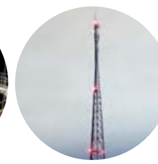
Dialight

World leader in applied LED technology
Annual Report 2009










A proven strategy that's good for

People, Planet and Profits

Highlights

£46.4m

Signals/Illumination revenue (2008: £43.4m)

£77.3m

Full year revenues maintained (2008: £77.9m)

£5.5m

Operating profit (2008: £5.3m)

£9.1m

Cash balance (2008: £4.1m)

4.3p

Second interim dividend (Final 2008: 3.9p)

Our aim:

Low cost. Low carbon. High growth.

Reducing the cost of ownership and the cost to our environment. Increasing the potential for profits.

Cost savings: Signalled
Changing a failed light bulb may not be a simple or cost effective task, especially when maintenance crews need to shut down lanes of traffic, climb a tower or devise scaffolding to climb above a petro chemical plant. With a life expectancy of up to 10 years along with significant maintenance savings, Dialight's products combine elements of both safety and reliability.

Carbon savings: Indicated
With governments and organisations worldwide setting goals to reduce CO_2 emissions, our LED products are providing assistance to meet these sustainability objectives across the board. For example, one of our white light fixtures can save almost 1 tonne of CO_2 per year.

Energy savings: Illuminated
Lighting is responsible for 20% of world electricity consumption, of which 65% is consumed in non-domestic applications[1]. In many circumstances, Dialight's LED fixtures can save up to 60% energy consumption per fixture. The potential for further dramatic cuts in energy use compared to traditional lighting fixtures is clear.

1 Figures based on calculations provided by the US Department of Energy.

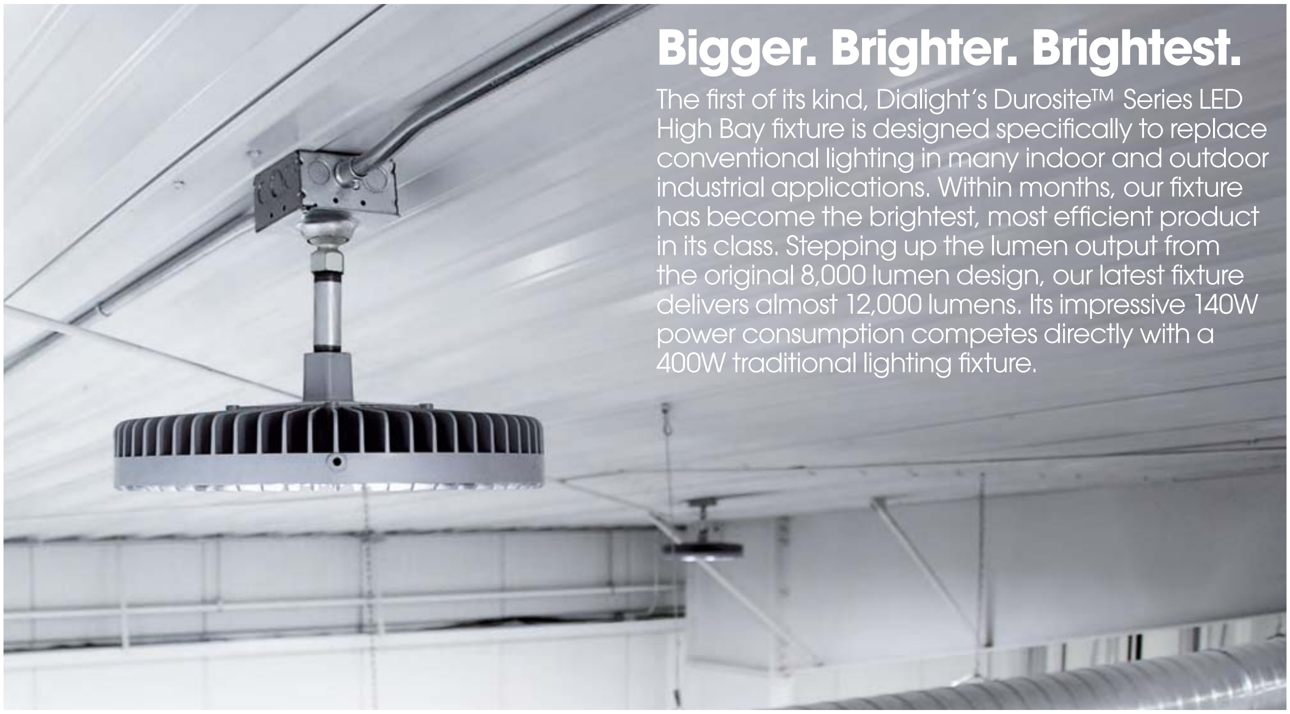
Our products:

We signal. We indicate. We illuminate.

Our high-brightness LEDs show the way forward.

Dual Strobe first generation
Date manufactured 2007

Dual Strobe second generation
Date manufactured 2008



Bigger. Brighter. Brightest.

The first of its kind, Dialight's Durosite™ Series LED High Bay fixture is designed specifically to replace conventional lighting in many indoor and outdoor industrial applications. Within months, our fixture has become the brightest, most efficient product in its class. Stepping up the lumen output from the original 8,000 lumen design, our latest fixture delivers almost 12,000 lumens. Its impressive 140W power consumption competes directly with a 400W traditional lighting fixture.

Smaller. Brighter. Greener. The evolution of our Dual LED Beacon fixture.

A prime example of our Engineering department's technology progress and innovative design. As fixture weight falls and light output improves, our dual beacon becomes the obvious choice for tower owners worldwide. Evolving from six levels of LEDs and close to 90 pounds in weight, we're currently providing our customers with a single level, 25 pound solution providing the same light output.

Dual Strobe third generation
Date manufactured 2009

→

Dual Strobe fourth generation
Date manufactured December 2009

Infrastructure applications:

Eco-friendly. Bottom line-friendly.

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

Sustainable lighting supports sustainable cities.

Confirming our eco-friendly credentials, we're sponsoring the Sustainable Cities Programme for the UK's Commission for Architecture and the Built Environment, CABE. The programme aims to cut through the complexities of the climate change debate to provide expert advice, offer priorities for action and describe good practice in sustainable urban design and management.

For further information log on to
www.dialight.com/News/InvestorDetails/cabe_programme

Industrial and commercial applications:

Helping a green company go greener.

Frontline International produces equipment for recycling oil as an alternative renewable fuel. Dialight's highly energy efficient LED High Bay lighting fixtures are helping them meet customer expectations for environmentally responsible sustainable practices. Compared with the 400W fixtures needed to provide the same light output, each Dialight LED fixture delivers an annual energy saving of more than $300. Combined energy and maintenance savings result in a payback of less than a year.

Lower maintenance. Lower profile.

Zero maintenance. A vast reduction in energy consumption. A simple retrofit to existing applications, our Durosite Series LED High Bay fixture, replacing traditional lighting, brings important benefits.

For further information log on to
www.dialight.com/News/Details/frontline_case_study

Product comparison
Left: Non Dialight Traditional 400 watt High Pressure Sodium High Bay Unit
Right: Dialight's new 150 watt LED High Bay fixture

Hazardous locations:

Safer for the planet. Safer for people. Safer for profits.

It's a WIN, WIN, WIN situation for the rapidly growing array of customers specifying Dialight LED lighting. The environment gains, as LED installations cut CO_2 emissions markedly below the levels of traditional incandescent lighting. The workforce gains, as our LED lights shine brighter and last longer, creating safer working conditions and reducing the need for maintenance in hazardous locations. Crucially, the bottom line gains, as long-lasting LED lighting cuts energy and replacement costs.

Power station cuts power consumption
A large Australian power station has dramatically cut its operating and maintenance costs and achieved better illumination by switching to Dialight LED fixtures. Our Durosite™ Series LED Linear Lighting fixtures are being installed on walkways, gantries, workshops and storerooms, while Dialight SafeSite® Series fixtures are being used for specific worksite tasks. Apart from lower running costs and fewer health & safety risks, the power station has made major cuts in its greenhouse gas emissions.

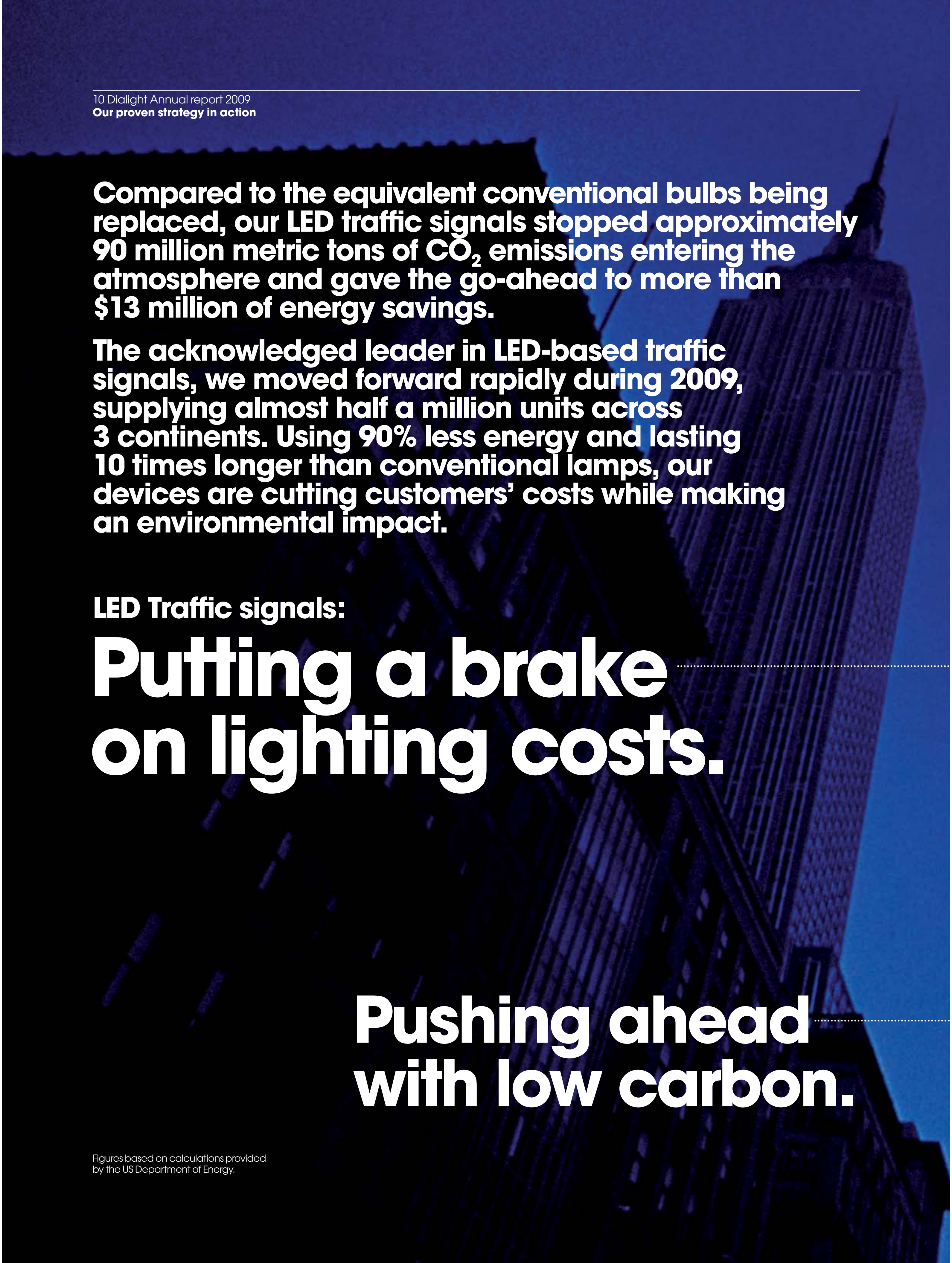
For further information log on to
www.dialight.com/News/Details/australian_power_station

Before Dialight LED lighting was installed

Brighter, whiter light for a quarter of the energy cost.

Henkel, world leader in adhesives and sealants, has cut energy costs by 75% after installing Dialight LED lighting at its Puerto Rico water treatment plant. Replacing 16 High Pressure Sodium 250 watt lights with just 12 Dialight 100 watt SafeSite® LED fixtures, the company has cut power consumption and gained a brighter, more natural, less yellow lighting system.

For further information log on to
www.dialight.com/News/Details/henkel_case_study



Compared to the equivalent conventional bulbs being replaced, our LED traffic signals stopped approximately 90 million metric tons of CO_2 emissions entering the atmosphere and gave the go-ahead to more than $13 million of energy savings.

The acknowledged leader in LED-based traffic signals, we moved forward rapidly during 2009, supplying almost half a million units across 3 continents. Using 90% less energy and lasting 10 times longer than conventional lamps, our devices are cutting customers' costs while making an environmental impact.

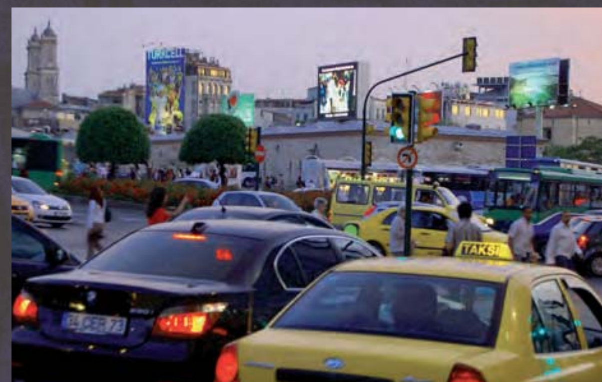
LED Traffic signals:

Putting a brake on lighting costs.

Pushing ahead with low carbon.

Figures based on calculations provided by the US Department of Energy.

US confirms commitment to LED lighting
The state of New Mexico has ordered over 8,000 individual Dialight LED traffic signals as the first phase of a programme to replace its incandescent lighting. Delivering energy savings of over 90% per signal, the changeover is expected to save the state around $500,000 in annual electricity costs.



Turkey signals LED growth in Europe
Impressed by opportunities to avoid high running costs, high levels of disruptive maintenance and high CO_2 emissions, Turkey's highway authority is installing 20,000 Dialight LED traffic signals. The units have a life expectancy of up to 10 years, and consume less than 10 watts compared to the 50 watts used by a Halogen bulb.

Preparing for future growth.

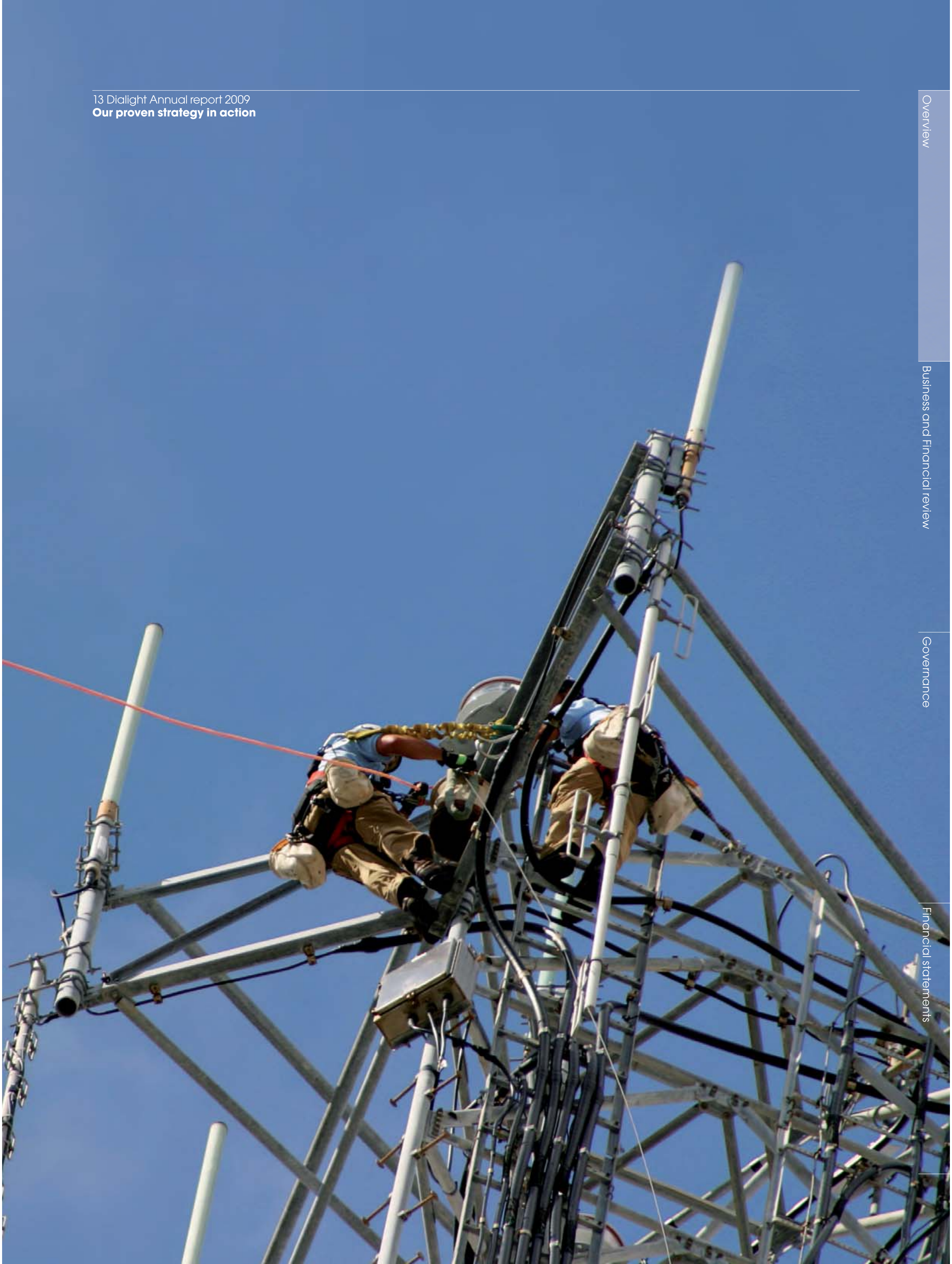
150 mph winds may spin wind turbines but they won't shift our red beacons
Wind-blown rain. High humidity. Salt fog. Temperatures down to -40 or up to 55 Celsius. Whatever the prevailing weather conditions, our LED based red beacons shine brightly. Our patented optical design creates the sharpest cut-off beam in the industry, achieving near-zero light pollution at ground level while beaming 2000 candelas to aircraft pilots. Consuming 90% less energy than the incandescent light it normally replaces, our D264 Series beacon is resistant to shock, vibration and all other hazards during its 5-year warranty period.

Our White Strobe Technology climbs higher
A second major US telecom tower operator is to use Dialight's unique LED technology for all new towers, all light replacements and all repairs. The only product in its class, our LED dual strobe avoids the need for dangerous and expensive tower climbs and has a life expectancy of at least 10 years.

LED Obstruction lighting:

Towering ahead in low cost, energy efficient lighting.

Beacons of optimism in the drive to cut costs and greenhouse gas emissions, our LED obstruction lighting continues to gain worldwide sales success. During 2009, we signed two major agreements to supply our LED white strobe technology to leading US telecom tower operators. Apart from the running cost and carbon-cutting benefits, the operators appreciate our units' 10-year life expectancy, cutting out expensive and dangerous tower climbs to replace conventional light sources.



Our smart meter switching solutions turn you on… and off… safely.

Embraced by major utilities in the United States, our disconnect switch supports the US Advanced Meter Infrastructure Initiative, a move to introduce "smart" metering for the "smart grid".

Smart Metering: Governments switch to the 'ON' position
Across North America and Europe, governments are moving towards smart metering and we expect to play a major role in this switchover. In the United States alone, there are over 100 million domestic electricity meters to be upgraded, so the potential business opportunity for Dialight is huge.

More smart decisions
In December 2009, the UK Department for Energy and Climate Change ("DECC") announced that gas and electricity smart meters would be rolled out by energy suppliers to every home in the UK. The DECC has suggested that there will be 47 million meters installed by 2020.

Chairman's statement.

Dialight's strategy of addressing large niche markets, each with a measure of barrier to entry continues to generate success even in difficult economic conditions. 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.

Harry Tee
Chairman

Dialight's Signals/Illumination segment addresses the increasing demands for ultra efficient lighting solutions and through the use of the best high brightness LEDs and the incorporation of Dialight's unique engineering skills, customers are provided with compelling value propositions which deliver not only financial benefits but are also supportive of our environment.

Financial results

Given the difficult markets in the first half of the year we are pleased to have delivered overall revenues of £77.3 million (2008: £77.9 million). An increase in Group operating profit to £5.5 million (2008: £5.3 million) was achieved following a very strong second half performance. These results provide a solid base for the coming year.

The Signals/Illumination segment, which is central to the Group's growth strategy, increased segment profit by £1.6 million to £3.3 million on a revenue increase of £3.0 million.

Tight control of working capital helped deliver a significant increase in operating cash flow leading to a year end net cash balance of £9.1 million, an increase of £5.0 million over 2008.

Dividend

The Board has declared a second interim dividend of 4.3p per share (2008 Final: 3.9p). This dividend will be paid on 1 April 2010 to shareholders on the register at close of business on 12 March 2010. The total dividend in respect of 2009 is 6.6 pence per share and the dividend cover is 2.7 times.

Board changes

At the Annual General Meeting in May 2009, Bill Whiteley retired as a director of the Company and since then we have appointed two Non-Executive Directors. Bill Ronald comes with extensive international marketing expertise while Richard Stuckes brings experience of the lighting industry. Both are making a very valuable contribution to the development of Dialight. At the end of 2009 Cathy Buckley, who was our Finance Director, left the Company and George Ralph joined the Board as Interim Finance Director. We are actively seeking a new Finance Director and an announcement 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.

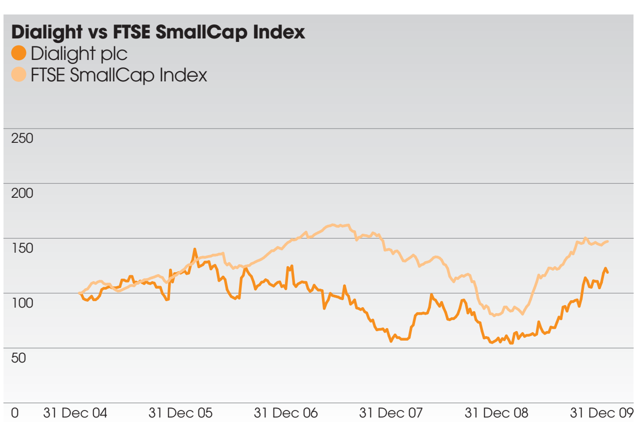
Current trading and outlook

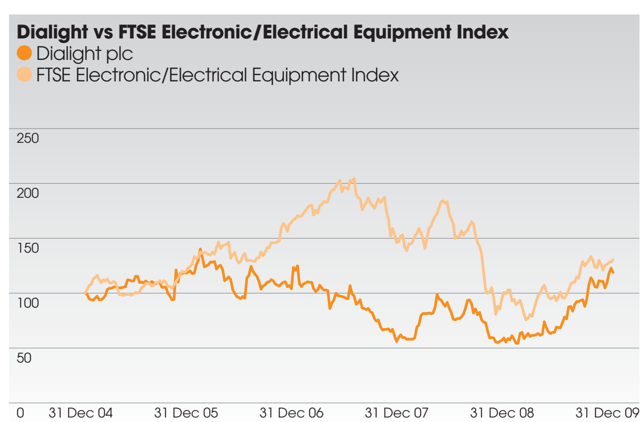
While the Signals and Illumination business continues to deliver increased revenues it is still at the early stages of what the Board believe will be a period of high growth as LED technology becomes increasingly adopted in the lighting sector. 2010 represents a very exciting period for Dialight when every new lighting product opens up yet greater potential for growth.

The Component businesses felt the effects of the global economic downturn but we were pleased to see some recovery in these markets in the second half of the year, and this recovery has been maintained in the first few months of 2010.

The Board continues to be confident in the Group's strategy of focusing on substantial niche markets in ultra efficient lighting and signalling and believes that the Group has excellent prospects.

Harry Tee CBE
Chairman





Our strategy at a glance.

Our strategy	
Identify niche markets	▸ Focus on niche markets with compelling operational and cost efficiency benefits for our customers and expand our presence in fresh markets enabled by advances in LED technology.
Focus on research and development	▸ Use our technological expertise in thermal management, optics and electronic circuitry to develop innovative products in niche markets.
Develop defensible technology	▸ Create Intellectual Property across all research teams and develop new products incorporating this defensible technology.
Selective acquisitions	▸ Consider acquisitions with valid channel to market, strong geographical coverage and proven technology.
Protect our profits	▸ Use our low cost manufacturing base and continually review and monitor potential cost-saving opportunities to reduce our material cost.

Pittsburgh, along with 14 other North American cities, undertook trials involving Dialight's newly introduced StreetSense™ Series LED Street Light products and are motioning towards funding approval for a massive overhaul, funded by the American Recovery and Reinvestment Act of 2009.

Pennsylvania based utility PPL installed our LED Dual Beacons on the chimneystacks at their Bangor facility, replacing the traditional Xenon-based strobes previously installed.

Business and Financial review:
Operating review

Despite difficult global economic conditions, our Signals and Illumination business saw full year revenues increase by 7% on the prior year, driven by a record second half performance, with second half revenues up by over 18% on the first half. We believe that the Signals and Illumination business is at the early stages of worldwide growth and the performance in 2009 provides a very solid foundation for the coming year. Our component activities were affected to a greater extent by the global economic downturn with revenues down on the previous year.

Over 60% of Dialight's business was derived from the high growth Signals and Illumination sector in 2009 and we anticipate this ratio will increase as markets continue to grow strongly, driven by both the need to reduce energy consumption and strong financial returns from investment in this new technology.

Dialight is well positioned as a green company in an area of technology that is starting to show strong growth and is disrupting the traditional lighting market.

"Dialight is well positioned as a green company in an area of technology that is starting to show strong growth and is disrupting the traditional lighting market".

Roy Burton
Group Chief Executive

Signals/Illumination segment

	2009	2008
Sales	**£46.4 million**	£43.4 million
Segment profit	**£3.3 million**	£1.7 million

After a slow start to the year the Signals/Illumination Segment returned revenue growth of 7% for the year with significant improvement being seen in the second half as the Group's strategy for growth took effect in spite of continuing economic pressures. While the revenue increase was pleasing it is the improvement in margins that made the big difference to segment profits with 2009 showing almost a 100% gain on 2008 as a consequence of higher value add products and cost down initiatives in the engineering processes.

Traffic Signals

Sales into the European traffic market grew almost 18% in the second half of the year after a slow first half to finish flat year on year. Throughout Europe, sales of LED traffic lights are channelled through systems suppliers such as Siemens AG, who supply turnkey installations to local authorities ensuring a correct interface between our LED module and their unique controller systems.

Dialight currently supplies the majority of lights to the two largest systems OEMs in the UK. The level of adoption of LED traffic lights in the UK is increasing significantly and Dialight is well positioned to benefit from this development. In late 2009 Transport for London issued a tender for LED traffic lights which we would expect to be the first step in a programme to fit all existing traffic lights across the capital with LED Signals. A number of other cities are also showing strong interest in retrofits and it is hoped that 2010 could see that interest turn into further business for the Group. In order to share the benefits of using LED technology with cities in the UK, Dialight has become the major sponsor of the CABE Sustainable Cities Programme during the year.

Business and Financial review:
Operating review continued

In the remainder of Western Europe, sales were relatively flat compared to 2008. Performance in Eastern Europe was very weak for the year in contrast to its strong contribution in the previous year. At the end of 2009 a major order was secured to supply 20,000 of our state-of-the-art LED traffic signals to the Turkish market. This provides both a strong start to 2010 and some indication of an upturn in business in Eastern Europe. The overall European market is expected to show strong growth over the coming years as LED adoption increases from its current low levels.

The market for LED traffic signals in the US has become mature as almost 70 % of all traffic lights have been converted to LEDs. We do not expect to see sustained growth in this market going forward and sales were down against 2008 due primarily to fewer major projects occurring in 2009 compared with the prior year. The underlying business, however, remains sound, supported by Dialight's strong dealer network. We are starting to see some replacement of the original LED traffic lights sold by Dialight in the late 1990's and early 2000's which we believe will sustain a steady business for the years to come. Dialight remains the major supplier to this market.

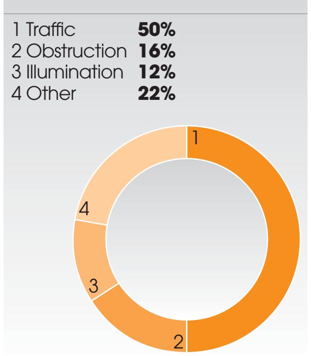
Obstruction lighting

Dialight was the first producer of LED based lights for the aircraft obstruction market in 2002. For the first five years, all products were based on red LEDs and were sold for use on radio and television broadcast towers and on tall buildings in and around airports. With the growth in use of wind turbines in North America, we saw some growth due to the use of these lights to indicate to pilots the presence of wind farms. In the United States the requirement for such lights is highly regulated by the Federal Aviation Authority and the marking of tall structures is mandatory.

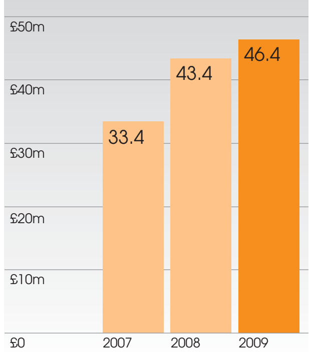
A major use of aircraft obstruction lighting has been for towers used in the cellular telephone market and US regulations call for lighting all those towers over 199 feet. These structures are typically lit by a white xenon strobe light during the day and an adaptation of that light that is coloured red for night operations. At present, it is extremely costly to change the light. Additionally, xenon strobes have proved to be somewhat unreliable and need to be changed at least every 18 months. The availability of a long life light source for this application is highly beneficial to the tower operators although the brightness required has been very difficult to achieve other than with this xenon strobe. In late 2007 however, Dialight introduced an LED equivalent of this white strobe light which, whilst it had the same light output as the xenon product, had a lifetime that was several times longer thus avoiding the need for expensive and dangerous replacement of lights.

The first version of this light was heavier and more expensive than the conventional strobe but served to whet the appetite of the market for a product with a guarantee of long life. As is typical for our Company, this initial product has been improved to the point where the latest version weighs only 25 pounds (original 90 pounds) with a price only slightly above the conventional light.

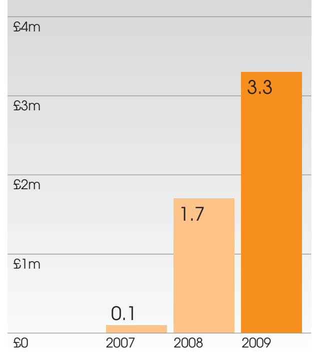
Signals/illumination 2009
Breakdown by markets



3 years Signals/illumination
Revenue



3 years Signals/illumination
Segment profit



As with all our products, this is guaranteed for five years against operating failure and we fully expect a useful life of ten or more years with no maintenance.

This is a conservative market and the first improved versions sold only 300 units in 2008. In 2009, the value proposition for our customers had become compelling and we had sales of over 1000 units. In addition we secured two major contracts with operators of cell phone towers which alone offer the possibility of doubling the units sold in 2010. The installed base of conventional lights in North America is believed to be over 80,000 units giving a market potential of over $250 million. We believe we have reached the "tipping point" for product adoption and at the current time there are no other qualified products in the marketplace.

Sales in obstruction lighting grew by over 50% in 2009 to £7.1 million (2008: £4.6 million) in a year of economic downturn and tight capital budgets.

Solid state lighting

Sales of lighting for architectural and entertainment use were adversely affected due to the worldwide recession and recovered only slowly throughout the year. Spending for these applications tends to be largely discretionary and as such is likely to be the first item to be cut from any budget. Whilst Dialight has a range of products that serve these markets they are sold through a network of lighting partners who see our products as complementary to their existing range of conventional lights.

Our primary focus in solid state lighting is in the area of Industrial Lighting and in particular for lighting used in hazardous or rugged applications. In 2008, we launched SafeSite®, an LED Area Downlight which was the first such light qualified to Underwriter's Laboratory Standards for use in environments where explosive gases or vapours may be present. In addition to its rigorous qualification, this light uses 60% less energy than its conventional equivalent and is guaranteed by Dialight to perform for at least five years of continuous operation. This guarantee was unprecedented in the world of conventional lighting when we launched our first product. Sales in the first year were modest but with several trials at "blue chip" customers, sales almost doubled in 2009 with accelerated adoption in the second half. As with all new technology product introductions, take up is slower than we would wish but the recent increase in adoption gives us confidence that 2010 will show strong growth. The majority of sales to date have been in North America but in the second half of 2009, SafeSite® was granted ATEX approval allowing it now to be sold in international markets.

Towards the end of 2009 we introduced new extensions to the SafeSite® range and in particular a High Bay circular flood light which in its higher output versions comes close to replacing a 400 watt metal halide light whilst using only 140 watts. This has been very enthusiastically received and whilst we enjoyed only two months of sales in 2009, the number of these new fixtures sold has already hit a strong run rate. This light, whilst having been designed for the same harsh environments as our initial product, has been adopted for use in cold stores and warehouses and is being tried in a number of installations on both sides of the Atlantic. Its long life, energy efficiency and ability to be turned on and off instantly with no degradation to lifetime or reliability has allowed Dialight to compete in even broader market areas.

Our StreetSense™ Series LED Street Light is a highly energy-efficient and "green" alternative to conventional street lighting. It's designed as an energy saving alternative to the older mercury vapour, high-pressure sodium and metal halide fixtures currently used in street lighting applications.

With recent US government legislation mandating that mercury vapour lamps and all 150–500 watt metal halide fixtures must be replaced with more energy efficient alternatives, the New Jersey Department of Transport chose Dialight's StreetSense™ Series Roadway Sign Light as a viable alternative.

Business and Financial review:
Operating review continued

2010 will also see the introduction of further LED fixtures to extend the applications addressed by our products although remaining largely within the same rugged, regulated industrial markets. In addition we will be following our usual path of continuous improvement of these products to enhance the value proposition to our customers and to drive adoption of LED technology into our chosen markets. The improvement in cost and performance of white LEDs helps us enable more applications and from introduction of the High Bay light in late 2009 we are now shipping versions with a 50% improvement in light output with little increase in power consumption and only modest increase in cost. Dialight's ability to quickly introduce new products to the market and to drive continuous performance improvement is a major strength and a real point of difference versus a typical lighting supplier.

There has been much interest in the USA in using "stimulus" funds for LED street lights and there are trials ongoing in several cities to evaluate various product offerings. Dialight is participating in a number of these trials. In many cases these lights are bought by the same people who buy our traffic lights and recognise Dialight as a leader in the application of LEDs and can attest to the reliability and performance of our products. In the UK we have recently installed a small trial in the City of Edinburgh and once again hope to use the Sustainable Cities Initiative as a forum to bring information to this market.

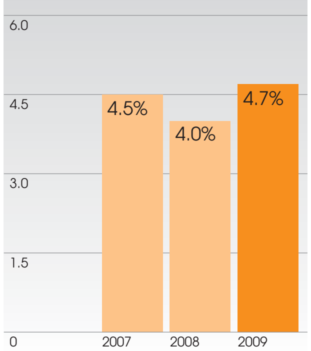
Component Segments

	2009	2008
Segment sales		
LED Indication Components	**£17.6 million**	£19.4 million
Electromagnetic Disconnects	**£13.3 million**	£15.1 million
Total segment sales	**£30.9 million**	£34.5 million
Segment profits		
LED Indication Components	**£3.2 million**	£4.9 million
Electromagnetic Disconnects	**£0.7 million**	£0.5 million
Total segment profit	**£3.9 million**	£5.4 million

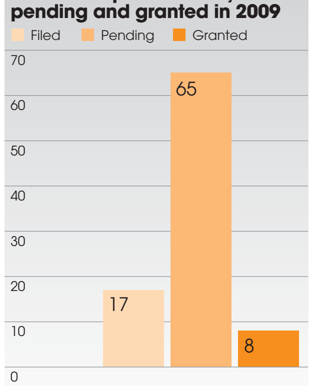
Dialight's Components Business comprises two product sets; Indication Components which are LED based indicators for professional electronics OEMs; and Electromagnetic Disconnects which are high current switches for the utility market enabling utilities to remotely connect and disconnect a domestic electricity supply.

The LED Indication business consists of the supply of small LED assemblies for status indication for use by such OEMs as IBM, Lucent/Alcatel and Cisco amongst others. This is a niche market which over a long period of time has provided good returns with strong cash generation. In the short term the revenues from this business reflect the general electronics market as it fluctuates and late in 2008, this market experienced a severe drop in orders. This downturn continued through most of the first half of 2009 with some small recovery taking place towards the end of the period. The second half saw continued improvement in results but at the close of the year

Research and development
as % of revenue



Number of patents filed, pending and granted in 2009



Introduced as a highly efficient alternative to incandescent "jelly-jar" fixtures commonly used in industrial and hazardous locations, the SafeSite® White RTO consumes just 8 watts. The products are certified to meet UL1598 and UL 844 Class I Division 2 requirements.

activity was still below prior year levels. Margins returned to traditional high levels in the second half as the effects of first half restructuring showed through. There has been no fundamental change to the business and relationships with both distributors and OEMs remain strong. We anticipate this product line will continue to show modest growth over time but it will also continue to follow the fluctuations of the general electronics market.

Our Electromagnetic Disconnect component business in which the products apply wound inductive technology consists of some mature and declining product lines, but also a range of unique devices for application in "smart metering" which is becoming increasingly universally accepted.

Overall revenues for these products reduced by almost £2 million but within this segment sales to the US smart meter market grew by almost 10%, although this number was adversely affected by the change in technical requirements of one of our customers, significantly reducing shipments in the second half. Overall prospects for the "smart metering" market are very strong. The potential in the US alone is for over 100 million units and many other countries are showing interest in smart metering. This is a high growth opportunity for the Company although it has to be recognised that margins will continue to be relatively tight in this product family.

Operations and Engineering

Our engineering and operations units are key to the success of Dialight as we continue to introduce new products and drive their costs down. In 2009 we filed 17 new patents, were granted 8 and have 65 still pending. Our engineers worked diligently to improve our existing products and to ensure a steady stream of innovations. Margins in the Signals/Illumination segment once again increased with a 6% improvement over 2008. This improvement is as a result of continuous reassessment of design and the incorporation of the latest techniques and technologies into our products.

The methodical examination of our supply chain and the manufacturing techniques employed to service it are fundamental elements in our success. Our operational performance is as much a component of our success as the selection of market segments and the activities of our sales teams.

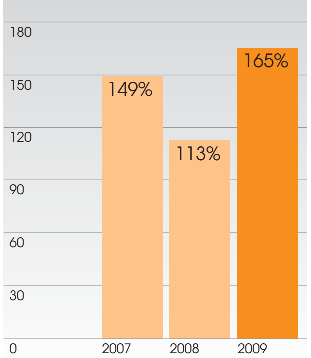
Summary

2009 ended very strongly despite the economic turmoil at the start of the year. We are pleased not only with the full year results, but also with the underlying factors which drove them. The second half saw good growth in European traffic along with growth in obstruction lighting and white industrial lighting, all three being major drivers of our future success. In addition we saw a substantial and sustainable margin improvement in our Signals/Illumination business. Our strategy for growth is proving effective and we look forward to continued progress as the Company takes full advantage of the exciting developments in ultra efficient lighting and signalling using LED technology, which brings not only financial benefit to our customers, but also enhances their "green" credentials through energy conservation and the reduction of carbon dioxide emissions.

The bottom line performance of the Group demonstrates our commitment to driving shareholder value through strong management of our resources in all economic environments

Roy Burton
Group Chief Executive

Operating cash
as % of operating profit



In March 2009, New Jersey state representatives met Dialight executives to discuss the current economic, environmental and energy standards being set in New Jersey and explore ways in which Dialight's innovative and efficient LED lighting solutions could help the state meet these challenging, worthwhile goals.

Business and Financial review:
Financial review

Income statement

Revenue in 2009 was £77.3 million compared with £77.9 million last year. This has been achieved despite the difficult market conditions during the first half of the year and was helped by the stronger US dollar. The average exchange rate used in 2009 was 15% stronger than in 2008.

Revenue in 2009 is split geographically as follows:

	2009 % of Total	2008 % of Total
North America	**68.2**	65.3
UK	**10.1**	12.5
Rest of Europe	**10.9**	11.3
Rest of World	**10.8**	10.9

Compared with last year, revenue from the North America region has increased by £1.9 million to offset the reduction in revenue from the UK and the Rest of Europe.

Looking at the performance by strategic unit the revenue from the Signals/Illumination has increased by £3.0 million to offset the reduction in both the Electromagnetic Components and Indication businesses.

George Ralph
Interim Finance Director

The contribution when measured as a % of revenue has increased to 39.3% from 35.9%. This has come from re-engineering and cost reduction initiatives. This has impacted mainly in the Signals/Illumination business but the other 2 units have been able to maintain their contribution in what have been difficult market conditions. The contribution in monetary terms was £30.4 million compared with £28.0 million in 2008. The actions initiated during 2009 should continue to provide further benefits in 2010.

Distribution expenses have increased to £6.1 million (2008: £5.1 million) and Administrative expenses have increased to £7.1 million (2008: £5.8 million) which was primarily due to the impact of the stronger dollar.

The operating profit of £5.5 million is up on the £5.3 million of last year. This has been achieved despite the lower level of sales and contribution from the Indication business which traditionally produces the highest contribution %.

The net financing charge arises from the pension funds but the bank interest received was very minimal at £12,000 (2008: £127,000) due to the very low interest rates being offered for money on deposit.

The exceptional profit of £2.1 million comprises two non-cash items relating to adjustments to the profit from disposals in 2003 and 2005.

The tax charge for the period was £2.0 million (2008: £2.2 million) which represents an effective tax rate of 37.7% (2008: 38.5%). The rate is higher than the underlying rate for the UK as it is impacted by higher overseas rates, particularly the US, and by losses incurred in the UK for which there is no tax relief available.

Profit for the period attributable to Equity Holders of the Company was £5.4 million (2008: £3.5 million).

Earnings per share
Basic earnings per share for the continuing businesses were 17.5p (2008: 11.2p) an increase of 56% from the previous year. The underlying earnings per share, after removing the exceptional profit, was 10.6p.

Details of the calculation are included in Note 17 to the accounts.

Balance Sheet
Overall the net asset value has increased to £40.1 million from £37.5 million.

Non current assets have fallen to £17.8 million from £19.8 million at the previous year end. The main reduction is in the deferred tax asset which has reduced primarily due to the reduction in the pension deficit. The remainder of the reduction, as can be seen in notes 9 and 10, is explained by the impact of foreign exchange.

	2009 £m	2008 £m
Inventories	**9.2**	13.0
Trade and other receivables	**18.2**	20.4
Trade and other payables	**(11.0)**	(11.1)
Working Capital	**16.4**	22.3

As can be seen from the table above the working capital position has improved significantly from 2008 and the Group will need to maintain control of this as we aim to grow the business. This will be done by setting and monitoring appropriate measures for stock turn and payable and receivable days for each business.

The cash position was £9.1 million compared to £4.1 million at the end of 2008, an increase of £5.0 million.

The pension deficit has improved significantly to £0.9 million from the previous year end position of £4.5 million

Cash flow
The net cash from operations was £9.4 million (2008: £3.6 million). This improvement was primarily due to the improved use of working capital shown in the above table.

Net cash used in investing activities was £2.5 million (2008: £2.4 million). Expenditure on Tangible Assets was lower than in 2008 but this was compensated by an increased spending on Development.

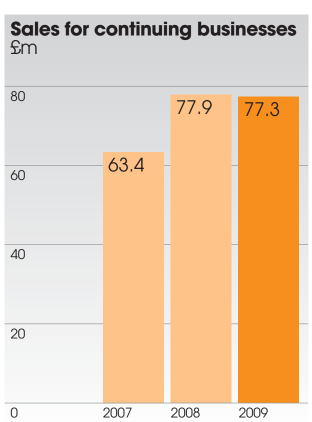
Net cash used in financing activities was £1.9 million (2008: £4.2 million). In 2009 this represented the payment of dividends whilst in 2008 Preference Shares were redeemed and some shares were purchased for the Share Ownership Trust.

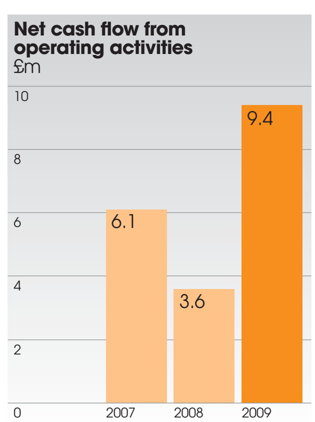
Cash and cash equivalents at 31 December 2009 were £9.1 million (2008: £4.1 million)

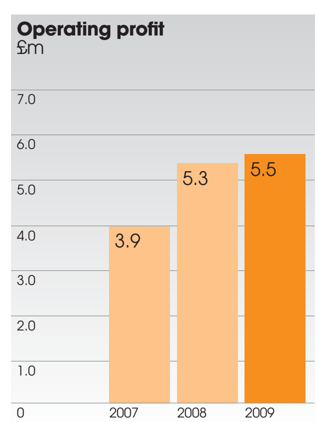
Exchange rates
The following significant exchange rates applied during the year:

	2009 Average rate	**2009 At reporting date**	2008 Average rate	2008 At reporting date
USD	**1.57**	**1.62**	1.85	1.46
Euro	**1.12**	**1.13**	1.26	1.05

Summary
The Group has remained profitable and cash generative in what have been difficult market conditions. The progress we have made in contribution improvement along with a balance sheet that remains robust with cash and no debt and provides a good platform to build on in 2010 and beyond.







Business and Financial review:
Financial review continued

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

Macro-economic conditions
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 monitors 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 Distributors 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's policy to operate in highly regulated markets which require suppliers to achieve compliance with demanding product standards. Our design and engineering departments have a proven track record in technical ability evidenced by strong working relationships with customers and regulatory boards, the design and introduction of new products and the portfolio of registered intellectual property rights. Therefore changes in product specifications should favour Dialight and provide 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; and
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 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 debtor day’s 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 not drawn down any borrowings 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 nets such exposures and will maintain a hedging programme utilising foreign exchange forward contracts and currency overdrafts to cover specific contracts and such proportion of other anticipated exposures as can be estimated with reasonable certainty.

Acquisition strategy
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.

G C Ralph

George Ralph
Interim Finance Director

Corporate responsibility.

The Board considers good corporate responsibility to be integral to the successful operation of the business. Corporate responsibility in this context would incorporate the Company's 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 the 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 Group Chief Executive has overall responsibility for Health and Safety.

Each business has staff who have received the appropriate level of training to manage the local policy. 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; and
- 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 Group Chief Executive by the businesses.

An independent firm of Health and Safety Consultants has been 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 significantly reduce energy consumed compared with a similar product using other technologies. Further details on the importance of the energy savings resulting from Dialight's products are set out in the Business and Financial review on pages 19 to 27.

The workplace

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

Board of Directors.

Roy Burton

George Ralph

Harry Tee

Robert Jeens

Executive Directors

Roy Burton (age 62 years)
Group Chief Executive
Appointed President and CEO Dialight Corporation in July 2002, Roy Burton became Group Chief Executive of Dialight plc in September 2005. Roy has many years' experience in the electronics industry having started his career in the UK working with Philips Electronics, ITT and Amphenol Corporation with whom he relocated to the US. In 1994 he became Group President Electronics for Thomas and Betts Corporation headquartered in Memphis, Tennessee and prior to his appointment at Dialight was CEO of Coraza Systems Inc. Roy is based at Dialight Corporation's Headquarters in Farmingdale, New Jersey.

George Ralph (age 51 years)
Interim Finance Director
George Ralph was most recently the Chief Financial Officer & Company Secretary of nCipher plc. Prior to this he held senior roles with Abacus Group plc, Deltron Electronics plc and Automated Security (Holdings) plc.

George started his career with Shell and qualified as a Certified Accountant during his time there. He has worked in a number of different sectors but gained experience in the electronics industry whilst with Deltron Electronics plc and Abacus Group plc.

Non-Executive Directors

Harry Tee CBE (age 64 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 The Roxboro Group he was a main board director at Graseby plc and 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. He is currently Master of the Worshipful Company of Scientific Instrument Makers and is a Past President of GAMBICA and EECA and a past Vice-President of FEI and Intellect. He is a Fellow of the Institute of Engineering and Technology, a Fellow of the Royal Institution 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 56 years)
Senior Independent Director
Robert Jeens joined Dialight as a Non-Executive Director in May 2001. He is the Senior Independent Director, 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 Henderson Group plc, 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. Mr Jeens was formerly Group Finance Director of Woolwich plc and prior to that Finance Director of Kleinwort Benson Group plc.

Bill Ronald

Richard Stuckes

Bill Ronald (age 54 years)
Non-Executive Director
Bill Ronald joined Dialight as a Non-Executive Director in May 2009 and is both Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees. He is currently also a Non-Executive Director of Bezier Group, Halfords Group plc, and Alfesca HF. He was Chief Executive of Uniq plc, a pan European convenience food business, from 2002 until 2005. Prior to this Bill's career was with the Mars Corporation where, in 1998 he was appointed Managing Director of the UK confectionery operation and a Vice-President of Masterfoods Europe having held a variety of roles in the Sales and Marketing functions.

Richard Stuckes (age 42 years)
Non-Executive Director
Richard Stuckes joined Dialight as a Non-Executive Director in May 2009 and is a member of the Audit, Remuneration and Nomination Committees. Following the acquisition of ICI by AkzoNobel in January 2008, Richard Stuckes was appointed to his current role of Chief Executive Officer, UK, Ireland, China, South Africa and Building Adhesives Europe. Richard originally joined ICI Paints on 1 January 2005 and in July 2005, had been appointed to the role of Chief Executive Officer, ICI Paints UK and Ireland. Prior to this, Richard gained extensive experience in the lighting industry through his 13 years with Philips Lighting, including his role as Managing Director for the UK activity and for both the Spanish and Portuguese business.

Advisers

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Close Brothers Corporate Finance
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Stockbrokers
CanaccordAdams
7th Floor, Cardinal Place, 80 Victoria Street,
London SW1 5JL

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

Legal advisers
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10 Upper Bank Street, London E14 5JJ

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

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

Principal bankers
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155 Bishopsgate, London EC2M 3YB

Royal Bank of Scotland Group
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Histon, Cambridge CB4 9BY

Company Secretary
Nick Giles

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

Registered number
2486024

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 2009.

Principal activities
The Company is the holding Company of the Dialight Group of Companies ("Dialight" or the "Group") and is a world leader in LED applications. The Group's operations comprise two segments, these 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 includes the manufacture and sale of traffic lights, rail signals, obstruction lights and Solid State Lighting.

Business and Financial review
The Board is required to present a fair view of the business performance of the Group during the financial year ended 31 December 2009, a description of the principal risks and uncertainties facing the Group and the future developments of the business. The information that satisfies the requirements of the Companies Act 2006 can be found in the Chairman's Statement, the Business and Financial Review and the Corporate Social Responsibility report on pages 16 to 29. Each is incorporated by reference into, and form part of, this Directors' report.

Details of the Group's financial Key Performance Indicators ("KPIs") including Signals/Illumination Revenue and Segment Profit, Cash Flow from Operating Activities, Operating Cash, Sales for Continuing Businesses and Operating Profit can be found in the Business
and Financial Review on pages 19 to 27. This section also contains commercial non-financial KPI's including Research and Development spend as a percentage of Revenue and the Number of Patents Filed, Pending and Granted during the year.

Results and dividends
Results for the year are set out in the consolidated income statement on page 50.

The Board has declared a second interim dividend of 4.3p per share (2008 Final: 3.9p). This dividend will be paid on 1 April 2010 to shareholders on the register at close of business on 12 March 2010. The total dividend in respect of 2009 is 6.6p per share and the dividend cover is 2.7 times.

Corporate governance
A review of the Group's application of the principles and provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 (the "Code") is set out on pages 36 to 41.

Directors and interests
The names of the Directors currently serving on the Board are shown on pages 30 and 31, together with brief biographical details for each.

Bill Whiteley retired as a Director of the Company on 13 May 2009. Two new Non-Executive Directors, Bill Ronald and Richard Stuckes were appointed to the Board on 14 May 2009 and will stand for election at the Annual General Meeting ("AGM") on 12 May 2010. Cathy Buckley stepped down from the Board of Directors on 11 December 2009 and was replaced by George Ralph, Interim Finance Director on 17 December 2009. Mr Ralph will also stand for election at the AGM. The Company is currently seeking a suitable permanent replacement for Cathy Buckley and an announcement will be made in due course.

Additionally, Robert Jeens, having served as a Non-Executive Director of the Company for a total of nine years, will offer himself for re-election at the AGM in May 2010 and on an annual basis thereafter. This satisfies both the requirements of the Articles of Association (the "Articles") and the Code. Roy Burton will also retire in rotation in accordance with the Articles having been in office the longest since his last re-election.

The interests of the Directors and their families in the share capital of the Company as well as details of their remuneration and service contracts can be found in the Remuneration report on pages 42 to 46. None of the Directors had or has an interest in any material contract relating to the business of the Company or any of its subsidiary undertakings.

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

Financial Instruments
The financial risk management objectives and policies of the Company including interest rate, currency and credit risk are outlined in note 21 to the Company's consolidated financial statements.

AGM
The Company's AGM will take place at 11.30am on 12 May 2010 at the City of London Club, 19 Old Broad Street, London, EC2N 1DS. The Notice of the AGM (the "Notice") can be found on pages 94 to 99. The Notice sets out details of the resolutions that will be proposed at the AGM as well as explanatory notes that provide the background and reasons for the resolutions.

At the 2009 AGM shareholders granted the Directors the authority to purchase up to 3,123,951 ordinary shares in the Company, which will expire on 12 May 2010. A resolution to renew this authority will be put to shareholders at the AGM on 12 May 2010.

Political and charitable contributions
During the year the Company the Group made contributions of £1,000 (2008: £1000) to various charities. It is Group policy that no donations are made for political purposes and as a result there were no such political donations made during the year (2008: £nil).

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 regular meetings on site to discuss performance and strategy. 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. Group policies include guidelines on staff appraisals and consultations 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.

Research and Development
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 has no trade creditors. At 31 December 2009, the Group had an average of 47 days (2008: 42 days) purchases outstanding in trade creditors.

Share capital structure
Share capital
As at 31 December 2009 the Company had 31,239,501 fully paid ordinary shares of 1.89p each in issue which are listed on the London Stock Exchange. The Company has a single class of shares. No shares have been issued that carry any special rights with regard to the control of the Company. Full details of the Company's share capital are given in Note 36 to the accounts.

Substantial shareholdings
As at 22 March 2010 the Company had received the following notifications pursuant to DTR 5 of the Disclosure and Transparency Rules of the FSA (the "DTR").

Shareholder	No of voting rights	% of issued share capital/voting rights
Aberforth Partners LLP	4,324,817	13.84
Hermes Fund Managers	2,107,311	6.75
Impax Asset Management Limited	2,216,176	7.09
Gartmore Investment Limited	1,567,840	5.02
The Tee Family	1,453,357	4.65
Legal & General Group plc	1,000,000	3.20

Rights and obligations
The rights and obligations attached to the Company's shares are contained in the Articles, a copy of which can be obtained from the Company Secretary at Dialight plc, 2B Vantage Park, Washingley Road, Huntingdon, PE29 6SR (the "Registered Office".) The Articles may only be amended by a special resolution of the Company at a General Meeting. No one person has any special rights of control over the Company's share capital and all shares are fully paid. Each ordinary share carries the right to one vote at General Meetings of the Company.

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

Directors' report continued.

Transfer restrictions
There are no specific restrictions on the transfer of the Company's shares, although the Articles contain provisions whereby Directors may refuse to register a transfer of a certificated share which is not fully paid, provided that such refusal does not prevent dealings in the shares 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 Registered Office or such other place as the Board may decide, accompanied by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so.

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

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

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

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

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

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

Reappointment of directors
The appointment and replacement of Directors of the Company is governed by its Articles and the Companies Act 2006. Further information concerning the appointment and re-appointment of Directors at the 2010 AGM can be found in the Corporate Governance report on pages 36 to 41.

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

At each 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.

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

Change of control
Significant agreements
The Company is a named Borrower in respect of a £3.0 million facility originally dated 22 January 2003 and amended by subsequent supplemental agreements. This contains a change of control provision that could, if triggered, terminate the obligations of the bank under the agreement and declare any overdraft then outstanding together with all interest, any facilities then outstanding together with all accrued interest and all other sums owing to be immediately due and payable.

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

Employee Benefit Trust
The Company has established an employee benefit trust in which all employees of the Group, including Executive Directors, are potential beneficiaries. The Trust currently holds 256,000 shares in the capital of the Company. 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.

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 audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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

Nick Giles
Company Secretary
Dialight plc
Company Number: 2486024
22 March 2010

Registered Office:
2B Vantage Park
Washingley Road
Huntingdon
PE29 6SR

Corporate governance.

1. Compliance with the Combined Code on Corporate Governance

This report, and the Remuneration report contained on pages 42 to 46 describe how the Group has applied and complied with the principles, supporting principles and provisions contained in the Combined Code on Corporate Governance (the "Code") of the Financial Reporting Council ("FRC") as published in June 2008 for reporting years commencing on or after 29 June 2008.

The Board considers that the Company has been in full compliance with the provisions set out in the Code throughout the year ended 31 December 2009. The Directors' statement regarding compliance with requirements relating to internal control can be found below in section 3.

2. Directors

(a) The Board

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

The Board is collectively responsible for the performance of the Company and is responsible to shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the accounts is set out on page 47 and a statement on going concern is in the Directors' report on page 35.

The Board currently operates within defined parameters and in accordance with those Matters Reserved for Board approval and Terms of Reference of the Board Committees. Both the Terms of Reference and the Matters Reserved to the Board have been approved and adopted by the Board and copies of these documents are available from the Company Secretary at the Registered Office or on the Company's website, www.dialight.com.

The Board met 10 times during 2009 including a two day annual strategy conference hosted at the Group's US headquarters in Farmingdale, New Jersey. Further details of Directors attendance at all meetings of the Board and its committees can be found in the table below. There are 9 Board meetings scheduled to take place in 2010. Relevant papers are distributed to Directors in advance of Board and Committee meetings to facilitate debate. No individuals apart from the Committee Chairman and Committee members are allowed to be present at Committee meetings although other individuals including the Group Chairman, Group Chief Executive, Group Finance Director and external auditors may attend meetings at the prior invitation of the Committee Chairman.

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings attended:				
Harry Tee CBE	10/10	N/A	N/A	1/1
Roy Burton	10/10	N/A	N/A	N/A
Cathy Buckley[1]	9/10	N/A	N/A	N/A
George Ralph[2]	0/10	N/A	N/A	N/A
Robert Jeens	10/10	2/2	2/2	1/1
Bill Ronald[3]	7/10	1/2	1/2	0/1
Richard Stuckes[3]	7/10	1/2	1/2	0/1
Bill Whiteley[4]	3/10	1/2	1/2	1/1

1 Cathy Buckley stood down as Finance Director on 11 December 2009

2 George Ralph was appointed as Interim Finance Director on 17 December 2009

3 Bill Ronald and Richard Stuckes were appointed as Non-Executive Directors on 14 May 2009

4 Bill Whiteley retired as a Non-Executive Director at the Company's AGM on 13 May 2009

The formal schedule of matters specifically reserved to the Board for decision includes:

- the approval of annual and interim results;
- 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.

(b) Chairman and Chief Executive

There are clearly established roles for the Chairman and Group Chief Executive. The Chairman is responsible for leadership of the Board, ensuring the effectiveness of the Board, organising and planning Board meetings and the effective and timely communication of information to shareholders. The Chairman may provide advice, counsel and support to the Group Chief Executive as and when required and maintains open and continuous contact with the Non-Executive Directors to allow any issues to be addressed outside of the formal scope of the regular Board meetings.

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

(c) Board Committees

(i) Nomination Committee

Committee composition: The Committee comprises Harry Tee (Committee Chairman), Robert Jeens, Bill Ronald and Richard Stuckes. With the exception of Bill Ronald and Richard Stuckes who were appointed on 14 May 2009, Harry Tee and Robert Jeens were members throughout the year. All members of the Committee, with the exception of Harry Tee are considered independent pursuant to the Code.

Committee role and activities during the year: The Committee is responsible for reviewing the size, structure and composition of the Board making recommendations where necessary, giving consideration to the provision of adequate succession planning for senior executives and Directors and making recommendations regarding re-election and re-appointment of Directors. In appropriate cases, recruitment consultants are engaged to assist with any recruitment process. During the year the Committee managed the selection process in respect of the two new Non-Executive Directors in response to the impending retirement of Bill Whiteley at the 2009 AGM. This involved the preparation of a suitable job description for the role and the design of the selection process in conjunction with external recruitment consultants.

(ii) Remuneration Committee

Details of the composition, role and activities of the Remuneration Committee during the year can be found in the Remuneration report on pages 42 to 46.

(iii) Audit Committee

Committee composition: The Committee comprises Robert Jeens (Committee Chairman), Bill Ronald and Richard Stuckes. Robert Jeens served on the Committee throughout the year. Bill Ronald and Richard Stuckes were appointed on 14 May 2009 following the retirement of Bill Whiteley on 13 May 2009. All members of the Committee are considered independent pursuant to the Code. The Board considers that the Chairman of the Committee has recent and relevant financial experience, and an understanding of accounting and financial issues relevant to the industries in which the Group operates.

Corporate governance continued.

Committee role and activities during the year:
The 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 Committee makes recommendations to the Board on the appointment and responsibilities of external auditors and on their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with external auditors.

The Committee monitors risk management and internal control processes as part of its ongoing responsibilities and reviews management and internal audit reports on the effectiveness of the Group's systems of internal financial control, financial reporting and risk management. The Committee also monitors the integrity of internal financial controls. It will assess the scope and the effectiveness of the established systems to identify, assess, manage and monitor financial and non-financial risks and has oversight of the internal audit work. The primary function of the internal audit process is to review the systems and controls for financial reporting. The Committee receives copies of the reports submitted by the internal auditors as part of their review of the Group's internal control framework. The internal audit firm is available to attend the Committee if required so that it may report directly on any significant findings.

The Committee considers the cost effectiveness, independence and objectivity of KPMG Audit Plc (the "Auditors" or "KPMG"), the external auditor. It agrees the level of remuneration of the Auditors and reviews the extent of non-audit services provided by KPMG during the year. The scope of the external audit for each business, together with the audit fees were presented by KPMG at the Committee meeting in September 2009. Both the audit scope and related fees were approved at that meeting.

The Board and Committee place great emphasis on the objectivity of the Auditors. Committee meetings are attended by the Auditors to ensure full communication of matters relating to the audit and the Committee meets with the Auditors without the Executive Directors present to discuss the adequacy of controls and any material judgemental areas.

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

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

(d) Board balance and independence
The Board currently comprises six directors including the Chairman, two Executive Directors and three independent Non-Executive Directors. Robert Jeens was the Senior Independent Director throughout the year. Cathy Buckley, stood down as Group Finance Director on 11 December 2009 and was replaced by an Interim Finance Director, George Ralph on 17 December 2009. All of the Non-Executive Directors are considered to be independent and provide a solid foundation that will encourage and provide a robust corporate governance framework for the Group. It is considered that the current balance on the Board ensures 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 Code. Their biographies appear on pages 30 and 31. These demonstrate a range of experience and sufficient calibre to bring independent judgement to issues of strategy, performance, resources and standards of conduct which is vital to the future success of the Group. The Board has considered and confirmed that each Non-Executive Director continues to demonstrate that he has sufficient time to devote to the Company's business.

Non-Executive Directors' knowledge and understanding of the Group is enhanced by visits to the operations and through receiving presentations from members of 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 effectively. No such advice was taken during the year.

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. 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.

(e) Information and professional development

The Company Secretary, in accordance with guidance from the Chairman takes the lead on ensuring that the Board and its committees receive the necessary information that they require to operate efficiently. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with and they may seek independent professional advice on any matter relating to the Company at the Company's expense. The Company Secretary is also responsible for advising the Board, through the Chairman, on all matters of governance and best practice. In addition, the Company Secretary ensures that the Directors receive appropriate training as necessary.

(f) Performance evaluation

Evaluation of the Board and its committees is conducted through a questionnaire issued to all members of the Board. Feedback from these questionnaires is then gathered and collated by the Company Secretary for presentation to the Board in order to facilitate discussion. The Chairman is responsible for conducting the performance evaluation of the Group Chief Executive. The Non-Executive Directors, led by the Senior Independent Director are responsible for evaluating the performance of the Chairman and the Group Chief Executive conducts evaluations of the other Executive Directors.

The questionnaire issued to Board members covered a range of topics including remit, objectives, procedures and administration. The findings from the results of this exercise were submitted to the Board where any issues were identified and actions recorded for the future. The Board agreed that in respect of the year ended 31 December 2009 the Board, its committees and individuals continued to be effective.

(g) Re-election

At each 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.

At this year's AGM Roy Burton and Robert Jeens will retire in accordance with the Articles and submit themselves for re-election.

George Ralph, Bill Ronald and Richard Stuckes will submit themselves for election having been appointed as Directors of the Company since the last AGM. The Board considers that these Directors continue to make an effective contribution to the business of the Company and recommends their re-election.

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 AGM.

Corporate governance continued.

3. Internal control and risk management

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). This covers all material controls including financial, operational and compliance controls as well as risk management systems. Implementation of Board policies on risk and control is through the Group's senior management. Current 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. During 2010 an additional review of all internal control processes and procedures is planned to ensure that the existing framework will continue to provide the necessary level of effectiveness and control in the future and to introduce changes where these could provide additional levels of control. Risk management is currently managed through a continuous process that allows for the identification, evaluation and management of all significant risks faced by the Group.

Review process

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 senior management of the subsidiary businesses.
- Risk assessment Each business maintains 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. Businesses perform their respective risk assessments on a continual basis, submitting updates to the Board on a periodic basis when required.
- Policies and procedures manual (the "Manual") Responsibility levels are communicated throughout the Group as part of the 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 as and when required.
- 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 Group 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 set out in the Manual. 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 size of the Company and complexity of the business have meant that 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. A programme of visits to each of the main sites was conducted during 2009 and the resulting reports were issued to the Audit Committee for consideration as part of their annual review of internal controls. The independent audit firm 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.

The Board confirms that it has conducted a review of the system of internal controls in respect of the year ended 31 December 2009 covering all material controls, including financial, operational and compliance controls and risk management systems.

As part of a wider review of internal processes and procedures the scope of the current internal audit arrangements will be subject to review in the early part of 2010.

4. 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 being aware of the views of major shareholders on matters such as corporate governance.

On a day-to-day basis the Board's primary contact with major shareholders is via the Group Chief Executive and Interim Finance Director, who have regular dialogue with individual institutional shareholders and deliver presentations to analysts after the full and half year results. Copies of the shareholder presentations are made 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 AGM presents an additional opportunity to communicate with private and institutional investors. 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 12 May 2010 can be found in the Notice on pages 94 to 99.

Directors' remuneration report.

The Directors' present the Remuneration report for the year ended 31 December 2009. The report contains all of the information that is required by the Companies Act 2006 and describes how the Company has applied the principles of the Code with regard to remuneration.

1. Remuneration Committee

The Board is responsible for the Group's remuneration policy, but has delegated the determination and maintenance of remuneration packages for the Executive Directors and certain senior executives to the Remuneration Committee. The Committee is also responsible for recommending and monitoring the structure of the remuneration of the Group's senior management, as defined by the Board.

The Remuneration Committee is currently chaired by Bill Ronald who was appointed as a Non-Executive Director on 14 May 2009. Prior to this the Chairman of the Committee was Bill Whiteley who retired from the Board on 13 May 2009. Robert Jeens and Richard Stuckes are also members of the Committee. All members are considered independent in accordance with the Code. Details of the number of meetings held during the year as well as details of attendance at these meetings can be found in the Corporate Governance report on page 36.

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 Board through the Group Chairman and Group Chief Executive, 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 or on request from the Company Secretary at the Registered Office. The Committee has access to the advice of the Group Chief Executive, the Group Chairman and the Company Secretary (none of whom participate in any discussion concerning their own remuneration) and external advisors as required. During the year ended 31 December 2009 the Committee consulted Kepler Associates who provided advice regarding executive remuneration benchmarking and Long Term Incentive design and Clifford Chance LLP, who advised on the operation of the Group's Performance Share Plan. Kepler Associates provided no other services to the Company. Clifford Chance LLP also provided general corporate legal advice to the Company.

2. Remuneration policy

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

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

The Committee believes that the base salary and benefits for the Executive Directors should represent a fair return for employment but that the maximum total potential remuneration may only be achieved in circumstances where the challenging objectives have been met 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 at risk.

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

3. Executive Directors remuneration

(i) Basic salary

Group Chief Executive

The basic salary of the Group Chief Executive was reviewed at a meeting of the Committee in December 2009. Salaries are reviewed on an annual basis and take effect from the 1 January each year. As Mr Burton is based in the US his salary is paid in US Dollars. Base salary is determined by reference to relevant market data and the individual's experience, responsibilities and performance.

Finance Director

No review of the salary of Cathy Buckley was undertaken in respect of the year. Cathy Buckley stepped down from the Board on 11 December 2009. Details of Ms Buckley's remuneration at the end of the year can be found on page 45. An Interim Finance Director, Mr George Ralph, was appointed on 17 December 2010. Mr Ralph is paid fees pursuant to a Consultancy Agreement, details of which can be found on page 45.

(ii) Performance related bonuses

The maximum bonus payable to the Group Chief Executive for the year ended 31 December 2009 was 100% of salary. Bonus is calculated by reference to measures that are determined at the start of each financial year by the Remuneration Committee. These assess 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. Cathy Buckley was entitled to a maximum bonus for the year of 75% of her salary at 31 December 2009.

In respect of 2009 the annual bonus plan for the Executive Directors was based 75% on the achievement of a predetermined Group operating profit for the year and 25% on the delivery of an agreed level of operating cash defined as a percentage of operating profit. No bonus would be paid under the operating cash element if a predetermined operating profit target had not been achieved. Following a review of the bonus measures during the year ended 31 December 2009, the Committee determined that 60% of the operating profit target and 100% of the operating cash flow target had been achieved. This resulted in a total bonus payable equivalent to 70% of the Executive Directors maximum potential bonus. Details of these payments can be found in the emoluments table on page 45.

(iii) Performance Share Plan

The Performance Share Plan ("PSP") was approved by the shareholders of the Company at an EGM held on 29 September 2005. Executive Directors and other members of senior management are eligible to receive awards which vest at nil cost after three years subject to the satisfaction of performance conditions determined by the Remuneration Committee at the time of grant.

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

Vesting of awards is currently based on relative total shareholder return ("TSR"), as the Committee believes TSR to be an appropriate measure of long-term Group success, which provides strong alignment between the interests of shareholders and executives. TSR performance is measured relative to two indices (FTSE All Share Electronic/Electrical Equipment Index and FTSE SmallCap Index), each index having equal weighting. TSR is measured over a three year period with the measurement period beginning on the first day of the financial year in which the award is made. If the percentage increase in the Company's TSR is equal to the percentage increase in the TSR of the comparator index, 25% of the ordinary shares subject to an award will vest, rising, on a straight-line basis, to 100% vesting if the percentage increase in the Company's TSR is equal to the increase in the TSR of the index plus 15% per annum. No ordinary shares will vest if the percentage increase in the Company's TSR is below the percentage increase in the TSR of the comparator index.

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

Directors' remuneration report continued.

(iv) Additional benefits
During 2009 Cathy Buckley received taxable benefits including car and fuel allowances and medical insurance for both herself and her immediate family as well as life assurance. The Group Chief Executive received life assurance.

(v) Service contracts
Details of the service contracts of those individuals that served as Directors during the year can be found below:

Name	Contract date	Notice period	Contractual early termination payment
Roy Burton	01.10.05	12 months (Company) 12 months (Executive)	No provisions exceeding 12 months emoluments
Cathy Buckley[1]	29.09.05	12 months (Company) 6 months (Executive)	No provisions exceeding 12 months emoluments
George Ralph	06.01.10	1 month on either side	No provisions

1 Cathy Buckley stood down from the Board on 11 December 2009 and left employment of the Company on 31 December 2009.

(vi) Performance review – ("TSR")
The graphs below show the five year TSR total shareholder return performance of the Company, compared with the TSR over the same period for the FTSE SmallCap Index and the FTSE All Share Electronic/ Electrical Equipment 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.

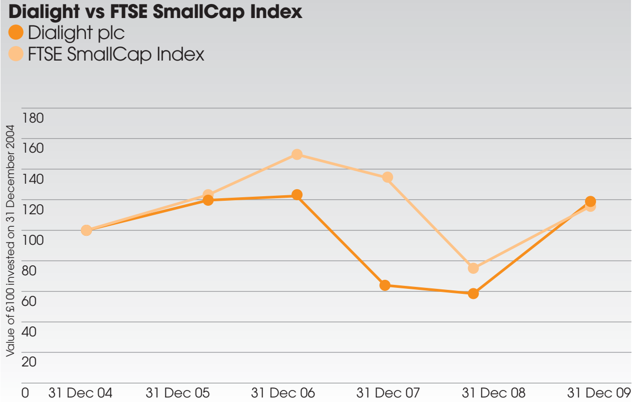
4. Non-Executive Directors' remuneration
Fees for the Non-Executive Directors are determined by the Board as a whole through the Chairman and the Group Chief Executive. The Non-Executive Directors do not take part in these discussions. The Non-Executive Directors' fees are subject to review on an annual basis and were considered during December 2009. As a result of this meeting it was agreed that there would be no increase with effect from 1 January 2010.

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.

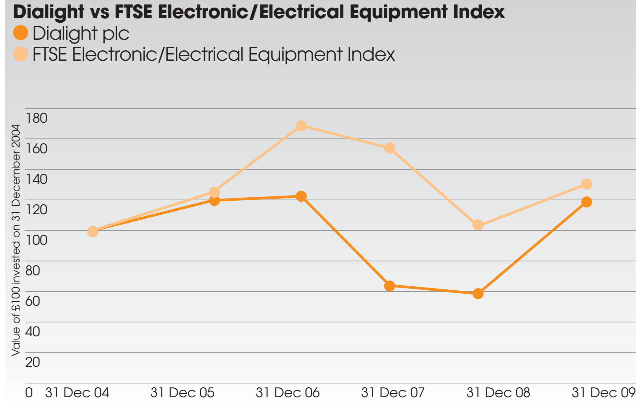
The Non-Executive Directors have standard letters of appointment. Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office and will be made available at the AGM.

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

Dialight vs FTSE SmallCap Index



Dialight vs FTSE Electronic/Electrical Equipment Index



Notes to the Remuneration report

(a) Remuneration (the information in this section has been audited)

(i) Directors' emoluments

The remuneration of the Directors is set out below:

	Salary/fees £'000	Bonus £'000	Benefits £'000	Additional payments £'000	**Total 2009 £'000**	Total 2008 £'000
Executive Directors						
Roy Burton[1]	291	203	8	–	**502**	342
Cathy Buckley[2]	144	76	18	217	**455**	203
George Ralph[3]	8	–	–	–	**8**	–
Executive Directors' total	443	279	26	217	**965**	545
Non-Executive Directors						
Harry Tee CBE	75	–	–	–	**75**	75
Robert Jeens[4]	30	–	–	–	**30**	30
Bill Ronald[4]	19	–	–	–	**19**	–
Bill Whiteley[5]	9	–	–	–	**9**	25
Richard Stuckes	14	–	–	–	**14**	–
Non-Executive Directors' total	147	–	–	–	**147**	130
Total	590	279	26	217	**1,112**	675

1 Roy Burton received a 3% salary increase with effect from 1 January. His current salary is £299,436 ($468,918). As Mr Burton is based in the US, his salary is paid in US Dollars. Therefore, the remuneration for Mr Burton has been translated at the rate of $1.566: £1 (2008: $1.85: £1).

2 Cathy Buckley stood down from the Board on 11 December 2009 but her employment with the Company did not cease until 31 December 2009. She received a total compensation payment of £217,076 in respect of the loss of office. An additional payment of £14,558 was made into her pension as part of these arrangements.

3 George Ralph receives a consultancy fee of £12,500 per month. He received a pro rata payment in December as he only worked for part of the month. His agreement contains no provision for payment on termination.

4 Robert Jeens and Bill Ronald receive an additional £5,000 as Chairmen of the Audit and Remuneration Committees respectively.

5 Retired from the Board on 13 May 2009.

(ii) Pensions

Pension contributions paid on behalf of the Executive Directors to money purchase schemes can be found below:

Directors	**Total 2009 £'000**	Total 2008 £'000
Roy Burton	24	21
Cathy Buckley	30[1]	12

1 This includes an additional amount of £14,558 paid into Cathy Buckley's pension scheme as part of her compensation payment noted above.

Directors' remuneration report continued.

(iii) Performance share plan awards

Mr Burton and Miss Buckley have been granted the following awards under the Performance Share Plan:

	Grant date	**Number at 1 January 2009**	Granted in year	Forfeited[1] in year	**Number at 31 December 2009**	Earliest exercise date	Expiry date	**Value at 31 December 2009[2] £**
Roy Burton	05.04.07[1]	**100,977**	–	–	**100,977**	5.4.10	5.4.17	**128,267**
	09.04.08	**143,360**	–	–	**143,360**	9.4.11	9.4.18	**313,958**
	30.04.09[3]	**-**	139,936	–	**139,936**	30.04.12	30.04.19	**306,460**
Total	–	**244,337**	160,926	–	**384,273**	–	–	**748,685**
Cathy Buckley	05.04.07[1]	**47,535**	–	–	**47,535**	5.4.10	5.4.17	**60,379**
	09.04.08	**67,283**	–	22,428	**44,855**	9.4.11	9.4.18	**98,232**
	30.04.09[3]	**-**	54,674	36,449	**18,225**	30.04.12	30.04.19	**39,913**
Total	–	**114,818**	54,674	58,877	**110,615**	–	–	**198,524**

1 Performance conditions in respect of Awards granted on 5 April 2007 indicate that 58% of the total award will vest. Vesting of these awards is subject to decision at the Remuneration Committee. Awards held by Cathy Buckley are shown as at the date that her employment ceased with the company on 31 December 2009 and reflect awards forfeited subject to conditions of her cessation of employment. There were no lapses during the year.

2 The value of the awards under the PSP shows the number of awards held multiplied by the market price of the Company's shares at 31 December 2009. Excluding those awards granted on 5 April 2007, it has been assumed that the maximum number of awards vested in accordance with the performance conditions set out on page 43. For awards granted on 5 April 2007, a 58% level of vesting has been used to calculate the value of award as referenced above at note 1. On 31 December 2009 the share price was 219 pence per share.

3 The number of shares awarded on 30 April 2009 were the share equivalents of 60% and 50% of the base salary of the Group Chief Executive and the Group Finance Director respectively, based on the average of the mid-market closing values of the Company's shares for the 30 dealing days ending on 29 April 2009 of 115 pence.

4 The price of an ordinary share on 30 April 2009 was 117 pence per share. During the year, the range of share prices was 227 pence to 103 pence, with the price on 31 December 2009 being 219 pence.

5 The performance conditions in respect of the awards under the PSP can be found on page 43. The exercise price for these awards is zero.

(b) Directors' Shareholdings

Directors' beneficial interests in the share capital of the Company as at 31 December 2009 are set out below:

	Total as at 31.12.09	Total as at 31.12.08
Executive Directors		
Roy Burton[1]	**43,692**	43,692
George Ralph	**-**	–
Non-Executive Directors		
Harry Tee CBE[1]	**1,453,357**	1,453,357
Robert Jeens	**100,000**	100,000
Bill Ronald	**-**	–
Richard Stuckes	**10,440**	–
Total	**1,607,489**	1,597,049

1 Shares are held through a nominee.

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

Bill Ronald
Chairman of the Remuneration Committee
On behalf of the Board

22 March 2010

Statement of Directors' responsibilities in respect of the annual report and the financial statements.

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

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

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

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

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

We confirm that to the best of our knowledge:

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

For and on behalf of the Board of Dialight plc

Roy Burton
Group Chief Executive

George Ralph
Interim Finance Director

22 March 2010

Independent auditors' report to the members of Dialight plc.

We have audited the financial statements of Dialight plc for the year ended 31 December 2009 set out on pages 50 to 93. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 47, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 36 to 41 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 35, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 36 to 41 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

G Watts
Senior Statutory Auditor
for and on behalf of KPMG Audit Plc,
Statutory Auditor

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

22 March 2010

Consolidated income statement.

For the year ended 31 December 2009

	Note	**2009 £'000**	2008 £'000
Continuing operations			
Revenue	4	**77,304**	77,855
Cost of sales		**(58,621)**	(61,595)
Gross profit		**18,683**	16,260
Distribution costs		**(6,078)**	(5,146)
Administrative expenses		**(7,150)**	(5,793)
Results from operating activities	4	**5,455**	5,321
Financial income	6	**1,711**	2,177
Financial expense	6	**(1,884)**	(1,861)
Net financing (expense)/income	6	**(173)**	316
Profit before income tax		**5,282**	5,637
Income tax expense	7	**(1,990)**	(2,168)
Profit from continuing operations		**3,292**	3,469
Prior periods discontinued operations			
Adjustment to profit from businesses sold in prior years	9	**2,140**	–
Profit for the period attributable to equity holders of the Company		**5,432**	3,469
Earnings per share			
Basic	17	**17.5p**	11.2p
Diluted	17	**17.1p**	10.9p

Consolidated statement of comprehensive income.

For the year ended 31 December 2009

	2009 £'000	2008 £'000
Other comprehensive income		
Exchange difference on translation of foreign operations	**(2,398)**	7,183
Actuarial gains/(losses) on defined benefit pension schemes	**1,844**	(3,407)
Income tax on actuarial gains/(losses) on defined benefit pension schemes	**(663)**	1,289
Other comprehensive income for the period, net of tax	**(1,217)**	5,065
Profit for the period	**5,432**	3,469
Total comprehensive income for the period attributable to equity holders of the Company	**4,215**	8,534

Consolidated statement of changes in equity.

For the year ended 31 December 2009

	Share capital £'000	Merger reserve £'000	Translation reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2009	591	546	5,486	2,232	28,649	37,504
Profit for the period attributable to equity holders of the Company	–	–	–	–	5,432	5,432
Other comprehensive income						
Foreign currency	–	–	(2,398)	–	–	(2,398)
Defined benefit plan actuarial gains, net of taxes	–	–	–	–	1,181	1,181
Dividends to shareholders	–	–	–	–	(1,937)	(1,937)
Share-based payments (net of tax)	–	–	–	–	322	322
Balance at 31 December 2009	591	546	3,088	2,232	33,647	40,104
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
Other comprehensive income						
Foreign currency	–	–	7,183	–	–	7,183
Defined benefit plan actuarial losses, net of taxes	–	–	–	–	(2,118)	(2,118)
Dividends to shareholders	–	–	–	–	(1,843)	(1,843)
Share-based payments (net of tax)	–	–	–	–	154	154
B shares redeemed	–	–	–	2,172	(2,172)	–
Own shares purchases	–	–	–	–	(190)	(190)
Balance at 31 December 2008	591	546	5,486	2,232	28,649	37,504

Own shares purchased comprises the cost of the Company's shares held by the Group. At 31 December 2009 the number of shares held by the Group through the Share Ownership Trust was 256,000 (2008: 256,000). The market value of these shares at 31 December 2009 is £560,000 (2008: £289,000).

Consolidated statement of total financial position.

As at 31 December 2009

	Note	**2009 £'000**	2008 £'000
Assets			
Property, plant and equipment	10	**7,248**	7,793
Intangible assets	11	**8,589**	8,932
Deferred tax assets	12	**1,914**	3,042
Total non-current assets		**17,751**	19,767
Inventories	13	**9,194**	12,994
Trade and other receivables	14	**18,186**	20,366
Cash and cash equivalents	15	**9,092**	4,145
Total current assets		**36,472**	37,505
Total assets		**54,223**	57,272
Liabilities			
Trade and other payables	20	**(11,015)**	(11,059)
Tax liabilities		**(1,083)**	(2,786)
Total current liabilities		**(12,098)**	(13,845)
Employee benefits	18	**(948)**	(4,469)
Provisions	19	**(1,073)**	(1,307)
Deferred tax liabilities	12	**-**	(147)
Total non-current liabilities		**(2,021)**	(5,923)
Total liabilities		**(14,119)**	(19,768)
Net assets		**40,104**	37,504
Equity			
Issued share capital	16	**591**	591
Merger reserve	16	**546**	546
Other reserves		**5,320**	7,718
Retained earnings		**33,647**	28,649
Total equity attributable to equity shareholders of the parent company		**40,104**	37,504

These financial statements were approved by the Board of Directors on 22 March 2010 and were approved by:

R Burton
Group Chief Executive

G A Ralph
Interim Group Finance Director

Consolidated statement of cash flows.

For the year ended 31 December 2009

	Note	**2009 £'000**	2008 £'000
Operating activities			
Profit for the year		**5,432**	3,469
Adjustments for:			
Financial income		**(1,711)**	(2,176)
Financial expense		**1,884**	1,860
Income tax expense		**1,990**	2,168
Share-based payments		**197**	154
Adjustment to profit on sale of businesses in prior years		**(2,140)**	–
Depreciation of property, plant and equipment		**1,525**	1,598
Amortisation of intangible assets		**1,143**	1,075
Operating cash flow before movements in working capital		**8,320**	8,148
Decrease/(increase) in inventories		**2,882**	(421)
Increase in trade and other receivables		**(240)**	(1,041)
Increase in trade and other payables		**1,342**	2907
Pension contributions in excess of the income statement		**(1,305)**	(994)
Cash generated from operations		**10,999**	5,989
Income taxes paid		**(1,581)**	(2,382)
Interest paid		**-**	(47)
Net cash from operating activities		**9,418**	3,560
Investing activities			
Interest received		**12**	125
Capital expenditure		**(1,576)**	(1,796)
Expenditure on development		**(966)**	(771)
Sale of tangible fixed assets		**22**	–
Net cash generated used in investing activities		**(2,508)**	(2,442)
Financing activities			
Dividends paid		**(1,937)**	(1,843)
Redemption of preference shares treated as debt		**-**	(2,172)
Own shares acquired		**-**	(190)
Net cash used in financing activities		**(1,937)**	(4,205)
Net increase/(decrease) in cash and cash equivalents		**4,973**	(3,087)
Cash and cash equivalents at 1 January		**4,145**	6,561
Effect of exchange rates on cash held		**(26)**	671
Cash and cash equivalents at end of period	15	**9,092**	4,145

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 2009 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.

The Group's business activities, together with the factors that are likely to affect its future development, performance and position are set out in the Business and Financial Review on pages 19 to 27. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 24 to 27. The financial statements include the statements covering the Group's objectives, policies and processes for managing its capital; management of its financial risk objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

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

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

(c) Use of estimates 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 11)

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

Defined benefit pension plans (see Note 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.

Notes to the consolidated financial statements continued.

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.

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

3. Significant accounting policies continued

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

The estimated useful lives are as follows:

- Patents and trademarks 1–4 years
- Development costs 3–5 years

(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.

(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.

Notes to the consolidated financial statements continued.

3. Significant accounting policies continued

(h) Impairment continued

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

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

(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) Dividends are recognised as a liability in the period in which they are declared.

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

(l) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

(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.

3. Significant accounting policies continued

(iii) Share-based payment transactions continued

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

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

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

(o) Trade and other payables

Trade and other payables are stated at amortised cost.

(p) Revenue recognition

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyers. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and product returns.

(q) Expenses

(i) Operating lease payments

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

(ii) Net financing costs

Net financing costs comprise interest receivable, interest payable, borrowings, interest on pension assets and liabilities, 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.

Notes to the consolidated financial statements continued.

3. Significant accounting policies continued

(r) Income tax expense continued

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

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

(t) New endorsed standards and interpretations not yet effective

The accounting policies applied consistently by the Group in these financial statements are the same as those applied by the Group in its financial statements as at, and for the year ended 31 December 2008 except as noted below.

Revised IAS 1 "Presentation of Financial Statements (2007)" which became effective as of 1 January 2009. As a result the Group presents in the consolidated statement of changes in equity all owners changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IFRS 8 Operating Segments: introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, requires 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. The Company has adopted IFRS 8 however has not changed the presentation of the segment information (see Note 4) to that presented under IAS 14 as the internal reporting is consistent with the IAS 14 segments. The segment information is in the format of internal reports provided to and reviewed by the Group Chief Executive and also presented to the Board. Goodwill relating to previous acquisitions within the Signals/Illumination segment remains in that segment.

The following standards are now applicable although have had no material effect on the financial statements:

IFRIC 14 "IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction".

Amendments to IFRS 2 "Share-based payment – Vesting Conditions and Cancellations".

Amendment to IFRS 7 "Improving Disclosures about Financial Instruments".

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.

Endorsed IFRS not yet applied

The following endorsed IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material affect on the financial statements unless otherwise indicated:

Revised IFRS 3 "Business Combinations" (mandatory for the year commencing on or after 1 July 2009). This standard implements revisions in the application of acquisition accounting, notably with respect to the treatment of acquisition costs, minority interests and contingent consideration.

3. Significant accounting policies continued

(t) New endorsed standards and interpretations not yet effective continued

Amendments to IAS 27 "Consolidated and Separate Financial Statements" (mandatory for the year commencing on or after 1 July 2009). The amendments deal primarily with the accounting for changes in ownership interests in subsidiaries after control is obtained, the accounting for the loss of control of subsidiaries, and the allocation of profit or loss to controlling and non-controlling interests in a subsidiary.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (mandatory for years commencing on or after 30 June 2009). The IFRIC clarifies certain aspects of IAS 39 with respect to hedge accounting.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement: Eligible Hedged Items" (mandatory for year commencing on or after 1 July 2009) which addresses when specific financial instruments start or cease to be accounted for at fair value through profit or loss.

Amendments to IAS 39 "Reclassification of Financial Assets: Effective Date and Transition" (mandatory for year commencing on or after 1 July 2009). These amendments clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

These IFRSs will be relevant for the 31 December 2010 year end.

(u) Determination of fair values

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

- *Plant and equipment*

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

- *Intangible assets*

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

- *Inventory*

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

- *Trade and other receivables/payables*

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

- *Share-based payments transactions*

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

- *Derivatives*

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

- *Cash and cash equivalents*

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

Notes to the consolidated financial statements continued.

4. Operating segments

(a) The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic units offer different products. They require different technology and marketing strategies. For each of the units the CEO reviews internal monthly reports monthly. The following summary describes the operations in each of the Group's reportable segments.

The Group comprises the following business segments:

- Signals/Illumination which addresses the increasing demands for Energy Efficient Lighting solutions through the use of high brightness LEDs and utilisation of a number of associated technologies. Areas of business include Traffic and Rail Signals, Obstruction Lights and Solid State Lighting products.
- Components comprising (1) the indication businesses whose sales are primarily to Electronics OEMs for status indication and (2) electromagnetic components which supplies smart meter disconnect switches which are used by utility companies to manage remotely electrical supply to residential and business premises.

There is no inter-segment revenue.

All revenue relates to the sale of goods. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated expenses comprise corporate costs including share-based payments and unallocated assets and liabilities comprise cash, borrowings, taxation and pension fund liabilities.

The Group does not rely on any single major customer.

4. Operating segments continued
Reportable segments

2009	**Electromagnetic components £'000**	**Indication business £'000**	**Total Components £'000**	**Signals/ Illumination £'000**	**Total £'000**
Revenue	**13,333**	**17,576**	**30,909**	**46,395**	**77,304**
Contribution	**3,167**	**9,257**	**12,424**	**17,979**	**30,403**
Overhead costs	**(2,445)**	**(6,102)**	**(8,547)**	**(14,707)**	**(23,254)**
Segment results	**722**	**3,155**	**3,877**	**3,272**	**7,149**
Unallocated expenses					**(1,694)**
Operating profit					**5,455**
Net financing expense					**(173)**
Profit before tax					**5,282**
Income tax expense					**(1,990)**
Profit from continuing operations					**3,292**

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 from continuing operations					3,469

Notes to the consolidated financial statements continued.

4. Operating segments continued

Other information	**Electromagnetic components £'000**	**Indication business £'000**	**Total Components £'000**	**Signals/ Illumination £'000**	**2009 Total £'000**
Capital Additions	**402**	**208**	**610**	**1,822**	**2,432**
Depreciation and amortisation	**(380)**	**(527)**	**(907)**	**(1,746)**	**(2,653)**

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)

Not included above are central assets and depreciation/amortisation not allocated to a segment (2008: nil).

Balance sheet – assets	**Electromagnetic components £'000**	**Indication business £'000**	**Total Components £'000**	**Signals/ Illumination £'000**	**2009 Total £'000**
Segment assets	**9,089**	**9,135**	**18,224**	**27,235**	**45,459**
Unallocated assets					**8,764**
Consolidated total assets					**54,223**

Balance sheet – liabilities	**Electromagnetic components £'000**	**Indication business £'000**	**Total Components £'000**	**Signals/ Illumination £'000**	**2009 Total £'000**
Segment liabilities	**(3,943)**	**(1,782)**	**(5,725)**	**(7,357)**	**(13,082)**
Unallocated liabilities					**(1,037)**
Consolidated total liabilities					**(14,119)**

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)

4. Operating segments 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 tables provide 1) an analysis of the Group's sales by geographical market, irrespective of the origin of the goods. 2) An analysis of total assets and non-current assets by location.

All revenue relates to the sale of goods.

Sales revenue by geographical market	**2009 £'000**	2008 £'000
North America	**52,717**	50,848
UK	**7,790**	9,740
Rest of Europe	**8,436**	8,823
Rest of World	**8,361**	8,444
	77,304	77,855

	Total assets		Non-current assets	
Continuing operations	**2009 £'000**	2008 £'000	**2009 £'000**	2008 £'000
North America	**30,472**	34,631	**6,178**	7,491
UK	**15,307**	13,746	**5,141**	5,707
Rest of Europe	**8,444**	8,895	**6,432**	6,569
	54,223	57,272	**17,751**	19,767

5. Personnel expenses

	2009 £'000	2008 £'000
Wages and salaries	**12,290**	11,516
Social security contributions	**1,357**	1,443
Equity settled share-based payment transactions	**198**	154
Contributions to defined contribution plans	**350**	361
Total charge for defined benefit plans	**131**	147
	14,326	13,621

The average number of employees by geographical location was:

	2009 Number	2008 Number
UK	**138**	154
USA and Mexico	**779**	1,033
Rest of the World	**19**	27
	936	1,214

In 2009 the Group employed an average of 647 direct staff (2008: 912) and 289 indirect staff (2008: 302).

Notes to the consolidated financial statements continued.

6. Net financing income
Recognised in profit and loss

	2009 £'000	2008 £'000
Interest income on bank deposits	**12**	127
Expected return on assets in the defined benefit pension schemes	**1,699**	2,049
	1,711	2,176
Interest expense on financial liabilities	**-**	(47)
Interest charge on pension scheme liabilities	**(1,884)**	(1,813)
	(1,884)	(1,860)
Net financing income	**(173)**	316

The interest expense in 2008 relates to a dividend paid on 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. 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.

7. Income tax expense
Recognised in the income statement

	2009 £'000	2008 £'000
Current tax expense		
Current year	**1,945**	2,402
Adjustment for prior years	**-**	(27)
	1,945	2,375
Deferred tax expense		
Origination and reversal of temporary differences	**288**	(211)
Adjustment for prior years	**(243)**	4
Income tax expense	**1,990**	2,168

Reconciliation of effective tax rate

	2009 %	2009 £'000	2008 %	2008 £'000
Profit from continuing operations		**3,292**		3,469
Total income tax expense		**1,990**		2,168
Profit excluding income tax		**5,282**		5,637
Income tax using the UK corporation tax rate of 28% (2008: 28%)	**28.0**	**1,479**	28.0	1,578
Effect of tax rates in foreign jurisdictions	**9.2**	**487**	8.1	456
Non-deductible expenses	**0.8**	**41**	1.3	74
Unrecognised losses carried forward	**4.3**	**226**	2.7	152
Non-taxable income	**-**	**-**	(2.4)	(139)
Share plan charge for lapsed awards	**-**	**-**	1.2	70
Over provision in prior years	**(4.6)**	**(243)**	(0.4)	(23)
	37.7	**1,990**	38.5	2,168

Deferred tax recognised directly in equity

	2009 £'000	2008 £'000
Relating to pension accounting	**(663)**	1,289

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

Research and development costs	2009 £'000	2008 £'000
Expensed as incurred	**3,671**	2,333
Amortisation charge	**977**	909
	4,648	3,242
Depreciation of fixed assets	**1,525**	1,598
Operating leases – Property	**781**	939
Operating leases – Other	**153**	133

Auditors' remuneration:

	2009 £'000	2008 £'000
Audit of these financial statements	**42**	42
Amounts receivable by auditors in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**86**	82
Other amounts pursuant to legislation	**8**	8
Other services relating to taxation	**66**	78
Advisory work in respect of suspended disposal	**15**	42
Pension and actuarial services:		
Pension Advisory services in respect of Group Pension Plans	**74**	51
Actuarial advisory on IAS 19 Valuations	**5**	11
	254	272

9. Adjustment to profit from businesses sold in prior years
The adjustment to profit from businesses sold in prior years comprises two non-cash items being a release of a provision of £0.4 million for a business sold in 2003 and a release of a tax provision of £1.7 million in connection with the disposal of businesses in 2005, which are no longer required.

Notes to the consolidated financial statements continued.

10. Property, plant and equipment

	Land and buildings £'000	Plant equipment and vehicles £'000	Total £'000
Cost			
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
At 1 January 2009	5,700	30,023	35,723
Exchange adjustments	(344)	(2,250)	(2,594)
Additions	70	1,397	1,467
Disposals	–	(890)	(890)
At 31 December 2009	**5,426**	**28,280**	**33,706**
Accumulated depreciation			
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)
At 1 January 2009	(2,857)	(25,073)	(27,930)
Exchange adjustments	199	1,933	2,132
Charge for the year	(146)	(1,379)	(1,525)
Disposals	–	865	865
At 31 December 2009	**(2,804)**	**(23,654)**	**(26,458)**
Carrying amount at 31 December 2009	**2,622**	**4,626**	**7,248**
At 31 December 2008	2,843	4,950	7,793
At 1 January 2008	2,468	3,604	6,072

11. Intangible assets

	Concessions, patents, licences and trademarks £'000	Goodwill £'000	Development costs £'000	Total £'000
Costs				
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
Balance at 1 January 2009	1,237	6,899	4,840	12,976
Other acquisitions – internally developed	–	–	966	966
Effects of foreign exchange movement	–	(114)	(349)	(463)
Balance at 31 December 2009	**1,237**	**6,785**	**5,457**	**13,479**
Amortisation and impairment losses				
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)
Balance at 1 January 2009	(1,071)	–	(2,973)	(4,044)
Amortisation for the period	(166)	–	(977)	(1,143)
Effects of foreign exchange movement	–	–	297	297
Balance at 31 December 2009	**(1,237)**	**-**	**(3,653)**	**(4,890)**
Carrying amounts at 31 December 2009	**-**	**6,785**	**1,804**	**8,589**
At 31 December 2008	166	6,899	1,867	8,932
At 1 January 2008	332	5,845	1,736	7,913

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:

Signals/Illumination sector	**2009 £'000**	2008 £'000
UK Signals	**2,328**	2,328
European Traffic	**4,457**	4,571
	6,785	6,899

The change in value in the European Traffic goodwill figure is due to foreign currency.

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

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

Notes to the consolidated financial statements continued.

11. Intangible assets continued

The growth rates used are the same for both CGUs and 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 extrapolates cash flows for a further four years based on an estimated growth rate of 5%. A terminal valuation is then calculated assuming growth of 1%. Management believe that this forecast period was justified due to the long-term nature of the LED lighting business.

Any adverse change in this assumption could reduce the recoverable amount below carrying amount. The Directors do not believe that a significant change to the assumptions is probable. The pre-tax rate used to discount the forecast cash flow for both CGUs is 9.8%.

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 CGU by £0.7 million for UK signals and £1.0 million for European Traffic but still leaves significant headroom compared with the carrying value of the goodwill.

(ii) Assuming an estimated growth of 1% growth in sales throughout would reduce the headroom between the recoverable amounts of CGU by £0.6m for UK signals and £0.7m for European Traffic but still leaves significant headroom compared with the carrying value of the goodwill.

12. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2009 £'000	2008 £'000	**2009 £'000**	2008 £'000	**2009 £'000**	2008 £'000
Property, plant and equipment	**–**	–	**(234)**	(196)	**(234)**	(196)
Intangible assets	**–**	–	**(565)**	(634)	**(565)**	(634)
Employee benefits	**447**	1,718	**–**	–	**447**	1,718
Provisions	**1,433**	1,303	**–**	–	**1,433**	1,303
Other items	**833**	704	**–**	–	**833**	704
Tax assets/(liabilities)	**2,713**	3,725	**(799)**	(830)	**1,914**	2,895
Set off of tax	**(799)**	(683)	**799**	683	**–**	–
Net tax assets/(liabilities)	**1,914**	3,042	**–**	(147)	**1,914**	2,895

Deferred tax assets have not been recognised in respect of tax losses of £1,829,000 (2008: £117,000) 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 (2008: £nil).

12. 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 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	–	–	(1,180)	969	(211)
Balance at 31 December 2008	(196)	(634)	1,718	2,007	2,895
Balance at 1 January 2009	(196)	(634)	1,718	2,007	2,895
Recognised in income	(26)	42	(468)	407	(45)
Exchange	(12)	27	(140)	(73)	(198)
Recognised in equity	–	–	(663)	124	(539)
Businesses sold in prior years recognised in income	–	–	–	(199)	(199)
Balance at 31 December 2009	**(234)**	**(565)**	**447**	**2,266**	**1,914**

13. Inventories

	2009 £'000	2008 £'000
Raw materials and consumables	**6,020**	8,851
Work in progress	**1,126**	1,596
Finished goods	**2,048**	2,547
	9,194	12,994

Inventories to the value of £40,579,000 (2008: £39,179,000) were recognised as expenses in the year. Included within this figure was the write down of inventories to net realisable value of £759,000 (2008: £722,000) .

14. Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables	**17,235**	18,766
Other non-trade receivables	**351**	505
Prepayments and accrued income	**600**	639
Restricted cash (see Note 15)	**-**	456
	18,186	20,366

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

Notes to the consolidated financial statements continued.

15. Cash and cash equivalents

	2009 £'000	2008 £'000
Total bank balances	**9,092**	4,601
Less: Restricted cash (see Note 14)	**–**	(456)
Cash and cash equivalents	**9,092**	4,145

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.

16. Capital and reserves

Called up share capital

	2009 Number	2009 £'000	2008 Number	2008 £'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

There was no movement during the year in the ordinary shares of the Company. During 2008 the Company redeemed in full the remaining balance of 2,896,336 Preference Shares.

Details of the rights and obligations attached to the Company's shares are set out in the Directors' report on page 33.

	Ordinary shares		Redeemable "B" Preference shares	
Issued share capital	**2009 Number**	2008 Number	**2009 Number**	2008 Number
In issue at 1 January	**31,239,501**	31,239,501	**–**	2,896,336
Shares redeemed	**–**	–	**–**	(2,896,336)
Issued and fully paid at 31 December	**31,239,501**	31,239,501	**–**	–

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.

16. Capital and reserves continued

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	**2009 £'000**	2008 £'000
4.3p per ordinary share (2008: 3.9p)	**1,343**	1,218

During the year the following dividends were paid:

	2009 £'000	2008 £'000
Interim – 2.3p per ordinary share (2008: 2.1p)	**719**	656
2008 Final – 3.9p per ordinary share (2007: 3.8p)	**1,218**	1,187
	1,937	1,843

17. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2009 was based on the profit for the year of £5,432,000 (2008: £3,469,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2009 of 30,983,501 (2008: 31,017,000).

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2009 was based on profit for the year of £5,432,000 (2008: £3,469,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2009 of 31,788,206 (2008: 31,769,000) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2009 '000	2008 '000
Weighted average number of ordinary shares	**30,984**	31,017
Effect of share options on issue	**804**	752
Weighted average number of ordinary shares (diluted)	**31,788**	31,769

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

	2009 pence	2008 pence
Basic earnings	**17.5**	11.2
Profit from businesses sold in prior years (Note 9)	**(6.9)**	–
Underlying earnings	**10.6**	11.2
Diluted earnings	**17.1**	10.9
Profit from businesses sold in prior years (Note 9)	**(6.7)**	–
Underlying earnings	**10.4**	10.9

Notes to the consolidated financial statements continued.

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

	2009 £'000	2008 £'000
Present value of liabilities	**31,663**	32,473
Fair value of plan assets	**(30,715)**	(28,004)
Recognised liability for defined benefit obligations	**948**	4,469

Plan assets consist of the following:

	2009 £'000	2008 £'000
Equities	**15,046**	14,701
Bonds	**11,342**	11,964
Cash	**4,327**	1,339
	30,715	28,004

Movements in the present value of defined benefit obligations

	2009 £'000	2008 £'000
Defined benefit obligations at 1 January	**32,473**	32,417
Current service cost	**77**	122
Employee element of service cost	**24**	28
Interest cost	**1,884**	1,813
Benefits paid	**(1,846)**	(1,419)
Liabilities extinguished	**(332)**	(585)
Actuarial losses/(gains)	**782**	(3,788)
Currency (gains)/losses	**(1,399)**	3,885
Defined benefit obligations at 31 December	**31,663**	32,473

Movements in fair value of plan assets

	2009 £'000	2008 £'000
Fair value of plan assets at 1 January	**28,004**	31,190
Expected return on scheme assets	**1,699**	2,049
Employer contributions	**1,622**	1,142
Member contributions	**24**	28
Benefits paid	**(1,846)**	(1,419)
Assets distributed	**(386)**	(610)
Actuarial gains/(losses)	**2,625**	(7,195)
Currency (losses)/gains	**(1,027)**	2,819
Fair value of plan assets at 31 December	**30,715**	28,004

18. Employee benefits continued

Expense recognised in the income statement

	2009 £'000	2008 £'000
Current service costs	**77**	122
Past service cost	**–**	–
Settlement cost	**54**	25
Interest on obligation	**1,884**	1,813
Expected return on plan assets	**(1,699)**	(2,049)
	316	(89)

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

	2009 £'000	2008 £'000
Cost of sales	**72**	81
Distribution costs	**13**	15
Administrative expenses	**46**	51
Net financing income	**185**	(236)
	316	(89)
Actuarial gains/(losses) on plan assets	**2,625**	(7,195)
Actuarial (losses)/gains from liabilities	**(782)**	3,788
Net actuarial gain/(loss) recognised in Consolidated statement of comprehensive income	**1,843**	(3,407)
Cumulative actuarial loss recognised in Consolidated statement of comprehensive income	**(4,141)**	(5,984)

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Defined benefit obligation	**(31,663)**	(32,473)	(32,417)	(31,734)	(32,464)
Scheme assets	**30,715**	28,004	31,190	30,063	29,360
Deficit	**(948)**	(4,469)	(1,227)	(1,671)	(3,104)
Experience adjustments on liabilities	**(782)**	3,788	(405)	(509)	(3,283)
Experience adjustments on assets	**2,625**	(7,195)	67	812	2,017
Experience adjustments on currency	**372**	(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)		
	2009	2008	2007	**2009**	2008	2007
Discount rate at 31 December	**5.7**	6.25	5.5	**5.75**	6.0	5.75
Future salary increases	**4.25**	3.7	4.1	**n/a**	n/a	n/a
Future pension increases	**3.65**	3.2	3.6	**n/a**	n/a	n/a
Inflation	**3.75**	3.2	3.6	**n/a**	n/a	n/a

Notes to the consolidated financial statements continued.

18. Employee benefits continued

The expected long-term rates of return were:

	UK Schemes (% per annum)			US Scheme (% per annum)		
	2009	2008	2007	**2009**	2008	2007
Equities	**6.5**	6.5	6.5	**8.65**	8.65	7.64
Bonds	**4.5**	4.5	4.8	**4.8**	5.0	4.7
Cash	**3.75**	3.75	4.5	**2.15**	4.0	2.8

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

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2009, 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 2010 will be at a similar level to contributions paid in 2009.

Share-based payments

Performance Share Plan

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

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

Date of award	Number of awards at the beginning of year	Number of awards granted during the year	Number of awards forfeited during the year	Number of awards at the year end	Fair value Pence per share	Vesting period	Maturity date
April 2007	238,959	–	(18,134)	220,825	84	3 years	April 2010
April 2008	355,394	–	(52,330)	303,064	97	3 years	April 2011
April 2009	–	361,205	(49,769)	311,436	55	3 years	April 2012
At end of year	594,353	361,205	(120,233)	835,325			

Further details of the Plan are included in the Report of the Remuneration Committee on pages 42 to 46.

18. Employee benefits continued

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

	April 2009 Award	April 2008 Award	April 2007 Award
Share price	**£1.15**	£1.55	£2.13
Exercise price	**£nil**	£nil	£nil
Expected volatility	**40%**	38%	30%
Award life	**3 years**	3 years	3 years
Correlation			
Dialight and the FTSE Small Cap Index	**18%**	19%	16%
FTSE Small Cap Index and the FTSE All Share Electronic/Electrical Equipment Index	**77%**	76%	68%

The employee expense in 2009 is £198,000 (2008 expense: £154,000) (see Note 5).

19. Provisions

	Warranty £'000
Balance at 1 January 2009	1,307
Effects of foreign exchange movement	(107)
Provisions made during the year	281
Provisions used during the year	(408)
Balance at 31 December 2009	**1,073**

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

	2009 £'000	2008 £'000
Trade payables	**7,192**	7,083
Other taxes and social security	**179**	414
Non-trade payables and accrued expenses	**3,644**	3,562
	11,015	11,059

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's 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.

Notes to the consolidated financial statements continued.

21. Financial risk management continued

Credit risk

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

Trade and other receivables

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

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

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

Market risk

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

Interest rate risk

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

Foreign currency risk

Exposure to currency risks arises in the normal course of the Group's business. Derivative financial instruments have been used to hedge exposure to fluctuations in exchange rates. The fair value of derivatives at 31 December 2009 is £nil (2008: £88,000).

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 2009 £'000	**Impairment 2009 £'000**	Gross 2008 £'000	Impairment 2008 £'000
Not past due	**11,306**	**73**	15,272	–
Past due 0-30 days	**3,838**	**7**	2,809	17
Past due 31-120 days	**2,121**	**8**	507	2
Past due 121-365 days	**312**	**254**	180	21
More than one year	**113**	**113**	245	207
Total	**17,690**	**455**	19,013	247

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

	£'000
Balance at 1 January 2009	247
Exchange adjustment	(23)
Utilisation of provision	(67)
Provision created	298
Balance at 31 December 2009	**455**

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

Other non trade receivables of £351,000 (2008: £505,000) are not past due and have no impairment.

Exposure to currency risk

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

	2009 $'000	**2009 '000**	2008 $'000	2008 '000
Trade receivables	**3,847**	**362**	5,554	443
Currency cash/(overdrafts)	**1,017**	**938**	(1,988)	458
Trade payables	**(3,586)**	**(582)**	(1,873)	(396)
Gross balance sheet exposure	**1,278**	**718**	1,693	505
Estimated forecast sales	**16,500**	**8,000**	18,800	5,800
Estimated forecast purchases	**(15,000)**	**(6,000)**	(17,900)	(4,400)
Gross exposure	**1,500**	**2,000**	900	1,400
Forward exchange contracts	**–**	**–**	(600)	–
Net exposure	**2,778**	**2,718**	1,993	1,905

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Notes to the consolidated financial statements continued.

21. Financial risk management continued

The following significant exchange rates applied during the year:

	2009 Average rate	**2009 At reporting date**	2008 Average rate	2008 At reporting date
USD	**1.57**	**1.62**	1.85	1.46
Euro	**1.12**	**1.13**	1.26	1.05

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. These are all due to be paid within six months from the balance sheet date.

Sensitivity analysis

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

At 31 December 2009 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 £62,000 for the year ended 31 December 2009 (2008: £69,000). Forward exchange contracts have been included in this calculation where they existed.

At 31 December 2009 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 equity by approximately £231,000 for the year ended 31 December 2009 (2008: £256,000).

Fair values versus carrying amounts

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

	Carrying amount 2009 £'000	**Fair value 2009 £'000**	Carrying amount 2008 £'000	Fair value 2008 £'000
Trade and other receivables	**17,586**	**17,586**	19,271	19,271
Cash and cash equivalents	**9,092**	**9,092**	4,145	4,145
Forward exchange contracts – liability*	**–**	**–**	(88)	(88)
Trade and other payables	**(7,371)**	**(7,371)**	(7,409)	(7,409)
	19,307	**19,307**	15,919	15,919

*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:

	2009 £'000	2008 £'000
Less than one year	**853**	931
Between one and five years	**1,306**	2,217
More than five years	**7**	13
	2,166	3,161

Of the £2,166,000 (2008: £3,161,000), £1,992,000 (2008: £2,979,000) relates to property and the balance to plant and equipment.

The Group has no off balance sheet arrangements that need to be disclosed as within the context of S410A of the Companies Act 2006.

23. Capital commitments

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

	2009 £'000	2008 £'000
Contracted	**301**	163

24. Contingencies

	2009 £'000	2008 £'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 6.0% of the Company.

Details of the remuneration for the Company Directors are set out in the Report of the Remuneration Committee on pages 42 to 46. 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

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

Notes to the consolidated financial statements continued.

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 11 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 remote. No provision is required to be made.

Company balance sheet (prepared under UK GAAP).

At 31 December 2009

	Note	**2009 £'000**	2008 £'000
Fixed assets			
Tangible assets	31	**6**	30
Investments	32	**13,590**	13,292
		13,596	13,322
Current assets			
Debtors	33	**9,415**	2,175
Cash at bank and in hand		**3,070**	6,938
		12,485	9,113
Creditors:			
Amounts falling due within one year			
Interest-bearing loans and borrowings	37	**-**	–
Other creditors	34	**(3,908)**	(3,611)
Net current assets		**8,577**	5,502
Total assets less current liabilities		**22,173**	18,824
Net assets excluding pension fund liability		**22,173**	18,824
Pension fund liability	38	**(95)**	(47)
Net assets including pension fund liability		**22,078**	18,777
Capital and reserves			
Called up share capital	37	**591**	591
Capital redemption reserve	37	**2,232**	2,232
Other reserve	37	**476**	179
Profit and loss account	37	**18,779**	15,775
Equity shareholder funds		**22,078**	18,777

These financial statements were approved by the Board of Directors on 22 March 2010 and were signed on its behalf by:

Roy Burton
Group Chief Executive

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

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

The following amendments to standards have been adopted in these financial statements for the first time:

The amendment to FRS 8 Related Parties Disclosures. The amendment has the effect that only wholly-owned subsidiaries are exempt from disclosure of intra-group transactions and there is no longer a disclosure exemption available in parent company's own financial statements. This has had no impact.

The amendment to FRS 20 (IFRS 2) Vesting conditions and cancellations (mandatory for periods starting on/after 1 January 2009). The amendment clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and amends the accounting for cancellations and settlements by parties other then the entity. This has had no effect.

The following new and amendments to standards are not yet effective

- Amendment to FRS 25 Financial Instruments: Presentation (mandatory for periods starting on/after 1 January 2010)
- Amendment to FRS 20 (IFRS 2) Group Cash-settled Share-based Payment (mandatory for periods starting on/after 1 January 2010)

Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

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

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

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

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

Depreciation

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

Office equipment – between 10% and 20%

Computer equipment – between 20% and 33.3%

Plant, machinery, fixtures and fittings – between 10% and 20%

Motor vehicles – between 25% and 33.3%

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

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments.

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

Investments in subsidiary undertakings
Investments in subsidiary undertakings are stated at cost, less provisions for impairment in value. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the company to which the provisions of Section 131 of the Companies Act apply, the cost represents the nominal value of shares issued together with the fair value of any additional consideration given and costs.

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 FRS 17.

The Defined benefit scheme surplus or deficit is recognised in full and presented on the face of the balance sheet. The movement in the deficit is split between operating charges, financing items and actuarial gains and losses in the statement of recognised gains and losses.

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

Share-based payments
The share option programme allows employees to acquire shares of the Company. The fair value of 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.

Notes to the Company financial statements continued.

29. Staff costs

Staff costs during the year were:

	2009 £'000	2008 £'000
Wages and salaries	**553**	240
Social security costs	**43**	41
Equity-settled share-based payment transactions	**67**	154
Pension costs	**44**	21
	707	456

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

	2009 Number	2008 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 42 to 46.

30. Profit before tax

Profit before tax is stated after charging:

	2009 £'000	2008 £'000
Depreciation	**16**	18
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 2009	308
Additions	2
Disposals	(40)
At 31 December 2009	**270**
Depreciation	
At 1 January 2009	(278)
Charge for the year	(16)
Disposals	30
At 31 December 2009	**(264)**
Net book value at 31 December 2009	**6**
Net book value at 31 December 2008	30

32. Investments

Investments in subsidiary undertakings:

	£'000
Cost	
At 1 January 2009	18,080
Share-based payment	298
At 31 December 2009	**18,378**
Provisions:	
At 1 January 2009	(4,788)
Profit and loss account	–
At 31 December 2009	**(4,788)**
Net book value at 31 December 2009	**13,590**
Net book value at 31 December 2008	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

	2009 £'000	2008 £'000
Amounts owed by subsidiary undertakings	**9,282**	1,815
Other debtors	**58**	59
Deferred tax asset (Note 35)	**75**	301
	9,415	2,175

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

34. Creditors

	2009 £'000	2008 £'000
Amounts falling due within one year		
Other taxes and social security costs	**17**	13
Amounts owed to subsidiary undertakings	**3,289**	1,304
Corporation tax	**–**	1,636
Accruals and deferred income	**602**	658
	3,908	3,611

Notes to the Company financial statements continued.

35. Deferred tax asset

	2009 £'000	2008 £'000
At 1 January	**319**	295
Profit and loss account	**(27)**	2
Recognised in equity	**19**	22
Businesses sold in prior years recognised in income	**(199)**	–
At 31 December	**112**	319
An analysis of deferred tax is as follows:		
Capital allowances	**31**	38
Short-term timing differences	**44**	263
Debtors (see Note 33)	**75**	301
Pension liability (see Note 38)	**37**	18
	112	319

36. Called up share capital

	2009 Number	2009 £'000	2008 Number	2008 £'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	**–**	**–**	–	–
		591		591
Shares classified as liabilities		**–**		–
Shares classified in shareholder funds		**591**		591
		591		591

There has been no change in the Authorised or Issued and fully paid share capital of the Company during 2009. In the previous year the Company redeemed the balance of the B shares.

	Ordinary shares		Redeemable "B" Preference shares	
Share capital	2009	2008	2009	2008
In issue at 1 January	**31,239,501**	31,239,501	**–**	2,911,760
Shares redeemed	**–**	–	**–**	(2,911,760)
Issued and fully paid at 31 December	**31,239,501**	31,239,501	**–**	–

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 at the year end	Fair value Pence per share	Vesting period	Maturity date
April 2007	238,959	–	(18,134)	220,825	84	3 years	April 2010
April 2008	355,394	–	(52,330)	303,064	97	3 years	April 2011
April 2009	–	361,205	(49,769)	311,436	55	3 years	April 2012
At end of year	594,353	361,205	(120,233)	835,325			

Further details of the Plan are included in the Report of the Remuneration Committee on pages 42 to 46.

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

	April 2009 Award	April 2008 Award	April 2007 Award
Share price	**£1.15**	£1.55	£2.13
Exercise price	**£nil**	£nil	£nil
Expected volatility	**40%**	38%	30%
Award life	**3 years**	3 years	3 years
Correlation			
Dialight and the FTSE Small Cap Index	**18%**	19%	16%
FTSE Small Cap Index and the FTSE All Share Electronic/Electrical Equipment Index	**77%**	76%	68%

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 2009	591	2,232	179	15,775	18,777
Net expense recognised in equity	–	–	–	(64)	(64)
Profit for the year	–	–	–	5,104	5,104
Dividends to shareholders	–	–	–	(1,937)	(1,937)
Share-based payments	–	–	297	(99)	198
At 31 December 2009	**591**	**2,232**	**476**	**18,779**	**22,078**

At 31 December 2009 the number of shares held by the Group through the Share Ownership Trust was 256,000 (2008: 256,000). The market value of these shares at 31 December 2009 is £560,000 (2008: £289,000).

Notes to the Company financial statements continued.

37. Capital and reserves continued

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

The profit for the year was £5,104,000 (2008: profit £2,547,000). Net expenses recognised directly in equity relate to the net actuarial loss (net of deferred tax) arising in respect of the pension scheme.

	2009 £'000	2008 £'000
Profit and loss reserve excluding pension liability	**18,874**	15,822
Pension reserve	**(95)**	(47)
Profit and loss reserve	**18,779**	15,775

Reconciliation in movement in shareholders' funds

	2009 £'000	2008 £'000
Profit for the year	**5,104**	2,547
Other gains and losses	**(64)**	(58)
Dividends	**(1,937)**	(1,843)
Share-based payments (net of tax)	**198**	154
Own shares purchased	**–**	(190)
Net addition to shareholder funds	**3,301**	610
Opening shareholder funds	**18,777**	18,167
Closing shareholder funds	**22,078**	18,777

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	**2009 £'000**	2008 £'000
4.3p per ordinary share (2008: 3.9p)	**1,343**	1,218

During the year the following dividends were paid:

	2009 £'000	2008 £'000
Interim – 2.3p per ordinary share (2008: 2.1p)	**719**	656
2008 Final – 3.9p per ordinary share (2007: 3.5p)	**1,218**	1,187
	1,937	1,843

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

	2009 £'000	2008 £'000
Interim	**–**	44
Final	**–**	3
	–	47

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

	2009 £'000	2008 £'000
Present value of liabilities	**(1,471)**	(1,338)
Fair value of plan assets	**1,339**	1,273
Recognised liability for defined benefit obligations	**(132)**	(65)
Deferred tax (see Note 35)	**37**	18
Pension liability net of deferred tax	**(95)**	(47)

Plan assets consist of the following:

	2009 £'000	2008 £'000
Equities	**-**	–
Bonds	**1,316**	1,247
Cash	**23**	26
	1,339	1,273

Movements in the present value of defined benefit obligations

	2009 £'000	2008 £'000
Liabilities at 1 January	**1,338**	2,003
Current service cost	**14**	35
Past service cost	**-**	–
Employee element of service cost	**2**	23
Interest cost	**83**	111
Liabilities extinguished	**-**	(585)
Benefits paid	**(128)**	(21)
Actuarial loss/(gain)	**162**	(228)
Liabilities at 31 December	**1,471**	1,338

Movements in fair value of plan assets

	2009 £'000	2008 £'000
Assets at 1 January	**1,273**	1,943
Expected return on scheme assets	**57**	97
Employer contributions	**56**	149
Member contributions	**2**	5
Benefit paid	**(128)**	(21)
Assets distributed	**-**	(610)
Actuarial gain/(loss)	**79**	(290)
Assets at 31 December	**1,339**	1,273

Notes to the Company financial statements continued.

38. Pensions continued
Expense recognised in the profit and loss account

	2009 £'000	2008 £'000
Current service costs	**14**	35
Past service cost	**–**	–
Settlement cost	**–**	25
Interest on obligation	**83**	111
Expected return on plan assets	**(57)**	(97)
	40	74

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

	2009 £'000	2008 £'000
Administrative expenses	**14**	60
Net financing income	**26**	14
	40	74
Actuarial gain/(loss) on plan assets	**79**	(290)
Actuarial (loss)/gain from liabilities	**(162)**	228
Net actuarial loss recognised in Statement of recognised gains and losses	**(83)**	(62)
Cumulative actuarial loss recognised in Statement of recognised gains and losses	**(481)**	(398)

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Defined benefit obligation	**(1,471)**	(1,338)	(2,003)	(1,791)	(1,587)
Scheme assets	**1,339**	1,273	1,943	1,883	1,807
(Deficit)/surplus	**(132)**	(65)	(60)	92	220
Experience adjustments on liabilities	**(162)**	228	(119)	(120)	(295)
Experience adjustments on assets	**79**	(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)		
	2009	2008	2007
Discount rate at 31 December	**5.7**	6.25	5.5
Future salary increases	**n/a**	3.7	4.1
Future pension increases	**3.65**	3.2	3.6
Inflation	**3.75**	3.2	3.6

38. Pensions continued

The expected long-term rates of return were:

	UK Schemes (% per annum)		
	2009	2008	2007
Equities	**N/A**	6.5	6.5
Bonds	**5.7**	4.5	4.8
Cash	**4.5**	3.75	4.5

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2009, 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 2010 will be at a similar level to contributions paid in 2009.

39. Operating lease commitments

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

Land and buildings which expire

	2009 £'000	2008 £'000
In less than one year	**4**	–
Between one and two years	**–**	25

The Company has no off balance sheet arrangements that need to be disclosed as within the context of S410A of the Companies Act 2006.

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 2009 £'000	**Fair value 2009 £'000**	Carrying amount 2008 £'000	Fair value 2008 £'000
Debtors	**58**	**58**	59	59
Cash and cash equivalents	**3,070**	**3,070**	6,938	6,938
Creditors	**(832)**	**(832)**	(671)	(671)
	2,296	**2,296**	6,326	6,326

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.

Notice is hereby given that the Annual General Meeting of Dialight plc (the "Company") will be held at The City of London Club, 19 Old Broad Street, London EC2N 1DS at 11.30 am on Wednesday 12 May 2010. You will be asked to consider and, if thought fit, pass the resolutions below. Resolutions 11 to 14 (inclusive) will be proposed as special resolutions. All other resolutions will be proposed as ordinary resolutions.

Ordinary resolutions

1. That the Company's annual accounts for the financial year ended 31 December 2009, together with the Directors' report, the Directors' remuneration report, the Auditors' report on those accounts and on the auditable part of the Directors' remuneration report be received.
2. That the Directors' remuneration report for the financial year ended 31 December 2009 be approved.
3. That KPMG Audit Plc be re-appointed as auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting of the Company at which accounts are laid.
4. That the Directors be authorised to determine the remuneration of the auditors.
5. That Roy Burton, who retires by rotation, be re-elected as Director of the Company in accordance with the Company's Articles of Association.
6. That Robert Jeens, who retires by rotation, be re-elected as Director of the Company in accordance with the Company's Articles of Association.
7. That George Ralph, who was appointed a Director of the Company during the year, be elected as a Director of the Company in accordance with the Company's Articles of Association.
8. That Bill Ronald, who was appointed a Director of the Company during the year, be elected as a Director of the Company in accordance with the Company's Articles of Association.
9. That Richard Stuckes, who was appointed a Director of the Company during the year, be elected as a Director of the Company in accordance with the Company's Articles of Association.
10. That, in substitution for all existing authorities, the Directors be generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 to exercise all the powers of the Company to:

    (a) allot shares (as defined in Section 540 of the Companies Act 2006) in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £196,808; and

    (b) allot equity securities (as defined in Section 560 of the Companies Act 2006) up to an aggregate nominal amount of £393,617 (such amount to be reduced by the aggregate nominal amount of shares allotted or rights to subscribe for or to convert any security into shares in the Company granted under paragraph (a) of this resolution 10) 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 defined in Sections 560(1) of the Companies Act 2006) 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 end of the Company's next annual general meeting after this resolution is passed (or, if earlier, until the close of business on 12 August 2011) but, in each case, so that the Company may make offers and enter into agreements before the authority expires which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority expires and the Directors may allot shares or grant such rights under any such offer or agreement as if the authority had not expired.

Special resolutions

11. That, in substitution for all existing powers and subject to the passing of resolution 10, the Directors be generally empowered pursuant to Section 570 of the Companies Act 2006 to allot equity securities (as defined in Section 560 of the Companies Act 2006) for cash pursuant to the authority granted by resolution 10 and/or where the allotment constitutes an allotment of equity securities by virtue of Section 560(3) of the Companies Act 2006, in each case free of the restriction in Section 561 of the Companies Act 2006, such power to be limited:

    (a) to the allotment of equity securities and the sale of treasury shares for cash in connection with an offer, or invitation to apply for, equity securities (but in the case of an allotment pursuant to the authority granted by paragraph (b) of resolution 10), 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 defined in Section 560(1) of the Companies Act 2006), 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 10 and/or, in the case of any sale of treasury shares for cash, an allotment which constitutes an allotment of equity securities by virtue of Section 560(3) of the Companies Act 2006 or sale of treasury shares (in each case otherwise than in the circumstances set out in paragraph (a) of this resolution 11) up to a nominal amount of £29,521, such power to apply until the end of the Company's next annual general meeting after this resolution is passed (or, if earlier, until the close of business on 12 August 2011) 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.

12. That the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 1.89p in the capital of the Company ("ordinary shares") provided that:

    (a) the maximum aggregate number of ordinary shares authorised to be purchased is 3,123,950 (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 the higher of:

    (i) an amount equal to 5%. above the average middle market value of an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is purchased; and

    (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out, in each case, exclusive of expenses;

    (d) this authority expires at the conclusion of the next annual general meeting after this resolution is passed (or, if earlier, until the close of business on 12 August 2011); and

    (e) the Company may make a contract 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.

Notice of Annual General Meeting continued.

13. That:

(i) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of Section 28 of the Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and

(ii) the Articles of Association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

14. That a General Meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

By order of the Board

Nick Giles
Company Secretary

22 March 2010

Registered Office:
2B Vantage Park, Washingley Road,
Huntingdon PE29 6SR

Registered in England and Wales No. 2486024

The notes below provide information on the content of the Notice

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the Annual General Meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA or on 0871 384 2495 (for callers calling from the UK. Calls to this number are charged at 8p per minute from a BT landline, other provider costs may vary. Lines open 8.30 am to 5.30 pm, Monday to Friday) or +44 (0)121 415 7047 (for those calling from abroad).

2. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6ZR in each case no later than 11.30 am on 10 May 2010. Shareholders who would prefer to register the appointment of their proxy electronically via the internet can do so through the Sharevote website, www.sharevote.co.uk, using their Personal Authentication Reference Number (this is the series of numbers printed under the headings Voting ID, Task ID and Shareholder Reference Number on the Proxy Form). Full details and instructions on these electronic proxy facilities are given on the website. Any electronic communication sent by a shareholder to the Company or to the Registrar which is found to contain a computer virus will not be accepted.

3. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 9 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.

4. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

5. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

6. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 6.00 pm on 10 May 2010 (or, in the event of any adjournment, 6.00 pm on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Annual General Meeting.

7. As at 22 March 2010 (being the last business day prior to the publication of this Notice) the Company's issued share capital consists of 31,239, 501 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 22 March 2010 are 31,239,501.

8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available via www.euroclear.com/CREST). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 11.30 am on 10 May 2010. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

10. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
12. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
13. Under Section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.
14. Any member attending the Annual General Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Annual General Meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.
15. A copy of this notice, and other information required by Section 311A of the Companies Act 2006, can be found at www.dialight.com.
16. Copies of the following documents will be available for inspection at the Company's registered office during normal business hours (Saturdays, Sundays and public holidays excepted) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and during the meeting:
    (i) the register of Directors' interests in shares of the Company;
    (ii) copies of all service agreements under which Directors of the Company are employed by the Company or any subsidiaries;
    (iii) a copy of the terms of appointment of the Non-Executive Directors of the Company; and
    (iv) a copy of the proposed new Articles of Association of the Company, together with a copy of the existing Articles of Association of the Company marked to show the changes being proposed.
17. You may not use any electronic address provided either in this Notice of Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

Explanatory notes on the resolutions to be proposed at the AGM

The notes on the following pages give an explanation of the proposed resolutions.

Resolutions 1 to 10 are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 11 to 14 are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

Resolution 10 – Authority to allot shares

This resolution 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 22 March 2010, 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 22 March 2010, 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 2011 and 12 August 2011 (the last date by which the Company must hold an Annual General Meeting in 2011).

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 existing Share Schemes. However, the authority gives the Directors the flexibility to take advantage of business opportunities as they arise.

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

Notice of Annual General Meeting continued.

Resolution 11 – Relax restrictions normally applying to shares issued for cash
This resolution 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 22 March 2010, the latest practicable date prior to publication of the Notice of Annual General Meeting.

Allotments made under the authorisation in paragraph (b) of resolution 10 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 sought under this resolution will expire at the earlier of the conclusion of the Annual General Meeting of the Company held in 2011 and 12 August 2011 (the last date by which the Company must hold an annual general meeting in 2011).

Resolution 12 – Purchase of own shares
This resolution would give authority for the Company to purchase up to 3,123,950 of its ordinary shares, representing approximately 10% of the Company's issued ordinary share capital. Purchases will only be made at a minimum price per share of 1.89p and at maximum price per share of the higher of (i) an amount equal to 5% above the average middle market value of an ordinary share of the Company as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is purchased and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out, in each case, exclusive of expenses. If granted, the authority will expire at the earlier of the conclusion of the Annual General Meeting of the Company held in 2011 and 12 August 2011 (the last date by which the Company must hold an annual general meeting in 2011).

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 22 March 2010, 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 835,325 which represents 2.7% of the issued shares at that time and would represent 2.9% of the issued share capital if the Directors used the existing authority 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.

Resolution 13: Adoption of new Articles of Association
It is proposed in resolution 13 to adopt new Articles of Association (the "New Articles") in order to update the Company's current Articles of Association (the "Current Articles") primarily to take account of the coming into force of the Companies (Shareholders' Rights) Regulations 2009 (the "Shareholders' Rights Regulations") and the implementation of the last parts of the Companies Act 2006 and amendments to the Uncertificated Securities Regulations 2001.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 or the Shareholders' Rights Regulations or conform the language of the New Articles with that used in the model articles for public companies produced by the Department for Business, Innovation and Skills have not been noted below. The New Articles showing all the changes to the Current Articles are available for inspection, as noted on page 97.

Resolution 14: Notice of General Meetings
Changes made to the Companies Act 2006 by the Shareholders' Rights Regulations increase the notice period required for General Meetings of the Company to 21 days unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days. (AGMs will continue to be held on at least 21 clear days' notice.)

Until the coming into force of the Shareholders' Rights Regulations on 3 August 2009, the Company was able to call General Meetings other than an AGM on 14 clear days' notice without obtaining such shareholder approval. In order to preserve this ability, Resolution 14 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. Note that the changes to the Companies Act 2006 mean that, in order to be able to call a General Meeting on less than 21 clear days' notice, the Company must make a means of electronic voting available to all shareholders for that meeting.

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.

Explanatory notes of principal changes to the Company's Articles of Association
1. The Company's objects
The provisions regulating the operations of the Company are currently set out in the Company's Memorandum and Articles of Association. The Company's memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

The Companies Act 2006 significantly reduces the constitutional significance of a company's memorandum. The Companies Act 2006 provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the Company. Under the Companies Act 2006 the objects clause and all other provisions which are contained in a company's memorandum, for existing companies at 1 October 2009, are deemed to be contained in the Company's Articles of Association but the Company can remove these provisions by special resolution.

Further, the Companies Act 2006 states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, are treated as forming part of the Company's Articles of Association as of 1 October 2009. Resolution 13 confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the New Articles also contain an express statement regarding the limited liability of shareholders.

2. Articles which duplicate statutory provisions
Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main to be removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution.

3. Authorised share capital and unissued shares
The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes.

4. Redeemable shares
Under the Companies Act 1985, if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption. The Companies Act 2006 enables Directors to determine such matters instead provided they are so authorised by the articles. The New Articles contain such an authorisation. The Company has no plans to issue redeemable shares but if it did so the Directors would need shareholders' authority to issue new shares in the usual way.

5. Authority to purchase own shares, consolidate and subdivide shares, and reduce share capital
Under the Companies Act 1985, a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or subdivide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. The Current Articles include these enabling provisions. Under the Companies Act 2006 a company will only require shareholder authority to do any of these things and it will no longer be necessary for articles to contain enabling provisions. Accordingly the relevant enabling provisions have been removed in the New Articles.

6. Provision for employees on cessation of business
The Companies Act 2006 provides that the powers of the directors of a company to make provision for a person employed or formerly employed by the Company or any of its subsidiaries in connection with the cessation or transfer to any person of the whole or part of the undertaking of the Company or that subsidiary, may only be exercised by the Directors if they are so authorised by the Company's articles or by the Company in General Meeting. The New Articles provide that the Directors may exercise this power.

7. Use of seals
Under the Companies Act 1985, a company required authority in its articles to have an official seal for use abroad. Under the Companies Act 2006, such authority will no longer be required. Accordingly, the relevant authorisation has been removed in the New Articles.

The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for a signature by either a Director and the secretary or two Directors or such other person or persons as the Directors may approve.

8. Suspension of registration of share transfers
The Current Articles permit the Directors to suspend the registration of transfers. Under the Companies Act 2006 share transfers must be registered as soon as practicable. The power in the Current Articles to suspend the registration of transfers is inconsistent with this requirement. Accordingly, this power has been removed in the New Articles.

9. Voting by proxies on a show of hands
The Shareholders' Rights Regulations have amended the Companies Act 2006 so that it now provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for a resolution and by one or more members to vote against a resolution. The Current Articles have been amended to reflect these changes.

10. Chairman's casting vote
The New Articles remove the provision giving the Chairman a casting vote in the event of an equality of votes as this is no longer permitted under the Companies Act 2006.

11. Notice of General Meetings
The Shareholders' Rights Regulations amend the Companies Act 2006 to require the Company to give 21 clear days' notice of General Meetings unless the Company offers members an electronic voting facility and a special resolution reducing the period of notice to not less than 14 days has been passed. Annual General Meetings must be held on 21 clear days' notice. The New Articles amend the provisions of the Current Articles to be consistent with the new requirements.

12. Adjournments for lack of quorum
Under the Companies Act 2006 as amended by the Shareholders' Rights Regulations, General Meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. The Current Articles have been changed to reflect this requirement.

13. Voting record date
Under the Companies Act 2006 as amended by the Shareholders' Rights Regulations the Company must determine the right of members to vote at a General Meeting by reference to the register not more than 48 hours before the time for the holding of the meeting, not taking account of days which are not working days. The Current Articles have been amended to reflect this requirement.

14. Directors' indemnity
The New Articles restate the indemnity provisions contained in the Current Articles and extend those provisions to former Directors of the Company and to Directors of companies that are associated companies of the Company. The indemnity relates only to losses incurred by Directors or former Directors in relation to the Company, an associated company or their affairs, and contains certain specific exclusions (including, for example, losses arising out of payment of fines). The provisions comply with the requirements of the Companies Act 2006. The New Articles also include an additional indemnity provision for Directors of the Company who are a trustee of an occupational pension scheme against liability incurred in connection with the Company's activities as trustee of the scheme.

Five year summary.

For the years ended 31 December

					Prepared under IFRS
	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Turnover	**77.3**	77.9	63.4	62.3	56.1
Research and development expenditure	**3.7**	3.2	2.6	2.6	2.4
Operating profit	**5.5**	5.3	3.9	5.3	3.9
Finance (charges)/income	**(0.2)**	0.3	0.6	0.5	0.5
Profit before gain on disposal of discontinued operations and taxation	**5.3**	5.6	4.5	5.8	4.5
Operating cash flow	**11.0**	6.0	5.8	2.2	4.9
Net cash	**9.1**	4.1	4.4	2.2	7.6
Shareholders' funds	**40.1**	37.5	30.8	29.7	28.9

Statistical information	**Pence**	Pence	Pence	Pence	Pence
Earnings per ordinary share from continuing operations – Basic	**10.6**	11.2	8.8	11.8	10.1
Dividends per share	**6.6**	6.0	5.7	5.25	6.4
Dividend cover (times)	**2.7**	1.9	1.5	2.2	14.1
Operating margin before goodwill	**7.1%**	6.8%	6.2%	8.5%	8.7%
Turnover					
– Continuing operations	**77.3**	77.9	63.4	62.3	56.1
– Discontinued operations	**–**	–	–	–	–
Operating profit from continuing operations	**5.5**	5.3	3.9	5.3	3.9

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