	1,899
	2,176	2,383
Interest expense on financial liabilities	**(47)**	(152)
Interest charge on pension scheme liabilities	**(1,813)**	(1,644)
	(1,860)	(1,796)
Net financing income	**316**	587

7. Income tax expense
Recognised in the income statement

	2008 £'000	2007 £'000
Current tax expense		
Current year	**2,402**	1,825
Adjustment for prior years	**(27)**	(110)
	2,375	1,715
Deferred tax expense		
Origination and reversal of temporary differences	**(211)**	58
Adjustment for prior years	**4**	(22)
Income tax expense	**2,168**	1,751

Reconciliation of effective tax rate

	2008 %	2008 £'000	2007 %	2007 £'000
Profit for the period		**3,469**		2,729
Total income tax expense		**2,168**		1,751
Profit excluding income tax		**5,637**		4,480
Income tax using the UK corporation tax rate of 28% (2007: 30%)	**28.0**	**1,578**	30.0	1,344
Effect of tax rates in foreign jurisdictions	**8.1**	**456**	6.7	302
Non-deductible expenses	**1.3**	**74**	1.2	54
Unrecognised losses	**2.7**	**152**	4.3	194
Non-taxable income	**(2.4)**	**(139)**	–	–
Share plan charge for lapsed awards	**1.2**	**70**	–	–
Change in UK tax rate	**-**	**-**	(0.2)	(11)
Over provision in prior years	**(0.4)**	**(23)**	(2.9)	(132)
	38.5	**2,168**	39.1	1,751

7. Income tax expense continued
Deferred tax recognised directly in equity

	2008 £'000	2007 £'000
Relating to pension accounting	**1,289**	67

8. Profit for the year
Profit for the year has been arrived at after charging:

Research and development costs	2008 £'000	2007 £'000
Expensed as incurred	**2,333**	1,923
Amortisation charge	**909**	677
	3,242	2,600
Depreciation of fixed assets	**1,598**	1,155
Operating leases – Property	**939**	635
Operating leases – Other	**133**	138

Auditors' remuneration:

	2008 £'000	2007 £'000
Audit of these financial statements	**42**	40
Amounts receivable by auditors in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**82**	90
Other services relating to taxation	**86**	70
Advisory work in respect of suspended disposal	**42**	–
Pension and actuarial services:		
Pension Advisory services in respect of Group Pension Plans	**51**	39
Actuarial advisory on IAS 19 Valuations	**11**	12
	272	211

9. Property, plant and equipment

	Land and buildings £'000	Plant equipment and vehicles £'000	Total £'000
Cost			
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
At 1 January 2008	4,648	22,315	26,963
Exchange adjustments	1,004	6,069	7,073
Additions	48	1,748	1,796
Disposals	–	(109)	(109)
At 31 December 2008	**5,700**	**30,023**	**35,723**
Accumulated depreciation			
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)
At 1 January 2008	(2,180)	(18,711)	(20,891)
Exchange adjustments	(534)	(5,015)	(5,549)
Charge for the year	(143)	(1,455)	(1,598)
Disposals	–	108	108
At 31 December 2008	**(2,857)**	**(25,073)**	**(27,930)**
Carrying amount at 31 December 2008	**2,843**	**4,950**	**7,793**
At 31 December 2007	2,468	3,604	6,072
At 1 January 2007	2,362	3,195	5,557

10. Intangible assets

	Concessions, patents, licences and trademarks £'000	Goodwill £'000	Development costs £'000	Total £'000
Costs				
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
Balance at 1 January 2008	1,237	5,845	3,344	10,426
Other acquisitions – internally developed	–	–	771	771
Effects of foreign exchange movement	–	1,054	725	1,779
Balance at 31 December 2008	**1,237**	**6,899**	**4,840**	**12,976**
Amortisation and impairment losses				
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)
Balance at 1 January 2008	(905)	–	(1,608)	(2,513)
Amortisation for the period	(166)	–	(909)	(1,075)
Effects of foreign exchange movement	–	–	(456)	(456)
Balance at 31 December 2008	**(1,071)**	**-**	**(2,973)**	**(4,044)**
Carrying amounts at 31 December 2008	**166**	**6,899**	**1,867**	**8,932**
At 31 December 2007	332	5,845	1,736	7,913
At 1 January 2007	498	5,556	1,441	7,495

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 units (CGUs) that are expected to benefit from the business combination. The carrying amount of the goodwill had been allocated as follows:

	2008 £'000	2007 £'000
Signals/Illumination	**6,899**	5,845

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. Growth in LED traffic signals for 2008 was 30% in a market where adoption is no more than 10%.

10. Intangible assets continued

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%.

The above estimates are particularly sensitive in the following areas:

(i) An increase of 1% in the discount rate would reduce the headroom between the recoverable amount of the CGUs by £1,038,000 but leaves a significant headroom compared with the carrying value of the goodwill.

(ii) Assuming an estimated growth of 2% growth in sales would reduce the headroom between the recoverable amount of CGUs by £4,583,000 but leaves a significant headroom compared with the carrying value of goodwill.

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	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000
Property, plant and equipment	**-**	–	**(196)**	(6)	**(196)**	(6)
Intangible assets	**-**	–	**(634)**	(663)	**(634)**	(663)
Employee benefits	**1,718**	1,309	**-**	–	**1,718**	1,309
Provisions	**1,303**	693	**-**	–	**1,303**	693
Other items	**704**	–	**-**	(234)	**704**	(234)
Tax assets/(liabilities)	**3,725**	2,002	**(830)**	(903)	**2,895**	1,099
Set off of tax	**(683)**	(793)	**683**	793	**-**	–
Net tax assets/(liabilities)	**3,042**	1,209	**(147)**	(110)	**2,895**	1,099

Deferred tax assets have not been recognised in respect of tax losses of £177,000 (2007: £58,000) 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 (2007: £nil).

11. Deferred tax assets and liabilities continued
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 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
Balance at 1 January 2008	(6)	(663)	1,309	459	1,099
Recognised in income	(137)	122	(105)	327	207
Exchange	(53)	(93)	405	252	511
Recognised in equity	–	–	1,289	–	1,289
Transfer to corporation tax	–	–	(1180)	969	(211)
Balance at 31 December 2008	**(196)**	**(634)**	**1,718**	**2,007**	**2,895**

12. Inventories

	2008 £'000	2007 £'000
Raw materials and consumables	**8,851**	6,185
Work in progress	**1,596**	1,636
Finished goods	**2,547**	2,025
	12,994	9,846

Inventories to the value of £39,179,000 (2007: £38,769,000) were recognised as expenses in the year.

13. Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	**18,766**	13,700
Other non-trade receivables	**505**	571
Prepayments and accrued income	**639**	402
Restricted cash (see Note 14)	**456**	956
	20,366	15,629

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

	2008 £'000	2007 £'000
Total bank balances	**4,601**	7,517
Less: Restricted cash (see Note 13)	**(456)**	(956)
Cash and cash equivalents	**4,145**	6,561

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 2008	591	546	(1,697)	60	31,349	30,849
Profit for the period attributable to equity holders of the Company	–	–	–	–	3,469	3,469
Net expense recognised directly in equity (See Statement of recognised income and expense)	–	–	7,183	–	(2,118)	5,065
Dividends to shareholders	–	–	–	–	(1,843)	(1,843)
Share-based payments	–	–	–	–	154	154
B shares redeemed	–	–	–	2,172	(2,172)	–
Own shares purchased	–	–	–	–	(190)	(190)
Balance at 31 December 2008	**591**	**546**	**5,486**	**2,232**	**28,649**	**37,504**
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

Own shares purchased comprises the cost of the Company's shares held by the Group. At 31 December 2008 the number of shares held by the Group through the Share Ownership Trust was 256,000 (2007: 156,000). The market value of these shares at 31 December 2008 is £289,000 (2007: £200,000).

15. Capital and reserves continued
Called up share capital

	2008 Number	**2008 £'000**	2007 Number	2007 £'000
Authorised ordinary shares of 1.89p each	**38,624,400**	**730**	38,624,400	730
Issued and fully paid ordinary shares of 1.89p each	**31,239,501**	**591**	31,239,501	591

During the year the Company redeemed in full the remaining balance of 2,896,336 Preference Shares. Each B share has a nominal value of 75p. The holders of B shares had not been 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 had the right to attend the general meeting and were entitled to speak and vote only on any such resolution. B shares carried the right to a dividend paid at a rate of 70% of six month LIBOR, in arrears on a semi-annual basis.

	Ordinary shares		Redeemable 'B' Preference shares	
Issued share capital	**2008**	2007	**2008**	2007
In issue at 1 January	**31,239,501**	31,239,501	**2,896,336**	2,911,760
Shares redeemed	**–**	–	**(2,896,336)**	(15,424)
Issued and fully paid at 31 December	**31,239,501**	31,239,501	**–**	2,896,336

Redeemable 'B' Preference shares
The authorised number of redeemable "B" Preference shares is 2,976,152 (2007: 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	**2008 £'000**	2007 £'000
3.9p per ordinary share (2007: 3.8p)	**1,218**	1,187

During the year the following dividends were paid:

	2008 £'000	2007 £'000
Interim – 2.1p per ordinary share (2007: 1.9p)	**656**	594
2007 Final – 3.8p per ordinary share (2006: 3.5p)	**1,187**	1,093
	1,843	1,687

16. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2008 was based on the profit for the year of £3,469,000 (2007: £2,729,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2008 of 31,017,000 (2007: 31,084,000).

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2008 was based on profit for the year of £3,469,000 (2007: £2,729,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2008 of 31,769,000 (2007: 31,619,000) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2008 '000	2007 '000
Weighted average number of ordinary shares	**31,017**	31,084
Effect of share options on issue	**752**	535
Weighted average number of ordinary shares (diluted)	**31,769**	31,619

17. Interest-bearing loans and borrowings

Redeemable preference B shares

In 2003 the Group issued 56,800,170 redeemable preference B shares all of which had been redeemed by 31 December 2008. At 31 December 2007 there were 2,896,336 B shares outstanding held as a debt liability of £2,172,000 on the balance sheet. The shares had been redeemed at six monthly intervals on every 30 June and 31 December. In 2008 the remaining balance of the B shares were redeemed on 28 November 2008.

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

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

	2008 £'000	2007 £'000
Interim	**44**	41
Final	**3**	47
	47	88

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 benefit obligations

	2008 £'000	2007 £'000
Present value of liabilities	**32,473**	32,417
Fair value of plan assets	**(28,004)**	(31,190)
Recognised liability for defined benefit obligations	**4,469**	1,227

18. Employee benefits continued

Plan assets consist of the following:

	2008 £'000	2007 £'000
Equities	**14,701**	19,315
Bonds	**11,964**	10,150
Cash	**1,339**	1,725
	28,004	31,190

Movements in the present value of defined benefit obligations

	2008 £'000	2007 £'000
Defined benefit obligations at 1 January	**32,417**	31,734
Current service cost	**122**	131
Past service cost	**–**	15
Employee element of service cost	**28**	28
Interest cost	**1,813**	1,644
Benefits paid	**(1,419)**	(1,372)
Liabilities extinguished	**(585)**	–
Actuarial (gains)/losses	**(3,788)**	405
Currency losses/(gains)	**3,885**	(168)
Defined benefit obligations at 31 December	**32,473**	32,417

Movements in fair value of plan assets

	2008 £'000	2007 £'000
Fair value of plan assets at 1 January	**31,190**	30,063
Expected return on scheme assets	**2,049**	1,899
Employer contributions	**1,142**	650
Member contributions	**28**	28
Benefits paid	**(1,419)**	(1,372)
Assets distributed	**(610)**	–
Actuarial (losses)/gains	**(7,195)**	67
Currency gains/(losses)	**2,819**	(145)
Fair value of plan assets at 31 December	**28,004**	31,190

Expense recognised in the income statement

	2008 £'000	2007 £'000
Current service costs	**122**	131
Past service cost	**–**	15
Settlement cost	**25**	–
Interest on obligation	**1,813**	1,644
Expected return on plan assets	**(2,049)**	(1,899)
	(89)	(109)

18. Employee benefits continued

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

	2008 £'000	2007 £'000
Cost of sales	**81**	81
Distribution costs	**15**	15
Administrative expenses	**51**	50
Net financing income	**(236)**	(255)
	(89)	(109)
Actuarial (losses)/gains on plan assets	**(7,195)**	67
Actuarial gains/(losses) from liabilities	**3,788**	(405)
Net actuarial loss recognised in Consolidated statement of recognised income and expense	**(3,407)**	(339)
Cumulative actuarial loss recognised in Consolidated statement of recognised income and expense	**(5,984)**	(2,577)

	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Defined benefit obligation	**(32,473)**	(32,417)	(31,734)	(32,464)
Scheme assets	**28,004**	31,190	30,063	29,360
Deficit	**(4,469)**	(1,227)	(1,671)	(3,104)
Experience adjustments on liabilities	**3,788**	(405)	(509)	(3,283)
Experience adjustments on assets	**(7,195)**	67	812	2,017
Experience adjustments on currency	**(1,066)**	23	282	(297)

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)		
	2008	2007	2006	**2008**	2007	2006
Discount rate at 31 December	**6.25**	5.5	5.1	**6.0**	5.75	5.75
Future salary increases	**3.7**	4.1	3.6	**n/a**	n/a	n/a
Future pension increases	**3.2**	3.6	3.1	**n/a**	n/a	n/a
Inflation	**3.2**	3.6	3.1	**n/a**	n/a	n/a

The expected long-term rates of return were:

	UK Schemes (% per annum)			US Scheme (% per annum)		
	2008	2007	2006	**2008**	2007	2006
Equities	**6.5**	6.5	6.5	**8.65**	7.64	7.7
Bonds	**4.5**	4.8	5.0	**5.0**	4.7	4.7
Cash	**3.75**	4.5	4.6	**4.0**	2.8	n/a

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

18. Employee benefits continued

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2008, used PA92 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 RP2000 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.

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

The Group expects that contributions to the defined benefit plans in 2009 will be at a similar level to contributions paid in 2008.

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 lapsed during the year	Number of awards at the year end	Fair value Pence per share	Vesting period	Maturity date
April 2006	273,366	–	(82,020)	(191,346)	nil	143	3 years	April 2009
April 2007	340,330	–	(101,371)		238,959	84	3 years	April 2010
April 2008	–	355,394	–		355,394	97	3 years	April 2011
At end of year	613,696	355,394	(183,391)	(191,346)	594,353			

The awards made under the 2006 Plan have lapsed as at 31 December 2008 as the three year performance criteria was not achieved.

Further details of the Plan are included in the Report of the Remuneration Committee on pages 40 to 44.

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

	April 2008 Award	April 2007 Award	April 2006 Award
Share price	**£1.55**	£2.13	£2.63
Exercise price	**£nil**	£nil	£nil
Expected volatility	**38%**	30%	40.8%
Award life	**3 years**	3 years	3 years
Correlation premium	**47%**	42%	133.5%

The employee expense in 2008 is £154,000 (2007 expense: £196,000) (see Note 5).

19. Provisions

	Warranty £'000
Balance at 1 January 2008	779
Provisions made during the year	913
Provisions used during the year	(385)
Balance at 31 December 2008	**1,307**

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

	2008 £'000	2007 £'000
Trade payables	**7,083**	5,840
Other taxes and social security	**414**	298
Non-trade payables and accrued expenses	**3,562**	3,133
	11,059	9,271

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.

21. Financial risk management continued

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.

Foreign currency risk

Exposure to currency risks arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in exchange rates. The fair value of derivatives at 31 December 2008 is £88,000 (2007: £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".

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.

21. Financial risk management continued

Exposure to credit risk

The ageing of trade receivables at the reporting date was:

	Gross 2008 £'000	Impairment 2008 £'000	Gross 2007 £'000	Impairment 2007 £'000
Not past due	**15,272**	**-**	9,085	–
Past due 0-30 days	**2,809**	**17**	3,720	–
Past due 31-120 days	**507**	**2**	678	–
Past due 121-365 days	**180**	**21**	149	–
More than one year	**245**	**207**	220	152
Total	**19,013**	**247**	13,852	152

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

	2008 £'000
Balance at 1 January	**152**
Exchange adjustment	**47**
Impairment loss recognised	**(20)**
Provision created	**68**
Balance at 31 December	**247**

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:

	2008 $'000	2008 Euro	2007 $'000	2007 Euro
Trade receivables	**5,554**	**443**	1,648	257
Currency cash/overdrafts	**(1,988)**	**458**	(1,442)	(78)
Trade payables	**(1,873)**	**(396)**	(340)	(97)
Gross balance sheet exposure	**1,693**	**505**	(134)	82
Estimated forecast sales	**18,800**	**5,800**	12,600	6,000
Estimated forecast purchases	**(17,900)**	**(4,400)**	(15,300)	(3,100)
Gross exposure	**900**	**1,400**	(2,700)	2,900
Forward exchange contracts	**(600)**	**-**	1,000	(970)
Net exposure	**1,993**	**1,905**	(1,834)	2,012

21. Financial risk management continued

The following significant exchange rates applied during the year:

	2008 Average rate	2008 At reporting date	2007 Average rate	2007 At reporting date
USD	**1.85**	**1.46**	2.00	1.99
Euro	**1.26**	**1.05**	1.46	1.36

Exposure to liquidity risk

For non-derivative financial liabilities the Group's exposure relates principally to trade and other payables. Trade and other payables arise in the normal course of business and there are no unusual or onerous terms and conditions.

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 2008 it is estimated that a general increase of one percentage point in the value of the Euro and US dollars against UK Sterling would have reduced the Group's profit before tax by approximately £69,000 for the year ended 31 December 2008 (2007: £54,000). 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 2008 £'000	Fair value 2008 £'000	Carrying amount 2007 £'000	Fair value 2007 £'000
Trade and other receivables	**20,366**	**20,366**	15,629	15,629
Cash and cash equivalents	**4,145**	**4,145**	6,561	6,561
Forward exchange contracts – (liability)/assets*	**(88)**	**(88)**	4	4
Redeemable preference shares	**-**	**-**	(2,172)	(2,172)
Dividends on redeemable preference shares	**-**	**-**	(47)	(47)
Trade and other payables	**(11,059)**	**(11,059)**	(9,224)	(9,224)
	13,364	**13,364**	10,751	10,751

*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:

	2008 £'000	2007 £'000
Less than one year	**931**	746
Between one and five years	**2,217**	2,401
More than five years	**13**	678
	3,161	3,825

Of the £3,161,000 (2007: £3,825,000) £2,979,000 (2007: £3,566,000) 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:

	2008 £'000	2007 £'000
Contracted	**163**	217

24. Contingencies

	2008 £'000	2007 £'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 arm's length basis.

Transactions with key management personnel

Directors of the Company and their immediate relatives control 5.14% of the Company.

Details of the remuneration for the Company Directors are set out in the Report of the Remuneration Committee on pages 40 to 44. 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 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. 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 six 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 Board is aware of situations where claims arising from the indemnities are possible, but having taken legal advice, the Board considers that the risk of a material claim by any of the purchasers is sufficiently remote that no provision is required to be made.

Company balance sheet (prepared under UK GAAP)

At 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Tangible assets	31	**30**	48
Investments	32	**13,292**	13,292
		13,322	13,340
Current assets			
Debtors	33	**2,175**	1,325
Cash at bank and in hand		**6,938**	9,526
		9,113	10,851
Creditors:			
Amounts falling due within one year			
Interest- bearing loans and borrowings	36	**-**	(2,172)
Other creditors	34	**(3,611)**	(3,809)
Net current assets		**5,502**	4,870
Total assets less current liabilities		**18,824**	18,210
Net assets excluding pension fund liability		**18,824**	18,210
Pension fund liability	38	**(47)**	(43)
Net assets including pension fund liability		**18,777**	18,167
Capital and reserves			
Called up share capital	36	**591**	591
Capital redemption reserve	37	**2,232**	60
Other reserve	37	**179**	179
Profit and loss account	37	**15,775**	17,337
Equity shareholder funds		**18,777**	18,167

These financial statements were approved by the Board of Directors on 2 March 2009 and were signed on its behalf by:

Roy Burton
Group Chief Executive

C A Buckley
Group Finance Director

Notes to the Company financial statements

28. 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.

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.

28. Dialight plc Company balance sheet continued

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.

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.

29. Staff costs

Staff costs during the year were:

	2008 £'000	2007 £'000
Wages and salaries	**240**	188
Social security costs	**41**	21
Equity settled share-based payment transactions	**154**	93
Pension costs	**21**	21
	456	323

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

	2008 Number	2007 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 40 to 44.

30. Profit before tax

Profit before tax is stated after charging:

	2008 £'000	2007 £'000
Depreciation	**18**	35
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.

31. Fixed assets

	Plant, equipment and vehicles £'000
Cost	
At 1 January 2008	308
Additions	–
Disposals	–
At 31 December 2008	**308**
Depreciation	
At 1 January 2008	(260)
Charge for the year	(18)
Disposals	–
At 31 December 2008	**(278)**
Net book value at 31 December 2008	**30**
Net book value at 31 December 2007	48

32. Investments

Investments in subsidiary undertakings:

	£'000
Cost	
At 1 January 2008	18,080
Share-based payment	–
At 31 December 2008	**18,080**
Provisions:	
At 1 January 2008	(4,788)
Profit and loss account	–
At 31 December 2008	**(4,788)**
Net book value at 31 December 2008	**13,292**
Net book value at 31 December 2007	13,292

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.

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*.

33. Debtors

	2008 £'000	2007 £'000
Amounts owed by subsidiary undertakings	**1,815**	1,005
Other debtors	**59**	42
Deferred tax asset (Note 35)	**301**	278
	2,175	1,325

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

34. Creditors

	2008 £'000	2007 £'000
Amounts falling due within one year		
Other taxes and social security costs	**13**	12
Amounts owed to subsidiary undertakings	**1,304**	1,369
Corporation tax	**1,636**	1,648
Dividends payable on shares classified as debt	**-**	47
Accruals and deferred income	**658**	733
	3,611	3,809

35. Deferred tax asset

	2008 £'000	2007 £'000
At 1 January	**295**	191
Profit and loss account	**2**	55
Recognised in equity	**22**	51
Transfer to corporation tax	**-**	(2)
At 31 December	**319**	295
An analysis of deferred tax is as follows:		
Capital allowances	**38**	34
Short-term timing differences	**263**	244
Debtors (see Note 33)	**301**	278
Pension liability (see Note 38)	**18**	17
	319	295

36. Called up share capital

	2008 Number	2008 £'000	2007 Number	2007 £'000
Authorised				
Ordinary shares of 1.89p each	**38,624,400**	**730**	38,624,400	730
Non-equity B shares of 75p each	**2,976,152**	**2,232**	2,976,152	2,232
Issued and fully paid				
Ordinary shares of 1.89p each	**31,239,501**	**591**	31,239,501	591
Non-equity B shares of 75p each	**-**	**-**	2,896,336	2,172
		591		2,763
Shares classified as liabilities		**-**		2,172
Shares classified in shareholder funds		**591**		591
		591		2,763

During the year the Company redeemed the balance of the B shares. The holders of B shares had not been 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 had the right to attend the general meeting and were entitled to speak and vote only on any such resolution.

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

	Ordinary shares		Redeemable 'B' Preference shares	
Share capital	**2008**	2007	**2008**	2007
In issue at 1 January	**31,239,501**	31,239,501	**2,911,760**	2,911,760
Shares redeemed	**-**	–	**(2,911,760)**	(15,424)
Issued and fully paid at 31 December	**31,239,501**	31,239,501	**-**	2,896,336

36. Called up share capital continued

Share-based payments

Performance Share Plan

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

During the year 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 lapsed during the year	Number of awards at the year end	Fair value Pence per share	Vesting period	Maturity date
April 2006	273,366	–	(82,020)	(191,346)	nil	143	3 years	April 2009
April 2007	340,330	–	(101,371)	–	238,959	84	3 years	April 2010
April 2008		355,394	–	–	355,394	97	3 years	April 2011
At end of year	**613,696**	**355,394**	**(183,391)**	**(191,346)**	**594,353**			

The awards made under the 2006 Plan have lapsed as at 31 December 2008 as the three year performance criteria was not achieved.

Further details of the Plan are included in the Report of the Remuneration Committee on pages 40 to 44.

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

	April 2008 Award	April 2007 Award	April 2006 Award
Share price	**£1.55**	£2.13	£2.63
Exercise price	**£nil**	£nil	£nil
Expected volatility	**38%**	30%	40.8%
Award life	**3 years**	3 years	3 years
Correlation premium	**47%**	42%	133.5%

The employee expense in respect of the Plan awards is £154,000 (2007 expense: £93,000) (see Note 29).

37. Capital and reserves

	Share capital £'000	Capital redemption reserve £'000	Other reserve-Capital contribution £'000	Profit and loss account £'000	Total £'000
At 1 January 2008	591	60	179	17,337	18,167
Net expense recognised in equity	–	–	–	(58)	(58)
Profit for the year	–	–	–	2,547	2,547
Dividends to shareholders	–	–	–	(1,843)	(1,843)
B shares redeemed	–	2,172	–	(2,172)	–
Share-based payments	–	–	–	154	154
Own shares purchased	–	–	–	(190)	(190)
At 31 December 2008	**591**	**2,232**	**179**	**15,775**	**18,777**

Own shares purchased comprises the cost of the Company's shares held by the Group.
At 31 December 2008 the number of shares held by the Group through the Share Ownership Trust was 256,000 (2007: 156,000). The market value of these shares at 31 December 2008 is £289,000 (2007: £200,000).

The Capital Contribution reserve is non-distributable and arises from the accounting for share-based payments (see Note 36).

37. Capital and reserves continued

The profit for the year was £2,547,000 (2007: deficit £53,000). Net expenses recognised directly in equity relate to the net actuarial loss (net of deferred tax) arising in respect of the pension scheme.

	2008 £'000	2007 £'000
Profit and loss reserve excluding pension liability	**15,822**	17,380
Pension reserve	**(47)**	(43)
Profit and loss reserve	**15,775**	17,337

Reconciliation in movement in shareholders' funds

	2008 £'000	2007 £'000
Profit/(loss) for the year	**2,547**	(53)
Other gains and losses	**(58)**	(131)
Dividends	**(1,843)**	(1,687)
Share-based payments	**154**	196
Own shares purchased	**(190)**	–
Net addition/(reduction) to shareholder funds	**610**	(1,675)
Opening shareholder funds	**18,167**	19,842
Closing shareholder funds	**18,777**	18,167

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	2008 £'000	2007 £'000
3.9p per ordinary share (2007: 3.8p)	**1,218**	1,187

During the year the following dividends were paid:

	2008 £'000	2007 £'000
Interim – 2.1p per ordinary share (2007: 1.9p)	**656**	594
2007 Final – 3.8p per ordinary share (2006: 3.5p)	**1,187**	1,093
	1,843	1,687

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

	2008 £'000	2007 £'000
Interim	**44**	41
Final	**3**	47
	47	88

38. Pensions

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

Recognised asset for defined benefit obligations

	2008 £'000	2007 £'000
Present value of liabilities	**(1,338)**	(2,003)
Fair value of plan assets	**1,273**	1,943
Recognised liability for defined benefit obligations	**(65)**	(60)
Deferred tax (see Note 35)	**18**	17
Pension liability net of deferred tax	**(47)**	(43)

Plan assets consist of the following:

	2008 £'000	2007 £'000
Equities	**-**	477
Bonds	**1,247**	1,343
Cash	**26**	123
	1,273	1,943

Movements in the present value of defined benefit obligations

	2008 £'000	2007 £'000
Liabilities at 1 January	**2,003**	1,791
Current service cost	**35**	30
Past service cost	**-**	15
Employee element of service cost	**23**	5
Interest cost	**111**	91
Liabilities extinguished	**(585)**	–
Benefits paid	**(21)**	(48)
Actuarial (gains)/loss	**(228)**	119
Liabilities at 31 December	**1,338**	2,003

Movements in fair value of plan assets

	2008 £'000	2007 £'000
Assets at 1 January	**1,943**	1,883
Expected return on scheme assets	**97**	101
Employer contributions	**149**	56
Member contributions	**5**	5
Benefit paid	**(21)**	(48)
Assets distributed	**(610)**	–
Actuarial loss	**(290)**	(54)
Assets at 31 December	**1,273**	1,943

38. Pensions continued

Expense recognised in the profit and loss account

	2008 £'000	2007 £'000
Current service costs	**35**	30
Past service cost	**–**	15
Settlement cost	**25**	–
Interest on obligation	**111**	91
Expected return on plan assets	**(97)**	(101)
	74	35

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

	2008 £'000	2007 £'000
Administrative expenses	**60**	45
Net financing income	**14**	(10)
	74	35
Actuarial loss on plan assets	**(290)**	(54)
Actuarial loss from liabilities	**228**	(119)
Net actuarial loss recognised in Statement of recognised gains and losses	**(62)**	(173)
Cumulative actuarial loss recognised in Statement of recognised gains and losses	**(398)**	(336)

	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Defined benefit obligation	**(1,338)**	(2,003)	(1,791)	(1,587)
Scheme assets	**1,273**	1,943	1,883	1,807
Deficit	**(65)**	(60)	92	220
Experience adjustments on liabilities	**228**	(119)	(120)	(295)
Experience adjustments on assets	**(290)**	(54)	(43)	295

Liability for defined benefit obligations

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

	UK Schemes (% per annum)		
	2008	2007	2006
Discount rate at 31 December	**6.25**	5.5	5.1
Future salary increases	**3.7**	4.1	3.6
Future pension increases	**3.2**	3.6	3.1
Inflation	**3.2**	3.6	3.1

38. Pensions continued

The expected long-term rates of return were:

	UK Schemes (% per annum)		
	2008	2007	2006
Equities	**6.5**	6.5	6.5
Bonds	**4.5**	4.8	5.0
Cash	**3.75**	4.5	4.6

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2008, 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 2009 will be at a similar level to contributions paid in 2008.

39. Operating lease commitments

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

Land and buildings which expire

	2008 £'000	2007 £'000
Between one and two years	**25**	–
Between two and five years	**-**	25

40. 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 2008 £'000	**Fair value 2008 £'000**	Carrying amount 2007 £'000	Fair value 2007 £'000
Debtors	**59**	**59**	42	42
Cash and cash equivalents	**6,938**	**6,938**	9,526	9,526
Redeemable preference shares	**-**	**-**	(2,172)	(2,172)
Dividend on preference shares	**-**	**-**	(47)	(47)
Creditors	**(671)**	**(671)**	(745)	(745)
(Issued and fully paid at 31 December)	**6,326**	**6,326**	6,604	6,604

Further details are set out in Note 21.

41. Related party transactions

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

This information is important and requires your immediate attention. If you are in doubt about the content or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant or other professional adviser. 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.

Notice is hereby given that the Annual General Meeting of Dialight plc (the "Company") will be held on Wednesday 13 May 2009 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 2008, together with the Directors' report, the Directors' remuneration report and the Auditors' report on those accounts and on the auditable part of the Directors' remuneration report.
2. To declare a final dividend of 3.9p 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 Rob Jeens who retires by rotation in accordance with the Company's Articles of Association.
5. To re-appoint Cathy Buckley 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 that:

   (a) the maximum aggregate number of ordinary shares authorised to be purchased is 3,123,951 (representing 10% of the issued ordinary share capital);

   (b) the minimum price which may be paid for an ordinary share is 1.89p;

   (c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made;

   (d) this authority expires at the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2010 and the close of business on 30 June 2010; 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:

   "THAT, in substitution for all existing authorities, the Directors be generally and unconditionally authorised to exercise all the powers of the Company to allot:

   (a) relevant securities (as defined in the Companies Act 1985) up to an aggregate nominal amount of £196,808; and

   (b) relevant securities comprising equity securities (as defined in the Companies Act 1985) up to an aggregate nominal amount of £393,617 (such amount to be reduced by the aggregate nominal amount of relevant securities issued under paragraph (a) of this resolution 7) in connection with an offer by way of a rights issue:

   (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter,

such authorities to apply until the earlier of the conclusion of the Annual General Meeting of the Company held in 2010 and the close of business on 30 June 2010 but, in each case, so that the Company may make offers and enter into agreements before the authority expires which would, or might, require relevant securities to be allotted after the authority expires and the Directors may allot relevant securities under any such offer or agreement as if the authority had not expired."

8. To pass the following resolution as a special resolution:

"THAT, in substitution for all existing powers and subject to the passing of resolution 7, the Directors be generally empowered to allot equity securities (as defined in the Companies Act 1985) for cash pursuant to the authority granted by resolution 7 and/or where the allotment constitutes an allotment of equity securities by virtue of section 94(3A) of the Companies Act 1985, in each case free of the restriction in section 89(1) of the Companies Act 1985, such power to be limited:

(a) to the allotment of equity securities in connection with an offer of equity securities (but in the case of an allotment pursuant to the authority granted by paragraph (b) of resolution 7, such power shall be limited to the allotment of equity securities in connection with an offer by way of a rights issue only):

(i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

(b) to the allotment of equity securities pursuant to the authority granted by paragraph (a) of resolution 7 and/or an allotment which constitutes an allotment of equity securities by virtue of section 94(3A) of the Companies Act 1985 (in each case otherwise than in the circumstances set out in paragraph (a) of this resolution 8) up to a nominal amount of £29,521 calculated, in the case of equity securities which are rights to subscribe for, or to convert securities into, relevant shares (as defined in the Companies Act 1985) by reference to the aggregate nominal amount of relevant shares which may be allotted pursuant to such rights,

such power to apply until the earlier of the conclusion of the Annual General Meeting held in 2010 and the close of business on 30 June 2010 but so that the Company may make offers and enter into agreements before the power expires which would, or might, require equity securities to be allotted after the power expires and the Directors may allot equity securities under any such offer or agreement as if the power had not expired."

9. To pass the following as an ordinary resolution:

"To approve the Directors' remuneration report for the financial year ended 31 December 2008".

10. To pass the following resolution as a special resolution:

"THAT a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice."

11. To pass the following as an ordinary resolution:

"THAT the authorised ordinary share capital of the Company be increased from £730,001.16 divided into 38,624,400 ordinary shares of 1.89p each in the Company to £984,044.9997 divided into 52,065,873 ordinary shares of 1.89p each in the Company by the creation of 13,441,473 new ordinary shares of 1.89p each in the Company".

By order of the Board

C A Buckley
Company Secretary

2 March 2009

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 a right and does not wish to exercise it, he may have a right under an agreement with the relevant member to give instruction 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 Registrar Services, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZR not less than 48 hours (excluding any part of a day that is not 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 6.00 pm on Monday 11 May 2009 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 6.00 pm on Monday 11 May 2009 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 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.
6. 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 from of representation letter if the Chairman is being appointed as described in (i) above.
7. At 27 February 2009 (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 27 February 2009 are 31,239,501.

Five year summary

For the years ended 31 December

Prepared under IFRS

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Turnover	**77.9**	63.4	62.3	56.1	118.9
Research and development expenditure	**3.2**	2.6	2.6	2.4	4.9
Operating profit	**5.3**	3.9	5.3	3.9	12.7
Finance income/(charges)	**0.3**	0.6	0.5	0.5	(0.2)
Profit before gain on disposal of discontinued operations and taxation	**5.6**	4.5	5.8	4.5	12.5
Operating cash flow	**6.0**	5.8	2.2	4.9	15.5
Net cash	**4.1**	4.4	2.2	7.6	6.8
Shareholders' funds	**37.5**	30.8	29.7	28.9	50.5

Statistical information	**Pence**	Pence	Pence	Pence	Pence
Earnings per ordinary share – Basic	**11.2**	8.8	11.8	10.1	27.4
Dividends per share	**6.0**	5.7	5.25	6.4	11.0
Dividend cover (times)	**1.9**	1.5	2.2	14.1	2.5
Operating margin before goodwill	**6.8%**	6.2%	8.5%	8.7%	10.7%
Turnover					
– Continuing operations	**77.9**	63.4	62.3	56.1	55.3
– Discontinued operations					63.6
Operating profit					
– Continuing operations	**5.3**	3.9	5.3	3.9	4.4
– Discontinued operations				4.4	8.3
	5.3	3.9	5.3	8.3	12.7

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