DIALIGHT

ANNUAL REPORT AND ACCOUNTS 2020

Dialight

What's inside this report

STRATEGIC REPORT

GOVERNANCE

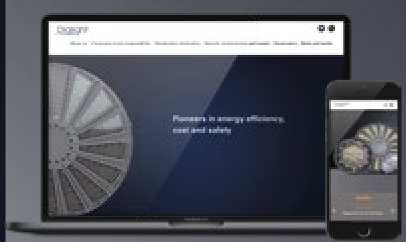
FINANCIAL STATEMENTS

AT DIALIGHT WE ARE PASSIONATE ABOUT PLAYING OUR PART IN BUILDING A FAIRER AND MORE RESILIENT WORLD FOR GENERATIONS TO COME. THE TRANSITION TO NET ZERO CARBON IS BOTH AN OPPORTUNITY AND OBLIGATION FOR DIALIGHT.

Pure Play LED Lighting Company with global footprint

Industry leading 10 year warranty

Products that last up to 5x longer than legacy lighting

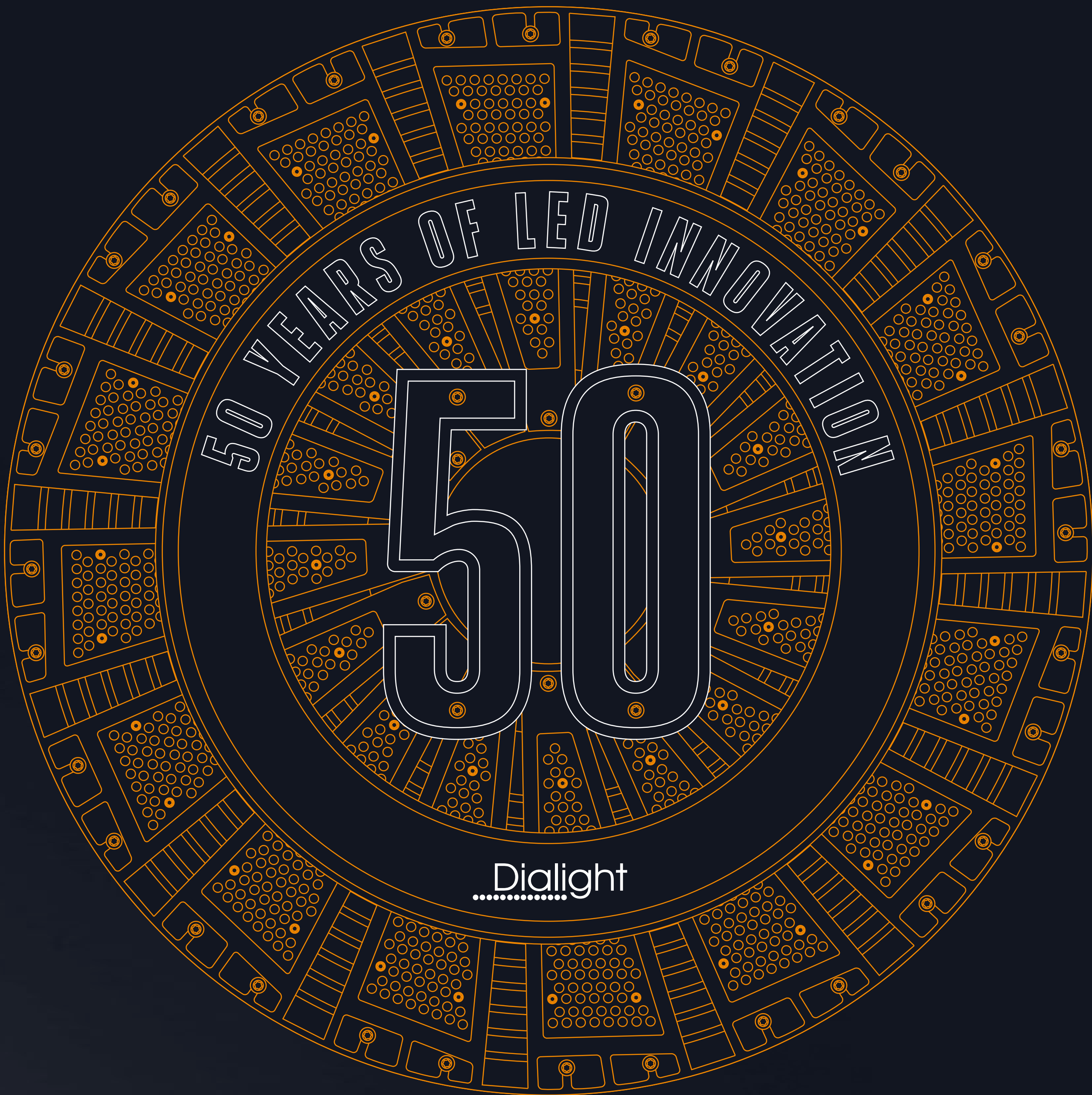


To find out more

Additional information can be found within this report

More information is available online

CELEBRATING 50 YEARS OF LED INNOVATION



THE LED WAS INVENTED IN 1970 AND WE LAUNCHED OUR FIRST LED PRODUCT IN 1971. WE HAVE BEEN A PIONEER IN THE DEVELOPMENT OF LED INDUSTRIAL LIGHTING, TRAFFIC SIGNALS AND COMPONENTS. PUSHING THE BOUNDARIES THROUGH OUR IN-HOUSE R&D CAPABILITIES.

AT DIALIGHT, WE SEE A WORLD WHERE HEAVY INDUSTRY CAN BE TRANSFORMED TO BE SAFER, MORE PRODUCTIVE AND ENVIRONMENTALLY FRIENDLY THROUGH ILLUMINATION.

Group revenue

£119m

2019: £151.0m

Lighting projects (normally 60% of segment revenue) largely deferred past 2020

Net debt

£11m

2019: £16m

Net debt reduced by £5m

Total borrowing facilities

£35m

2019: £25m

Added an additional £10m 3-year facility in the year

On-time delivery

80%

2019: 80%

We maintained our on-time delivery at the same level as 2019 despite COVID-19 related factory closures and labour restrictions

Inventory

£33m

2019: £46m

Reduced inventory by £13m (29%) and improved terms with major suppliers

Working hours lost

0.001%

2019: 0.002%

Safety continues to be a major focus and work hours lost to recordable incidents was reduced

Statutory measures

	2020	2019	2018
Revenue (£m)	119.0	151.0	169.6
(Loss)/Profit for the year (£m)	(7.8)	(16.2)	5.3
(Loss)/Earnings per share (p)	(24.0)	(49.8)	16.4

FIRST ENVIRONMENTAL PRODUCT DECLARATION (EPD)

Launched our first product to have an Environmental Product Declaration (EPD), see page 27

2m

Our industrial LED lighting base now has more than 2 million fixtures

FACTORY REOPENING

Our factories received essential business status, see page 12

90,000

Our lights sold in the year will remove 90,000 tonnes of CO_2 per annum while in use

DIALIGHT FOUNDATION

The Dialight Foundation was created to help communities in which we operate, see page 29

2040

We have committed to be a net zero business by 2040

Sustainability recognition

ISO 14001 certified
Our manufacturing facilities all have Environmental Management Systems, certified to ISO 14001

Green Economy Mark

In February 2020, Dialight was awarded the London Stock Exchange (LSE) Green Economy Mark

FTSE4Good

Dialight is a constituent member of the FTSE4Good index

Our Purpose

DIALIGHT HAS BEEN A PURE LED COMPANY FOR 50 YEARS WITH ALL OUR PRODUCTS DEVELOPED IN-HOUSE. WE USE THIS FOUNDATION OF INNOVATION AS A PLATFORM FOR CONTINUED DEVELOPMENT OF SUSTAINABLE TECHNOLOGIES TO HELP OUR CUSTOMERS ACHIEVE THEIR SUSTAINABILITY TARGETS.

OUR VISION

We see a world where heavy industry is transformed to be safer, more productive and environmentally friendly through illumination. Dialight will continue to be a pioneer of change for the industrial world; advancing the performance standards of industrial LED technology; using light fixtures in new and connected ways; and creating networks that deliver data-driven insights.

OUR VALUES

- Cultural genes
  These are the unique cultural and behavioural principles we must protect and leverage to optimise our organisational genes and deliver our purpose.
- Live the process
  Be passionate about making the world safer, cleaner and healthier. See real problems and create innovative solutions.
- Embrace the adventure
  Continually grow and change, as individuals and collectively. Challenge assumptions and see opportunities. Seek insight from all directions and leverage diverse points of view.
- Be an entrepreneur
  Be an owner, risk taker, visionary. Transform bold ambitions into reality. Be agile and responsive in the face of constant change.
- Can do
  A "can do" attitude to conflicting priorities. Build for tomorrow and deliver today. Have stability and constantly evolve. Enjoy autonomy and eagerly collaborate to accomplish our goals.
- Integrity
  Play to win, but not at the expense of others. Operate with impeccable ethics, transparency and integrity in all that we do.

For more information about Dialight's Lighting division, visit **www.dialight.com**

OUR DIVISIONS

LED INDUSTRIAL LIGHTING

Our range of LED Industrial Lighting is aimed at a market that is still dominated by older, more inefficient technologies. With less than 10% conversion to LED, the catalyst for mass conversion is increased energy savings and lower maintenance costs and increased regulation to phase out older technologies.

Our performance

Revenue

£82m

Group Revenue

69%

OUR DIVISIONS

SIGNALS AND COMPONENTS

This division has a diverse range of products with extended life-cycle opportunities in both mature markets and fast-growing markets for medical and wearable technology.

This division uses LED lights in a variety of safety products and as performance status indicators.

Our performance

Revenue

£37m

Group Revenue

31%

For more information see pages 6 and 7

Operational footprint

Engineering
— Primary facility in New Jersey

Product management
— Regionally located

Operations
— Manufacturing in Mexico, USA and Malaysia
— Distribution centres in Mexico, UK, Malaysia and Australia

Sales
— Global and regional, depending on customer. Major markets in USA, Australia and EMEA

THE BENEFITS OF LED LIGHTING

Durability
Solid components that can endure harsh and rugged environments

Reaction time
Turn on and off instantly

Environmental impact
Reduces the carbon footprint for customers

Low maintenance
Longer operating life than traditional lighting

Efficiency
Uses 30 to 70% less power

Temperature
Used in extreme temperatures

Our products
— Used in both hazardous and non-hazardous locations
— Function at a range of temperatures from -40c to +80c
— Withstand significant vibration
— Used as marker lights on tall structures

We serve a wide range of markets
— Mining
— Heavy industry
— Pulp and paper
— Power generation
— Oil and gas
— Petrochemical

ESG

Inputs
— Localising supply chain
— Ethical sourcing
— Compliance with standards

Operations
— Made in a safe environment
— The CO_2 savings for our customers (per annum) are 10x the CO_2 used in production

Outputs
— Reduce our customers' environmental impact for at least 10 years
— Help our customers achieve their sustainability targets

Improving the world

SIGNALS & COMPONENTS (S&C) DIVISION

The Signals & Components division contains an amalgam of legacy LED products that serve markets where Dialight has been a long-established brand name for up to 50 years. It can be divided into three distinct product groups, each with different challenges and levels of growth opportunity. Through limited strategic investment and product improvements these businesses have been the bedrock of the Group by generating strong cash flows as the Lighting division has been growing.

COMPARISON TO LIGHTING DIVISION

The major differences with the Lighting division are as follows:

- The products it sells are much more established as Dialight has been in these markets since with LED products for up to 50 years compared to 15 years in the Lighting market
- The market is mature
- The sales channels comprise of six in-house sales staff and a well established web platform
- Greater visibility of sales pipeline with orders being placed up to six months in advance
- Significantly lower investment in R&D and capex is required

Dialight has been producing LED products for the S&C market for 50 years

50 years

Number of in-house sales staff

6

PRODUCTS

There are three main product groups within the S&C division. Their relative size can be summarised as follows:

1

OPTOELECTRONICS (OE)

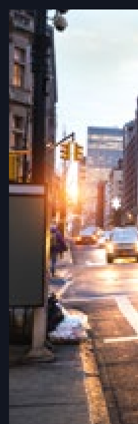
This business consists of small components that are attached to circuit boards or panels as status indicator lights for a wide variety of markets, including medical, telecom, industrial, data storage, military-aviation and transportation. Servicing almost 30,000 customers around the globe exclusively through distribution. The customer base is very diverse with the top 20 representing less than 25% of the revenue. The OE business is a global business with almost half the revenue from North America, 35% from Asia and the balance from EMEA.

2

VEHICLE

This business consists of exterior LED lighting solutions for the transit bus market and marker lights for train carriages and train track crossing points in the US and Canada.

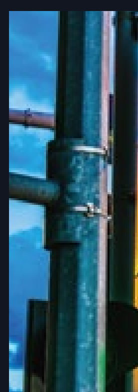
The business has been very stable the past 10 years as Dialight has become "standard" on the three largest OEMs most recent bus platforms.



3

TRAFFIC

This business consists of traffic intersection and pedestrian crosswalk signals for United States and Canadian Department of Transportation. Traffic is a commoditised product with purchasing decisions largely based on price. The market is contracting at about 2% per year compounded by a similar level of market price erosion.



PRODUCTION

All three product groups are manufactured in our Mexican facility and some OE products are also manufactured in Malaysia. Prior to the expansion of the Malaysian facility in 2019 to include Lighting production, it solely manufactured OE products.

Uses of OE

Our OE indicators are used as visual alarms on the control panels of COVID-19 ventilators to identify the status of patients.

In addition to the use of OE in telecoms and IT equipment, they are finding new markets in personal health monitoring via rugged wearable technology.

RESILIENCE

In 2020, we saw the resilience of the division being very evident with orders 7% higher than 2019. The diversity of the customer base ensured that two of the three product groups were doing well at most points in the year.

WHEN COVID-19 RELATED RESTRICTIONS WERE INTRODUCED, A SIGNIFICANT NUMBER OF THE S&C CUSTOMERS WERE GRANTED ESSENTIAL BUSINESS STATUS WHICH ALLOWED THEM TO REMAIN OPERATIONAL. AS PART OF THEIR SUPPLY CHAIN, THIS ENABLED US TO BE CLASSED AS AN ESSENTIAL BUSINESS.

Many of these customers provided written testimony to the Mexican and Malaysian governments that as part of their supply chain, we were also an essential business. This allowed us to re-open both factories for production.

The capital investment in this division is negligible due to the mature nature of the markets. Products are re-designed from time to time to achieve cost-downs that keep the products competitive. Production is co-located in facilities that produce Lighting so they share fixed overheads and management time.

For more information about Dialight's Signals & Components solutions, visit **www.dialightsignalsandcomponents.com**

RESILIENCE AND PURPOSE

David Blood
Chair

More information and an interview with the Chairman is available online **http://ir.dialight.com/reports-presentations-and-results**

Dear Shareholder,

The COVID-19 pandemic has taken a terrible toll on families, communities and economies. We extend our deepest sympathy to the families and loved ones of our valued colleagues who we have sadly lost to this virus during the year.

2020 was an extraordinarily demanding year for the business. However, we responded and will continue to respond through the COVID-19 challenges with resilience and purpose. I am particularly proud of the exceptional commitment of our leadership team to keeping our people safe, meeting our customers' needs, and protecting our business.

In times of challenge, affirming core strengths provides a north star. At Dialight, this starts with our people and continues with our products. For 50 years, our LED fixtures have been meeting the real needs of our customers for safety, reducing energy costs and now the critical objective of the transition to net zero carbon. And, the people of Dialight are the key to our success and drive everything we do. The incredible determination and courage they have shown during the pandemic in keeping our manufacturing sites running is testament to this.

FY20 performance

We continue to assess financial performance across the Group using a framework of profitability, return and cash flow measures. This framework underpins our financial key performance indicators (pages 20 and 21) and forms a central part of our criteria for remuneration (pages 68 to 89). Although the business was performing in line with plan pre-COVID, the overall FY20 outturn was clearly not as we would have envisaged at the beginning of the year. That said, our rapid and decisive actions as COVID-19 emerged allowed us to protect the business and continue to deliver to our customers, many of whom are critical businesses that operated throughout the pandemic. In addition, the Group implemented a range of mitigating actions throughout the year to manage cash outflows, balance sheet strength and liquidity. In this regard, we are well positioned for FY21 and beyond.

It was encouraging to note that the business adapted by maintaining its operational performance in line with pre-COVID levels and clawing back market share lost from the previous outsourcing project. Overall, I am pleased with the focus and responsiveness of the business. As always, it is important to differentiate between the challenges of any particular year and the overall future trajectory which, for Dialight, remains strong.

Commitment to net zero

Organisational purpose is incredibly powerful when it brings together strategy and culture. At Dialight we are passionate about playing our part in building a fairer and more resilient world for generations to come. We have a real opportunity to draw on the lessons learnt from COVID-19 to do this successfully.

To address the challenges of the climate crisis an incremental change will not be enough. While parts of society have made extraordinary progress over the last decade, even a doubling of this incremental change will not be sufficient to help achieve the objective of limiting global temperature rise to 1.5 degrees. To be clear, aligning with a 1.5 degree world requires that we halve global emissions in the next 10 years, and that we achieve net zero emissions in 30. However, there is good news. Technology and science advancement since 2015 makes achieving the Paris Agreement possible, if we act now.

This transition will be the most significant change in economic history. The United Nations Environment Programme estimates the financing gap to achieve 1.5 degrees to be USD 2 trillion a year through 2050. Entire sectors will need to be transformed: energy, agriculture and food, fishing and ocean protection, forestry, the built environment, mobility and transport and other carbon intensive businesses such as chemicals and heavy manufacturing. In essence, everything we have done and are doing today will need to change.

The transition to net zero carbon is both an opportunity and obligation for Dialight. Our products help enable our customers achieve net zero. We are committed to working with them to do so. Moreover, Dialight itself commits to being a net zero business by 2040. We will engage with the Science Based Targets Initiative to set appropriate interim targets and report them. We also commit to reporting under CDP and the Task Force on Climate-related Financial Disclosures protocols.

Outlook

The Group anticipates that the duration and severity of the COVID-19 pandemic will continue to have an uncertain impact on its trading environment in FY21. Notwithstanding this near-term uncertainty, the Group is well positioned to take advantage of recovering trading conditions as they occur. Finally, I would like to thank my fellow Board members and everyone at Dialight for their hard work and commitment, and for the way they continue to respond to the COVID-19 pandemic.

David Blood
Chair

29 March 2021

INVESTMENT CASE

Dialight is a story of sustainability built on long-term strategic investment in R&D. We are pioneers in energy efficiency and safety, trusted globally in the most demanding environments.

1. POSITIONED FOR GROWTH

Our global footprint and diverse customer base ideally position us to capture the potential of an industrial market which is largely unpenetrated by LED and whereby the majority of lighting is antiquated, and environmentally damaging. LED lighting represents the future.

2. DIFFERENTIATED

Our best-in-class designs offer superior performance backed by a ten-year warranty, low maintenance, high efficiency and long life. That's how we provide our customers with faster payback and a better return on investment.

3. INTELLIGENT

Controlled lighting solutions that seamlessly integrate with existing factory automation and building management systems to conveniently optimise site safety and productivity.

4. EXPERIENCED

Significant expertise exclusively in LED and a decade of experience as a lighting partner to many of the world's leading organisations have helped us achieve the largest installed base with over 2 million industrial LED fixtures around the world.

5. SUSTAINABLE

A strategic focus on environmentally friendly LED technology and a commitment to helping all organisations, including our own, reach corporate sustainability goals.

6. SCALABLE

Increased manufacturing capacity with our facility in Tijuana, Mexico and enlarged facility in Penang, Malaysia to provide scalable production.

BUILDING BACK WITH CONFIDENCE

Fariyal Khanbabi
Group Chief Executive

COVID-19 presented significant and unprecedented challenges to our business. We are proud of the resilience and responsiveness of our team and impressed and grateful for how we, as a business, adapted to the changing demands and obstacles which COVID-19 presented. We would like to publicly recognise the significant contribution made by our employees in a very difficult year.

We also wish to offer our deepest sympathies to the families and friends of our colleagues who sadly passed away from COVID-19.

Our strategic approach to the crisis entailed maintaining our sales team and not reducing our finished goods inventory, which enabled us to win back customers and distributors and secure new customer MRO orders. Our operations teams performed well in demanding circumstances, with a relatively resilient supply chain enabling us to deliver strong levels of customer service and maintain our lead times throughout this crisis. We have been focusing on three key priorities.

More information and an interview with the CEO is available online
http://ir.dialight.com/reports-presentations-and-results

PROTECTING OUR PEOPLE

Dialight has always sought to operate with a high level of on-site safety. During 2020, we enhanced this further and implemented an extensive range of measures to support and ensure our teams safety across our sites. These practical measures include extra screening, reset factory layouts, extra space in amenity areas, reconfigured shift patterns, additional personal protective equipment ('PPE') and temperature checking on entry at all our facilities. Dialight is also providing meals and transportation to minimise the pandemic risk to our employees travelling to and from the plants. These actions added to our costs but were critical.

We also worked hard on cultural and behavioural commitments to ensure that everybody across the business is focused on keeping people safe and maintaining strict hygiene protocols. Extensive occupational health supports are in place for our colleagues both working onsite and those who are working from home.

SUPPLYING OUR CUSTOMERS

Our strong customer relationships are critical to the business and have deepened through the challenges presented by COVID-19. These were allied with lead-times that did not falter thus enabling us to maintain excellent customer service.

We also increased our engagement in a multiple of ways at national, regional and local levels by working closely with our customers and distributors. We provided extensive product training and targeted marketing campaigns focused on key sectors and on promoting the benefits of using our products. This was particularly invaluable given customer site access was restricted. We consider our increasingly close customer relationships to be a differentiator and one that creates long term value.

PROTECTING OUR BUSINESS

Whilst COVID-19 is clearly continuing to impact short term performance, our comprehensive set of actions including supply chain improvements, streamlining our fixed cost base, stronger sales platform and enhanced customer engagement model will ensure we are strongly positioned to return to significant growth as the pandemic eases. Furthermore, our strong pipeline of sustainable and differentiated products put Dialight in a unique position to be able to satisfy the increased longer-term demand for more environmentally friendly products.

Many of these actions have not been easy and have impacted many stakeholders, but all were necessary. The board and executive team took a 20% reduction in salaries, and many of our employees also took salary reductions for five months. In addition, we furloughed certain employees early in the year which regretfully we had to make permanent during Q3 2020. These permanent cost savings position us better to face the ongoing challenges of COVID-19.

We secured substantial liquidity by increasing our committed banking facilities to £35.0 million (from £25.0 million at 31 December 2019). This was achieved through a facility extension with HSBC of £2.0m and accessing £8.0m through the CLBILS UK government loan scheme. In addition, the Group received a waiver on its existing banking covenants for the June 2020 to June 2021 period. These have been replaced by a new test based on achieving a 12-month rolling EBITDA level derived from a COVID-19 impacted business plan provided to HSBC. The Group ended the year with a reduction in net debt of approximately £5.0m to £11.4m (2019: £16.5m) and was compliant with the revised banking covenant at 31 December 2020.

FULL YEAR 2020

Given the challenges of COVID-19 we focused on streamlining our cost base, increasing our liquidity and maintaining on-time delivery to our customers and developing stronger sales and supply chain platforms to accelerate our growth strategy as the markets return. The full year underlying EBIT loss of £6.4m (loss for the year £7.8m), while understandable, was disappointing, especially in the context of the strong momentum that was building across the business in the first quarter of the year. The benefits derived from in-sourcing manufacturing were negated by the reduction in volumes, particularly in the lighting capex markets. Our production cost base is predominately fixed and, whilst we were able to meet our customers on-time delivery requirements, our fixed cost per unit increased due to the lower volumes. The main driver to return to profitability will be revenue growth and realising our productivity and cost saving initiatives.

Overall group revenues in 2020 were 21% lower than the prior year. In 2019 Lighting revenue comprised of 60% project work and 40% maintenance work (MRO). With the onset of COVID-19 at the end of Q1, project work largely disappeared as many companies deferred capex projects in order to conserve cash. Positively, we were able to significantly increase our MRO business thereby winning back market share.

The Lighting segment saw the largest impact from the COVID-19 related disruption to end markets with total orders 22% lower year on year. The relative resilience of the MRO business resulted in orders being down 24% in the US despite new capex projects being adversely affected by circa 74% decline. The EMEA business was significantly impacted by the strict lockdowns in Europe resulting in order intake being 24% lower than the previous year.

Australia has a good combination of MRO and project business and it had a good year with orders up 8% over 2019. It went into lockdown early and re-opened earlier than some other markets. We had some good success in securing project orders that were deferred in 2019 and the launch of the new bulkhead product also generated new demand in the mining sector. Asia had some large project orders in the prior year which they were unable to repeat due to lockdowns and this resulted in a 53% reduction in orders.

Signals and Components performed well during 2020 with an increase in orders of 7% year on year. The resilience of the business is due to the diversity of products sold and of the range of end markets served. The opto-electronics part of the business performed strongly, mainly as a result of supplying parts to the medical and telecoms market. In addition, many municipalities in the US took the opportunity of reduced road traffic to upgrade traffic light systems. At the same time, vehicle manufacturing was greatly reduced as bus replacement programmes were put on hold. The strength of the division is that the other product lines were able to compensate for this.

Operationally we made significant progress with on-time delivery at 80% and lead times at pre-COVID-19 levels, despite the disruption of facility closures during April and May until we received "essential business" status. We were able to execute on our comprehensive plan to drive down inventory which ended the year £13.5m lower than at the start of the year. This was achieved through significant improvements to the supply chain and by focusing on localising sourcing. We successfully negotiated with our largest suppliers on enhanced terms and continue to focus on cost reductions. We did experience some challenges relating to our critical suppliers and logistical issues caused by COVID-19, and despite proactive actions to reduce this we expect some ongoing impact in 2021.

Dialight is a technology company and our technology-enriched products are our biggest differentiation. At the start of the pandemic, we paused our new product development in order to conserve cash. However, we were able to restart a number of projects as conditions stabilised. We are focused on preserving this strength going forward with our many years of product and domain knowledge hard to replicate in the short to medium term. We have restructured key projects that are critical in maintaining our leading technology position and filling our portfolio gaps in the industrial space.

We launched a new Vigilant bulkhead for the APAC and EMEA markets, which offers significant improvement in performance by utilising our new power supply and thermal management system. We also launched a new universal mounting adapter for our area light which offers significant flexibility in a variety of industrial applications. Our latest product launch is an upgraded version of our 60k high bay which is designed to operate at higher ceiling heights and in high ambient temperatures.

STRATEGY

Dialight's core strengths centre around our products which have a long history of innovation within the industrial lighting markets. Our products focus on the real needs of our customers to enhance safety and reduce energy costs and going forward the critical objective of the transition to net zero carbon.

Dialight products provide the best cost of ownership to industrial customers with paybacks based on energy savings and maintenance cost avoidance. Our in-house custom designed power supply is the key to our market leading 10-year warranty and field reliability. Our optimised optics ensure improved light illumination providing uniformity and quality plus enabling our customers to use fewer lights to illuminate the target area. Their integrated design significantly reduces the burden of installation and maintenance. Our products have the ability to withstand extreme environmental conditions such as very high or low temperatures, humidity, high vibration and corrosive environments. The addition of sensors and controls brings an additional element to the value proposition for our customers.

Our primary goal is to accelerate growth across our global industrial markets. We believe that the combination of our products, strong ESG credentials, people and culture differentiates us from our peers. Our growth strategy is focused on three key objectives. First, to protect and grow within our core heavy and harsh industrial markets which has LED conversion rates below 10% offering Dialight a significant conversion growth opportunity. Dialight has a leading position within this space and combined with the strength of our highly qualified sales team we will continue to expand our reach within this space.

Second, we believe that sustainability will be a major driver in the conversion to LED and this will be accelerated post COVID-19. Therefore, we are building a strategic accounts team focused on expanding our market reach, leveraging corporate ESG goals and our differentiated products. We also continue to develop new routes to market. In order for us to increase our customer reach we need to expand our sales channel. This not only means increasing the number of distributors but also developing a three-pronged approach to getting to the end customer. This consists of targeting the EPC/engineering firms and electrical contractors. The drive to a more digital platform for selling has already started internally. We are working on strengthening our branding, and focusing on vertical market applications. These initiatives are key to securing larger sized orders and multi roll out lighting upgrades.

Third, we continue to lead the market in innovation so we can widen our market leading position. This will also include filling portfolio gaps we have so we remain strategically relevant to our customers. The next generation of technology is heavily focused on building on the sustainability needs of our customers with the goal to have the first fully recyclable product.

Our growth strategy is centred around three key pillars:

INVEST IN OUR CORE MARKETS

Strong focus on increasing conversion to LED in our core heavy and harsh hazardous markets

EXPANDING OUR MARKET REACH

Expanding our market reach by establishing a strategic accounts team and developing new routes to market

CONTINUED INNOVATION

Continue to lead the market in innovation widening our market leading position and filing portfolio gaps

Our continued investment in technology is based on a deep analysis of the attractiveness of the market balanced against Dialight's ability to win. The premise of our product roadmap is based on achieving four core objectives:

- REDUCING PAYBACK
- EXPANDING OPERATING LIMITS
- VALUE ADDED OFFERING
- EXPANDING THE MARKET

By retaining our focus on innovation, we can extend our long-term advantage. The timelines for developing new products, and our ability to quickly react to market requirements will increase our innovation lead in the market as we continue to develop advancements. Although our customers may be limiting their spending now, demand for new and innovative products will increase once the global economy begins to recover.

Our supply chain remains the single biggest factor in ensuring the Group has market-leading lead-times. Our high number of SKUs and reliance on long lead time components creates challenges in the supply chain. We have made good progress in negotiating new credit terms with our supplier base and refining our forecasting, improving the way we manage our supply chain. This, coupled with a controlled dual sourcing strategy, will be key to leveraging price reductions. Our vendor managed inventory and consignment stock plans will remain central to our strategy going forward and we will continue with more local sourcing; as border closures during this crisis have highlighted the need for a more localised approach.

We also aim to reduce inventory levels further; reduce costs by improving operational efficiency; and develop a more flexible cost structure with more of our costs being variable. This will enable us to flex up or down dependent on demand.

PURPOSE AND SUSTAINABILITY

Organisational purpose is incredibly powerful when it brings together strategy and culture. At Dialight we are passionate about playing our part in building a fairer and more resilient world for generations to come. We have a real opportunity to draw on the lessons learnt from COVID-19 to do this successfully.

Underpinning this purpose is the transition to net zero carbon which is both an opportunity and an obligation for Dialight. Our products help enable our customers achieve net zero. We are committed to working to achieve their goals. Dialight itself commits to being a net zero business by 2040. We will engage with the Science Based Targets Initiative to set appropriate interim targets and report them. We also commit to reporting under CDP and the Task Force on Climate-related Financial Disclosures protocols.

In addition, we are making a set of commitments across our business. First, and we believe most importantly, we are going to provide more opportunity for our employees to become shareholders in the Company.

Second, we will increase the level of training and development for everyone who works for Dialight. Every salaried colleague who works for us will get a personal development plan.

Third, we will further enhance the quality of our products through innovation. We will also increase our use of technology in manufacturing and distribution.

Fourth, building on the success of the Dialight Foundation, we will bring our business to life in the communities we work in. Every site in Dialight will develop a community engagement plan.

Lastly, we are going to drive our sustainability initiatives across all aspects of our business. One of our targets is to develop and bring to market the first fully recyclable industrial lighting product.

FULL YEAR GUIDANCE FOR 2021

We are experiencing an increase in quoting activity early in the year and while the Group will continue to be impacted by COVID-19 during 2021 and will take steps to mitigate to the extent possible, we see a range of profitable outcomes for the full year.

Longer term the actions taken during 2020 will help ensure we are strongly positioned to return to significant growth as the pandemic eases, and as a market leader to satisfy the increased structural demand for more environmentally friendly products.

Fariyal Khanbabi
Group Chief Executive

29 March 2021

Dialight serves the industrial LED lighting market with a major focus on hazardous and harsh environments which require very rugged fixtures. This market is still dominated by legacy technologies and in many cases lighting is not seen as a priority for investment. As a result, despite the obvious environmental and financial benefits, the market is less than 10% converted to LED.

MARKET SIZE

The global LED Lighting market is estimated to be worth £50bn on an annual basis. Dialight serves the LED industrial portion of this market which is sized at 7%, giving a target market of £3.5bn annually with a 20-year retro-fit cycle.

MARKET PENETRATION

The industrial lighting market is driven by growing adoption of LED technology and the increasing popularity of connected lighting systems. Cumulative penetration of LED lighting is less than 10%, thus enabling strong growth potential for some years to come. It is difficult to predict the rate of adoption over the 20-year cycle but it is not expected to be linear.

CUSTOMER APPETITE FOR SUSTAINABLE PRODUCTS

Sustainability is high on corporate agendas, making our products more important to customers. Their appetite is not just based on being able to quote lower CO_2 usage but the growing realisation that sustainable products can deliver savings in maintenance and energy costs.

The corporate scenario can be set out as:

- the Sustainability Manager wants to lower CO_2 usage;
- the Finance Director wants to lower costs
- the Health and Safety Manager wants a safer working environment; and
- the Plant Manager wants controllable lighting to help achieve production targets.

Our products: significantly reduce CO_2 generation; reduce power usage and maintenance costs; lower accident risk by ensuring all areas are well lit; and instantly provide better quality light to operational areas, the intensity of which can be varied according to requirements.

THE LED ADVANTAGE

The clear advantages of LED technology are revolutionising the lighting market, with an increasing focus on total cost of ownership:

- Low energy consumption: LED lighting is four to five times more energy efficient than conventional technologies
- Long lifetime: LED lighting lasts up to 15 years, which is four times the lifespan of compact fluorescent lighting and ten times the lifespan of incandescent lighting
- Enhanced versatility: LED lighting is smaller and more durable and comes in more colours than traditional lighting

MARKET ADOPTION

The main drivers to the adoption of LED in the Industrial space remain consistent. Adoption is primarily driven by

- return on investment and total cost of ownership, utilising energy and maintenance cost savings
- health, safety and wellbeing
- increased government focus on climate change will be a major driver in changing regulations/laws that stipulate the energy efficiency requirements as well as environmental policies
- achieving ESG targets set by Corporates

There remain factors impeding adoption such as high initial investment and the fact that lighting is often considered as a lower priority item for many businesses. The investment requirement is likely to be a greater hurdle to overcome in the short term as a result of COVID-19.

MARKET SEGMENTS

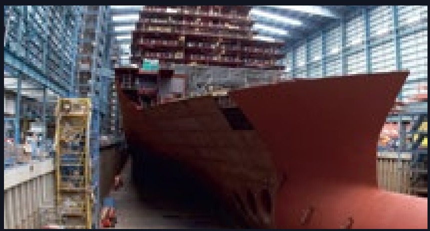
Dialight's sales model is a direct specification sale to end users, transacting through distributors. Distributor inclusion enables simplified contracting and increases customer reach as many distributors possess large supply contracts. Projects are a mix of maintenance (MRO) spending characterised by small volume, monthly purchases extended over long periods of time, or maintenance capital projects.

KEY MARKET DRIVERS

MARKET SEGMENTS

The markets we serve are diverse and they value different aspects of our products

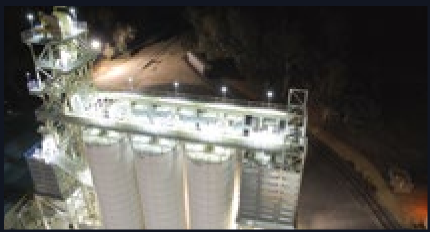
Mining
Our products are designed to withstand extensive shock and vibration to deliver reliability plus battery back-up features for additional safety to assist with evacuation of personnel



Heavy industry
Heavy industrial processes often work around the clock; our energy savings and lack of maintenance downtime ensure continuous production

Pulp and paper
This market requires energy saving and maintenance free products to run their facilities 24/7

Power generation
A heavily regulated industry requiring rugged and full safety certification



Oil and gas
Safety is the major concern due to the nature of the products being processed

Petrochemical
Safety is a priority and the ability to run 24/7

Our business model

Our purpose is to improve the world we live in by providing sustainable, energy efficient and intelligent LED lighting technologies, driving towards a net zero economy.

We do this by offering the largest selection of cutting-edge products to suit virtually any industrial application. Our controls seamlessly integrate with existing factory and building automation solutions, reducing energy costs by up to 60%.

OUR INPUTS

Sustainability
Develop products to reduce carbon emissions and provide a safer working environment.

Product innovation
Developing market leading products at the forefront of technology within industrial markets.

Intellectual assets
Protecting our product innovation with patents, trademarks and intellectual property licences.

Human capital
We hire innovative engineers together with supporting teams and senior management that can develop Dialight's sustainable, energy efficient LED lighting solutions.

Relationships
Dialight has multiple routes to market through established distribution networks and strong supplier relationships.

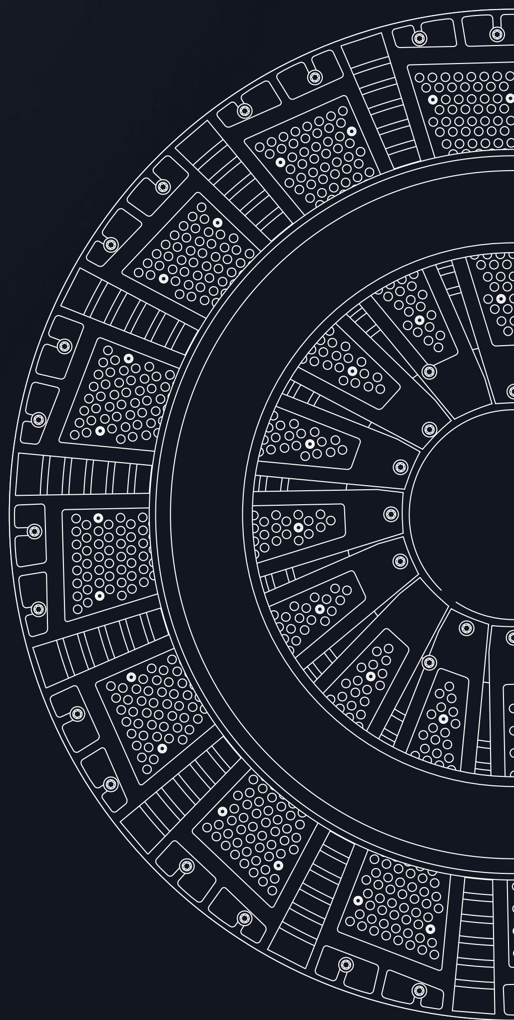
Financial
Strong balance sheet to support innovation.

WHAT WE DO

Product innovation
Using our industry leading power supply technology, our engineering teams develop sustainable LED lighting, sourcing innovative materials to improve thermal management and ensuring high efficiency through optimum optical design.

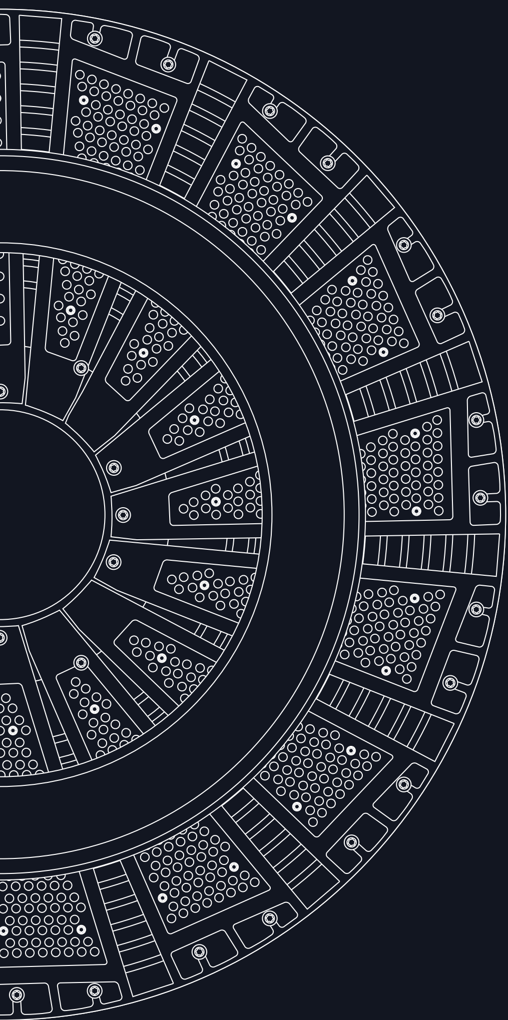
Manufacturing and supply chain
Our facilities in Mexico, Malaysia and the US carry out production for the Group, operating lean processes that are supported by our robust supply chain and relationships with key suppliers.

Multi-channel distribution
Leveraging strong relationships with our distributor network and our global distribution centres, we provide market leading lead times.



reduction in energy costs for our customers

60%



OUR OUTPUTS

Revenue
Our revenue is mainly derived from the sale of lighting fixtures. We sell via distribution channels and direct to the end customer using our highly technical sales force. Installation is carried out by the customer.

Cash flow
Revenue is turned into cash and used to fund operating costs and working capital requirements. Surplus cash is re-invested in the business.

Re-investment
Cash generated from operations is re-invested in research and development, operational improvements.

THE VALUE WE SHARE

Shareholders
Our goal is to deliver long-term value for our shareholders. We do this by developing, market-leading sustainable products in a market with very low penetration. We use our capital allocation discipline to balance between investment, balance sheet management and shareholder returns.

Employees
We provide on-going personal and professional development at all levels of the business, and competitive rewards linked to performance. We believe in a creative working environment with scope for individual responsibility and personal achievement.

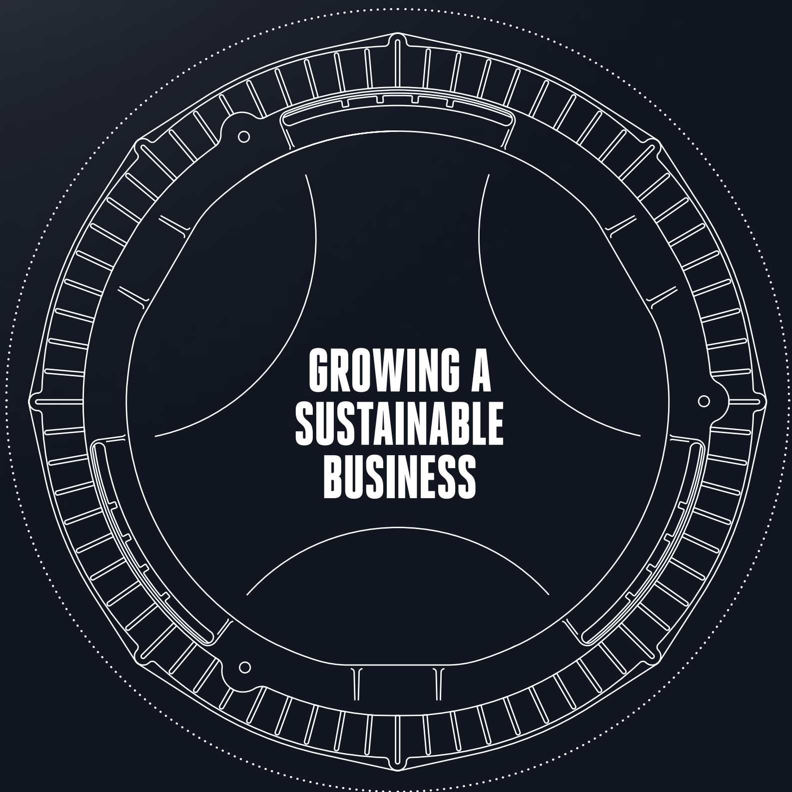
Customers
We work closely with our customers to understand and meet their objectives. We meet our customers' needs for reducing their carbon footprint by reducing their energy and maintenance costs.

Communities
Our operations create jobs for local communities around the world. We support local supplier development to deliver economic benefits for local communities.

Government
We support local economies by creating employment and paying local taxes. We stimulate local economic prosperity which contributes to the maintenance of public infrastructure and services.

Dialight's strategy is to grow the business in global industrial markets. We believe that the combination of our products, strong ESG credentials, people and culture differentiates us from our peers, and we expect to deliver sustainable value for our shareholders.

OUR GROWTH STRATEGY



INVEST IN OUR CORE MARKETS

The heavy and harsh hazardous industrial markets with LED conversion at below 10% will continue to be at Dialight's core.

EXPAND OUR MARKET REACH

Establishing a strategic accounts team and developing new routes to market.

CONTINUED INNOVATION

Lead the market in innovation and fill our portfolio gaps.

OUR PRIORITIES

1

Utlising our existing sales team to drive growth in our core markets. Building a strategic accounts team focused on expanding our market reach, leveraging corporate ESG goals.

2

Continue to develop new routes to market by increasing the number of distributors and targeting the EPC/engineering firms and electrical contractors.

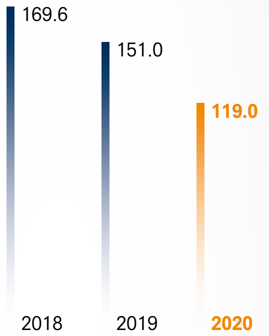
3

Ensuring our product development is strategically relevant for our customers. Developing the next generation of technology to widen our innovation gap.

Key performance indicators

FINANCIAL

Revenue
£m



Description

Revenue from sales.

Definition

Revenue from continuing operations.

Link to strategy

Revenue growth is essential to long-term success.

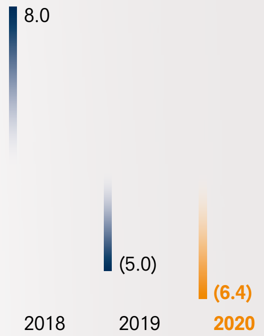
Remuneration linkage

Revenue growth is a key element in achieving short-term and long-term incentive targets. Due to COVID-related cash conservation policies by customers, there was a significant reduction in major Lighting projects, causing a reduction in revenue in the year and there were no management bonus payments in 2020.

Target

Year-on-year revenue growth (at constant currency). We did not achieve this in 2020.

Underlying profit/(loss) from operating activities (Underlying EBIT) £m



Description

The underlying EBIT related to the performance of the underlying business.

Definition

Operating profit of the business excluding items that are considered as not reflective of the underlying performance of the business (see page 142).

Link to strategy

The key measure of the success of our near-term strategic goals is underlying EBIT.

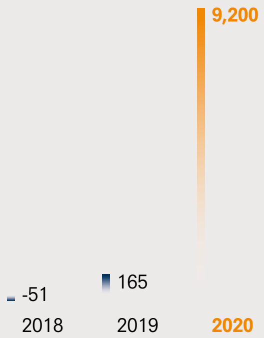
Remuneration linkage

Underlying EBIT is one of the main measures used in short-term and long-term incentive targets. The target for 2020 was not achieved due to reduced revenue and there were no management bonus payments.

Target

For 2020 the target was consensus underlying EBIT at the start of the year, which was £11.0m.

Cash conversion
(%)



Description

The ability to turn profits into cash.

Definition

Adjusted operating cash flow divided by underlying EBITDA. See page 142.

Link to strategy

Cash generation is critical to support our growth ambitions.

Remuneration linkage

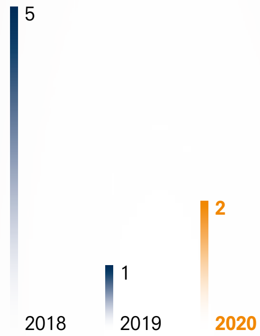
Cash conversion does not directly link to remuneration but in 2020 was a vital measure of the ability to ensure liquidity in the business.

Target

The target was 80% and was significantly over-achieved, mainly due to the unwind of inventory (see page 44).

NON-FINANCIAL

Health and safety
(number)



Description

A measure of how many serious accidents have occurred within the Group.

Definition

A recordable incident is a work-related incident that results in a member of staff being incapacitated for more than three days.

Link to strategy

Ensuring a safe working environment for employees is fundamental to attracting and retaining good-calibre staff which will enable us to achieve our strategic goals.

Remuneration linkage

As we have seen in 2020, health and safety can directly link to remuneration as we would not have been allowed to re-open our factories if our employee protection from COVID-19 was considered inadequate. Health and safety is an enabler to achieving revenue and underlying EBIT targets.

Target

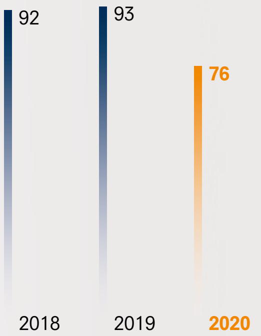
Zero recordable incidents is the moral imperative.

Link to strategy

Invest in our core markets
Continued innovation
Expand our market reach

OPERATIONAL

Retention
(%)



Description
A measure of how well the Group can retain its staff.

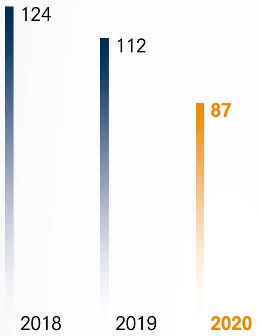
Definition
The number of staff at the end of the year divided by the total of the number of staff at the start of the year and joiners. This calculation excludes direct manufacturing staff.

Link to strategy
Retaining high-calibre staff is part of creating and capturing value.

Remuneration linkage
Business growth will come from the intellectual property generated by our engineers and our knowledgeable sales teams.

Target
We have generally targeted 90% retention but the impact on the business from COVID-19 is that we have had to right-size the cost base for the revenues being generated and this calculation includes the redundancies made in the year.

Lighting orders
(£m)



Description
Orders received for Lighting products.

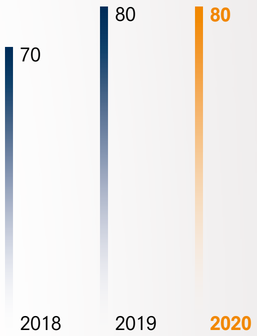
Definition
Total orders received for Lighting products in the year.

Link to strategy
Order growth is a lead indicator of the financial strength of our end markets and in resolving the current operational issues.

Remuneration linkage
Order growth drives revenue which in turn drives EBIT and EPS, both forming part of the remuneration targets. In the year, we saw growth in MRO orders which is very encouraging for the longer term but a reduction in project orders as customers deferred expenditure.

Target
We target year on year order growth, the increase in MRO orders was out-weighed by the reduction in project orders, giving an overall reduction year on year.

Lighting on-time delivery
(%)



Description
The percentage of orders delivered on time (year-end numbers are shown).

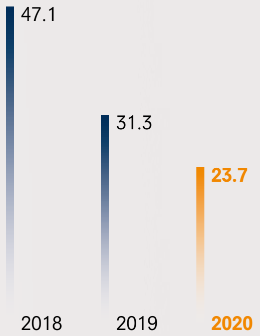
Definition
The value of orders shipped in the year meeting the customer request date over the total value of the orders shipped in the year.

Link to strategy
On-time delivery is a lead indicator of the operational issues being resolved.

Remuneration linkage
A low level of on-time delivery will impact revenue and hence EBIT and EPS. Our on-time delivery was maintained in 2020 despite the disruption caused by factory closures and enforced changes in working practices.

Target
Our target was to maintain or exceed our prior year on-time delivery; we maintained it at 80%.

Lighting gross profit
£m



Description
The gross profit related to the performance of the underlying Lighting business.

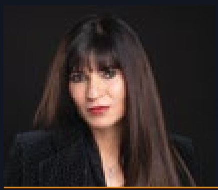
Definition
Gross profit of the Lighting business excluding items that are considered not reflective of the underlying performance of the business (see page 117).

Link to strategy
One of the key near-term strategic goals are to build a robust and scalable operational platform. Lighting gross profit is a good indicator of the success of this target.

Remuneration linkage
Lighting gross profit expansion is a key part in achieving short-term and long-term incentive targets. Lighting gross profit is a key contributor to EBIT.

Target
We target year on year expansion of the Lighting gross margin. The benefits from in-sourcing production which should have seen this happen were eroded by the impact of fixed production costs being absorbed by a reduced volume of orders.

ESG STRATEGY



Fariyal Khanbabi
Group
Chief Executive

INTRODUCTION FROM THE CEO

We are a small company with a global impact and we take our corporate responsibility extremely seriously. Our strategic priorities focus on driving organic growth, improving margins whilst developing new technologies. This strategy affects how and with whom we do business and we are embedded in the communities where we operate. It is also reflected by our employees who understand the importance of the correct values and behaviours when carrying out their roles.

Our purpose of growing a safer, cleaner, healthier future for everyone every day is the foundation of our approach to ESG. Our markets provide us with long-term growth opportunities and sustainability is a core part of Dialight's DNA. Our ESG initiatives are focused on ensuring that we can continue to serve our markets in a sustainable way over the long term.

Our products are well placed to play a positive role in society, by addressing issues which are fundamental to human wellbeing, are long term in nature, and of global reach: ensuring safety in industrial environments while addressing key environmental challenges.

We evaluate our positive impact using the framework of the UN Sustainable Development Goals (SDGs) and have chosen four to be the focus of our sustainability initiatives. Each of these is closely aligned to our purpose and represents an area where we can have the most impact, given what we do and where we operate.

UN SUSTAINABLE DEVELOPMENT GOALS (SDGS)

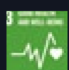
We evaluated our positive impact using the framework of the UN Sustainable Development Goals (SDGs). The SDGs apply to our sustainability charter as follows:

	Sustainability strategy	Link to business strategy
ENVIRONMENTAL	Innovate and educate to reduce carbon footprint Deliver customer sustainability targets Responsible production	Product innovation is key to satisfying existing demand and as a driver to create new demand.
SOCIAL	Safe working environment Support local communities	A sustainable supply chain ensures that products are manufactured safely. Local sourcing makes it more robust, ensuring that our factories satisfy demand.
GOVERNANCE	Ethical sourcing Business integrity	Operating with ethics and integrity ensures that we are not blacklisted or suffer adverse business reputational damage which would restrict our ability as a sales driven organisation.

We also support a number of other SDGs, for example: SDG 5 Gender Equality; SDG 8 Decent Work and Economic Growth and SDG 10: Reduced Inequalities, through our work on equal opportunity and diversity and inclusion, and on identifying modern slavery risks within our supply chain; and SDG 12: Responsible Consumption and Production, through our sustainability initiatives and reporting.

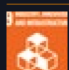
We pride ourselves on behaving responsibly in our business dealings with stakeholders in the markets we serve and in the communities where we operate. Our focus areas in 2020 have included:

— the environment, in terms of both the opportunities we see to enhance our positive impact and to increase our efficiency;
— maintaining our strong health and safety track record;
— working to ensure that we have a diverse and inclusive organisation; and
— setting a methodology to enhance our analysis of potential social and environmental risks in our supply chain.



The global challenge
Ensure healthy lives and promote wellbeing for all ages

Our impact
Our products and technology help to improve safety and wellbeing

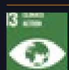


The global challenge
Build resilient infrastructure, promote inclusive and sustainable innovation

Our impact
We continuously develop innovative products which reduce carbon footprints and increase industrial efficiency and safety

The global challenge
To reduce inequalities, policies should be universal in principle, paying attention to the needs of disadvantaged and marginalised populations

Our impact
We continue to ensure equal opportunities, wage and social protection policies and progressively achieve greater equality



The global challenge
Climate action is a global action that affects everyone, everywhere

Our impact
We promote awareness of climate change and the economic and social benefits of lower carbon technologies

We provide products and solutions that make safe, productive and efficient use of resources as we strive to achieve our vision. We apply innovation and technology to improve the sustainability performance of Dialight's products and operations.

Examples of these in action are as follows:

13 CLIMATE ACTION	Our business is founded on tackling climate change. Every LED light we sell reduces the environmental impact of the older technologies which still serve over 90% of the industrial market
10 REDUCED INEQUALITIES	During 2020, we established the Dialight Foundation to help support communities in which we operate. See details on page 29
17 PARTNERSHIPS FOR THE GOALS	All of our suppliers are vetted to ensure they are not blacklisted for unethical labour or materials sourcing, details on pages 31 to 32

OUR PRIORITIES FOR THE YEAR AHEAD

The key areas of focus in 2021 will be:

- Continued innovation in our technology
- Continued H&S focus to reduce risk from all hazards, bio or non-bio
- With significant numbers of staff working from home, wellbeing of staff to maintain mental health and healthy habits will be enhanced
- Expand the work of the Dialight Foundation to broaden our community support
- We intend to run a campaign to further increase awareness of our whistleblowing arrangements amongst employees
- Ensure ethical business practices are practiced at all times

SUPPORTING OUR CUSTOMERS' SUSTAINABILITY AMBITIONS

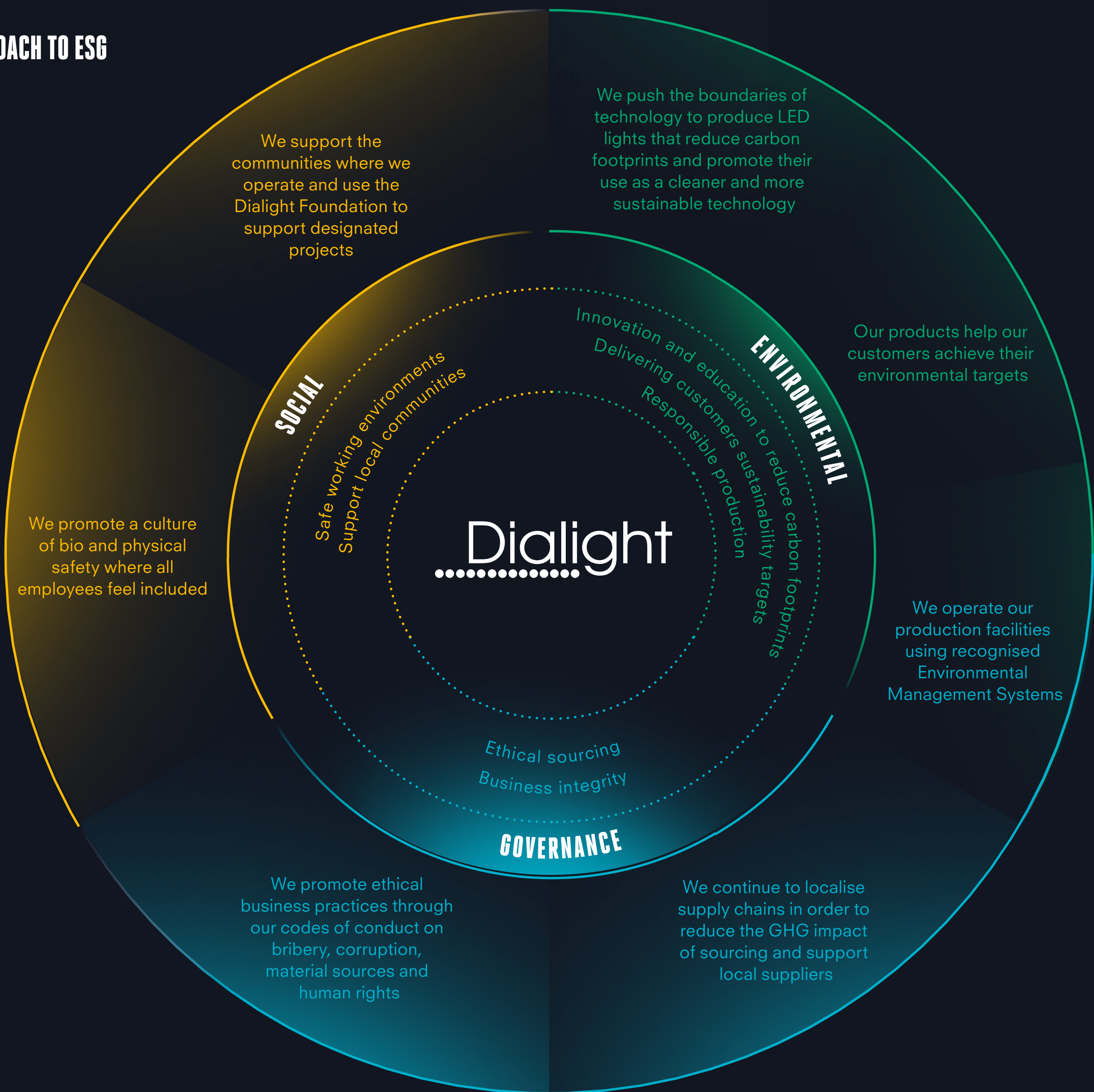
We have a very pivotal role in the ESG strategies of our customers as well as our own. One of the easiest ways for customers to reduce their carbon footprints and create safer working environments is by changing to LED.

By developing better products that maximise life-cycle benefits, while also minimising the economic, social and environmental costs of ownership, this fits with the sustainability principles of our customers. Many large corporates have publicly committed to reducing their emissions as they strive towards carbon neutrality.

10x

For every tonne of CO_2 that we use in production, it is paid back 10 times by customer reductions in their CO_2 usage in a year

OUR APPROACH TO ESG



HEALTH AND SAFETY

In response to the new dangers from COVID-19, we implemented additional H&S procedures in the year to keep our staff safe at our production facilities.

Examples of these in action are as follows:

Enhanced cleaning
Prior to the arrival of workers, the work stations are sanitised to ensure no potential bio-hazards are present.

Full face masks and gloves are provided to all staff.

Temperature checking
In addition to mandatory checking on arrival, staff can also self-test during the day.

Sanitation stations
Sanitation stations are provided around the factory and notices re-enforce the use of these.

Social distancing
Floor markings are used to ensure safe social distancing is in operation and easily managed.

OUR GOAL IS ZERO HARM, NOT AS A STATISTICAL TARGET BUT AS A MORAL IMPERATIVE, WHICH WILL BE ACHIEVED BY ESTABLISHING A STRONG PROACTIVE SAFETY CULTURE.

POLICIES AND PRACTICES

The Board recognises that the highest levels of safety are required in order to protect employees, customers and the general public. The Board believes that all incidents and injuries are preventable, and that all employees have the right to expect to return home safely at the end of every working day. The Group Chief Executive has overall responsibility for health, safety and environmental matters across the Group. The Group Chief Executive reports monthly to the Board on all key health and safety issues. The Board requires that the Group systematically manage their health and safety hazards, set objectives and monitor progress by regular measurement, audit and review.

Managers and supervisors in the Group are required to enforce procedures, and to provide leadership and commitment to promote and embrace a positive health and safety culture. The Board emphasises the importance of individual responsibility for health and safety at all levels of the organisation, and expects employees to report potential hazards, to be involved in implementing solutions and to adhere to rules and procedures. A key element in the continuous improvement of health and safety management is sharing best practice and lessons learnt from incidents across the Group and the wider industry. Accidents, incidents and near misses are investigated, with actions generated to prevent recurrence.

ACHIEVEMENTS

2020 has been an unprecedented year due to the pandemic. Whilst this created a need for special focus, we have still maintained progress in line with our health, safety and environmental ("HSE") strategy, with a focus on embedding the processes we implemented last year around the themes of injury reduction and HSE risk management. As a result of the restrictions associated with COVID-19, the HSE milestones were reviewed to reduce travel and minimise the need for person-to-person contact. Actions taken in delivering the HSE plan included:

— implementation of a travel risk management process;
— development of a revised Crisis Management Plan; and
— a review of the HSE strategy.

INJURY PREVENTION

Injury prevention focuses on the reduction of injuries through the adoption of safety as an inherent part of everything we do. This is enacted through safety leadership, clear expectations, accountability and establishing a safety culture that drives learning and improvement, not blame.

Last year we implemented a corporate reporting system to support our focus on learning from near miss incidents, supported by monthly learning review panels. These have continued throughout the year and have matured in terms of their quality, providing a much greater insight into the measures we can take to prevent injury. With regards to leadership on safety, this has never been more critical than during the COVID-19 pandemic. Our team conducted all-hands communications and distributed multi-lingual videos to reinforce safety as the core priority and the need to adhere to our COVID-19 safeguards.

Injury prevention

02

The number of recordable incidents was

Our focus on injury prevention, in response to COVID-19, broadened to place more emphasis on safety measures for people working from home and their emotional wellbeing. Information and guidance on health and wellbeing was continually shared and was supported by frequent contact through remote meetings. We performed weekly interactive global conference calls for all employees for the first three months of the crisis. This has continued on a monthly basis to ensure there is transparency in everything we do.

HSE risk management of our business is achieved through the management of risk and is built around understanding our risks, and establishing clear expectations and consistency. This year's performance, despite the challenges of COVID-19, has demonstrated that we have continued to build a stronger safety culture.

Examples of these in action are as follows:

Factory floor staff had enhanced PPE and social distancing to ensure safety.

Factory support staff worked from home as much as possible.

Offices were closed in line with local regulations and the majority of admin staff worked from home from the end of Q1. They were supported by guidance on setting up home offices, ensuring they had correct equipment and wellbeing programmes for those not usually home-based.

Most sales staff are home based and visit customer sites regularly. They had to adhere to local regulations on social contact and travel was severely restricted based on safety considerations.

THE ENVIRONMENT

We lead the market in low environmental impact LED products and have the most efficient power supply units in the industry. All our products benefit from temperature compensation technology, maximising their life span and advanced optics that direct light precisely where it is needed. Many of our products have an industry-leading ten-year warranty.

Dialight helps our customers reduce their environmental impact through the use of LED lights. Since 2006, we have sold more than 2 million lights which we estimate now save our customers 120-130 million kWh of electricity per annum and avoid 1.1 million tonnes of carbon emissions per annum.

OUR IMPACT AND ENVIRONMENTAL MANAGEMENT SYSTEM "EMS"

The environmental impact of our operations is relatively low compared with manufacturers in other sectors.

We are committed to continually reducing our environmental impact. We have performance indicators to assist local management in implementing the policy.

ISO 14001 CERTIFIED

Our manufacturing facilities in North America and Malaysia are certified to ISO 14001 accreditation.

Group companies are encouraged to improve energy efficiency, reduce waste and emissions and reduce the use of materials in order to minimise their environmental impact.

The EMS includes procedures for the management of waste, trade effluent, hazardous substances, environmental processes and procedure, enforcement actions, and compliance with regulatory frameworks and legislation.

Furthermore, we are committed to elevating employee awareness of environmental issues and the effects of their activities through Company-wide promotion and communication. We recognise that simple and small measures taken in the workplace can have a large impact on the reduction of environmental damage.

CARBON FOOTPRINT

Our carbon footprint is a combination of the CO_2 that we use in production and the CO_2 benefit to our customers by using our fixtures compared to older, inefficient technologies.

Our goal is to be carbon neutral in our internal processes by 2040. We will continue to assess our internal carbon footprint for ways to reduce it and have started by preparing an Environmental Production Declaration (EPD) for our Vigilant bulkhead launched in 2020 (see opposite).

Our carbon footprint consists of two parts

Internal
The amount of carbon used in making our products

External
The amount of carbon that we save our customers once they convert to LED

In accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013, the table below sets out Dialight's emissions in 2020, compared with 2019 and 2018.

Consumption of resources

	2020 Tonnes	2019 Tonnes	2018 Tonnes
Emissions from combustion of fuel and operation of facilities	**1,180**	1,563	84
Emissions from purchased electricity	**5,326**	5,475	5,104
Total	**6,506**	7,038	5,188

2020 Resource	Total consumption (m's)	Unit	Consumption per £ turnover
Electricity	10.1	kWh	0.084
Water	14.6	litre	0.122

WASTE MANAGEMENT

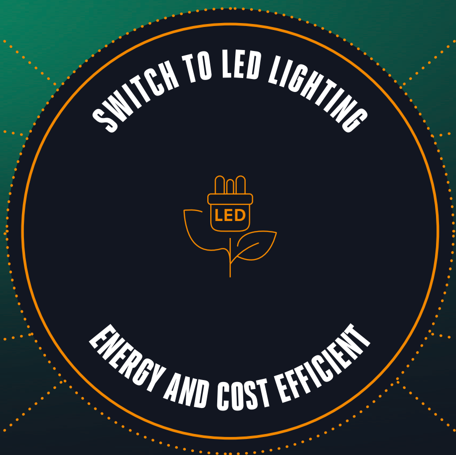
We work with our supply chain to identify opportunities to reduce waste at source as well as recycling opportunities. In 2020, we recycled over 500 tonnes of cardboard, plastic, wood and metals at our production facilities. All administrative offices have a recycling policy to help reduce waste going to landfill.

539t

We recycled 539 tonnes of materials at our facilities in the year

The benefits from switching to LED lighting are:*

- LED fixtures last between 2 and 5 times as long as older technologies
- The CO_2 benefits from using LED will be at least 10 years
- LEDs have 30-60% more light output (lumens)
- LEDs have over 30% greater power efficiency
- LEDs are controllable so do not have to be on constantly



- Our installed base of 2m fixtures saves over 1m tonnes of CO_2 per annum
- Every additional fixture saves on average 0.5 tonnes of CO_2 per annum
- Comparable to 40,000 more cars taken off the road every year
- CO_2 savings by our customers are more than 10 times the CO_2 from production
- Enhanced light quality provides a safer working environment

* Based on Dialight internal calculations and using assumptions on customer usage

Case study

NEW VIGILANT BULKHEAD LAUNCHED IN SEPTEMBER 2020

DESPITE THE CHALLENGES PRESENTED BY COVID-19, WE LAUNCHED THE NEW VIGILANT BULKHEAD IN THE YEAR. THIS MODEL IS DESIGNED FOR THE ASIA PACIFIC AND EUROPEAN MARKETS WITH A NORTH AMERICAN VERSION TO FOLLOW.

The bulkhead was originally introduced in 2012 and has been a very successful product for walkway illumination, general plant/area lighting, stairways and platforms. It is constructed of marine grade aluminium alloy which makes it suitable for on-shore and marine applications.

The new bulkhead has been completely re-engineered from the ground up, in order to extend the product life-cycle and take advantage of the technological advancements that Dialight has made since the original version was launched. This has resulted in the efficiency being more than doubled in the upgrade.

KEY FEATURES

Efficiency

150 lumens

With up to 150 lumens per watt of output, one bulkhead can replace two traditional fixtures.

Reliability

10-year warranty

It features Dialight's latest power supply technology, offering inbuilt 6kV/3kA surge protection and thermal management system ensuring optimal reliability and longevity of critical components. This is backed by our comprehensive 10-year warranty.

Longevity

150,000 hours

With expected operational hours of greater than 150,000 hours in an ambient temperature range of -40°C to +65°C, this virtually eliminates maintenance over a very significant lifespan.

The new fixture is currently made at our facility in Penang, Malaysia and has a localised supply chain for materials which are sourced in the Far East

More mounting options

In response to customer demand, we have incorporated several mounting options to expand the marketability of the product.

Safety

It has the option of battery backup models which can be used to provide illumination of escape routes in the event of power failure or disaster.

In order to assess our carbon footprint for this product, we have carried out an Environmental Product Declaration (EPD) that measures the carbon footprint of materials from our supplier up to the product leaving our factory. This is our first product to go through the EPD process and the EPD will be available at **www.dialight.com** and on **www.greenbooklive.com** in due course

SOCIAL

OUR PEOPLE

People are at the heart of our business. It is through our people that we will progress our strategy and ensure that we realise the potential for growth. Developing a high performing and inclusive culture is a key enabler in our ability to deliver this strategic growth.

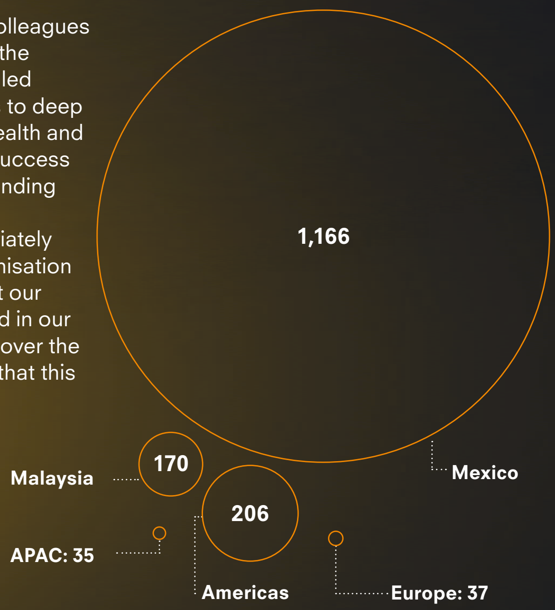
Engaged, motivated, empowered and appropriately skilled employees are integral to our success. We support all our people by creating a safe, inclusive environment, where every individual is able to work and contribute to the development of the business. The COVID-19 crisis has meant that it has been more important than ever to keep our people, their families and the wider community safe and the business running in support of our customers and other external stakeholders. Our approach to developing a high performing and inclusive culture is focused on five key areas:

- **Understanding our people**
- **Engaging with our people**
- **Developing at Dialight**
- **Diversity and inclusion at Dialight**
- **Dialight in the community**

UNDERSTANDING OUR POPULATION

Our business is highly diverse. Our colleagues work in diverse environments across the globe, with skill sets ranging from skilled engineers, technicians and operators to deep functional experts in areas such as health and safety, people and technology. Our success depends on our people and understanding our global population is core to that. Making sure that we have an appropriately diverse pool of talent within the organisation is a fundamental metric. Ensuring that our employee gender diversity is reflected in our Board make up has been a key focus over the past two years and we are delighted that this has now been achieved.

Staff numbers by geographic region are as follows:



ENGAGING/LISTENING TO OUR PEOPLE

Communication both within and across the Group is key to engagement. Each region uses a range of formal and informal channels including all-hands meetings, smaller team briefings, employee forums, direct email addresses and the CEO's global monthly video calls, with an active Q&A encouraging anyone from across the business to ask a question.

In the early months of the pandemic, when there was extreme uncertainty about the business and whether factories were open, the CEO held weekly global calls to ensure real-time engagement. These calls also included Q&A sessions open to all staff and served as a method of keeping people informed, relaying news on furloughs and allaying some of their fears. For the latter part of the year, these calls were bi-weekly or monthly.

During the year, David Thomas, as Chairman of the Audit Committee and Non-Executive Director designated by the Board, met with groups of colleagues from different business areas and at different levels in the organisation to hear direct from them their views on working at Dialight as well as sharing the work of the Board.

Development and creating networks are key themes at all levels in the organisation. Constant, regular updates and virtual meetings of the global leadership teams have ensured that this key Group remains well connected and up to date on the challenges around the business and have provided the opportunity for discussion and debate.

COVID-19 put extraordinary pressure on our teams and ensuring we were able to monitor how they were coping and provide support as it was required was very important.

DEVELOPMENT AT DIALIGHT

Development is the cornerstone of the drive to continuously improve the quality of our business. Our colleagues are involved in performing a huge number of often complex processes and procedures and work continues to ensure high levels of operator competence throughout the organisation. Individuals across the organisation are encouraged to undertake continuing professional development to ensure that their expertise and knowledge remains up to date. Outside of technical competence, our focus is on the development of management and leadership skills.

Wellbeing continued to be a key theme in 2020. As part of line manager development, areas such as maintaining mental health have been addressed as well as helping individuals to develop healthy habits. There will be an increased focus on healthy habits for 2021.

DIVERSITY AND INCLUSION AT DIALIGHT

We are committed to ensuring that we have an inclusive and diverse culture across the Group which reflects the communities we operate in, as well as providing an environment where all our people are able to attain their potential at work. Different expertise and experiences contribute positively to Dialight's development and contributes to a broader and better basis for decision making.

Dialight strives for diversity on a broad basis including gender, age, background, education, disability and nationality (within the constraints of our regulatory requirements). As a business, we are committed to meeting, at a minimum, the labour rights and legislation requirements in each country in which we operate. In practice, we often exceed these requirements.

We have a number of formal and informal groups around the business which support and connect people with shared characteristics or interests. The Group makes no distinction between disabled and able-bodied persons in recruitment, employment and training, career development and promotion, provided that any disability does not make the particular employment impractical or impossible under the stringent regulatory requirements under which Dialight operates. Future focus is on ensuring all our recruitment procedures incorporate our commitment to diversity. We ensure that any external bodies we work with for the provision of support have diverse candidate pools and attraction approaches that are open to all suitably qualified individuals.

Board gender diversity:

Male 4
Female 4

Senior management gender diversity

Male 26
Female 10

All employee gender diversity

Male 941
Female 673

DIALIGHT IN THE COMMUNITY

We recognise that each of the Group's businesses has an important role to play in its local community.

COVID-19 has resulted in unprecedented hardship especially in some areas where we have facilities. In these challenging times, it is not just about Dialight being a good employer but about giving back to the communities in which we operate.

In order to facilitate this, the Dialight Foundation was formed in June 2020. Its mission is transforming the lives of people in need in local communities where the company does business, with a focus on supporting children and youth causes.

It is governed by the Dialight Foundation Board, comprised of employees from around the globe. This diverse Group was carefully selected to bring diverse perspectives based on a variety of job functions, cultural backgrounds and charitable expertise. This Group will serve as the representatives for each of the locations where we conduct business and their surrounding communities.

The Dialight Foundation's first charitable project in 2020 was partnering with an orphanage 10 miles south of our manufacturing facilities in Ensenada, Mexico. The orphanage, Casa Hogar El Reino de los Niños, is currently home to 36 children, ranging in age from 3 to 23 years old. For our first project, the Dialight Foundation donated new single beds and sofas for the orphanage as the furniture in the facility was very worn and in need of being replaced. The new furniture was delivered in October 2020 with an accompanying ice cream party for the kids.

It is funded by employee and company donations.

We also initiated our first ever holiday fund drive, just before Christmas, raising over $61,000. This was more than three times the $20,000 goal set. The proceeds from the drive provided much-needed hot water heaters, blankets, essential items, holiday gifts and meals for the 36 current children at the orphanage in Mexico.

In 2021, the Foundation Board will continue its work, reviewing other global opportunities to make a direct impact in communities we operate within.

Dialight Foundation

36

The orphanage, Casa Hogar El Reino de los Niños, is currently home to 36 children, ranging in age from 3 to 23 years old.

DF

Below: The children and staff of the Orphanage together with senior members of staff from our Ensenada produon facility.

OUR APPROACH

We are committed to promoting a culture within Dialight where everyone does the right thing and takes personal responsibility for their actions. Our Operational Framework and Code of Conduct set out the standards of business conduct and behaviours we expect of all of our businesses, our employees and all third parties who act on our behalf. We require all employees and third parties who act on our behalf to conduct business honestly and with integrity, and to take personal responsibility for ensuring that our commitment to sound and ethical business conduct is delivered.

OPERATIONAL FRAMEWORK

Our Operational Framework incorporates a broad range of policies and procedures. The Operational Framework implements a robust governance and compliance framework to enable us to operate in a safe, consistent and accountable way.

The leaders within our business are required to ensure that:

Every employee, at every level of the organisation, has access to and understands the requirements of the Operational Framework

Appropriate training and monitoring processes are in place to ensure proper implementation of the Operational Framework

Local procedures and processes are adopted to implement the requirements of the Operational Framework

Operational assurance process

Identification of risks and areas for improvement

Implementation of new procedures and training programmes

Internal review and consideration of findings

Continuous improvements to the Operational Framework

For more information about Dialight's ESG commitments, visit **www.dialight.com**

WE ARE COMMITTED TO PROMOTING A CULTURE WITHIN DIALIGHT WHERE EVERYONE DOES THE RIGHT THING AND TAKES PERSONAL RESPONSIBILITY FOR THEIR ACTIONS.

ETHICS AND BUSINESS CONDUCT

Dialight is committed to conducting its business in an ethical and responsible manner at all times, and in full compliance with all applicable laws and regulations.

CODE OF CONDUCT

Our Code of Conduct, which sits alongside our Operational Framework, embraces our fundamental values of Safety, Excellence and Innovation. It provides direction to all employees on legal, ethical and risk issues that they may encounter in their day-to-day activities. All employees and all third parties who act on the Group's behalf are required to comply with our standards of behaviour and business conduct, as set out within the Code, and applicable laws and regulations in all of the countries in which we operate.

All employees, current and new, are provided with a copy of the Code of Conduct, and asked to confirm that they will adhere to its standards. Our aim is to ensure that all employees complete mandatory training on the Code of Conduct on an annual basis in future.

WHISTLEBLOWING

Our culture embraces transparency and openness, and we encourage all employees to speak up if they have any concerns. We have a whistleblowing policy and associated procedures in place which enable all employees to raise concerns, in confidence, about possible improprieties or wrongdoing within the business, without fear of reprisal or retaliation. Employees are able to raise issues by contacting our 24-hour ethics reporting service (independent third-party service) by phone, email or an external website.

All issues reported by employees are taken seriously and investigated appropriately in a confidential manner. During the year we updated our internal procedures for the handling of whistleblowing reports to ensure that all reports made, whether through the external service or through other internal channels, are dealt with in a proper and consistent manner. In 2021, we intend to run a campaign to further increase awareness of our whistleblowing arrangements amongst employees.

ANTI-BRIBERY AND CORRUPTION

Dialight has a zero-tolerance policy in respect of bribery and corruption. This extends to all business dealings and transactions and includes a prohibition on offering or receiving inappropriate gifts or making undue payments to influence the outcome of business dealings. Compliance with the policy is checked as part of the half year and year-end process. All employees have been trained on antibribery and corruption policies. The Group does not make political donations.

HUMAN RIGHTS

The Group is committed to respecting human rights in the countries in which we do business. Our Code of Conduct and other applicable policies under the Operational Framework support our commitment to ensuring, as far as we are able, that there is no slavery or human trafficking in any part of our business or in our supply chain.

All suppliers are provided with a copy of our Supplier Code of Conduct, which requires them to adhere to our ethical standards and expectations, including in relation to human rights. We do not knowingly support or do business with any suppliers who are involved in slavery. A statement of the Group's compliance with the Modern Slavery Act 2015 can be found on the Group's website at www.dialight.com. We fully adhere to all relevant government guidelines designed to ensure that our products are not knowingly incorporated into weapons, or other equipment, used for the purposes of terrorism, international repression or the abuse of human rights.

PRODUCT SAFETY

All of our products are manufactured in sites that have occupational health and safety management systems, that comply with

BS OHSAS 18001. All of our Lighting products are certified by third-party certification agencies.

- The design and raw material content is reviewed to ensure fitness for purpose
- We provide operational protoypes that are tested by the agencies
- The level of testing will depend on the industrial environment in which the product is certified to be used
- There are few global standards so most standards have a geographic limitation

Some standards can have variants that deal with both hazardous and non-hazardous variants. Hazardous lighting standards (for example, ATEX/IECEx) are much more stringent as these cover lights that are used in explosive atmospheres and therefore the risk to life and property is much higher in the event of failure.

In addition to certification at product inception, our Lighting products undergo a series of tests before leaving the factory. These involve checking correct operation by illuminating each unit for a defined test period, using electrical test equipment to identify hidden faults and carrying out ingress and egress tests for air and water on selected models.

The major safety standards are:

	Geographic applicability					
Safety standard	North America	South America	Europe	Middle East	South East Asia	Australia/New Zealand
CB		✓	✓	✓	✓	✓
ENEC			✓			
RCM						✓
UL	✓			✓		
ATEX/IECEx		✓	✓	✓	✓	✓
ABS	✓					
DNV-GL			✓			
INMETRO		✓				

PRODUCT LIFE-CYCLE MANAGEMENT

We have dedicated product management personnel that review a product through all stages of its life-cycle. We have products at various stages in their life-cycle and as products mature there are two main courses of action.

Upgrade the existing product; for example, the high bay has been upgraded many times and this continually extends its life-cycle

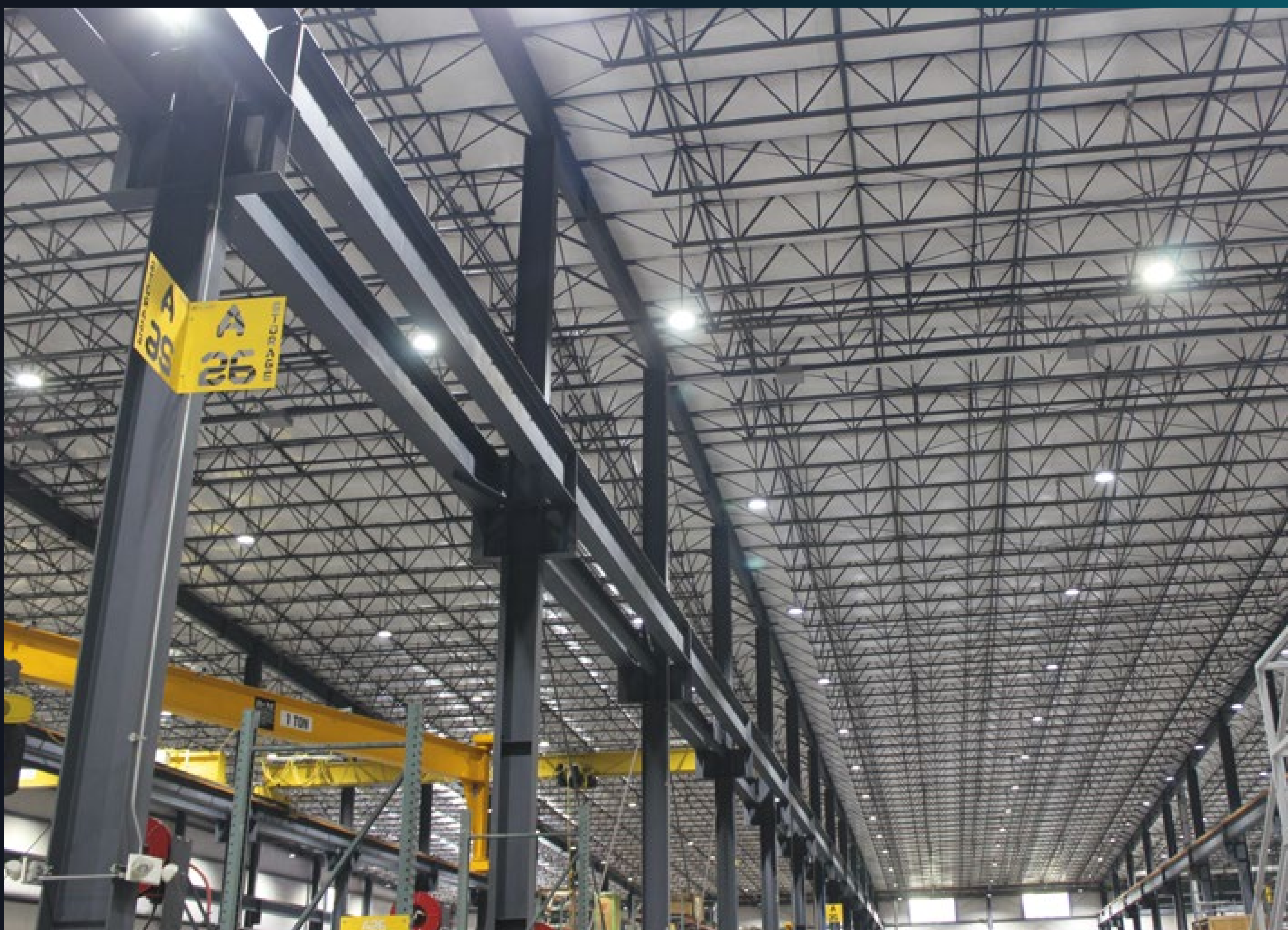
Re-design the product completely. For example, during 2020 the redesigned bulkhead was launched. A fundamental re-design normally occurs where products have not had frequent upgrades and the original design can be significantly improved through the use of more efficient components. It also ensures that more commonality can be added to the supply chain and single source components eliminated.

At the end of the product production life-cycle, raw materials on hand are reduced until inventory levels go below economic quantity levels. The life-cycle of the product in the field is at least 10 years, the warranty period that we give on most fixtures. However, in reality, this can be significantly longer due to the solid state design and there are fixtures that have been in operation for up to 15 years, this is a complete contrast to the older technologies which tend to need replacement every 5 years.

Product life-cycle

10yr

This is a complete contrast to the older technologies which tend to need replacement every 5 years.



ENVIRONMENTAL AND SOCIAL LIGHTING IN ACTION

The OQ chemical facility in Texas was a typical industrial site. The lighting was not standardised, with several different types of lights in use including metal halides, high-pressure sodium (HPS), fluorescent, incandescent and even mercury vapour.

Lighting was a troublesome and expensive commodity with a myriad of maintenance related issues.

— They had to procure and store an extremely wide range of delicate bulbs and ballasts for each lighting type.
— Failure rates were so high that they used a dedicated 2-3 person crew on lighting changes permanently and with the requirement to erect scaffolding for access, it could take up to a day and a half to change one bulb.
— Being a chemical plant, there were many hazardous areas that required specialist lighting to avoid explosion risks but they also had non-hazardous areas that did not need the same level of explosion protection.

In order to standardise the fixtures, they installed some trial fixtures from Dialight and a competitor. The consensus result was that Dialight fixtures had a lower profile and the quality of light was better.

THE BENEFITS

— Maintenance savings of over £40k per annum
— 500,000 kWh of electricity saved
— 60% lower electricity consumption
— No light failures
— No time wasted on procurement, storage and installation of fixtures and bulbs
— Maintenance time can be focused on plant safety

WE HAVEN'T HAD TO RE-LAMP A SINGLE LIGHT IN ALMOST SEVEN YEARS.

Marcus Rubio
Senior Instrument and Electrical Specialist

Over the past 7 years, the OQ facility in Bishop, Texas has retrofitted

226
hazardous area lights

48
non-hazardous linear lights

24
hazardous flood lights

6
non-hazardous high bays

SOCIAL BENEFITS

The Senior Instrument and Electrical Specialist Marcus Rubio said "In addition to the maintenance savings, the improvement in the lighting has made an amazing difference. When I was working in our Bay City facility, the HPS lighting made it so hard to see. Now our operations staff are getting compliments from employees, vendors and partners about the quality of the lighting in our plant, which is a big benefit from a safety point of view. Plus, it eliminates the cost of having to rent portable lighting."

LED LIGHTING IS THE FUTURE OF SAFE, EFFICIENT INDUSTRIAL LIGHTING AND DIALIGHT IS AT THE TOP OF THE CLASS.

Marcus Rubio
Senior Instrument and Electrical Specialist

ADJACENT MARKET

The reliant high bays that were recently installed are an example of our lower cost fixtures being used in the adjacent market that sits within the same plant as those using hazardous fixtures.

These lights do not need to have the same level of certification as they are used in workshop areas (rather than hazardous areas) but they are a safer and more robust solution than the existing fluorescent lights. OQ now plan to upgrade their other four workshops in the near future with reliant high bays.

ENVIRONMENTAL

With OQ's emphasis on sustainability, the energy savings of converting to LED have also been a key benefit. With per-fixture consumption at least 60% lower with Dialight LEDs compared to conventional HPS fixtures, they estimate the company is saving over 500,000 kWh in electricity each year. That translates to a substantial reduction in greenhouse gas emissions and a lower overall carbon footprint for OQ's operations. Meanwhile, conventional HPS and fluorescent bulbs, like the ones previously in use at OQ, also contain toxic levels of mercury and phosphorous. When broken, that puts workers in danger of exposure, which can happen often due to frequent maintenance. It also means added costs for hazardous material disposal. But the Dialight fixtures contain zero hazardous materials, which means they're safer for employees and the environment, and they require no special handling. In fact, many components can even be recycled.

CONVERSION PROGRAMME

The conversion and standardisation on the Dialight industrial LED lighting platform has been so well received that OQ is continuing its plant-wide upgrade. It is estimated the site will be fully converted by 2022, and their Electrical Specialist has become an advocate promoting the initiative company-wide through internal newsletters and memos about the project's success. "People have been so amazed with the improved visibility and safety in our facility, and I've been recommending the Dialight product to everyone," Rubio said.

This demonstrates the benefits of being able to move lighting from a troublesome and expensive commodity into an enhanced safety driven product that is environmentally and financially advantageous.

RISK LANDSCAPE

We believe that effective risk management involves people at all levels in the organisation being empowered to manage risks and take advantage of opportunities as an integral part of their day-to-day activities. Our risk awareness culture allows management to make better commercial decisions and helps to maximise the benefits of our business model.

Risk management approach
The effective understanding, acceptance and management of risk is fundamental to the long-term success of the Group. The Group has developed specialist knowledge in products, services, processes and regions, which allows us to understand the associated risks and accept them in an informed way. Our approach is encapsulated in the key principles of our risk management process:

- to understand the nature and extent of risks facing the Group;
- to accept and manage within the business those risks which our employees have the skills and expertise to understand and leverage;
- to assess and transfer or avoid those risks which are beyond our appetite for risk; and
- by consideration of materiality, establish the authority layers within the Group at which decisions on acceptance and mitigation of levels of risk are taken.

Embedding internal controls and risk management further into the operations of the business is an ongoing process and we will continually strive for improvement.

The risk management process also has to be able to adapt to changing circumstances and risk decisions were centralised in order to respond quickly to the challenges from COVID-19 and avoid sub-optimal decision making.

Due to the potential impact of COVID-19 on the Group, the priorities of the business were re-assessed resulting in delegations of authority being narrowed to eliminate non-essential expenditure. At the same time, central controls over cash were significantly expanded to promote cash conservation. Liquidity was the key focus and covenant compliance was assessed more frequently.

Risk appetite and culture
The Risk Committee is responsible for overseeing the risk management processes and procedures. It primarily comprises the members of the Executive Committee and reports to the Board through the Audit Committee on the key risks facing the Group. It monitors the mitigating actions put in place by the relevant operational managers to address the identified risks.
The Board has approved the acceptance of certain risks which are considered appropriate to achieve the Group's strategic objectives. The degree of risk to be accepted within the business is managed on a day-to-day basis through the Board-delegated authority levels. These are the framework for informed risk taking within the businesses and the route for escalating decision making up to the Board.

The key areas of the Group's system of internal controls are as follows:

Group internal control system

With the advent of COVID-19, the regular daily and weekly data on cash was significantly expanded. All cash payments from the Group were reviewed and approved at a supplier level by the CEO and CFO. Cash forecasting was enhanced to be at a more granular level and rolling 13-week forecasts were updated weekly. Sales and orders reports were reviewed daily in order to assess the impact of COVID-19 on the business by geographic location.

Each month the Group Chief Executive reports to the Board outlining the Group's operations and providing analysis of significant risks and opportunities. The paper covers progress against strategic objectives and shareholder-related issues. The Group Finance Director also submits a separate financial report to the Board each month evaluating progress against internal targets and external expectations. This was expanded to cover liquidity risk and covenant compliance in much more detail once the Group was impacted by COVID-19. Re-forecast scenarios were prepared more frequently to show the impact of varying levels of longevity and severity of COVID-19 impacts.

The annual budget paper and 3-year strategic plan paper are also submitted to the Board.

The Group Chief Executive and Chief Finance Officer report to the Audit Committee on all aspects of internal control. The Board receives regular reports from the Audit Committee, and the papers and minutes of the Audit Committee are used as a basis for the Board's annual review of internal controls.

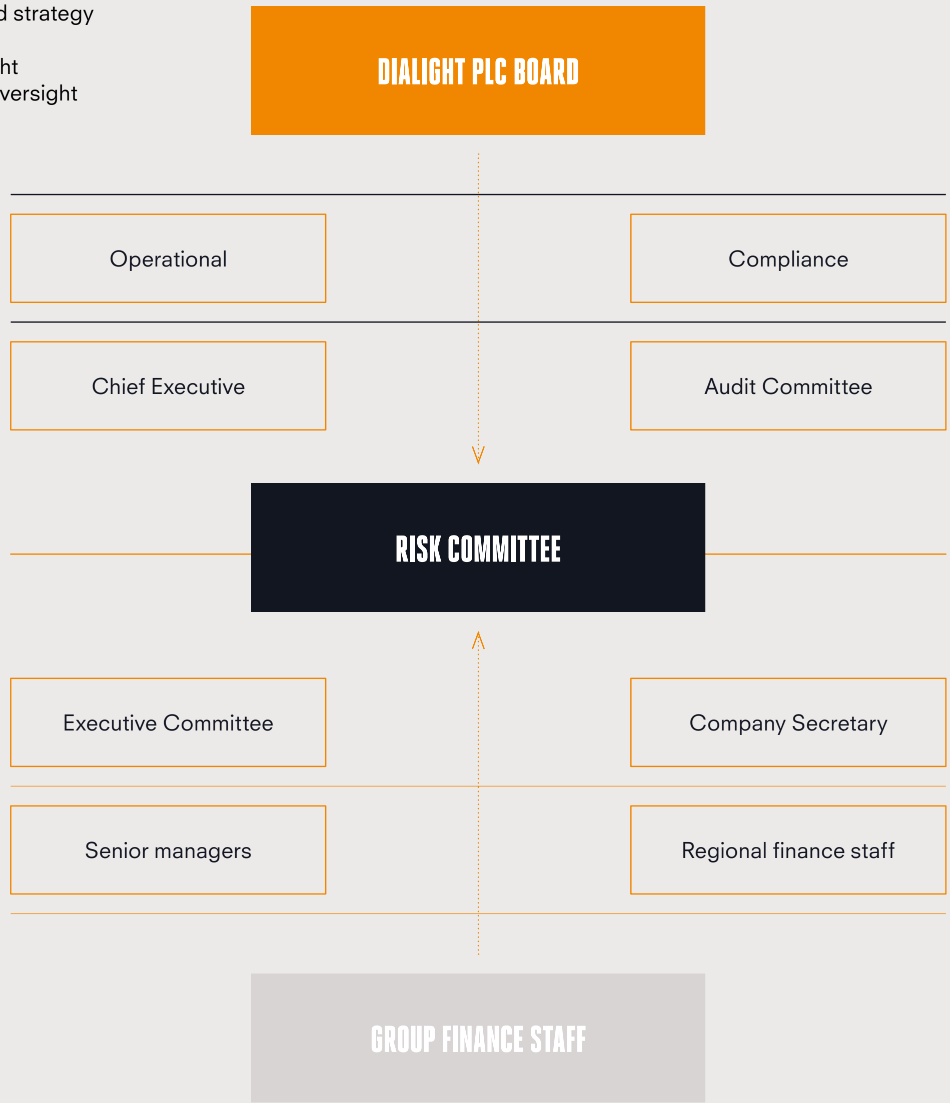
A comprehensive financial reporting package is received from all operating units monthly with comparisons against budget, forecast and prior year performance. Each operating unit is required to submit a quarterly self-certification on compliance and controls.

RISK MANAGEMENT FRAMEWORK

The diagram below summarises our complementary approach based on utilising a top-down plus a bottom-up process:

Top down

— Group risk policy and strategy
— Group risk appetite
— Principal risk oversight
— Group compliance oversight



Bottom up

— Business risk appetite policy
— Assessment and mitigation of specific risks
— Upward reporting of key residual risks

Organic growth

Gross risk
High

Impact on strategy
- Revenue
- Underlying operating profit

Description
Growth of the business has stagnated over the past few years driven by the impact of outsourcing production (reduced supply) and also the COVID-19 impact on demand. If this continues, we will see further erosion of shareholder value.

Growth needs to be stimulated by having compelling technologies that hasten the adoption of LED by utilising our products.

Impact on viability, reputation, and health and safety
- Loss of reputation
- Loss of market value

Mitigation
During 2020, operations demonstrated they were fully recovered with OTD sustained at 80% despite the challenges. Significant capacity exists to meet a large increase in demand.

The innovation of new products now includes conversations with the end customer to ensure that we are developing the products required by the market.

Environmental and geological

Gross risk
High

Impact on strategy
- Revenue
- Underlying operating profit

Description
The Group's main manufacturing centre is in Mexico and its main market is North America. Any impediment to raw materials getting into Mexico or restrictions on finished goods entering North America related to natural disasters could have a large impact on profitability. Disruption to global markets and transport systems arising from geological, biological, economic and/or political events may impact the Group's ability to operate and the demand for its products.

Impact on viability, reputation, and health and safety
- Reduced financial performance
- Loss of market share
- Unforeseen liabilities

Mitigation
The Group will use contingency planning and insurance to mitigate the risk, where possible.

The Group carries finished goods and component inventory to mitigate supply chain disruption caused by COVID-19.

The Group has attained essential business status in both Mexico and Malaysia which ensured production facilities remain open for production during the COVID-19 pandemic.

Funding

Gross risk
Medium

Impact on strategy
- Revenue
- Underlying operating profit

Description
The Group has a net debt position and there is a risk related to liquidity.

The Group has not paid a dividend since 2015.

The Group reports in Sterling; however, the majority of its revenues and its cost base are in US Dollars. Fluctuations in exchange rates between Sterling and US Dollar could cause profit and balance sheet volatility.

Impact on viability, reputation, and health and safety
- Covenant compliance
- Volatile financial performance arising from translation of profit from overseas operations
- Most of the Group's profit earned is not in the reporting currency

Mitigation
The Group has sufficient headroom against its borrowing covenants and has significant borrowing capacity. The financial sensitivities run for the Viability Statement show that the Group remains compliant with its financial covenants.

Capital allocation policy is used to determine re-investment or distribution of cash.

The Group uses natural hedging to cover operational exposure as the majority of revenue and costs are in US Dollars. The business uses forward contracts to limit currency exposure on a selected currency basis.

Link to strategy

- Invest in our core markets
- Continued innovation
- Expand our market reach

Gross risk – change

- Increased/Reduced
- No change

Production capacity and supply chain

Gross risk	Impact on strategy	Description	Impact on viability, reputation and health and safety,	Mitigation
Medium	— Revenue — Underlying operating profit — On-time delivery — Order growth	Disruption to production capacity due to impact of bio-hazards or supply chain disruption. Disruption to supply chain from border friction, tariffs or impacts on logistics related to bio-hazards.	— Inability to fulfil demand — Loss of market share — Higher costs to expedite materials — Loss of revenue and operating profit	Continued focus on health and safety at all facilities ensuring that essential business status is maintained. Focus on design for manufacturing plus modularisation of components. Continued focus on a dual sourcing programme and localisation of supply chains.

Cyber and data systems

Gross risk	Impact on strategy	Description	Impact on viability, reputation, and health and safety	Mitigation
Medium	— Revenue — Underlying operating profit — On-time delivery — Order growth	Disruption to business systems would have an adverse impact on the Group. The Group also needs to ensure the protection and integrity of its data. With significantly more employees working from home on a part-time basis, there is greater risk of systems being compromised as well as significant reliance on platforms such as Zoom and Microsoft Teams in order to operate the business.	— Inability to supply customers — Loss of revenue and significant business disruption — Loss of commercially sensitive information	The Group continually reviews its IT systems to ensure that they are robust and scalable in line with the expansion of the business. Back-ups are integrated to all Group systems and the diversity of systems offers protection from individual events. The use of third parties who have robust security to host certain applications. Home workers can only connect to Group servers via secure VPN functionality.

Product development strategy

Gross risk	Impact on strategy	Description	Impact on viability, reputation, and health and safety	Mitigation
Medium	— Revenue — Underlying gross profit — Order growth	Inability to translate market requirements into profitable products. Failure to deliver technologically advanced products and to react to disruptive technologies.	— Loss of revenue — Loss of market share — Lack of order growth	Product development cycle includes direct input from customers. R&D focused on technology improvements that can be utilised in multiple products based on customer requirements. We have a pipeline of product development for 2021, with one product already launched, and beyond that will enhance our existing products and fill portfolio gaps.

Product risk

Gross risk	Impact on strategy	Description	Impact on viability, reputation, and health and safety	Mitigation
Medium	— Revenue — Underlying operating profit	The Group gives a ten-year warranty on Lighting products which are installed in a variety of high-risk environments. Risks could arise in relation to product failure and harm to individuals and damage to property.	— Unforeseen liabilities — Covenant compliance	We maintain a reserve against potential claims, product quality is a key focus in the design stage and during the manufacturing process. The Group manages post-sale risk exposure through the distribution of product specification, safety installation and maintenance information and through appropriate insurance protections.

Talent and diversity

Gross risk	Impact on strategy	Description	Impact on viability, reputation, and health and safety	Mitigation
Medium	— Revenue — Retention	The Group performance is dependent on attracting and retaining high-quality staff across all functions.	— Without good-calibre staff, the Group will find it difficult to expand and achieve its strategic goals	A comprehensive recruitment process and ongoing evaluation assist high-quality hiring and development. Our ESG focus will assist the recruitment and retention of good calibre staff. Considerable time is spent assessing middle and senior management in order to identify succession plans.

Intellectual property

Gross risk	Impact on strategy	Description	Impact on viability, reputation, and health and safety	Mitigation
Medium	— Revenue — Underlying operating profit	Theft or violation of intellectual property ("IPR") by third parties or third parties taking legal action for IPR infringement.	— Proprietary technology used by competitors leading to loss of market share and revenue — Unforeseen liabilities	Core Group IPR is protected by patents (where applicable) and potential violations will be pursued through legal action. By ensuring internal technical IPR expertise and the use of third party patent specialists in the production development process, the risk of infringing third party IPR is minimised.

Link to strategy

Invest in our core markets

Continued innovation

Expand our market reach

Gross risk – change

Increased/ Reduced

No change

Case study

NEW VIGILANT HIGH OUTPUT HIGH BAY (WITH LOWER PROFILE) LAUNCHED IN FEBRUARY 2021

THE UPGRADED VERSION OF THIS PRODUCT HAS REDUCED THE PRODUCT WEIGHT, IMPROVED THE EFFICIENCY AND INCREASED THE LUMEN OUTPUT PER WATT.

The high output high bay was originally introduced in 2014 and is designed to work at heights of up to 100 feet. It has been widely used in applications such as shipping dry docks and aircraft hangars which have extreme ceiling heights.

The new version has been re-designed to take advantage of the technological advancements that Dialight has made since the original version was launched.

KEY FEATURES

Reduced weight

The upgrade has reduced the weight of the fixture by an average of 30% which means it is now below the regulatory limit for a one-person installation.

Smaller size

The depth of the light is now only 18 centimetres compared to 50 centimetres previously, making it easier to install.

Safety

The high failure rate of older technologies coupled with the difficulties of replacing bulbs at extreme heights mean that many facilities run with significantly less lighting than needed. A choice of beam patterns and lenses can be chosen to ensure the light is targeted for maximum effect, thereby improving the working environment in a facility. This high output fixture provides a much safer working environment.

Efficiency

With up to 155 lumens per watt of output, it is a direct replacement for a 1,000 watt High Intensity Discharge (HID) fixture but is a much more efficient and cost effective alternative.

Longevity

With expected operational duration of greater than 150,000 hours in an ambient temperature range of -40°C to +65°C, this virtually eliminates maintenance over a very significant lifespan. It features Dialight's latest power supply technology, offering inbuilt 6kV surge protection and is IP 66 and IP 67 rated allowing it to be used in wet environments. This is all backed by our industry leading 10-year warranty.

Group Chief Finance Officer's review

Net debt reduction of

£5.1m

Reduction in inventory

£13.5m

COVID-19 brought many challenges outside our control but we focused on those we could influence; the cost base, liquidity and delivering orders on time and here there were notable successes. The benefit from fully insourcing sub-assembly production in 2019 was clearly evident as we were able to adapt quickly to production challenges.

Whilst overall Group revenue was 21% lower than the prior year at £119.0m, it is important to look at the revenue streams to understand the drivers behind this. In 2019, Lighting revenue was comprised of 60% project work and 40% maintenance work (MRO). When end markets were impacted by COVID-19, at the end of Q1, project work was largely stopped by most companies who deferred capex projects in order to conserve cash. However, encouragingly the MRO business increased significantly due to:

— Evidence that certain competitors were unable to maintain supply due to supply chain issues
— Dialight factories gaining essential business status which minimised closure time
— The decision to hold finished goods inventory, particularly in Tijuana, enabling us to continue serving our customers

By regaining a more significant portion of the available MRO market, Dialight recaptured the repeat business that we lost a few years ago and it also demonstrated to the market that Dialight can deliver products on-time, even in difficult times.

Signals and Components orders were 7% ahead year on year and only disruptions in our supply chain prevented us from delivering revenue growth. Despite reported revenue down 6%, we go into 2021 with a healthy backlog.

Operations performed well in 2020. Despite the disruption from factory closures, social distancing on the production lines and supply chains being erratic, the overall level of on-time delivery was maintained at 80% (same as 2019) and inventory reduced by £13.5m.

There was a very intense focus on cash conservation and liquidity. At the end of the year, despite the reduction in revenue, the Group had reduced its net debt by £5.1m to £11.4m.

More information is available online
http://ir.dialight.com/reports-presentations-and-results

The loss for the year was £7.8m (2019: £16.2m) and the underlying EBIT loss was £6.4m compared to an underlying EBIT loss of £5.0m in 2019.

The underlying EBIT bridge for the year on year movement is as follows:

Underlying EBIT bridge	£m
Underlying EBIT loss 2019	**(5.0)**
EBIT impact of reduced revenue	**(6.2)**
Gross margin improvement due to in-sourcing	**5.7**
COVID-19 margin impact	**(6.0)**
Reduced SG&A costs	**5.1**
Underlying EBIT loss 2020	**(6.4)**

We estimate that the reduction in revenue impacted underlying EBIT by £6.2m. Gross margin for the Group was 28.6% which is slightly below the margin of 29.1% in the prior year. The benefits that we should have seen from the elimination of the premiums paid for outsourced sub-component costs in 2019 was £5.7m but this has been offset by the COVID-19 impact on gross profit. The impact of lost revenue was partly offset by SG&A savings of £5.1m from significantly reduced travel, by the field-based Lighting salesforce, and headcount savings as a result of salary reductions, furloughs and redundancies.

COVID-19 margin impact

The estimated margin impact of COVID-19 can be divided into several categories and can be summarised as follows:

	2020 £m
Facility and labour costs while factories closed	**1.5**
Fixed costs allocated over smaller production volume	**4.1**
Additional PPE	**0.4**
Total	**6.0**

Our Malaysian factory was closed for six weeks and our Mexican facility was closed for three weeks. During this time, we were required to pay all staff and incur the fixed costs of these production facilities. We also have 200 employees classified as vulnerable under Mexico guidelines. This group were protected due to underlying health issues and their salaries continued to be paid.

Once we re-opened our facilities, there were restrictions on the number of staff permitted per shift. The production volumes in the facilities (Q2 to Q4) were 36% lower than in 2019 whereas the fixed production costs were largely similar. Whilst we could meet on-time-delivery requirements, it was at the expense of the cost per unit and we estimate this impact on gross margin at £4.1m. There were also additional costs of £0.4m for enhanced sanitisation, protective equipment and staff transportation to reduce the risk of contracting the virus.

Currency impact

Our major trading currency is the US Dollar (84% of revenue) due to the size of our US business and the use of USD as a contract currency elsewhere in the world. The Group reports its results in Sterling and this gives rise to translational exposures on the consolidation of overseas results.

Transactional exposure is where the currency of sales or purchases differs from the local functional currency. We use natural hedging on revenue and purchases to mitigate the majority of the currency risk and forward contracts on a currency specific basis.

The average US Dollar rate against Sterling has been flat year on year at 1.28 so there is virtually no currency impact in the Income Statement. We have seen some volatility in the year-end spot rate with the US Dollar weakening by 3% against the rate at December 2019. Based on the current mix of currencies and expected level of activity, a 1% movement in the US dollar relative to Sterling changes annual revenue by £1.0m and has no impact on underlying EBIT.

Lighting segment

Lighting	2020 £m	2019 £m	Variance
Revenue	**81.7**	111.5	(27%)
Gross profit	**23.7**	31.3	(24%)
Gross profit %	**29%**	28%	+100bps
Overheads	**(26.8)**	(34.5)	+22%
Underlying EBIT loss	**(3.1)**	(3.2)	+3%

The Lighting segment saw the largest impact from COVID-19 related disruption to end markets. In the prior year it represented 74% of the Group's revenue but that fell to 69% in the current year. The impact of COVID-19 was seen in most of our geographies.

The Lighting business consists of two main revenue streams, large retrofit projects and on-going maintenance (MRO) spend. In the US, we had close to zero project orders after Q1 but we saw an improvement in our MRO business supported by the finished goods inventory available in our distribution centre in Tijuana, Mexico, which enabled us to fulfil orders even when the factory was closed. Overall revenue in the US was down by 28% compared to the prior year as a result of capital projects being deferred. However, regaining a larger share of the MRO market is a very important demonstration that our operational issues are behind us.

The EMEA business was significantly impacted by lockdowns in Europe resulting in revenue being 31% lower than the previous year.

Australia has a good combination of MRO and project business and it had a positive year with revenue up 5% over 2019. It went into lockdown early and it re-opened earlier than some other markets. We saw the benefit from some project expenditure deferred in 2019 turning into revenue in the year and the launch of the new bulkhead product also generated new demand in the mining sector. Asia had some large project revenue in the prior year which we were unable to repeat due to lockdowns and this resulted in a 45% reduction in revenue.

There was a 100bps improvement in gross margin year on year to 29%. The benefits of the elimination of insourcing costs incurred in the prior year were offset by the impact of COVID-19 on production volumes which increased the unit costs.

Overheads were £7.7m lower than prior year due to a combination of lower revenue related costs, lower travel costs, salary reductions and furloughs. The majority of Group savings in travel were in the Lighting division as we utilise a large field-based sales force.

Signals & Components

Signals and Components	2020 £m	2019 £m	Variance
Revenue	**37.3**	39.5	(6%)
Gross profit	**10.3**	12.6	(18%)
Gross profit %	**27%**	32%	-500bps
Overheads	**(7.7)**	(8.3)	7%
Underlying EBIT	**2.6**	4.3	(40%)

Signals & Components

Signals & Components is a high-volume business operating within highly competitive markets. There are three main elements to this business: traffic lights, opto-electronic (OE) components and vehicle lights.

This division performed well during 2020 with revenue only 6% lower than the previous year despite order intake growth. This was reflective of the impact of supply chain disruptions as some of our suppliers' factories were unable to operate at full capacity. The mix of revenue within the division was more heavily weighted to the lower margin traffic products and that reduced the overall margin by 500 bps. There were operating cost reductions of £0.6m, resulting in an underlying EBIT profit of £2.6m for the year.

Central overheads

Central overheads are comprised of costs not directly attributable to a segment. These are not allocated to the segments. In the year, they were £5.9m, a reduction of £0.2m due to reduced travel and COVID-19 related salary reductions by the Board and senior managers.

Non underlying costs

Non-underlying costs	2020 £m	2019 £m
Redundancy costs	**0.9**	1.1
Litigation costs	**0.7**	–
Loss on disposal of subsidiary	**0.8**	2.5
Write off receivable from outsourced manufacturer	**–**	2.7
Total	**2.4**	6.3
Cash impact	**1.3**	1.6

Non-underlying costs

In the current year, we removed the impact of items that in the judgement of the Directors, are separately disclosed due to their nature and value to allow the reader to obtain a proper understanding of the financial information and the best indication of the underlying performance of the Group. These can be summarised as above.

In the current year, the reduction in revenue required a review of the cost base to ensure that it was right-sized in case of prolonged COVID-19 impacts and this resulted in redundancy costs of £0.9m. We incurred litigation costs of £0.7m related to potential claims for and against the Group. The Group disposed of its Brazilian subsidiary (75% owned Joint Venture) through a management buy-out by the minority shareholder who will revert to being a distributor of Dialight products in the region. This gave rise to a loss on sale of £0.8m.

In the prior year, there were redundancy costs of £1.1m related to various initiatives during the year to improve the performance of the business. The Group disposed of its Wind business in Denmark in September 2019 at a loss of £2.5m. We impaired a receivable balance of £2.7m with our former outsource manufacturer due to GAAP compliance rather than invalidity of the legal claim.

Inventory

We set a target of reducing inventory from £46m at the end of 2019 to £38 - £40m by the end of 2020. The actual reduction was even better than this with closing inventory of £32.2m.

Inventory (excluding spare parts)	2020 £m	2019 £m
Raw materials and sub-assemblies	**19.6**	28.5
Finished goods	**12.6**	17.2
	32.2	45.7

The main reasons for the reduction were:

— Better supplier management with the use of more Vendor Managed Inventory programmes and partnering initiatives

— We slowed R&D at the start of Q2 2020 as part of the cash conservation programme and this enabled us to focus our engineering team on inventory projects. The focus was to consume raw materials that we already had on hand by using them as alternatives to those in the original specification, as long as it did not compromise the safety and integrity of the fixtures

— We started to reap the benefit of having sub-assembly production in-house as this enabled more just-in-time production and reduced the level of sub-assemblies on hand

— The resurgence in the MRO business with fast delivery times resulted in faster turns on finished goods and reduced the quantities on hand

Cash and borrowings
The Group ended the year with net debt of £11.4m, a reduction of £5.1m from December 2019. Net debt excludes lease liabilities related to the adoption of IFRS 16 Leases (this is consistent with the basis of covenant testing).

The roll forward of net debt was as follows:

Net Debt	£m	£m
Opening balance 01 January 2020		**(16.5)**
Inflows		
Underlying EBITDA*	0.1	
Reduction of inventory	12.6	
Tax refund	2.9	**15.6**
Outflows		
Net working capital (excluding inventory)	(3.6)	
Investment in new products**	(3.7)	
Maintenance capex/other	(1.1)	
Non underlying costs	(1.3)	
FX	(0.8)	**(10.5)**
Closing balance at 31 December 2020		**(11.4)**

* See page 144

** includes software

The major factors for the reduction of net debt are:

- The reduction of inventory
- Utilising tax losses from 2019 to reclaim corporation tax and also using the COVID-19 stimulus incentive in the US to reclaim corporate taxes going back to 2014
- Reducing the outflows of cash through:
  - Furlough of administrative staff in the UK and US – many of which were made redundant
  - Salary reductions across the Group ranging from 5% to 20%
  - Reduced level of capital expenditure which was originally planned at c.£6m but ended less than £5m – including product development
  - Increased credit terms with key suppliers

Banking
The Group has its banking relationships with HSBC Bank plc and Wells Fargo. The Group's revolving credit facility with HSBC of £25m was re-negotiated in February 2020 and runs to February 2023. In order to ensure greater liquidity should the need arise, the Group increased its banking facility with HSBC on 15 June 2020 by adding a further £10m facility on a 3-year basis, utilising a combination of £8m under the COVID-19 Large Business Interruption Scheme (CLBILS) and a £2m commercial loan. The £10m additional facilities are repayable over 30 months, in equal installments, commencing January 2021. The Group has £35m of available funds across both facilities and £5.3m of cash on hand at the balance sheet date.

Covenants
As part of the additional £10m funding arrangement, the Group's existing banking covenants based on leverage and interest cover have been waived for the periods June 2020 to June 2021 inclusive. These have been replaced by a new test based on exceeding a 12-month rolling EBITDA level derived from a COVID-19 impacted business plan provided to HSBC. The Group was compliant with its revised banking covenant at 31 December 2020.

Tax
Based on a loss before tax of £10.1m in the year, the effective tax rate of 23% results in a tax credit of £2.3m. There was an unforeseen benefit in the year as the Cares Act in the US allowed us to reclaim £1.3m in tax but this only had a small impact on the effective tax rate due to UK trading losses for which we are not recognising a deferred tax asset.

In the year we received £2.9m in corporation tax reclaims:

- We used the stimulus package under the Cares Act in the US which allows us to get tax relief by carrying back losses made in 2018 and 2019 for 5 years. This enables us to benefit from tax recovery at 35% rather than the current rate of 21% which gave rise to a one-off tax credit of £1.3m
- We received repayments of taxes in the US and Australia of £1.6m based on prior year losses

Pension costs
The Group has two defined benefit schemes that are closed to new entrants. The aggregate surplus on both schemes is £1.1m, a reduction of £1.2m from 31 December 2019. The reduction is due to changes in the discount on future liabilities which increases the expected liability at the same time as the value of assets has been largely unchanged. The cash cost of the scheme in 2020 was £0.1m, a reduction of £0.4m from 2019. The Group agreed a payment holiday for six months with the pension trustees as part of its COVID-19 related cash conservation measures. Negotiations on the contribution levels as part of the triennial valuation were also concluded and the annual cash cost will be £0.4m going forward compared to £0.5m in 2019.

Brexit
The sales to the European market only account for 8% of Group revenue. The finished goods to fulfil these sales are imported from our Mexico or Malaysia manufacturing plants to our distribution centre in the UK. With the end of the Brexit transition period, there have been some administrative challenges as the logistics industry assimilates the new rules into their working practices. We will continue to monitor the impact on our lead times and whether we need to re-locate our distribution centre to mainland Europe in the future.

Capital management and dividend
The Board's policy is to have a strong capital base in order to maintain customer, investor and creditor confidence and to sustain future development of the business. The Board considers consolidated total equity as capital. At 31 December 2020 this equated to £57.3m (2019: £67.8m).

The emphasis in 2020 has been on cash conservation and preserving liquidity. Under the terms of the CLBILS scheme, distributions are not permitted while there is debt outstanding under the scheme. Therefore, the Board is not proposing a final dividend payment for 2020 (2019: nil). The Group has a clear capital allocation discipline and is committed to returning excess funds to shareholders via future dividend or share repurchase, subject to any restrictions under the CLBILS scheme.

Chair's introduction to governance

On behalf of the Board, I am pleased to report on Dialight's Corporate Governance during the past financial year. The aim of this report is to explain Dialight's governance framework and outline how it was applied on a practical basis in the year under review – a year that has been one of the most challenging the Company has faced and one that has required great adaptability, resourcefulness and governance strength-in-depth.

The Board's role in setting the Group's culture and core values is a significant one. Fariyal Khanbabi and I speak frequently with each other, and all the Board members have given their time to supporting the management team, in various capacities, across a very difficult year. 2020 has shown that this best enables a culture across the Group of agile decision making and speed of reaction to events, whilst maintaining the innovative drive that has been the hallmark of Dialight's successes in the past.

As a Board, we are conscious that we are accountable to all our shareholders and must have regard to other stakeholders such as employees, customers, suppliers and the environment. We maintain an active dialogue with shareholders throughout the year and listen to views of representatives of investors and financial institutions. We also welcome the opportunity to answer shareholders' questions at our 2021 Annual General Meeting ("AGM").

More information is available online
http://ir.dialight.com/reports-presentations-and-results

Leadership
There has been an important strengthening of the Board over the past 12 months. Fariyal Khanbabi was confirmed in the role of CEO in March 2020, just a few weeks before the initial impact of the COVID-19 pandemic, and in April 2020 we were joined on the Board by Karen Oliver and Gotthard Haug – both of whom have brought their considerable experience and knowledge to bear over the last year. Finally, in October 2020, we were joined by Wai Kuen Chiang when she took on the role of CFO. Biographies for each of the current Directors are set out on pages 52 and 53. The progress in talent development and diversity can be found in the "Our People" section on pages 30 and 31.

Compliance statements
Throughout the year ended 31 December 2020, the Company has complied with the provisions as set out in the UK Governance Code 2018 (the "2018 Code") (a copy of which is available on the Financial Reporting Council's website at www.frc.org.uk) in all respects except that I was not deemed to be independent upon appointment as Chairman (Provision 9) – an explanation of the Board's view on this matter is set out below under the section headed "Independence" on page 54. A summary of compliance against the 2018 Code is included on the page opposite. The Group's approach to risk management and internal control is set out on pages 38, 39 and 63 and the s172 statement is on pages 50 and 51. The Strategic Report, and this Annual Report generally, has been reviewed and approved by the Board. The Board confirms that it considers that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance.

Board priorities
Our priorities for 2021 are very much focused around building sustainable growth in the Group and delivering on our strategic plan with a strong governance underpin.

David Blood
Chair

29 March 2021

Compliance statements

The table below sets out the applicable provisions (i.e. those provisions requiring disclosure in the Annual Report, or where there is additional explanation) of the UK Corporate Governance Code 2018. It states whether or not the provision was complied with and references the location in the report of explanatory text. In the case of the single non-compliance (provision 9), a detailed explanation in accordance with the principle of "comply or explain" is set out on the page indicated.

Section 1: Board leadership and Company purpose	Compliant	See page
1. Opportunities and risks to future success of the business	Yes	38-40
Sustainability of Company's business model	Yes	10-33
How governance delivers strategy	Yes	46, 48-49, 57
2. Explanation of Board activities	Yes	52-56
Approach to investing in workforce	Yes	28-32, 48-49
3. Communications with shareholders	Yes	58
5. s172 statement	Yes	48-49
6. Mechanism for workforce concerns	Yes	31
7. Management of conflicts of interest	Yes	52

Section 2: Division of responsibilities	Compliant	See page
9. Chair independent on appointment	No	52
10. Non-Executive independence	Yes	50-52
11. 50% of Board to be independent	Yes	50-52
12. Identification of Senior Independent NED	Yes	50-52
13. Board review process and independence	Yes	52, 54, 59
14. Division of responsibilities	Yes	55

Section 3: Composition, succession and evaluation	Compliant	See page
18. Annual re-election of Directors	Yes	58, 90
20. Use of external search agency	Yes	60
21. Formal and rigorous annual evaluation	Yes	59
23. Report on work of the Nominations Committee	Yes	60

Section 4: Audit, risk and internal controls	Compliant	See page
26. Report on work of Audit Committee	Yes	64-67
28. Emerging and principal risks	Yes	38-40
30. Going concern statement	Yes	62
31. Viability statement	Yes	63

Section 5: Remuneration	Compliant	See page
35. External remuneration consultant	Yes	82
36. Post-employment shareholding requirements	Yes	70-72, 75
37. Use of discretion to override formulaic outcomes	Yes	70-72, 77
38. ED pension aligned with workforce	Yes	72, 74
41. Description of the work of the Remuneration Committee	Yes	53, 68-69
Engagement with shareholders	Yes	69-70
Alignment of ED remuneration with wider pay policy	Yes	72, 77
Application of discretion on outcomes	Yes	70-72, 77

SECTION 172 STATEMENT

The Board has a duty to promote the long-term, sustainable success of the Company and of the wider Group. The base-line duty is set out in s172 of the Companies Act 2006, but in reality, it is broader, and the Board considers a wide range of statutory and other factors within its decision-making process.

Board decision-making will always encompass:

- the likely consequences of any decision in the long-term and the risks to the Group and its stakeholders;
- the interests and wellbeing of our people and the communities where we are present;
- the impact of our products and businesses on the environment and the need to "de-carbonise";
- the Group's relationships with its customers and suppliers; and
- the importance of our reputation for integrity and high standards of business conduct.

Dialight believes that a key mechanism in ensuring that it makes good long-term and sustainable decisions is open, two-way dialogue with all our key stakeholders. We believe that understanding the perspective and needs of our stakeholders is vital to the Group's success.

Good governance and our business ethics and integrity are essential for Dialight to continue to be an attractive company for our investors, employer for our employees, partner for our suppliers and distributors, and manufacturer of our long-life products for our customers.

This s172 statement sign-posts some of the key ways in which we have engaged with stakeholders across 2020 and built confidence in the sustainability of their relationship with the Group. It should be read in conjunction with:

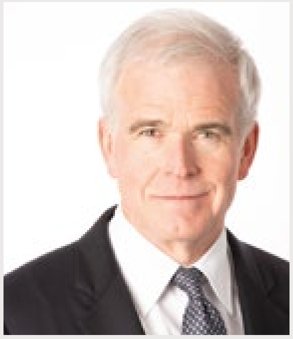
- the Chairman's Statement on pages 10 to 11;
- the Group Chief Executive's Review on pages 12 to 17;
- the ESG report on pages 24 to 37;
- the Risk Landscape on pages 38 to 41;
- the Group Chief Finance Officer's Review on pages 44 to 47; and
- the Governance and related reports on pages 49 to 93.

Stakeholder	Why it is important to engage with this stakeholder Group
EMPLOYEES	The Dialight Group has a diverse mix of employees across four continents and ranging from manufacturing production operatives to highly-skilled design engineers. We are entirely reliant upon our workforce for our differentiating innovation, efficient and high-quality manufacturing production, and for sales of our product in our end markets. We need to retain our skilled staff as well as attract highly-skilled talent to new roles. By understanding the motivations, talents, ambitions, needs and concerns of our employees we can best secure an innovative, adaptable and highly productive workforce that will operate as a team and, in turn, secure the future success of the Group.
CUSTOMERS	Dialight operates in highly differentiated but competitive markets. To maintain our best-in-class differentiation we are reliant upon a constant pipeline of new technical innovation and of new products. The clarity and precision with which we listen to the "voice of the customer" and map these needs across to new product design, functionality and pricing is a key determinant of the future success of the Group.
PARTNERS	Our key commercial partner relationships are spread across the in-bound supply chain and our outbound distribution networks. With our high-SKU product range, we are highly reliant upon the integrity and efficiency of our supply chain. We were a first-mover in the introduction of long-warranty products (typically 10 years for SSL), but this in turn requires high levels of assurance over the consistency and reliability of component parts. Our sales model is a hybrid of active direct selling, active indirect selling and indirect product supply. We are therefore highly reliant upon the strength and depth of our relationships with our distributors (across all our product ranges).
INVESTORS	As a company with a premium-listing on the London Stock Exchange's Main Market and a borrower of bank debt, we need to communicate clearly and effectively with our existing and prospective shareholders and lenders to develop their understanding of how the Group's businesses are managed to generate sustainable returns and long-term success.
COMMUNITIES	Dialight has a long-standing presence with our manufacturing plants in Mexico, Roxboro, USA and Penang, Malaysia. As a responsible employer, we want to contribute to the economic development and sustainability of these communities as part of our efforts to secure a loyal and motivated workforce with high levels of health and welfare.
ENVIRONMENT	On a wider perspective, we believe that Dialight and its product offering can be at the forefront of efforts to "de-carbonise", promote the success of sustainable, GHG-neutral products and services, and to reverse environmental damage historically caused by the sectors we operate in. We see an absolute confluence of interest in promoting GHG-neutral products and the interests of all our key stakeholders (not least our shareholders) – as we believe that knowledge of the low GHG-density of our products, the inherent power efficiency of our technology (including LED light generation generally) and our extended product life-cycle will be a key driver of the future success of the Group. We view engagement with all our stakeholders on environmental matters to be a central core to our future strategy.

How we engage, the impact of Board decision making and what we did differently in 2020

What we do generally:	What we did differently in 2020:
— On-going focus on communications with employees relating to employee health, safety and welfare — Employee surveys — Training and development — One-on-one and skip-level meetings with the designated Employee Engagement Non-Executive Director, David Thomas — Site visits by members of the Board (conducted physically and online) — Update newsletters from the Group Chief Executive — Whistleblowing hotline	— 2-weekly/4-weekly "all-employee" calls with the CEO and Executive Team to keep all our employees updated on progress in COVID-19 precautions across the Group and focusing on employee health and welfare — Specific welfare precautions for employees at our manufacturing plants including additional food supplies, paid-leave (for high-risk individuals), in-house medical care etc — Implementation across the Group of additional health and safety COVID-19 precautions including PPE and protocols — Enhanced internal audit by senior management (or third parties where travel restrictions required) to ensure COVID-19 precaution compliance and employee health and welfare
What we do generally:	What we did differently in 2020:
— Sales proximity to our end users through direct salesforce and indirect distribution partners — Dedicated product management specialists integrated within our sales and marketing functions — Detailed product planning and innovation pipeline bringing together product, application and technology specialists form our dedicated in-house product innovation teams — Detailed new product development management and review process - integrated with sales and commercial reviews	— Incremental improvements in existing best practice new product development cycle and welfare — Maintenance of on-site task-focused team-working throughout COVID-19 lockdowns (in compliance with local regulations) on a rotational basis — Specific focus on maintaining development review gates despite remote working through new collaborative tools — Extension of post-launch product and commercial review cycle
What we do generally:	What we did differently in 2020:
— Supplier and distributor on-boarding due diligence (financial, quality, business integrity and compliance, component supply, Modern Slavery etc) — Supplier Code of Conduct — Audits and inspections of suppliers — Ongoing management of supplier relationships	— Rationalisation and localisation (where possible) of our supply chain to strengthen product quality, production efficiency, inventory management and supplier relationships generally — CEO and senior management team focus on supply chain challenges arising from COVID-19 pandemic — Further strengthening of supply chain team and processes
What we do generally:	What we did differently in 2020:
— Meetings with: current and potential shareholders; current and potential lenders; and analysts — Addressing enquiries from institutional and retail investors — AGM, Annual Report and Accounts, and prelim and interim announcements — Regulatory announcements — Corporate website	— Increased depth and frequency of reporting by senior management to the Board to provide assurance to the Board on adequacy of communications with investors during COVID-19 pandemic — More frequent discussions with existing shareholders and lenders — A detailed remuneration-related consultation with key shareholders (top 70% of shareholders by holding) in advance of the finalisation and publication of the 2021 Remuneration Policy (see pages 75-83)
What we do generally:	What we did differently in 2020:
— Sponsorship and volunteering by employees — Membership of local trade associations and industry bodies — Enhanced benefits for employees, such as transport to and from factory locations and food vouchers	— Establishment of Dialight Foundation – with a management board staffed by employee representatives from around the world and tasked with fund-raising and dispensing Group-provided funds on charitable projects in the communities adjacent to our manufacturing locations — Foundation Board members liaise with their local workforce to determine funding priorities — Establishment of a hardship fund to which any employee can apply for one-off financial and other assistance in a range of hardship situations — Enhanced benefits for workers and paid leave for "at risk" workers where minimum local government support
What we do generally:	What we did differently in 2020:
— Dialight products already benefit from high power efficiency (through design and utilisation of LED technology) and extended life-cycles (typically 10-year warranties on SSL products). This inherent positive impact on the environment is recognised with our FTSE Green Economy Mark certification — Supply chain codes of conduct and screening in respect of raw material tracing and impacts (eg. conflict minerals)	— We have started a process of securing globally-recognised Environmental Product Declarations that comply with ISO14025 and EN15804 standards on our key new products. This will enable customers to make informed decisions on the global warming potential of all our products (expressed as kg CO_2 equivalent per unit of product) — We are implementing ISO14064 as part of the enhanced efforts at de-carbonising our corporate operations and reporting to investors and other stakeholders on progress against carbon-neutrality objectives — We started a process towards finalising a PAS2060 carbon neutrality objective and a sustainability road-map in 2021

Board: Leadership and company purpose




	David Blood Chair	Fariyal Khanbabi Chief Executive Officer	Stephen Bird Senior Independent Director	David Thomas Non-Executive Director, Employee Liaison NED (ELNED)
Independence	No (see page 52)	No - Executive Director	Yes	Yes
Appointed	Appointed as a Non-Executive Director on 1 July 2015, and subsequently as Chair of the Board on 5 August 2019.	Appointed Group Chief Executive on 5 March 2020. Formerly interim CEO since 10 August 2019, and prior to that CFO.	Senior Independent Director since February 2013. Joined Dialight as Non-Executive Director on 10 January 2013.	Joined Dialight on 26 April 2016 as a Non-Executive Director and Chair of the Audit Committee. David also has responsibility as the Group's nominated ELNED, introduced by the Board to strengthen the representation of employees' views and issues at a Board level independently from the Executive management.
Committee membership	Nominations (Chair)	n/a	Audit, Nominations	Audit (Chair), Nominations, Remuneration
Background and career	David Blood is co-founder and Senior Partner of Generation Investment Management. Since its founding in 2004, Generation has played an integral role in the development of sustainable investing and in demonstrating the long-term commercial and societal benefits of this approach. Previously, David spent 18 years at Goldman Sachs including serving as CEO of Goldman Sachs Asset Management. David received a B.A. from Hamilton College and an M.B.A. from the Harvard Graduate School of Business.	From 2009 until September 2014, Fariyal was Chief Financial Officer at Blue Ocean Group, an independent privately-owned £4bn revenue fuel trading and distribution business. She has over ten years' experience in senior financial positions, including roles at NYSE and Nasdaq-listed companies. Fariyal joined Dialight as Group Finance Director on 8 September 2014.	Stephen is currently Group Chief Executive of The Vitec Group plc and has previous Board experience as a Non-Executive Director of Umeco plc. Prior to joining Vitec, Stephen was Divisional Managing Director of Weir Oil and Gas, part of Weir Group plc, and has held senior roles at Danaher Corporation, Black & Decker, Unipart Group, Hepworth plc and Technicolor Group.	David was Chief Financial Officer at Invensys plc from 2011 until his retirement in 2014, having held senior roles across the business since 2002. Prior to joining Invensys, he was a Senior Partner in Ernst & Young LLP, specialising in long-term industrial contracting businesses. He is also a former member of the Auditing Practices Board.
Current external appointments	David is co-chair of the World Resources Institute and on the Board of Social Finance UK and On the Edge Conservation, as well as being a Life Trustee of Hamilton College.	None.	Group Chief Executive of The Vitec Group plc.	David is a Non-Executive Director and Audit Committee Chair at Victrex plc.

			
Gaëlle Hotellier Non-Executive Director	Karen Oliver Non-Executive Director	Gotthard Haug Non-Executive Director	Wai Kuen Chiang Chief Finance Officer
Yes	Yes	Yes	No - Executive Director
Joined Dialight on 3 October 2016 and was appointed as Chair of the Remuneration Committee on 1 June 2018.	Joined Dialight on 1 April 2020 and was appointed to the Remuneration and Nominations Committees on 30 July 2020.	Joined Dialight on 1 April 2020 and was appointed to the Nominations Committee on 30 July 2020.	Appointed Executive Director and Chief Finance Officer on 1 October 2020.
Audit, Nominations, Remuneration (Chair)	Nominations, Remuneration	Nominations	n/a
Gaëlle has worked for the Siemens group since 2002, during which time she has held various senior management roles. Between 2013 and 2015, Gaëlle was an Executive Board member of the EU's Fuel Cell Hydrogen Joint Undertaking, a public-private partnership with the European Commission. She is also a former Chairwoman of the Supervisory Board of Siemens Industriegetriebe GmbH in Penig and Member of the Advisory Board of Berthold Vollers GmbH.	Karen was formerly Managing Director of Johnson Matthey plc's Chemicals business; Head of Strategy and Business Planning at Foster Wheeler AG; and Head of Global Business Development, Tonnage at the Linde Group. She was also a Non-Executive Director of African Oxygen Ltd, which is listed on the Johannesburg Stock Exchange and the Namibian Stock Exchange. Karen holds a BSc in Chemical Engineering from the University of Cape Town.	Among his many senior roles in the manufacturing industry, Gotthard was previously CEO and CFO of Teleplan International and a Non-Executive Director of Psion. He was also the Chairman of Ultratec Ltd. Gotthard holds an MBA and a BA from Ludwig-Maximilians Universität München.	Wai Kuen brings nearly 30 years of experience in large listed multinationals in the industrial manufacturing and electronic sectors, most recently as Group Financial Controller of Coats Group plc. Over her nine years in Coats, she held a number of senior global and regional finance roles before moving onto a corporate role in 2017. Prior to Coats, Wai Kuen's career included working for the Goodrich Corporation, Canon Inc, Technicolor and Gardner Denver. Wai Kuen has a Bachelor of Accountancy from the National University of Singapore and qualified as a chartered accountant with Ernst & Young.
Following the spin-off of the Siemens Power and Gas Division, Gaëlle now works for Siemens Energy AG. Since 2019, she has been leading the Global Operations of the Generation Services entity.	Karen currently combines independent consulting with her role as Chair of the Arvos Group, which is a world leading manufacturer of industrial equipment and headquartered in Germany.	Gotthard is the Executive Chair of Ivy Technology, a leading global electronics repair and service provider to many of the world's largest tech, med-tech and telecommunications companies. He is also a Partner of "taskforce - Management on Demand GmbH", an Advisory Board Member of iGlobe Partners and an Independent Consultant and Interim Executive of Minerva Management Partners.	None.

Composition of the Board
The Board currently comprises eight Directors, who bring a wide variety of skills and experience to the Boardroom. With two Executive Directors and six Non-Executive Directors (including the Chair) of whom five have been judged by the Board under Provision 10 of the 2018 Code to be independent, there is a strong independent element to Dialight's Board which encourages constructive challenge and ensures that the balance of power rests with the Non-Executive members of the Board. The Board considers the Board composition to be appropriate in terms of size, diversity and the balance of skills and experience.

The biographies of each Director, including an overview of their skills and experience, are set out on pages 52 and 53. The Board has established a formal process for the search, appointment and induction of new Directors, details of which are set out in the Nominations Committee report on page 62.

Independence
The Board has reviewed the independence of the Chair and each Non-Executive Director and considers all of the Non-Executive Directors to be independent of management and free from business or other relationships that could interfere with the exercise of independent judgement. The Company meets the requirement under Provision 11 of the 2018 Code that at least half of the Board has been determined by the Board to be independent. The Board believes that any shares in the Company held personally by a member of the Board serves to align their interests with those of the shareholders.

The Chair, David Blood, is not, on a strict interpretation of the examples that could potentially impair independence set out in Provision 10 of the 2018 Code, considered to be independent as a consequence of his connection with Generation Management LLP (currently the Company's largest shareholder). This was the position on the date on which he was appointed Chair of the Board on 5 August 2019.

However, the Board has always considered, and continues to consider, David to be independent in character and judgement in performing his duties as a Director and as Chair, and is fully confident that David would absent himself from any Board discussions at which any conflict might arise (and would ensure that he did so). In the event that David absented himself from any specific discussions, the Senior Independent Director (SID) would ordinarily assume the role of chair of the relevant meeting.

Notwithstanding the non-independent status of David on appointment (as deemed under Provisions 9 and 10 of the 2018 Code), the Board, when considering his potential appointment as Chair, came to the view that on balance the very considerable corporate experience and specific knowledge of the Group that David brought to the role outweighed any technical non-compliance and was in the best interests of the Group and of its shareholders generally.

The Board remains particularly conscious of its duties under Provision 7 of the 2018 Code to actively manage general potential conflicts of interest arising from significant shareholdings and of the specific matters relating to David's role as Chair, and accordingly, David's letter of appointment contains additional clauses covering confidentiality, insider dealings and conflicts of interest and the Board considers potential conflicts arising at each and every meeting.

No external search consultancy was used in the search process for the Chair (at the time of David's appointment) as the Board considered that David was best placed to step into the role, and that he alone provided the continuity and knowledge of the business and its senior management team that the Group required as it executed its strategy for revitalising the Group.

Role of the Board and Principal Committees
The principal role of the Board is to provide effective leadership, within a framework of controls, that promotes the interests of the Company sustainably over the long term – thereby generating value for its shareholders as well as benefiting its other stakeholders.

The Board sets the Group's purpose, values and strategy, and has ultimate responsibility for its management, direction and performance. The Company's Articles of Association set out the Board's powers.

The Board has adopted a formal schedule of matters reserved solely for its decision (a summary of which is set out on page 56) and certain decision-making and monitoring activities have been delegated to Board Committees or management, through formal terms of reference for Board Committees and a clearly defined Group delegated authority matrix.

The Board has established three principal Committees: the Nominations Committee; the Audit Committee; and the Remuneration Committee; and a further, technical, Disclosure Committee.

Their responsibilities include reviewing and monitoring key functional areas (as set out in their relevant terms of reference) on behalf of the Board and making recommendations for approval by the Board.

Each Committee operates under written terms of reference which are approved by the Board and made available at www.dialight.com. The Chair of each Committee reports to the Board on its activities after each meeting and minutes are circulated to all Board members once they have been approved by the Committee. The Board also appoints ad hoc Sub-Committees from time to time as required.

The Group also has three formalised non Board Committees:

— the Executive Committee (chaired by the CEO and composed of the two Executive Directors and key functional heads from across the Group) – with responsibility for supporting the CEO in the day-to-day management of the Group;
— the Risk Committee (chaired by the Group General Counsel and composed of the two Executive Directors plus the other members of the Executive Committee – with responsibility for periodic reviews of Group strategic reviews, the maintenance of the Group's risk register and reporting to the Audit Committee on risk matters; and
— the Board of the Dialight Foundation (chaired by the CEO and composed of representatives from across all the Group's locations and workforces) – with responsibility for the Group's charitable fund raising, donations and other voluntary and charitable initiatives for employees and within the communities where the Group has a presence.

Further information on the activities and composition of each Board Committee is set out in the separate Committee reports.

How the Board operates
Except for those matters reserved to the Board (see page 56) the Board operates by delegating much of its detailed review work to Sub-Committees and other Committees incorporating a wider spectrum of senior management and the Dialight workforce. Listed on the opposite page are the Principal Committees of the Board and within the Group.

Nominations Committee
— reviews the structure, size and composition of the Board;
— oversees the Board's succession planning; and
— keeps under review the leadership needs of, and succession planning for, the Company.

Audit Committee
— monitors the integrity of financial statements, formal announcements relating to the Company's financial performance and the Company's narrative reporting;
— oversees risk management and internal controls;
— considers the requirement for an internal audit function; and
— reviews external auditor independence and leads the audit tender process.

Remuneration Committee
— sets and keeps under review the framework and policy on Executive Director and senior management remuneration (including pension arrangements);
— evaluates the advice of external remuneration consultants and when receiving views from Executive Directors and senior management; and
— approves the design and targets framework for share incentive plans.

Disclosure Committee
— manages compliance with public reporting and announcement requirements.

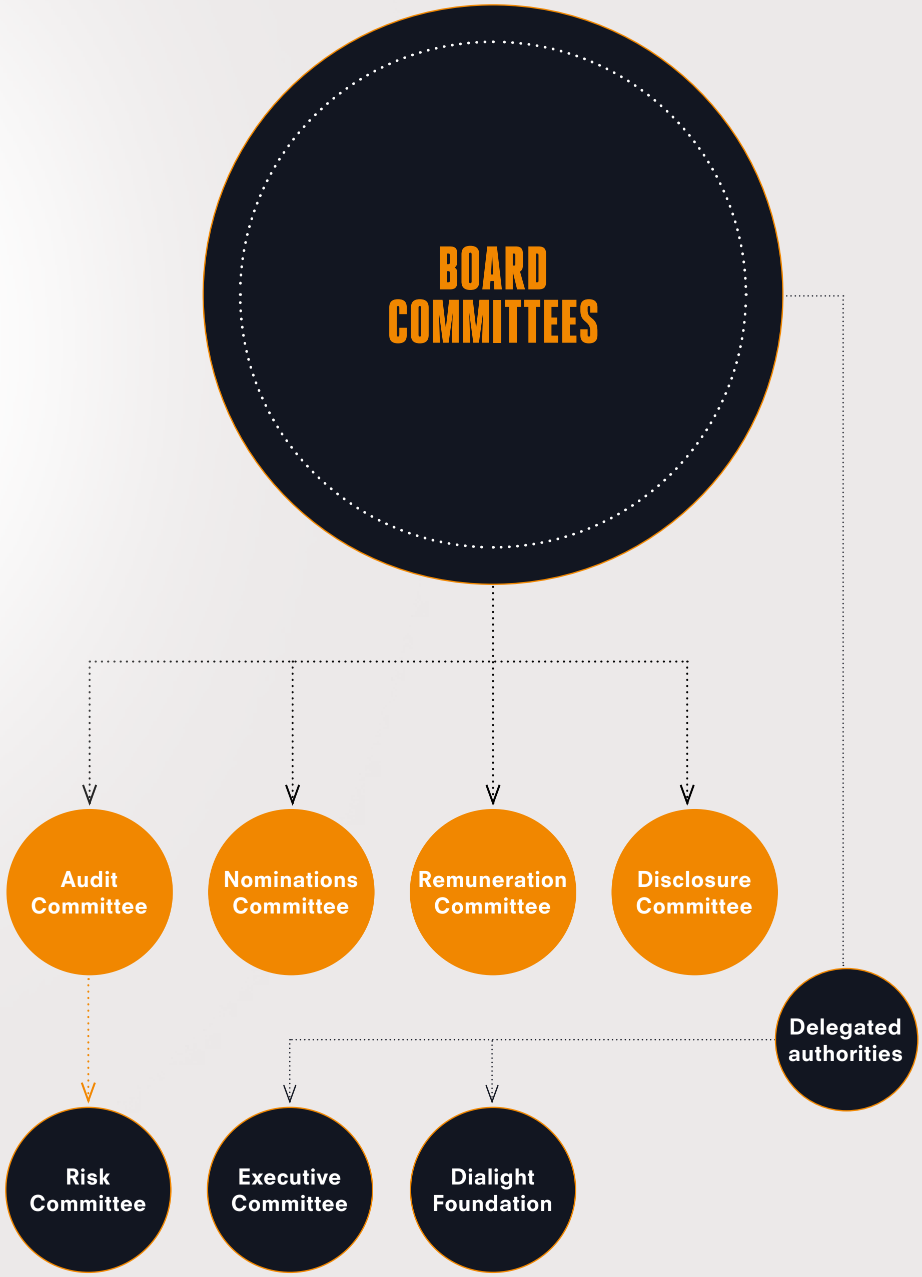
Executive Committee
— management Committee (with senior functional heads from across the Group), chaired by the CEO, which meets weekly and reviews operational matters and business performance;
— reinforces the operational and governance structures in place across the Group; and
— acts as a forum for management decisions.

Risk Committee
— management Committee chaired by the Group General Counsel;
— manages the periodic review of Group risks: and
— maintains the Group risk register.

Dialight Foundation Board
— chaired by the CEO, with the remainder of the Board comprised of employee representatives from across the Group;
— dispenses central funds, and engages in fund raising, for charitable purposes in the communities where we are based; and
— maintains an employee hardship fund.

OUR GOVERNANCE STRUCTURE

Dialight benefits from a robust corporate governance framework, structured to maintain good oversight and control over: financial and management reporting; compliance and regulatory matters; risk management; and the approval of significant decisions (such as material agreements). The diagram below sets out the top-level corporate governance framework of the Board and its interaction with its Committees.



BOARD MEETING ATTENDANCE

In 2020, the Board had 13 formal meetings of which, due to COVID-19 restrictions on movement, a single meeting was held face to face, and all other meetings were conducted by video conference. There was a similar impact on meetings of the Committees, with each of the Committees meeting face to face just once in the year, and the balance of the meetings being by video conference.

Attendance by Directors at Board and Committee meetings during the year was as follows:

	Board	Audit	Remuneration	Nominations
David Blood	13/13	n/a	n/a	4/4
Fariyal Khanbabi	13/13	n/a	n/a	n/a
Wai Kuen Chiang[1]	4/4	n/a	n/a	n/a
Stephen Bird	13/13	4/4	n/a	4/4
David Thomas	12/13	4/4	7/7	4/4
Gaëlle Hotellier	13/13	4/4	7/7	4/4
Steve Good[2]	3/3	n/a	4/4	2/2
Karen Oliver[3]	10/10	n/a	3/3	1/1
Gotthard Haug[4]	10/10	n/a	n/a	1/1

1 Wai Kuen Chiang was appointed as an Executive Director and Chief Finance Officer on 1 October 2020.

2 Steve Good stepped down as Non-Executive Director (and member of the Remuneration and the Nominations Committees) on 31 March 2020.

3 Karen Oliver was appointed as Non-Executive Director on 1 April 2020. She was appointed as a member of the Nominations Committee and the Remuneration Committee on 30 July 2020.

4 Gotthard Haug was appointed as Non-Executive Director on 1 April 2020. He was appointed as a member of the Nominations Committee on 30 July 2020.

BOARD MATTERS

Standing Board agenda items

At each meeting the Board considers the following standing items, which include:

— Review and approval of the previous minutes
— Status update on any matters outstanding from previous meetings
— Updates from each Board Committee on the activities since the last Board meeting
— Health and safety review
— Report from the Group Chief Executive
— Report from the Chief Finance Officer
— Report from the Group General Counsel/Company Secretary
— Investor relations report

Matters reserved for the Board

— Setting the Group's long-term objectives and commercial strategy
— Approving annual operating and capital expenditure budgets
— Ceasing all or a material part of the Group's business
— Significantly extending the Group's activities into new business or geographic areas
— Changing the share capital or corporate structure of the Company
— Changing the Group's management and control structure
— Approving half-year and full-year results and reports
— Approving dividend policy and the declaration of dividends
— Approving significant changes to accounting policies
— Approving key policies
— Approving risk management procedures and policies, including anti-bribery and corruption
— Approving major investments, disposals, capital projects or contracts (including bank borrowings and debt facilities)
— Approving guarantees and material indemnities
— Approving resolutions to be put to the AGM and documents or circulars to be sent to shareholders
— Approving changes to the Board structure, size or its composition (following the recommendation of the Nominations Committee)

Ensuring succession planning

— Succession plans have been introduced for all senior managers
— Board succession plans have also been put in place
— Ensuring the Board interacts with senior managers as much as possible to judge the depth of the management team

DIVISION OF RESPONSIBILITIES OF THE BOARD

As outlined above, the responsibilities of the Board are divided between key individuals on the basis of a formal allocation of responsibilities and through the terms of reference of the relevant Committees. A summary of the business carried out by the Board during the year, the standing Board agenda items and a summary of the matters that are formally reserved for the Board (as set out in writing) are given on pages 54 and 56.

Chair	
Governance	— Promoting high standards of corporate governance; — Leading, chairing and managing the Board; — Ensuring all Board Committees are properly structured and operate with appropriate terms of reference; — Regularly considering the composition and succession planning of the Board and its Committees; — Ensuring that the Board's and its Committees' performance is evaluated on a regular basis; — Ensuring adequate time is available for all agenda items and that the Board receives accurate, clear and timely information; and — Ensuring that there is effective communication with major shareholders.
Strategy	— Leading the Board in developing the strategy of the business and setting its objectives; — Promoting open and constructive debate in Board meetings; — Ensuring effective implementation of Board decisions with the support of the Chief Executive Officer; — Ensuring that the Board manages risk effectively; and — Consulting, where appropriate, with the Senior Independent Director on Board matters.
People	— Chairing the Nominations Committee; — Identifying and meeting the induction and development needs of the Board and its Committees; — Developing a strong working relationship with the Chief Executive Officer; — Ensuring a strong working relationship between Executive and Non-Executive Directors; — Setting clear expectations concerning the Company's culture, values and behaviours that will support its long-term sustainable success; and — Ensuring effective relationships are maintained with all key stakeholders in the business.
Chief Executive Officer	— With the Chair, providing coherent leadership and management of the Company; — Developing objectives, strategy and performance standards to be agreed by the Board; — Providing input to the Board's agenda; — Ensuring the health and safety, and general wellness of the Group's workforce. — Providing effective leadership of the Executive Committee to achieve the agreed strategies and objectives; — Securing an Executive Committee of the right calibre, with specific responsibility for its composition, and ensuring that its succession plan is reviewed annually with the Chair and the Non-Executive Directors; — Monitoring, reviewing and managing emerging and principal risks and strategies with the Board; — Ensuring that the assets of the Group are adequately safeguarded and maintained; — Building and maintaining the Company's communications and standing with shareholders, financial institutions and the public, and effectively communicating the Dialight investment proposition to all stakeholders; and — Ensuring the Board is aware of the view of employees on issues of relevance to Dialight.
Executive Directors	— Implementing and delivering the strategy and operational decisions agreed by the Board; — Making operational and financial decisions required in the day-to-day management of the Company; — Providing executive leadership to senior management across the business; — Championing the Group's values and reinforcing the governance and control procedures; and — Promoting talent management, encouraging diversity and inclusion.
Senior Independent Director	— Acting as a sounding Board for the Chair; — Serving as a trusted intermediary for the other Directors; and — Providing an alternative channel for shareholders to raise concerns, independent of Executive management and the Chair.
Independent Non-Executive Directors	— Contributing independent thinking and judgement, and providing external experience and knowledge, to the Board agenda; — Scrutinising the performance of management in delivering the Company's strategy and objectives; — Providing constructive challenge to the Executive Directors; and — Monitoring the reporting of performance and ensuring that the Company is operating within the governance and risk framework approved by the Board.
Employee Engagement NED (EENED)	— Direct engagement with workforce through site visits, one-on-one discussions with managers and other employees selected by the EENED, and larger engagements with selected Groups of employees from different Company locations without management present.
Company Secretary	— Acting as a sounding Board for the Chair and other Directors; — Ensuring clear and timely information flow to the Board and its Committees; and — Providing advice and support to the Board on matters of corporate governance and risk.

BOARD ACTIVITIES DURING 2020

Strategic reviews	— Strategy, investor relations and communications — Strategic reviews — Review of organisational structure — Strategic growth opportunities — Communications strategy — Review of regional sales strategy
Ensuring Group objectives are aligned with shareholders	— Review of feedback from shareholders and engagement with shareholders — Review of Group strategy annually — Review of capital allocation decisions — Review of the Board evaluation
Ensuring health and safety of employees	— Reviewing accident frequency rates — Reviewing any reports of near misses — COVID-19 reporting and responses — General employee wellness in light of the pandemic — Ensuring safe and comfortable working environments
Financial and operational	— Budget for 2021 — Half-year results, full-year results and trading updates — Review of Group cash position and forecasting — Review of changing global taxation landscape — Monthly performance reporting and review
Ensuring robustness and integrity of financial statements	— Review areas of judgement within the financial statements — Review external auditor independence — Review investor relations materials
People, talent and culture	— Succession planning and talent development for all senior roles — Review of implementing engagement surveys — Review of strengthening operations and sales teams — EENED reports direct to Board on people issues
Governance, compliance and ethics	— Review and discussion of the external Board and Committee evaluations — Review of Chairman and Non-Executive Director fees — AGM business — Code of conduct approval — Review of the Annual Report — Review of compliance reports (including progress reports on GDPR and preparations for CCPA compliance) — Review of cyber security — Review of pension policies — Modern Slavery Act Statement approval
Risk management and assurance	— Ensuring adequacy of risk management framework — Overseeing the findings of the Risk Committee — Reviewing the output of internal audit — Reviewing any whistleblowing instances

HOW THE BOARD SUPPORTED STRATEGY

This report aims to provide shareholders and other stakeholders with an understanding of how our Group is managed and the governance and control framework within which we operate. Dialight benefits from having a lean and agile management structure – with governance and controls integral to the organisation's operating culture and with good visibility of, and assurance over, the effectiveness of those governance and controls.

The Board is focused on getting the right balance between robustness and pragmatism in its oversight of governance, controls and risk-management as the best means of delivering the Group's strategic aims of growth, customer relevance and differentiation.

Strategy	Implementation	Examples of what we have done
INVEST IN OUR CORE MARKETS Read more on pages 10-20	Sustainable growth is at the heart of Board oversight and forms the basis for both routine monthly reporting and function-specific reporting to the Board. The Board ensures that the right balance is achieved between short-term operational and financial performance and investment in the future products, technology, markets and product types that will drive long-term sustainable growth.	— People: strongly promoting health, safety and welfare priorities for our workforce (upon whom we rely for future growth) — Operations: essential business status for manufacturing operations and continuity of manufacturing during COVID-19 — Finance: reduction in operational expenditure — Finance: focus on working capital management and strengthening balance sheet — Sales: sales focus and recapturing MRO markets — Markets: strong performance in S&C division
CONTINUED INNOVATION Read more on pages 10-20	The Board reviews and approves the new product development road-map and the technology road-map - elements of the overarching product strategy - annually and through ad hoc reviews. It also periodically reviews the route-to-market strategy. It then monitors the tactical implementation of these strategies throughout the financial year through routine monthly reporting and function-specific briefings.	— Product: momentum on new product development and launches maintained during a difficult year — People: rollout during COVID-19 lockdown periods of extensive programme of technology and product-related briefings to non-technical staff - including Board Directors, to enable informed interrogation of product and technology development priorities — Product: strategic focus on product differentiation through performance and extended life-cycle — Product: maintenance of R&D innovation programmes during challenging year
EXPAND OUR MARKET REACH Read more on pages 10-20	The Board reviews and approves the long-term elements of the overarching product strategy annually and through ad hoc reviews. It then monitors the tactical implementation of that strategy throughout the financial year through function-specific briefings and ad hoc consideration of markets, commercial structures and ESG matters.	— ESG: launch of Environmental Product Declarations programme for individual product lines — ESG: launch of carbon neutrality systems and strategy — Sales: considerable progress on restructuring the route-to-market and sales configuration — Sales: sales stability and recapturing MRO market share

SHAREHOLDERS COMMUNICATIONS

Shareholder engagement
The Board is committed to maintaining good communications with investors. Although overall responsibility for ensuring the effectiveness of communication with shareholders lies with the Chair, the Board's primary contact with shareholders on a day-to-day basis is through the Executive Directors.

The Chair is generally available to shareholders and meets with institutional and other large investors; and the Senior Independent Director is also available to shareholders as required. The Company regularly meets with its large investors and institutional shareholders who, along with sell-side research analysts, are invited to presentations by the Company immediately after the announcement of the Company's interim and full year results. The contents of these presentations and conference calls are available on the Group's website www.ir.dialight.com/reports-presentations-and-results/reports-and-presentations and shareholders can register on the website to receive email alerts.

The Annual General Meeting
Due to the uncertainty surrounding control measures for COVID-19, their impact on the conduct of an AGM, and the need for advance notice in writing of precise AGM arrangements and process for shareholders, the 2021 AGM will follow the same format as used for the 2020 AGM. The Board recognise that this is not the optimum way in which to conduct the AGM and hopes that the format can revert to a more open format in time for the 2022 meeting.

Ordinarily the Company's AGM presents an additional opportunity to communicate with private and institutional shareholders and is attended by the Board and is open to all Dialight shareholders. The Chief Executive Officer would give a presentation on operational matters before the Chair deals with the formal business of the meeting. Each substantially separate issue is proposed as a separate resolution and voted on by way of a poll.

Exceptionally this will not be possible in 2021 and the meeting will be closed in line with current UK Government advice. Shareholders are, however, encouraged to vote in advance by proxy and to submit questions in advance according to the process set out in the notice of the AGM. A dial-in facility will be provided and shareholders will be able to remotely follow the conduct of the meeting and to hear the Chair or the CEO (as appropriate) addressing any questions submitted in advance.

Details of the resolutions to be proposed, and shareholders options for voting, at the forthcoming AGM are to be found in the notice of the AGM (which will be despatched in April 2021). The AGM will take place on 19 May 2021.

DIRECTORS AND PERFORMANCE

Time allocation
The Board benefits from the wide variety of skills, experience and knowledge that each of the Directors bring to their roles. However, being available and committing sufficient time to the Company is essential. Therefore, the number of external directorships that a Non-Executive Director holds is an important consideration when recruiting and when performing the annual evaluation of Non-Executive Director effectiveness.

Executive Directors are permitted to accept one external appointment, subject to the prior approval of the Chair. Approval will only be given where the appointment does not create a conflict of interest with the Group's activities and where the role is considered to be beneficial to the development of the individual (which will, in turn, benefit the Company).

In addition to the scheduled Board meetings, Non-Executive Directors are expected to attend the AGM, the annual strategy meeting and certain other Company events and site visits throughout the year. A time commitment of at least 20 days per annum is the anticipated requirement for each Non-Executive Director and this was considerably exceeded in 2021. Confirmation is obtained on appointment from each Non-Executive Director that they can allocate sufficient time to the role.

The Chair and Non-Executive Directors (NED) also meet twice a year without Executive Directors present to ensure there is an opportunity to discuss potentially sensitive matters. The Senior Independent Director meets with the Non-Executive Directors, without the Chair present, at least once per year, to evaluate the Chair's performance.

Re-election of Directors
In compliance with the 2018 Code, all of the current Directors will stand for re-election at the forthcoming AGM. In addition, Wai Kuen Chiang will stand for first election at the AGM. Following the annual evaluation of the Board and its Committees, and the recruitment process for Wai Kuen Chiang, the Board has determined that all Directors standing for election or re-election at the AGM continue to be effective, hold recent and relevant experience and continue to demonstrate commitment to the role. Biographical details of each Director standing for election or re-election are set out in the notice of AGM.

Liability insurance
Each Director is covered by appropriate Directors' and officers' liability insurance, at the Company's expense. In addition, the Directors are entitled to be indemnified by the Company to the extent permitted by law and the Company's Articles of Association in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities.

Induction of new Directors
Newly appointed Non-Executive Directors follow a tailored induction programme, which generally includes dedicated time with Group Executives and visits to regional offices. There are tailored induction materials which provide a comprehensive overview of: the Group and its legal and organisational structure; the governance framework; the role of the Non-Executive Director; key business contacts at the Company level; and details of the Board's external advisers.

In addition to the latest Annual Report and Company announcements, further materials such as recent broker coverage and the last Board evaluation are also provided. In 2021, it was not possible for the three new Directors to visit Group locations due to travel restrictions relating to the COVID-19 pandemic. They were, however, provided with an extensive programme of online tutorials on the Group, its operational footprint and tempo, and the engineering function (including core technologies and new product development).

Performance evaluation

The Board undertakes a formal evaluation of its performance, and that of each Director, on an annual basis. The principal Committees of the Board undertake an annual evaluation of their effectiveness, in accordance with their terms of reference.

The Executive members of the Board have frequent contact with all Executives and make regular visits to Group sites. All new Non-Executive members of the Board will carry out Company visits as part of their induction (subject to the above comment in respect of 2021) and routinely thereafter.

The Board members also engage with our current and future business leaders working within the Group. This regular interaction between the Board and the businesses provides a vital channel of communication and a forum for open dialogue, which encourages the sharing of knowledge and experience.

Board evaluation

The Board evaluation is performed annually and meets the requirements under Provision 21 of the 2018 Code that the review of Board performance is externally moderated every three years. The last externally facilitated evaluation took place in autumn 2019.

No external facilitation was used in 2020 as a result of: the extensive review conducted in 2019; the recency of appointment of three Board Directors and the lack of time for them to build knowledge of the Group and its functioning; and the constraints placed by COVID-19 on the ability of new Board members to travel to Group locations. Accordingly, it was felt that external evaluation would not be cost-effective in 2020, but it is probable that external evaluation will be used again in 2021.

The last (internal) Board review was conducted in autumn 2020 and, based on the feedback received, the Board determined that the Board and its Committees continue to operate effectively.

INDUCTION PROCESS

SUCCESSION PLANNING

Responsibility of the Nominations Committee to identify recruitment criteria

RECRUITMENT/SELECTION

Independent advice to Committee on search criteria

INTERVIEW

Robust interview process

APPOINTMENT

On-boarding and announcement

INDUCTION

See page 60 for description of induction process

BOARD, COMMITTEE AND DIRECTORS' PERFORMANCE EVALUATION CYCLE

QUESTIONNAIRE

A comprehensive questionnaire is sent to all Directors

EVALUATION

The external evaluator or the Company Secretary compiles the results

ACTION PLAN

The collated results and feedback from 1-on-1s are discussed by the Board and an action plan is formulated

FEEDBACK

Individual feedback plans are provided to Directors by Chair/SID

Nominations Committee report

David Blood
Chair of the Nominations Committee
29 March 2021

Dear Shareholder

Both the Nominations Committee and the Board as a whole recognise their crucial roles in nurturing talent at management and executive levels. 2019 was a period of considerable change at Board level and I am pleased, therefore, to report that the Nominations Committee's work in 2020 was very much concerned with the stabilisation and strengthening of the Board.

In addition to Fariyal being confirmed as the CEO, we welcomed two Non-Executive Directors to the Board in April 2020 with the arrival of Karen Oliver and Gotthard Haug – both of whom have quickly established themselves as highly valuable and respected Board members. Finally, in October 2020 we welcomed Wai Kuen Chiang to the Board in her capacity as CFO. The search processes for each of these three positions were externally facilitated (Egon Zehnder and Heidrick & Struggles[1]).

Role of the Nominations Committee
The Board has delegated responsibility to the Nominations Committee under written terms of reference, which are available on the Group's website. The Nominations Committee's primary responsibilities are to:

- review the size, balance and composition (evaluating the skills, diversity, knowledge and experience) of the Board and its Committees, ensuring that they remain appropriate and making recommendations to the Board with regard to any changes;
- lead the process for Board appointments;
- oversee the succession planning requirements for the Board and other senior Executives, including the identification and assessment of potential candidates, and making recommendations to the Board for its approval; and
- keep under review the leadership needs of the Group in relation to both its Executive Directors and other senior Executives, including any recommendations made by the Chief Executive Officer for changes to the Executive membership of the Board.

The Nominations Committee ensures all Board appointments are made in line with the Group's employment policies and practices, which aim to ensure that an individual's skills, experience and talents are the sole determinants in recruitment and career development, by eschewing discriminatory practices and providing equal opportunities.

Composition of the Committee
The Committee currently comprises myself (who was appointed chair of the Committee as of 5 August 2019) and five Non-Executive Directors. I would not chair a meeting of the Committee which was dealing with the appointment of my successor.

The members of the Nominations Committee during the year were:

Committee member	Member from
David Blood	23 July 2015
Stephen Bird	10 January 2013
David Thomas	26 April 2016
Gaëlle Hotellier	3 October 2016
Steve Good	1 June 2018 to 31 March 2020
Gotthard Haug	30 July 2020
Karen Oliver	30 July 2020

Activities during 2020
The Nominations Committee's role has settled over the last year, with the Nominations Committee meeting on four occasions. Two scheduled meetings were held to consider the Nominations Committee's ongoing responsibilities of Board and senior management succession planning, and the appointment and re-appointment of Directors based on the Board evaluation.

The additional meetings were held in relation to the Chief Finance Officer recruitment process and appointments to the Board Committees. During the year, the Nominations Committee has also reviewed talent and development at senior manager level and conducted annual self-evaluation and review of Director independence in accordance with the terms of reference.

Board appointments and process
The role of the Nominations Committee in facilitating Board changes during the year is summarised above.

Diversity
The Board recognises the benefits of greater cognitive diversity on the Board and in management positions throughout the Group. The Board is currently comprised of eight Directors, four of whom are women (50%). The spread of nationalities is: three British, one American, one German, one Singaporean, one South African and one French, with three members of the Board having accountancy backgrounds and two with listed plc CEO experience. The Board believes that gender is one, but not the only, indicator of the Board's cognitive diversity and diversity of experience, and is mindful of the need to maintain such diversity in any future Board appointments.

Further details on diversity are set out in the "Our People" section on pages 30 to 31.

Priorities for the coming year
The Committee's priority for 2021 will be to focus on succession planning and talent development at Executive and Board level.

On behalf of the Nominations Committee.

David Blood
Chair of the Nominations Committee

29 March 2021

1 There are no disclosable connections between either Heidrick & Struggles or Egon Zehnder and any Directors of the Company, or with the Group (other than in respect of the provision of search services).

The Board's responsibilities
The Board has overall responsibility to the shareholders for the Group's systems of internal control and risk management. The review of the effectiveness of these internal control and risk management systems is carried out with the assistance of the Audit Committee.

Whilst not providing absolute assurance against material misstatements or loss, the review process is designed to identify and manage any predictable risks that could adversely impact the achievement of the Group's objectives. The Group's risk management structure and process is detailed on pages 36 and 37.

As set out on page 53, there is a Risk Committee, at an Executive level, that periodically reviews strategic and tactical risks facing the Group It is comprised of members of the Executive Committee and is responsible for maintaining the Group's risk register which is then periodically reported to, and reviewed by, the Audit Committee and the Board.

In January and February 2021, and drawing on the lessons learned in 2020 from the COVID-19 pandemic, the Group risk register was thoroughly re-assessed from the "ground up" in a structured process. The Group's principal risks and uncertainties, extracted from the Group's risk register and summarising the key strategic risks and uncertainties facing the Group, are detailed on pages 38 to 40.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, and for determining the nature and extent of the significant risks which it is willing to take, on an informed basis, in achieving its strategic objectives. This process has been in place throughout the year under review (and up to the date of approval of the Annual Report and Accounts) and is regularly reviewed by the Board (advised by the Audit Committee).

This process is in accordance with the Financial Reporting Council's ("FRC") "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting". The Board has continued to improve and embed controls throughout the Group, and will continue to keep the process under review to ensure that the internal control and risk management framework remains fit for purpose.

Review of internal control effectiveness
The Board regularly reviews the effectiveness of the Group's risk management and internal control systems, including financial, operational, delegated authorities and compliance controls. This is principally achieved through reviewing reports prepared by management, to determine whether significant risks have been comprehensively identified, evaluated, managed and controlled.

RISK SUMMARY

1. FUNCTIONAL AND FRONT LINE CONTROLS

2. ASSURANCE ACTIVITIES

3. MONITORING AND OVERSIGHT CONTROLS

4. ETHICAL AND CULTURAL ENVIRONMENT

GOING CONCERN AND VIABILITY STATEMENT

In accordance with provisions of the UK Corporate Governance Code, and taking into account the Group's current position and its principal risks for a period longer than the 12 months required by the going concern statement, the Board has considered the Company's longer-term viability and set out its viability statement overleaf.

Going concern

The Directors have performed a robust going concern assessment including a detailed review of the base case financial forecast and given consideration to various downside scenarios alongside the principal risks faced by the Group.

In assessing the going concern assumptions, the Directors have prepared various scenarios in assessing the impact of COVID-19, the extent to which government enforced restrictions in the countries we operate in, the extent to which performance would recover subsequent to these restrictions being lifted, the associated forecast outturns alongside identified downside risks and mitigating actions.

In the base case scenario, consistent with current trading patterns, our factories which have been granted "essential business" status will remain in operation albeit with reduced capacity in line with local guidelines with a gradual recovery. In this scenario, the Directors consider that the Group will continue to operate within its available committed facilities with sufficient headroom and meet its financial covenant obligations.

In a severe but plausible downside scenario, the Directors have assumed a significant adverse development from a prolonged global pandemic with severe impact to our customers, suppliers and operations and the associated forecast outturns alongside identified downside risks, having considered the following:

1. Revenue recovery is delayed by one year, with 2021 achieving 0% growth and recovery in the beginning of 2022 at 8% of net revenue growth
2. Gross margin reduction ranging from 2.5% to 4.5% over the 3 years from the Board-approved strategic plan
3. COVID-related expense savings of £0.3m from 2020 do not occur
4. Targeted inventory unwind is not achieved in 2021 and reduction in the inventory by £2m – £3m in 2022 and 2023
5. Litigation by the former outsource manufacturing partner was settled at the maximum liability of their claim and the Dialight claim for damages in excess of £190m was unsuccessful

In all these scenarios, the Group assumes a series of mitigating actions can be put in place swiftly, including various temporary and permanent costs and cash reduction.

In the severe but plausible downside scenario, the Group continues to retain sufficient committed headroom on liquidity and is able to meet its financial covenant obligations within the going concern assessment period. It has also been assumed that no additional debt is raised during the assessment period. The Group maintains a strong balance sheet, with a net debt headroom of £18.3m and cash on hand of £5.3m. Consequently, the Directors are confident that the Group will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

VIABILITY STATEMENT

The Directors have assessed the Group's longer-term prospects, primarily with reference to the Board-approved three-year strategic plan.

This is driven by the Group's business model and strategy as detailed on pages 16 to 19, which are fundamental to understanding the future direction of the business, while factoring in the Group's principal risks detailed on pages 38 to 40.

The Board has assessed the viability of the Group over a three-year period, taking into account the Group's current position and the potential impact of the principal risks and uncertainties. Whilst the Board has no reason to believe that the Group will not be viable over a longer period, it has determined that three years is an appropriate period.
In drawing its conclusion, the Board has aligned the period of viability assessment with the Group's three-year strategic plan and therefore, increases reliability in the modelling and stress testing of the Group's viability.
In addition, the Board believes that this approach also provides an appropriate alignment with the annual awards under the share-based incentive plan and the review of our external banking facilities.

In making their assessment, the Board carried out a comprehensive exercise of financial modelling and stress-tested the model with various scenarios based on the principal risks identified in the Group's annual risk assessment process. The scenarios modelled used the same assumptions as for the going concern statement. These scenarios included a delay in the recovery of the impacted businesses from the effects of COVID-19, a prolonged pandemic with corresponding government enforced restrictions in our key markets and a combination of these scenarios in addition to the impacts from the Group's principal risks such as litigation. In each scenario, the effect on the Group's KPIs and borrowing covenants was considered, along with any mitigating factors.

In reviewing the Company's viability, the Board has identified the following factors which they believe support their assessment:

- continual strong market drivers for LED adoption due to the increasing focus in sustainability;
- the Group operates in diverse end markets, with no material individual customer concentration;
- positive customer and distributor feedback and invitations to bid on large projects;
- current order book, performance year to date and pipeline expectations;
- a "new normal" way of working with adapted selling strategies and increasing adoption of digital and analytical sales tools;
- new product development to close portfolio gaps and leveraging on technological advances;
- the Group's resilience in addressing the operational, materials and supply chain challenges and its continued ability to fulfil customer orders in full on requested delivery dates over the last 12 months;
- the Group has maintained a strong balance sheet, with significant improvement in inventory holding and cash despite the impact of COVID-19 during the year;
- the Group is expected to continue to generate cash during the assessment period;
- the Group's current £25m revolving credit facilities with HSBC which matures in February 2023 has an option for two consecutive one year extensions, with the approval of the bank;
- the Group's long-term, strong relationship with HSBC and its ability to secure approval for the extension of the committed facilities in 2023 and 2024, and to secure re-financing of the revolving credit facilities in 2025;
- there is a framework of accountability within a robust governance and control framework; and
- there is an ethical approach to business throughout the Group.

Based on this assessment, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 December 2023.

David Thomas
Chair of the Audit Committee
29 March 2021

Committee members	Appointed since
David Thomas (Chair)	2016
Stephen Bird	2013
Gaëlle Hotellier	2016

KEY RESPONSIBILITIES

— Oversee the external financial reporting and associated announcements
— Review the application of financial reporting and governance standards including management's approach to key areas of financial judgement and the use of Alternative Performance Measures
— Assess the Company's going concern and viability statements, including the impact of COVID-19
— Provide advice to the Board on whether the Annual Report and Accounts, when taken as a whole, are fair, balanced and understandable and provides all the necessary information for shareholders to assess the Company's performance, business model and strategy
— Review the effectiveness of internal controls and risk management processes
— Oversee the appointment, independence, effectiveness and remuneration of the external auditor
— Review the progress of management's effort to unwind its inventory holdings, maintain adequate reserves and appropriate valuation
— Review the appropriateness of capitalised research and development costs against its economic value

Dear shareholders,

I am pleased to present the report of the Audit Committee for the year ended 31 December 2020. This report sets out how the Committee has discharged its duties in accordance with the UK Corporate Governance Code 2018 and its key activities and findings during the year.

Before presenting the Audit Committee's formal report I would make a few introductory remarks. The last year or so has been a challenging period which has placed a heavy demand on the finance function. Just after dealing with the disruption following the exit from Sanmina, the business faced a new set of challenges stemming from the COVID-19 pandemic. I would like to record our thanks to management and in particular the finance team who have worked long and hard, in difficult circumstances, to meet the extra demands placed on them.

In the current year the principal areas of focus of the Committee have been:

— Consideration of **the forecasts against available bank facilities** as part of the viability and going concern reviews, challenging where appropriate the extent of the possible downsides and the executability of the assumed mitigation actions.
— Review of the **valuation of inventory** and in particular the provisions for excess and obsolete items having regard to usage (both historical and forecast), the ageing of the balances as well as input from Engineering.
— The carrying value of **capitalised development** costs against a background of delayed sales expectations.

Going forward I would hope that trading conditions will allow greater time to be spent looking at further improvements to financial and management reporting and internal controls. We will also re-evaluate the requirements for internal audit.

Despite a challenging year, the Committee has continued to discuss and challenge the assumptions and judgements made by management in the preparation of the published financial information and provided input and oversight of the internal controls processes, risk management and managed the relationship with the Group's external auditor, KPMG LLP ("KPMG").

The Committee has an annual work plan linked to the Group's financial reporting cycle, which ensured that it has considered all matters delegated to it by the Board and ensured that the interests of shareholders are properly protected. Additionally, the Committee have considered the impact of COVID-19 on our business and you will find important detail on this in other sections of the Annual Report (see pages 8-13 and 42-45).

As Chair, I am committed to delivering strong leadership, ensuring that the Committee's agenda is kept under review and aware of relevant developments.

I will be available to answer any questions in relation to this Audit Committee report before the Annual General Meeting. Please email your queries to the contact details in the AGM notice.

David Thomas
Chair of the Audit Committee

29 March 2021

In the following sections, we explain how the Committee fulfils its responsibilities and highlight matters which have been addressed during the course of the year.

The Committee met four times during 2020 and has a programme of business reflecting the Committee's Terms of Reference.

Committee members	Attendance
David Thomas (Chair)	4/4
Stephen Bird	4/4
Gaëlle Hotellier	4/4

The following other attendees regularly attend the meetings:

— The Chairman, Executive and non-Executive Directors, and Group General Council.
— Representatives from the external auditors, KPMG.

Other members of the management team may also be asked to attend meetings for discussion on specific issues. The Committee has also met with the external auditors once this year without management being present.

The Chair meets with members of the Executive and management teams and KPMG outside of formal Committee meetings to discuss matters which fall within the Committee's Terms of Reference.

The qualifications of Committee members are outlined in the Directors' biographies on pages 50 and 51. The members of the Committee are all independent non-Executive Directors. Each member of the Committee has a detailed understanding of Dialight's strategy, business model and the Group's culture and core values.

As part of the annual cycle and/or in readiness for the application of the 2018 Code with effect from 1 January 2020 the Committee:

— Reviewed and updated the Committee's Terms of Reference.
— Reviewed and updated the Committee's annual programme of business.

The Committee's activities during the year

— Review of the external auditors and consideration of their re-appointment or tender.
— Negotiated and agreed KPMG's engagement letter and the statutory audit fee for the year ended 31 December 2020.
— Considered audit quality. Assessed the effectiveness of the 2019 external audit, and received a presentation from KPMG on the proposals for their programme to enhance audit quality.
— Reviewed KPMG's full audit report and proposed audit strategy and plan for the 2020 statutory audit, including the timetable, level of materiality applied by KPMG, the significant risks and areas of focus, the extent of the audit scope, the COVID-19 impact and assumptions, and each of the key audit matters.
— Confirmed the independence of the external auditors and recommended to the Board the re-appointment of KPMG as the external auditors at the upcoming AGM.
— Reviewed the basis of preparation of the financial statements as a going concern (prior to making a recommendation to the Board) as set out in the accounting policies.
— Reviewed and discussed reports on the financial statements, considered management's significant accounting judgements and the policies being applied.
— Considered the Group's judgements, policies and disclosures in respect of non-underlying items.
— Reviewed whether any non-audit services had been provided in the year.
— Assessed whether internal controls are functioning as intended to provide sufficient and objective assurance.
— Considered the effectiveness of specific internal controls during the COVID-19 period.
— Reviewed the effectiveness of the risk management systems to ensure compliance with the responsibilities of the Board for internal controls and risk management.
— Maintained oversight of the risk register.
— Reviewed and assessed the principal risks and their mitigating actions.
— Reviewed the Group's whistleblowing arrangements.

How did the Committee assess whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position on performance, business model and strategy?

The Committee made this assessment by:

— reviewing key messages proposed for the Annual Report and Accounts;
— reviewing copies of the Annual Report and Accounts at various stages during the drafting process to ensure the key messages were being followed and were aligned with the Company's position, performance and strategy being pursued and that the narrative sections of the Annual Report were consistent with the financial statements;
— ensuring that all key events and issues which had been reported to the Board in the Executive Board reports during the year had been appropriately referenced or reflected within the Annual Report; and
— reviewing how alternative performance measures were used in the Annual Report and Accounts, ensuring completeness and accuracy of definitions, consistency of use, relevance to users of the Annual Report and Accounts and balance with statutory metrics.

The Directors' statement on a fair, balanced and understandable Annual Report and Accounts is set out on **page 92**.

How did we assess auditor independence?

Written assurances were received from external auditors that all partners and staff involved with the audit are independent of any links to Dialight.

KPMG confirmed all partners and staff complied with their ethics and independence policies and procedures which are fully consistent with the FRC's Ethical Standard.

KPMG are required to disclose at the planning stage of the audit any significant relationships and matters that may reasonably be thought to have an impact on their objectivity and independence and that of the lead partner and audit team – no such matters were disclosed.

KPMG operate a policy requiring the change in lead audit partner every five years, with other senior audit staff rotating at regular intervals.

The Committee is responsible for developing policy on non-audit services and associated fees that are paid to KPMG. To further safeguard the independence and objectivity of the external auditors, non-audit services provided by the external auditors are considered and where appropriate authorised by the Committee in accordance with a non-audit services policy. This policy limits the amount and type of services undertaken by our auditors. Other than the fees incurred for work on the half year review, no further non-audit fees for the year ended 31 December 2020 were incurred.

Taking into account our findings in relation to the effectiveness of the audit process and in relation to the independence of KPMG, the Committee is satisfied that KPMG continue to be independent and free from conflicting interests with the Group.

How did the Committee assess the effectiveness of the external audit?

The Committee actively considers the effectiveness of the external audit process on an ongoing basis by following the process outlined below.

— Committee discusses and agrees at the planning stage the draft list of specific risks to audit effectiveness and quality (specific audit quality risks).
— KPMG report against audit scope and subsequent meetings providing the Committee with an opportunity to monitor progress and raise questions.
— Committee assesses audit planning work in respect of specific audit quality risks.
— KPMG report on specific audit quality risks applicable to Dialight and how these have been addressed at the planning and final stages of the audit.
— All Committee members, key members of management, and those who regularly provide input into the Audit Committee provide feedback on how well KPMG performed the year-end audit.
— Feedback and conclusions are discussed, along with the conclusion regarding specific audit risks, with an overall conclusion on audit effectiveness reached. Any opportunities for improvement are brought to the attention of the external auditors.

In summary, the Committee concluded that the external audit process and services provided by KPMG were satisfactory and effective.

External auditor re-appointment

In 2020, we welcome Lynton Richmond as the lead audit partner. The Committee recommended to the Board that KPMG be proposed for re-appointment at the forthcoming AGM on 19 May 2021.

Under the Statutory Auditors and Third Country Auditors Regulations 2016, the Company is required to retender its external auditor by 31 December 2023.

Our current auditor, KPMG, is therefore eligible to continue as auditor until 31 December 2023. The Board has previously stated that it intended to complete an audit re-tender exercise during 2020; but the process was delayed by the COVID-19 pandemic. In light of the probable continuing impacts of the COVID-19 pandemic through 2021, the Committee has recommended that the audit re-tender process is delayed for a further year. Accordingly, a re-tender process will have to be carried out in 2022 with a view to appointing a new audit firm latest by 2023. The tender process will consider "Big Four" as well as non "Big Four" audit firms. There are no contractual obligations that restrict the Company's choice of external audit firm, but the restrictions on audit rotation set out in the 2016 Regulations preclude KPMG from being considered in the tender process.

Financial reporting

The primary role of the Committee in relation to financial reporting is to review with both management and the external auditors, and report to the Board the appropriateness of, the annual and half-year financial statements, considering amongst other matters:

— Clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements Areas in which significant judgements have been applied, including discussions on such matters undertaken with the external auditors.
— Areas in which significant judgements have been applied, including discussions with appropriate challenge on such matters undertaken with the external auditors.
— Whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
The statement incorporating the conclusion of this assessment is included on page 92.

In addition to the above, the Committee supports the Board in completing its assessment on the adoption of the going concern basis of preparing the financial statements. Furthermore, as part of the Committee's responsibility to provide advice to the Board on the long-term viability statement, the Committee performed a robust review of the process and underlying assessment of the Group's longer-term prospects made by management, including:

— the review period and its alignment with the Group's three-year strategic plan;
— the assessment of the prospects of the Group after consideration of the Group's principal risks, current financial position, available banking facility, and ability to generate cash in light of the uncertainties arising from COVID-19;
— the modelling of the financial impact of additional key scenarios which encompass the potential impact of crystallisation of one or more of the principal risks where COVID-19 has been added on as a principal material emerging risk; and
— ensuring transparent and enhanced disclosures, as best practice emerges, in the Annual Report as to why the viability period selected was appropriate, including what the key scenarios tested were and how the analysis was performed.

As a result of that review, the Committee was satisfied that the approach adopted was appropriate. The viability statement for the 2020 financial year was prepared on a consistent basis with that reported in previous years and is on page 63. The Committee also supported the Board in its consideration of the potential impact of COVID-19 along with the associated disclosures in this Annual Report.

Significant issues considered by the Committee in relation to the financial statements and how these were addressed

In the preparation and final approval of the financial statements, the Committee discussed with management the key sources of estimation and critical accounting judgements outlined in note 2. The significant areas of focus considered and assessed by the Committee, with appropriate challenge, in relation to the 2020 financial statements and how these have been addressed are set out below. In concluding that these represented the primary areas of judgement, or a high degree of estimation, the Audit Committee considered reports by management which referenced both quantitative and qualitative judgement factors across each significant account balance, assessing the impact on the user of the financial statements.

These are also areas of higher audit risk and, accordingly, KPMG reported to the Committee on, and the Audit Committee discussed and assessed, these judgements and estimates. During the meeting of the Committee which considered the draft of the Annual Report and Accounts, the matters raised by KPMG in their report were discussed with management, including how such analysis related to management's own assessment and the appropriateness of the form of disclosure provided by the Company in the Annual Report and Accounts.

In particular, the Committee considered the following recurring matters:

— **Valuation of inventory:** The Committee reviewed the nature of the costs absorbed into inventory, the level of production over which these costs were absorbed, the variances, including in respect of material usage and purchase price, between standard cost and actual cost and the reasons for movements in inventory value period to period. The basis for and level of provisioning, including for aged, and obsolete product which are judgemental or require a high degree of estimation, were presented to the Committee by management. The Committee and the Auditors discussed and assessed the information provided by management and concluded, after appropriate challenge, that the valuation of inventory and level of provisioning were reasonable.
— **Capitalised development cost expenditure:** data in relation to historic development cost capitalisation was reviewed and the appropriate application of the development costs capitalisation policy in line with accounting standards was considered. Assessed the adequacy of Dialight's disclosures including the judgement involved in assessing the carrying amount and degree of estimation involved in assessing the recoverable amount of the capitalised development costs.
— **Non-underlying items:** The Committee reviewed management's justification for reporting certain costs as non-underlying and ensured they are in accordance to the accounting policy with appropriate disclosures.
— **Ongoing litigation with Sanmina Corporation:** The Committee considered the disclosures of the ongoing legal proceedings with the its former outsource manufacturer, Sanmina Corporation, and the possible impact it has when assessing the going concern and long-term viability statement of the Group.

To aid the conduct of reviews, the Committee considers reports from the Chief Financial Officer and also reports from the external auditors on the outcomes of their half-year review and annual audit.

The main features of the Group's internal controls and risk management processes are summarised below:

The Audit Committee has responsibility for reviewing the risk management processes and its effectiveness.

The Board has overall responsibility for the Group's approach to risk management and for considering and reporting on the effectiveness of that approach. The structures within the Group that track and report on risk include:

— a formally constituted Risk Committee, made up of members of the Group Executive Committee and representing each function;
— allocation of identified risk to a specific risk owner with responsibility for monitoring and mitigating that risk;
— periodic meetings of the risk Committee;
— periodic, externally-facilitated, briefings on new and emerging risk themes across our sector and generally;
— the Board of Directors and Audit Committee oversight on risk register and risk review process;
— monthly operational reporting;
— the control structure for delegated authorities; and
— external and outsourced "internal" auditors.

The Committee receives updates and reports from the Risk Committee at every meeting. These reviews then feed into the information and assurance processes of the Audit Committee.

The Committee also reviews the Group's internal control systems and their effectiveness prior to reporting any significant matters to the Board. Internal controls are the responsibility of the Chief Financial Officer. Confirmation that the controls and processes are being adhered to throughout the business is the responsibility of the relevant managers, and is continually tested by the work of Group Finance.

Dialight traditionally outsource the internal audit function. During the year, there was however no internal audit activity carried out. This was largely due to the onset of an unexpected and unprecedented pandemic following right after a challenging period of dealing with the disruption following the exit from our previous outsourced manufacturer. We will re-evaluate the requirements and mechanism of setting up an internal audit function and activity in the coming year.

Gaëlle Hotellier
Chair of the Remuneration Committee
29 March 2021

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2020.

As in previous years, this report is split into three sections: this Annual Statement; the Remuneration Policy; and the Annual Report on Remuneration.

This year, we will again be asking our shareholders to approve a new Remuneration Policy at our Annual General Meeting. The background to, and the reasons for, the proposed changes are set out later in this Annual Statement.

You will see that we have also provided a one-page "Remuneration-at-a glance" guide to our remuneration policies on page 73 and a checklist on page 74 to aid the reader.

COVID-19 and its impact on remuneration outcomes for 2020

As outlined elsewhere in this Annual Report, 2020 has been a challenging year. In light of the challenges for the Group and all its employees, the Committee greatly welcomed the proactive steps by the CEO, Fariyal Khanbabi, and her Executive team in implementing a progressive reduction in base salary across the Group during the most challenging months of May to September 2020 (inclusive).

At an Executive Director and Executive Committee level, this resulted in a voluntary reduction of 20% of base salary for the five-month period. Below this level, pay reductions were implemented at 15% for senior managers, 10% for those below them and at 0% for the lower paid. At all levels, pay reductions were effected on a voluntary basis. There are no arrangements in place for any payment in lieu of the salary reduction being carried over into 2021.

The Committee recognises that this was a considerable voluntary sacrifice of salary across the Group and wishes to record its thanks to all the Group's employees impacted by salary sacrifice and furlough arrangements during 2020. Similarly, fees paid to the NEDs were voluntarily reduced by 20% for the period from May to September 2020 inclusive and the Chair waived his fee completely for the same period.

Following the end-of-year review of Dialight's performance against the EBIT and cash target elements of the Annual Performance Bonus Plan (APBP), the Remuneration Committee determined that no bonus should be paid to Executive Directors in respect of these elements.

The Committee has also agreed with Fariyal Khanbabi that, in light of the limited furloughs and redundancies across the Group in 2020, it would be inappropriate to make any payment in respect of the personal objectives' element of the APBP.

The Committee wishes to record that it believes that Fariyal Khanbabi has performed in an exemplary manner during 2020, her first full year in the role, and despite the considerable challenges thrown up by COVID-19 managed to achieve personal bonus objectives set out prior to the pandemic.

In the absence of the mitigating actions necessitated by the COVID-19 pandemic, the Committee would have seen no reason not to make a payment in respect of the relevant personal objective elements of the APBP that were achieved. It further wishes to stress that no inference should be drawn from its agreement with her not to make any payments under the APBP.

Fariyal Khanbabi was granted an award under the Performance Share Plan (PSP) early in 2020, as is normal under the plan rules. The level of awards granted in March 2020 were scaled back from the standard computation (as required under the 2020 Remuneration Policy) to reflect the net fall in the Company's share price between March 2019 and March 2020 (in line with best practice and with advice and guidance from the Company's external remuneration consultants).

The vesting outcome of these awards will be based on performance over the three financial years to 31 December 2022. These awards will vest to the extent that the EPS and TSR targets are achieved over the three-year period. Further details of awards made to Fariyal Khanbabi during 2020, including details of the performance targets applying, are included on page 88.

If shareholders agree to the proposed changes under the new 2021 Remuneration Policy, then the 2020 award will be the last performance share award under the "Performance Share" structure as they will be replaced by a lower value award under the proposed "Restricted Share" structure. Further details on this proposal are set out below.

In respect of the long-term incentive plan awards made to Executive Directors in 2018, both the EPS and TSR performance of Dialight over the three-year performance period (inclusive of COVID-19 impacts on 2020 performance) were below the performance targets set by the Remuneration Committee at the time of grant. As a result, all 2018 PSP awards to Executive Directors will lapse in full in 2021.

Board changes in 2020
Fariyal Khanbabi was confirmed as the CEO of the Group on 5 March 2020 following her appointment as interim CEO on 9 August 2019. The Committee has been greatly reassured by the stabilisation of the senior management team following Fariyal's appointment. For the period from 9 August 2019 to 4 March 2020, Fariyal received an additional fixed monthly payment of £12,292, in recognition of her additional responsibilities as interim CEO. Details of her remuneration following her appointment as permanent Chief Executive Officer are given below and on pages 73, 74 and 85 to 89.

On 1 October 2020, Wai Kuen Chiang assumed the role of Chief Finance Officer. The remuneration package for Wai Kuen was in line with the recalibrated Executive Director remuneration structure and the 2020 Remuneration Policy. Further details of Wai Kuen's remuneration are set out on pages 73, 74, 85 and 89.

Further details of Wai Kuen's remuneration are set out on **pages 73, 74, 85 and 89**.

Two new Non-Executive Directors were appointed in 2020, Karen Oliver and Gotthard Haug. They were engaged on same fee rate and structure as the, then, prevailing NED arrangements.

Changes to quantum and implementation of the 2020 Remuneration Policy
During the 2019 shareholder consultation, a number of shareholders commented on the relatively high base salary of former CEOs (i.e. preceding Fariyal Khanbabi) relative to the size of the Group, and questioned whether the implied total remuneration opportunity was appropriate for Dialight.

The appointment of Fariyal Khanbabi as CEO in March 2020 and the need to recruit a new CFO presented an opportunity for the Committee to undertake a detailed re-basing exercise in respect of Executive Director remuneration levels (with advice from Mercer – the Committee's external remuneration advisers).

With Fariyal Khanbabi's cooperation, on her assumption of the CEO role, this process has resulted in a material reduction in:

(a) the pension contributions paid to Executive Directors (reduced to 5% of base salary – in line with the applicable average employee pension contribution, and disregarding Fariyal Khanbabi's pre-existing contractual entitlements as an incumbent Director);

(b) fixed remuneration for Executive Directors; and total remuneration for Executive Directors.

The Committee is now confident that the total remuneration offering for the Executive Directors is appropriately positioning against market. This re-basing included the adjustments set out in the 2020 Remuneration Policy, specifically:

(a) the reduction in base salary and pension levels;

(b) a reduction in the maximum annual bonus opportunity for the CEO from 175% of salary to 150% of salary (with the pay-out for achieving on-target performance reduced from 60% to 50% of maximum); and

(c) the introduction of blended EBIT, cash and personal-objective targets in the APBP.

As previously reported, with the appointment of a new Chair in August 2019, the Committee took the opportunity to significantly reduce the annual fee paid for this role to better reflect Dialight's size. It should also be noted that there was no increase in Non-Executive Director fees in 2019, nor in 2020.

2020 AGM result and further Remuneration Policy improvements
The Committee was very pleased with the shareholder endorsement of its strategy at the 2020 AGM, with votes in favour of the Remuneration Report of 99.65% and in favour of the 2020 Remuneration Policy of 96.82%. This followed a vote against the Remuneration Report of 28.99% at the 2019 AGM, subsequent, extensive consultations with key shareholders, and significant changes to the Remuneration Policy in 2020.

The Committee is very grateful for the co-operation and input it has received from major shareholders and intends to maintain an active dialogue. Notwithstanding this level of support, the Committee received feedback in 2020 on a few residual issues in respect of remuneration (namely the "in-post" and "post-employment" shareholding guidelines for Executive Directors). It is taking the opportunity of the proposed introduction of a restricted share plan for Executive Directors in 2021 (as previously discussed with major shareholders and trailed in our 2019 report), to introduce proposals for strengthening these shareholding guidelines.

Proposal for a revised 2021 Remuneration Policy
Following the 2019 shareholder consultation on Remuneration Policy and a further consultation in autumn 2020 (with responses from shareholders representing 70%+ of Dialight's issued share capital), the Committee is seeking to put in place the final elements of its significant 2-year downwards re-alignment of Dialight's remuneration structures. Specifically, the Committee wishes to simplify the structure of remuneration, to align the pay structure for Executive Directors to that of other senior Executives in the Group and to encourage long-term share ownership by Executive Directors.

The Committee is therefore seeking shareholder approval at the 2021 Annual General Meeting for three specific changes to its Remuneration Policy (with feedback from the 2020 shareholder consultation having been taken into account in the drafting of the proposed 2021 policy). These changes are summarised overleaf. Full details of the proposed 2021 Remuneration Policy are set out on pages 75 and 83.

Full details of the proposed 2021 Remuneration Policy are set out on **pages 75 and 83**.

Element	Summary of change to the 2020 policy – to be introduced in 2021
Restricted Share Plan to replace Performance Share Plan	**Proposed policy:** — Replacement of the Performance Share Plan (PSP) award structure with a Restricted Share Plan (RSP) award structure aligned to the approach operated for other senior Executives in the Group. — Current performance testing for vesting to be replaced with two criteria: (a) recipient to be "in-role" at Dialight on date of vesting; and (b) Committee to be satisfied that underlying performance justifies vesting (further details can be found on page 77). — Reduction in maximum opportunities with the current 125% of salary limit reduced to 62.5% (maximum annual award level in normal circumstances) and the existing 150% of salary limit (reserved only for exceptional circumstances) reduced to 75%. — Retention of Committee discretion to amend PSP/RSP outcomes to ensure a fair outcome in the context of overall business performance. **Approach for 2021:** — 2021 RSP grant to CEO of up to 62.5% of salary, to CFO of up to 50% of salary. — Award contingent on recipient being in role at Dialight on date of vesting (3 years from date of grant) and Committee satisfaction on underlying performance. — Vested awards will continue (net-of-tax) to be subject to a 2-year holding period. — The Committee will review share price movements in the 12-month period prior to any awards in 2021 so that appropriate account can be taken (in the calculation of awards to be made) to reflect any material fall in the share price over the preceding 12 months (relating to COVID-19 or otherwise). A similar exercise was conducted in respect of the 2020 PSP awards with advice from external remuneration consultants.
Shareholding guidelines	**Proposed policy:** — Executive Directors required to accumulate and maintain a holding of 200% of base salary (the previous requirement was set at 100%-125% of base salary). — Process for building-up the shareholding and "net-of-tax" retention of vesting PSP/RSP/APBP shares remains unchanged.
Post-employment share retention	**Proposed policy:** — Executive Directors required to retain shares equivalent to the "in-post" shareholding guidelines (or the amount actually held, if less) for a period of 24-months following the date of ending of employment as an Executive Director.
All other elements of 2020 Remuneration Policy	Unchanged.

Ongoing shareholder consultation on remuneration issues
The Committee is committed to maintaining an ongoing dialogue with major shareholders on remuneration matters and will specifically consult with shareholders on the first year of operation of the RSP (if approved). If RSP awards are made to Executive Directors in May 2021 (i.e. following the 2021 AGM) then it is anticipated that this consultation will take place in summer or autumn 2021 and the Committee will report on the feedback in its 2021 Annual Report. The Committee welcomes any direct correspondence from shareholders on remuneration matters.

Exercise of discretion
The Committee has not exercised any discretion during the reporting year in respect of approving awards under schemes that, without the exercise of such discretion, would not have vested. On the contrary, a degree of discretion was exercised when the Committee agreed with Fariyal Khanbabi not to make any payment under the individual objective element of the APBP (payment which was otherwise due) in light of the impact during 2020 of COVID-19 on Group employees and performance.

Looking forward
Building on the changes implemented following the adoption of the 2020 Remuneration Policy (approved by 96.82% of voting shareholders) and the final improvements proposed for the 2021 Remuneration Policy (in line with the positive feedback from the 70% of Dialight shareholders consulted in autumn 2020), the Committee believes that Dialight's remuneration policies are now very well placed to incentivise high performance by the Executive Directors and fully, and fairly, align Executive Director and shareholder interests, as well as meeting the requirements of shareholders' and general governance best practice.

On behalf of all of my colleagues on the Committee, I hope that you will support the resolutions at the 2021 AGM approving the proposed 2021 Remuneration Policy and the Annual Report on Remuneration.

Gaëlle Hotellier
Chair of the Remuneration Committee

29 March 2021

2020 OUTCOMES AND COVID-19:

Director remuneration in 2020

Directors pay 000's	Base salary 2020	Uplift for SID/ Committee chair	COVID-19 reduction	Pro-rate for part year	Salary paid 2020	Base salary 2021
Executive Directors						
Fariyal Khanbabi	440	–	(36)	–	404	440
Wai Kuen Chiang	280	–	–	(210)	70	280
Total	**720**	**0**	**(36)**	**(210)**	**474**	**720**
Non-Executive Directors						
Stephen Bird	42	5	(4)	–	43	42
David Blood	120	–	(60)	–	60	120
Gotthard Haug	42	–	(4)	(10)	28	42
Gaëlle Hotellier	€57	€7	(€5)	–	€59	€57
Karen Oliver	42	–	(4)	(10)	28	42
David Thomas	42	5	(4)	–	43	42
Past Non-Executive Directors						
Steve Good	42	–	–	(31)	11	n/a

COVID-19 impacts:

Bonuses: Due to the impact of COVID-19, the decisions was taken not to make any Executive Director bonus payments, regardless of achievement against personal objectives (See pages 85 and 86).

Salary reductions: Executive and Non-Executive Directors took salary reductions of 20% for a 5-month period. The Chair took a 100% reduction for a 6-month period.

DELIVERING SHAREHOLDER ALIGNMENT

Reduction in share awards made in March 2020 to reflect COVID-19 impact on share price:

25%

Proportion of shareholders voting in favour of 2020 Remuneration Policy:

97%

Proportion of shareholders providing input in autumn 2020 consultation on the new 2021 Remuneration Policy:

70%

Proposed new Executive Director shareholding guideline:

200%

PROPOSED POLICY CHANGES FOR 2021

CHANGE	2020	2021
Share plan type:	**Performance share plan**	**Restricted share plan**
Simplified share plan conditions	3-year EBIT / TSR performance conditions	Must be employed on vesting date Committee discretion on vesting
Reduction in number of share awards	125% of salary	62.5% of salary for CEO 50% of salary for CFO
Holding period	2 years post-vesting	2 years post-vesting
Shareholding requirement	125% of salary for CEO 100% of salary for CFO	200% of salary for CEO and CFO
Shareholding requirement	Nil	24-month retention requirement

Remuneration: Check list

NEW 2021 REMUNERATION POLICY OVERVIEW

Executive Director remuneration under the new 2021 policy. Total remuneration is made up of the following five components:

Base salary	Benefits	Pension	Bonus	Share Plan
Competitive salary aligned to market and individual factors	Market competitive, but cost effective, to attract and retain high calibre Executives	Aligned to majority of employees in applicable jurisdiction	CEO (max): 150% CFO (max): 125%	Restricted Share Plan to replace current Performance Share Plan
Annual review within context of wider workforce conditions and company performance	CEO and CFO aligned with standard UK benefits: car allowance, medical, life assurance	CEO (on promotion): 5% CFO (on appt): 5%	At least 75% of bonus against financial targets (2020: 50% EBIT + 25% cash conversion), up to 25% individual objectives.	RSP standard award max: CEO: 62.5% of salary CFO: 50% of salary
CEO (2021): £440,000 + annual increment (bench-marked on promotion)			Up to target pay-out (50%) paid in cash, over target paid in Dialight shares (50% vest in 2 years, 50% vest in 3 years)	3-year vesting period + 2-year post-vesting holding period
CFO (2021): £280,000 (bench-marked on appointment)				

Shareholding guidelines: 200% of base salary for Executive Directors. Bonus and PSP/RSP shares retained until guideline amount is met.
Post-employment shareholding guidelines: Shares held to be retained for 2 years post-employment.

2021 REMUNERATION POLICY PROPOSALS

Following consultation with major shareholders, the Remuneration Committee is recommending a limited number of changes to the 2020 Remuneration Policy:

2020 Remuneration Policy		2021: Restricted Share Plan		2021: Shareholding Guidelines
PSP: Standard EBIT/TSR based 3-year plan with standard award levels of 125% of base salary		RSP standard award max: CEO: 62.5% of salary–CFO: 50% of salary		Shareholding guidelines amount increased to 200% base salary
Shareholding guideline: shareholding equal to value of last LTIP grant (typically 125% base salary)	→	3-year vesting period + 2-year post-vesting holding period	+	All Bonus and RSP shares vesting to be retained (net of tax) to meet shareholding guidelines
No post-employment shareholding requirement		Current PSP awards to continue to vesting. Malus and clawback retained		Shares held on termination to be retained (up to 200% of base salary) for 2-years post-employment period

2021 IMPLEMENTATION OF REMUNERATION POLICY

The following table sets out the key components of remuneration under the proposed 2021 Remuneration Policy:

Fariyal Khanbabi, CEO

Fixed components:
Base salary: £440,000 + potential annual increment in line with employees
Pension: 5% of salary
Benefits: Car, health insurance, life assurance

Variable components:
Bonus: 150% of salary (50% EBIT, 25% cash conversion, 25% strategic goals)
RSP: 62.5% of salary max.

Wai Kuen Chiang, CFO

Fixed components:
Base salary: £280,000 – no increase (appt. Oct 20)
Pension: 5% of salary
Benefits: Car, health insurance, life assurance

Variable components:
Bonus: 125% of salary 50% EBIT, 25% cash conversion, 25% strategic goals
RSP: 50% of salary max.

Non-Executive Directors

Chair fee: £120,00
NED base fee: £42,000
SID uplift fee: £5,100
AuditCo/RemCo chair uplift fee: £5,100
+ potential annual uplift in line with employees

2020 REMUNERATION OUTCOMES

The following table sets out the key components of remuneration earnt during 2020, (after COVID-19 salary sacrifices):

Fariyal Khanbabi, CEO

Fixed components:
Base salary: £404,000 – incl. of 20% reduction from May-Sept 2020 for COVID-19
Pension: £24,000 - 5% of salary
Benefits: Car, health insurance, life assurance

Variable components:
Bonus: Structure: 50% EBIT, 25% cash conversion, 25% strategic goals. 0% pay-out.
PSP: PSPs granted in 2018: 0% vesting

Wai Kuen Chiang, CFO

Fixed components:
Base salary: £70,000 (appt. Oct 20)
Pension: £4,000 - 5% of salary
Benefits: Car, health insurance, life assurance

Variable components:
Bonus: 125% of salary (50% EBIT, 25% cash conversion, 25% strategic goals). 0% payout
RSP: 50% of salary max.

Non-Executive Directors

Chair fee: £60,000 - incl. of 50% reduction for COVID-19
NED base fee: £38,500
SID uplift fee: £4,675
AuditCo/RemCo chair uplift fee: £4,675
Inclusive of 20% reduction May-Sept 2020

This section of the report details the Remuneration Policy for Executive and Non-Executive Directors. The previous Remuneration Policy was approved at the 2020 AGM, effective for up to three years. Following a consultation exercise with major shareholders, the Committee is seeking shareholder approval for a new Remuneration Policy at the 2021 AGM in order to better align with best practice on Director share ownership guidelines and to simplify, and make more effective, the long-term incentive.

Compliance statement

This report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Regulations). It also meets the requirements of the FCA Listing Authority's Listing Rules and the Disclosure Guidance and Transparency Rules. The sections of the Remuneration Report that are subject to audit are marked as Audited Information. The remaining sections of the Remuneration Report are not subject to audit.

Background and overview of the policy

The Committee has a clear policy on remuneration – that base salary and benefits for Executive Directors should represent a fair return for employment but that the majority of remuneration should be dependent on the continued success of the Company and be aligned with delivery of Dialight's strategic plan and the creation of shareholder value. The policy has been designed and reviewed so that it reinforces these principles, while also taking account of prevailing best practice, investor expectations, and the level of remuneration and pay awards made generally to employees of the Group.

The new policy includes certain key improvements to the policy that was approved by shareholders at the 2020 AGM. The main changes are to long-term incentives and share ownership guidelines, and are summarised in the Remuneration Committee Chair's Annual Statement on page 72. The Remuneration Committee consulted with major shareholders on these changes in late 2020 and is grateful for the helpful feedback.

REMUNERATION POLICY TABLE

Link to strategy	Operation	Opportunity	Performance metrics	Change to policy for 2021
Base salary To recruit, retain and motivate individuals of high calibre, and reflect the skills, experience and contribution of the relevant Director; to ensure that fixed pay represents a fair return for employment.	**Operation** The Remuneration Committee sets base salary with reference to relevant market data and an individual's experience, responsibilities and performance. Base salary is considered by the Remuneration Committee on an individual's appointment and then generally reviewed once a year or when an individual changes position or responsibilities. When making a determination as to the appropriate level of remuneration, the Remuneration Committee firstly considers pay and conditions for employees across the Group, the general performance of the Company and the wider economic environment. The Committee may also undertake periodic benchmarking for similar roles in comparable organisations.	**Opportunity** Any base salary increases are applied in line with the outcome of the review. In respect of existing Executive Directors, it is anticipated that salary increases will generally be in line with the broader employee population. In exceptional circumstances (including, but not limited to, material increases in role size or complexity), the Committee has discretion to make appropriate adjustments to salary levels to ensure that they remain market competitive. It is not envisaged that this will be a frequent occurrence. Detail of current salaries for the Executive Directors can be found on page 74.	None.	No material changes
Benefits To provide market competitive, yet cost effective, benefits to attract and retain high calibre Executives.	Executive Directors receive benefits which consist primarily of the provision of a car allowance, life insurance and medical insurance, although they may include such other benefits as the Committee deems appropriate including in circumstances where new benefits are introduced for other employees in the location where an Executive Director is based.	Benefits vary by role and individual circumstances; eligibility and cost are reviewed periodically. The Remuneration Committee retains the discretion to approve a higher total benefit cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside the Company's control have changed materially (e.g. increases in life insurance premiums). The value of benefits awarded to the Executive Directors can be found in the table on page 85.	None.	No material changes.

Link to strategy	Operation	Opportunity	Performance metrics	Change to policy for 2021
Pension To provide market competitive, yet cost effective, benefits to attract and retain high calibre Executives.	A Company contribution to a defined contribution pension scheme or provision of a cash payment in lieu of a pension contribution (or combination of such) for UK-based Directors. In the US, Dialight operates a 401(k) and SERP (or cash equivalent payment in lieu in respect of the latter). Salary is the only element of remuneration that is pensionable.	Executive Directors will receive pension arrangements consistent with the majority of employees in the relevant jurisdiction: — UK-based Executive Directors will be entitled to join the existing defined contribution scheme offering employer contributions of up to 5% of salary, or to receive an equivalent cash payment in lieu; — US-based Executive Directors will be entitled to participate in the 401(k) and the SERP (or to receive a cash equivalent payment in lieu of employer contribution in respect of the latter) on terms consistent with the majority of US employees. Further details of what has been paid during 2020 can be found on pages 74 and 85.	None.	On appointment as CEO (on 5 March 2020), the pension contribution for Fariyal Khanbabi was reduced to 5% of salary in line with the majority of the UK workforce, anticipating the change in pensions policy introduced under the Group's 2020 Remuneration Policy.
Annual Performance Bonus Plan (APBP) The APBP incentivises the achievement of annual objectives which support the short-term performance goals of the Company.	APBP measures, weightings and targets are set by the Remuneration Committee at the beginning of each financial year following the finalisation of the budget for that year. Bonuses up to target are paid in cash, with pay-outs above target delivered in Dialight shares. Where the Executive receives Dialight shares, half of these vest after two years with the balance vesting after three years, subject to continued employment with the Group. Dividends are accrued on these deferred shares and are paid to the participant on release of shares that are subject to the award. Awards under the APBP are subject to malus and clawback provisions, further details of which are included as a note to the policy table.	The maximum bonus opportunity is 150% of salary. Threshold performance will deliver pay-outs of up to 20% of maximum, while pay-outs for target performance will be up to 50% of maximum.	Performance is assessed on an annual basis, as measured against specific objectives set at the start of each year. Financial measures will make up at least 75% of the total annual bonus opportunity in any given year, with up to 25% based on individual objectives linked to Dialight's strategy. The Committee has discretion to adjust the formulaic bonus outcomes both upwards (within the plan limits) and downwards (including to zero) to ensure alignment of pay with performance, e.g. in the event of one of the targets under the bonus being significantly missed or if there are unforeseen circumstances outside management control. The Committee also considers measures outside the bonus framework (including ESG factors) to ensure there is no reward for failure and that outcomes are fair in the context of overall performance and the Group's wider environmental and societal impact. Further details of the measures, weightings and targets applicable for 2020 can be found on page 86. The 2021 APBP will be based on a combination of EBIT (50%), cash conversion (25%) and individual strategic goals (25%).	No material changes.

Link to strategy	Operation	Opportunity	Performance metrics	Change to policy for 2021
Dialight Restricted Share Plan (DRSP) **Replacement of PSP** This DRSP is intended to replace the PSP for awards to Executive Directors in 2021 and thereafter. In the event that this policy is approved, then no new PSP awards will be granted to Executive Directors from 2021 except potentially in the case of "buy outs" under the Recruitment Policy shown on page 81. PSP awards made in 2020 or earlier will continue to operate under the terms of the shareholder approved Performance Share Plan. The DRSP provides a simple and transparent long-term incentive award to help ensure alignment between the interests of shareholders and those of the Executive Directors, and is aligned to the plans operated below Board level.	DRSP awards may be structured as conditional shares or nil-cost options with a two-year exercise window from the date of vesting. The release of awards may, at the discretion of the Committee, be deferred in whole or in part following the end of a three-year vesting period. The Committee's intention is that all vested awards will be subject to a two-year post-vesting holding period. The Remuneration Committee has the power to authorise the payment of dividends or dividend equivalents under the rules of the DRSP. Awards under the DRSP are subject to malus and clawback provisions, further details of which are included as a note to the policy table.	The DRSP provides for an award up to a normal limit of 62.5% of salary for Executive Directors, with an overall limit of 75% of salary for use in exceptional circumstances. These maximum opportunities under the DRSP represents a 50% reduction against the maximum opportunity that was available under the legacy PSP scheme. The Committee has discretion to reduce awards in the event that there has been a significant fall in the share price. As noted in the Remuneration Report, the 2020 PSP awards were reduced for this reason.	Vesting of awards will require: (a) that the recipient remains in role as at the date of vesting (subject to the 'leaver' provisions of the shareholder approved share plan); and (b) that the Committee is satisfied that Dialight's underlying performance and delivery against strategy is sufficient to justify the level of pay-out, taking into consideration factors such as absolute TSR, relative TSR, environmental impact and operational performance over the period, as well as individual contribution and the workforce and wider stakeholder experience. The Committee will have discretion to reduce the vesting of awards (including to zero) in the event that it considers that the outcome would be otherwise misaligned with the experience of shareholders and other stakeholders.	New long-term incentive (the DRSP) to be implemented from 2021 and replace the legacy PSP, subject to shareholder approval.

Link to strategy	Operation	Opportunity	Performance metrics	Change to policy for 2021
Non-Executive Director fees The Company sets fee levels to attract and retain Non-Executive Directors with the necessary experience and expertise to advise and assist with establishing and monitoring the strategic objectives of the Company.	Fee levels are typically considered every year, taking into account fees paid for equivalent roles at companies of similar size, time commitment and complexity. The fees paid to the Chairman are determined by the Remuneration Committee, while fees for Non-Executive Directors are determined by the Board. Additional fees are payable for acting as Senior Independent Director and as Chair of any of the Board's Committees. Non-Executive Directors do not receive any bonus, do not participate in awards under the Company's share plans and are not eligible to join the Company's pension scheme.	The Company's policy in relation to fees is to reflect the time commitment and responsibilities of the roles, normally by paying up to median level fees, compared to market, depending on the experience and background of the Non-Executive Directors. The Company also reimburses the Non-Executive Directors for expenses reasonably and properly incurred in the performance of their duties. In normal circumstances, increases to fees will be broadly in line with price inflation, subject to cases of material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role. It remains important for the Board to have the necessary flexibility to step outside this general policy should the requirement be clear that a certain type of individual is required to conform with new governance requirements or legislation. Aggregate fees for all Non-Executive Directors will be within the limits set by the Company's Articles of Association. Details of current Non-Executive Director fees can be found on pages 74 and 85.	None.	No material changes.

NOTES TO THE REMUNERATION POLICY TABLE

Explanatory detail for future Remuneration Policy table
For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to the Company to honour any commitments previously entered into with current or former Directors (such as the vesting or exercise of past share awards).

Performance measures and targets
Measures used under the APBP are selected annually to reflect Dialight's main short-term objectives and reflect both financial and non-financial priorities, as appropriate. The performance underpins attached to DRSP awards will be based on those which best reflect the overall performance of the business. These might include, but not be limited to, absolute TSR, relative TSR, ESG metrics and operational performance over the period, as well as individual contribution and broader stakeholder experience.

For the APBP, EBIT continues to be used as the primary measure to provide a direct link to one of our KPIs. The Committee introduced a cash conversion measure for the 2020 APBP, reflecting the importance of careful cash management in ensuring we are able to fund the Company's strategic objectives over the short and longer term. Up to 25% of the ABPB may be based on individual strategic goals in order to reflect the importance of incentivising non-financial objectives linked to Dialight's strategy. Targets are set on an annual basis taking into account the Company's budget as well as external expectations for Dialight and the sector.

If an event occurs which causes the Remuneration Committee to consider that an outstanding DRSP, PSP award or bonus award would not achieve its original purpose without alteration, the Remuneration Committee has discretion to amend the targets, provided the new conditions are materially no less challenging than was intended when originally imposed. Such discretion could be used to appropriately adjust for the impact of material acquisitions or disposals, or for exceptional and unforeseen events outside the control of the management team and would be disclosed in the relevant Remuneration Report.

Difference between the Directors' Remuneration Policy and that for other employees
All employees receive salaries and benefits which are consistent with local market practice, with any review of fixed pay taking into account experience, responsibility, individual performance and salary levels at comparable companies.

Senior management is typically eligible to participate in the APBP, with opportunities and performance measures reflecting organisational level and business area, as appropriate. DRSP awards at senior management level and to other key employees also take the form of restricted share units with vesting subject only to continued employment over a number of years. This helps Dialight remain competitive in the main talent markets in which it operates, while also continuing to align plan participants with the interests of shareholders in growing the value of the Company over the longer term. Share awards to participants below Executive Director level are not subject to a holding period.

Shareholding guidelines
Executive Directors will now be required to accumulate and maintain a holding of Dialight shares equivalent in value to 200% of their base salary, an increase from the 100%-125% of salary requirement in the previous policy. The net of tax number of vested shares under the Company's DRSP (and awards that vest under the legacy PSP) will normally be required to be retained until the guideline has been met. Current shareholding levels are set out on page 90.

The Committee is also introducing post-employment guidelines for Executive Directors. From 2021, Executive Directors will be required to retain shares equivalent to the in-post shareholding guideline (or actual shareholding, if lower) for a period of 24 months following the cessation of their employment.

Change to policy for 2021:
— Increase in the in-post shareholding guideline from 100%-125% of salary to 200% of salary.
— Introduction of post-employment shareholding guidelines.

Committee discretion
As it is not possible for any Remuneration Policy to anticipate every possible scenario, the Remuneration Committee retains the ability to apply various discretions and judgements in order to ensure the achievement of fair outcomes and to maintain the flexibility required to balance the interests of individuals and those of the Company.

For example, the Committee may be required to exercise discretion when determining whether or not the outcomes of performance measures and targets applicable to variable incentives are fair in context, or if realities encourage the use of upward or downward adjustments (within scheme limits).

Accordingly, the Committee retains a number of discretions including the ability to determine the following:

— scheme participants;
— the timing of grant and size of awards, subject to the maximum levels set out above;
— appropriate treatment of vesting of awards in the context of a change of control;
— appropriate adjustments to awards in the event of variations to the Company's share capital;
— treatment, size and grant of awards in a recruitment context;
— the application, scope, weighting and targets for performance measures and performance conditions.

Although it is not possible to give an exhaustive list of Remuneration Committee discretions, the exercise of any such discretion and the rationale underpinning their use, would be provided in context, as part of the Annual Report on Remuneration.

Malus and clawback
Payments and awards under the APBP bonus and DRSP (as well as awards already made under the legacy PSP scheme) are subject to malus and clawback provisions which can be applied to both vested and unvested awards. Circumstances in which malus and clawback may be applied include a material misstatement of the Company's financial accounts, fraud or gross misconduct on the part of the award-holder, an error in calculating the award vesting outcome, material reputational damage and corporate failure. In respect of the APBP, the provisions apply for up to two years following payment. In respect of DRSP and PSP awards the provisions apply remain subject to the provisions throughout the vesting and holding period (where applicable).

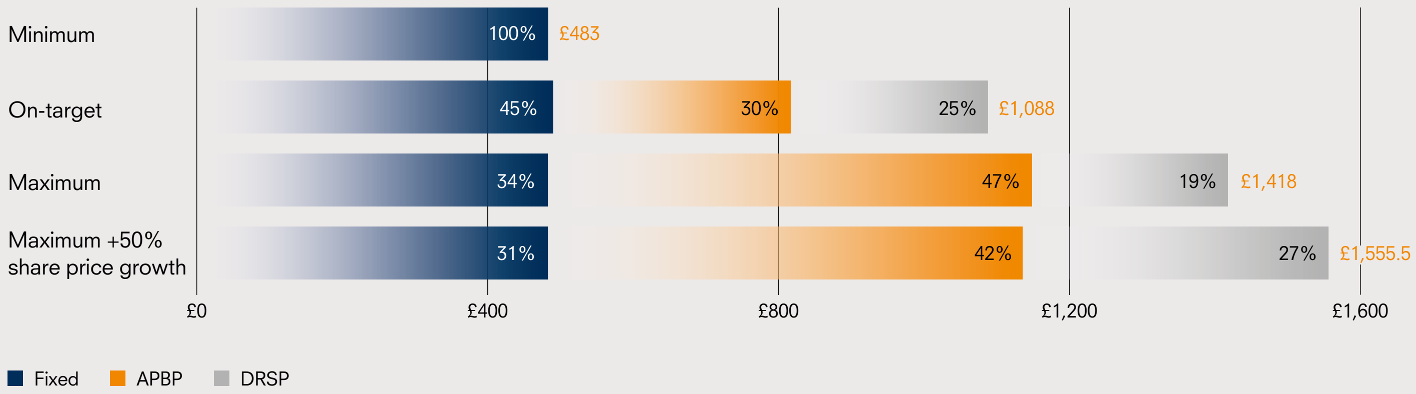
Participants in both schemes will be required to acknowledge their understanding of the withholding and recovery provisions as a pre-condition to participation in order to help ensure that the provisions would be enforceable should the circumstances arise.

Change to policy for 2021:
— Malus and clawback provisions extended to apply to future DRSP awards, subject to shareholder approval.

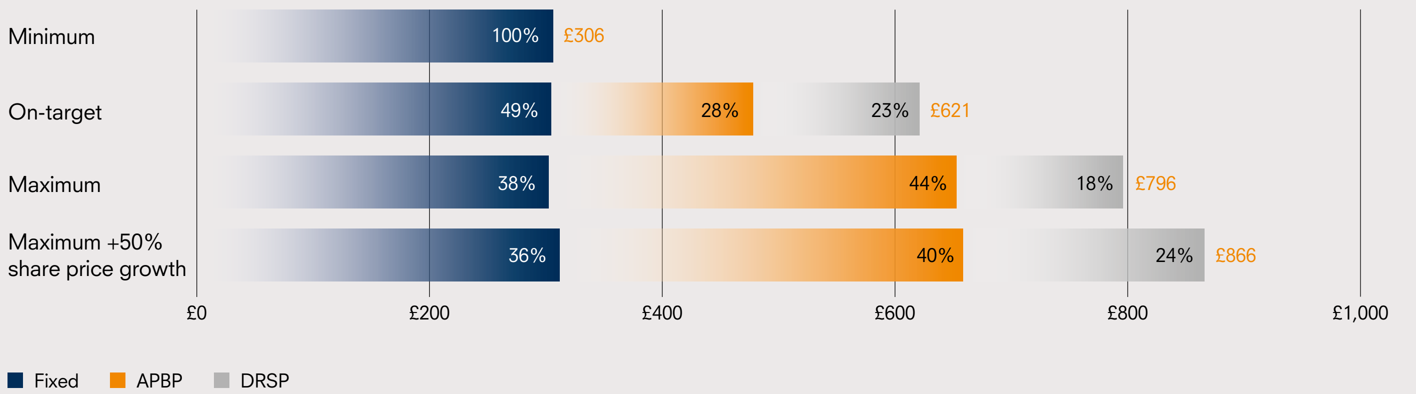
Pay for performance
The following charts provide an estimate of the potential future rewards for the Group Chief Executive and Group Chief Finance Officer, and the potential split between different elements of pay, under four different performance scenarios: "Fixed", "On-target", "Maximum" and "Maximum including share price appreciation" using the following assumptions:

— the "Minimum" scenario reflects base salary, pension and benefits (i.e. fixed remuneration) which are the only elements of the remuneration package not linked to performance;
— the "Target" scenario reflects fixed remuneration as above, plus APBP pay-out of 50% of maximum and DRSP vesting at 100% of the award; and
— the "Maximum" scenario is shown on two bases: excluding and including the impact of share price appreciation on the value of DRSP outcomes. In both cases, the scenario includes fixed remuneration and full pay-out of all incentives, with the final scenario also including the impact of a 50% increase in Dialight's share price on the value of the DRSP.

Forward-looking Pay Scenario Chart (£'000s): CEO



Forward-looking Pay Scenario Chart (£'000s): CFO



Note that any DRSP awards granted will not normally vest until the third anniversary of the date of grant, and the projected value is based on the face value at award rather than vesting (i.e. the scenarios exclude the impact of any share price movement over the period). The exception to this is the last scenario which, in line with the relevant reporting requirements, illustrates the maximum outcome assuming 50% share price appreciation for the purpose of DRSP value.

Recruitment Policy

In cases of appointing a new Executive Director from outside the Company, the Remuneration Committee may make use of all the existing components of remuneration as follows:

Component	Approach	Maximum
Salary	Executive Directors will receive a base salary which will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and their current basic salary. Where new appointees have initial basic salaries set below market, any shortfall may be managed with phased increases over a period of two to three years subject to the individual's development in the role.	
Benefits	New appointees will be eligible to receive benefits in line with the current policy, as well as expatriation allowances or benefits and any necessary expenses relating to an Executive's relocation on appointment.	
Pension	New appointees will be eligible to participate in one of the Company's defined contribution plans, or receive a cash supplement or local equivalent on the same basis as the majority of employees in the relevant jurisdiction.	
APBP	The scheme as described in the policy table will apply to new appointees, with the relevant maximum typically being pro-rated to reflect the proportion of employment over the year. Where applicable, targets for the individual strategic element will be tailored to each Executive.	150% of salary
DRSP	New appointees will be granted restricted share awards under the DRSP on the same terms as other Executives, as described in the policy table. The normal limit of 62.5% of salary will apply, save in exceptional circumstances where up to 75% of salary may be awarded.	62.5% of salary

In determining appropriate remuneration, the Remuneration Committee will take into consideration all relevant factors (including quantum, nature of remuneration and the jurisdiction from which the candidate was recruited) to ensure that arrangements are in the best interests of both Dialight and shareholders.

In addition to the remuneration structure outlined above, the Committee may, in certain circumstances, choose to make an award in respect of a new appointment to "buy out" incentive arrangements forfeited on leaving a previous employer on a like-for-like basis. If the Committee determines that it is appropriate to do so it will apply the following approach:

The fair value of these incentives will be calculated taking into account: the proportion of the performance period completed on the date of the Executive's cessation of employment; the performance conditions attached to the vesting of these incentives; the likelihood of them being satisfied; and any other terms and conditions having a material effect on their value (Lapsed Fair Value).

The Committee may then grant up to the same fair value as the Lapsed Fair Value where possible under the Company's incentive plans (subject to the limits under these plans). The Committee, however, also retains the discretion to provide the Lapsed Fair Value under specific arrangements in relation to the recruitment of the particular individual within the constraints set out in the Listing Rules.

The approach to the recruitment of internal candidates would be similar but the Remuneration Committee would continue to honour existing contractual commitments prior to any promotion. For the avoidance of doubt, this would not extend to pension arrangements which, as above, would be aligned with the majority of employees in the relevant jurisdiction.

For Non-Executive Directors, the Remuneration Committee and the Company would seek to pay fees in line with the Company's existing Policy. A base fee in line with the prevailing fee schedule would be payable for Board membership, with additional fees payable for acting as Senior Independent Director and/or as Chair of a Board Committee.

Change to policy for 2021:

— Replacement of the Performance Share Plan (PSP) with the Dialight Restricted Share Plan (DRSP).
— Any newly-appointed Executive Director would be eligible to receive DRSP awards, subject to shareholder approval at the 2021 AGM.

Service contracts

Executive Directors' service contracts, including arrangements for early termination, are carefully considered by the Remuneration Committee. Executive Directors' service contracts contain provisions that require up to 12 months' notice of termination on either side. Such contracts do not contain any provisions for payments outside the scope of those contained in the contract. Executive Director service contracts are available to view at the Company's registered office.

Non-Executive Directors have specific terms of engagement provided in formal letters of appointment, which contain three-month notice periods that are mutual. The Non-Executive Directors are appointed for a three-year term, subject to annual re-election by the shareholders at the Company's AGM.

Notice periods
Executive Directors' service contracts require up to 12 months' notice to be given by Dialight in the event of termination. Both can be terminated with and without cause and require up to 12 months' notice from either party.

Both Fariyal Khanbabi's and Wai Kuen Chiang's contracts provide for pay in lieu of notice but do not contain any additional compensation provisions, nor do they contain liquidated damages clauses.

If a contract is to be terminated, the Remuneration Committee will determine such mitigation as it considers fair and reasonable in each case. In determining any compensation, it will take into account the best practice provisions of the UK Corporate Governance Code and published guidance from recognised institutional investor bodies, and will take legal advice on the Company's liability to pay compensation and the appropriate amount. The Remuneration Committee periodically considers what compensation commitments the Executive Directors' contracts would entail in the event of early termination. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement.

The Remuneration Committee will exercise discretion in making appropriate payments in the context of outplacement, settling legal claims or potential legal claims by a departing Executive Director, including any other amounts reasonably due to the Executive Director; for example, to meet the legal fees incurred in connection with the termination of employment, where the Company wishes to enter into a settlement agreement and the individual must seek independent legal advice.

The table below summarises how the awards under the APBP, DRSP and PSP are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion:

Annual bonus	
Cash	In the event of an Executive Director leaving Dialight before the end of a bonus year or prior to the payment of a bonus, the Remuneration Committee has discretion to allow them to be paid a portion of bonus relative to their point of leaving. This will be highly contingent on the manner of the Executive Director's departure – specifically, payment would only be made if they are classified as a "good leaver" pursuant to the rules of the APBP as well as business performance.
Deferred shares	For good leavers, deferred bonus shares will normally be retained by the participant and will be released in full following completion of the applicable deferral period. For other leavers, deferred bonus shares will lapse.
DRSP or PSP	
Leavers before the end of the performance or vesting period	In most circumstances, awards will lapse. If the Executive Director is classed as a "good leaver", outstanding DRSP or PSP shares would typically be pro-rated for the proportion of the vesting or performance period served and released, subject to applicable performance conditions for PSP awards, at the normal vesting date. The Remuneration Committee has flexibility to allow awards to vest earlier than above when an individual leaves; however, the default position will be for awards not to be released early except in compassionate circumstances.
Leavers after the end of the performance or vesting period	Any awards in a holding period will normally be released following completion of the holding period.

For the purpose of the above, "good leaver" is defined as a participant ceasing to be employed by the Group by reason of death, disability, ill health, redundancy, retirement with agreement of the Company or any other reason that the Remuneration Committee determines in its absolute discretion. As noted above, should the Executive Director leave the Company in any other circumstances, outstanding awards would typically lapse.

The Remuneration Committee also retains discretion in the event of a change of control to release awards under the DRSP and/or the PSP. It is usual in this situation that awards would be pro-rated for time and performance subject to the discretion of the Committee. In relation to the APBP, the scheme rules allow the Remuneration Committee to determine that all deferred share elements of the bonus awards will vest on a change of control and may be exercised within such period as the Remuneration Committee shall specify.

Change to policy for 2021:
— Clarified the leaver treatment for participants of the Dialight Restricted Share Plan, subject to shareholder approval at the 2021 AGM.

External appointments
It is the Company's policy that, except in extraordinary circumstances, Executive Directors should only accept one appointment with a third party as a Non-Executive Director. Any such appointment is subject to prior Board approval and consideration will be given to potential conflicts of interest with Dialight and the time demands of the external appointment. The Executive Director concerned is entitled to retain any fees from such a non-Executive Directorship.

Employment conditions elsewhere in the Company
The Remuneration Committee takes into account what the general rise in employee salaries was across the Company at the review date when considering changes to the remuneration of the Executive Directors. The Committee did not expressly seek the views of employees when drawing up the Remuneration Policy, but does carry out an annual review of salaries across the Group, and the Board and Committee are regularly updated on employee matters.

Shareholder views
The Remuneration Committee maintains a regular dialogue with its major shareholders and monitors trends and developments in corporate governance and market practice to ensure that the structure of Executive remuneration under the new Remuneration Policy is appropriate.

As outlined in 2019, the Committee reviewed aspects of the Remuneration Policy in 2020 and consulted with its major shareholders as part of this process.

During the 2020 shareholder consultation process the Remuneration Committee had responses from investors representing around 70% of Dialight's issued share capital. The feedback was positive, with comments received being taken into account in the drafting of this policy.

Following the consultation, and as noted in the Annual Statement, the Committee concluded that the following changes should be incorporated into the Remuneration Policy going forward: the replacement of the PSP with the DRSP for Executive Directors; an increase of the in-post shareholding guideline from 100%-125% of salary to 200% of salary; and, the introduction of post-employment shareholding guidelines of the same level as the in-post shareholding guideline (or actual shareholding, if lower) for 24 months after stepping down from the Board.

Remuneration: Policy implementation in 2020 and 2021

The following section provides details of how the Company's Remuneration Policy was implemented during the financial year ended 31 December 2020, and how it, and/or its replacement policy (if approved at the 2021 AGM) will be implemented in 2021.

Roles and responsibilities of the Remuneration Committee
The primary responsibilities of the Remuneration Committee are to:

- set the Remuneration Policy for all Executive Directors, the Company's Chairman and the Company Secretary including, where appropriate, bonuses, incentive payments, share-based incentive schemes and post-retirement benefits;
- determine the remuneration packages for the Executive Directors, the Company's Chairman and the Company Secretary, within the terms of the policy;
- recommend and monitor the structure of the remuneration of the senior management Group as defined by the Board;
- approve the design of, and determine targets for, any performance-related and share based incentive schemes operated by the Company and approve the total annual payments made under such schemes (in accordance with the provisions of the UK Governance Code (2018)); and
- review the design of all share incentive plans requiring approval by the Board and shareholders. For any such plans, the Committee shall determine each year, taking into account the recommendations of the Chief Executive Officer, whether awards will be made and, if so, the amount of such awards to the Executive Directors, Company Secretary, members of the Executive Committee and other senior Group employees from time to time nominated by the Chief Executive Officer, and any performance targets to be used.

A copy of the terms of reference (ToR) for the Remuneration Committee is available on the Company's website or on request from the Company Secretary at the registered office. The ToR are reviewed annually by the Committee.

Other activities of the Remuneration Committee
The Remuneration Committee's specific activities and key decisions during the year included:

- **February/March 2020:** reviewing CEO remuneration benchmarking exercising and finalising remuneration structure for CEO role.
- **March 2020 (across several meetings):** review of annual pay increment policy and application (for Chair, Executive Director roles and general policy across Group); review and approval of 2019 bonus pan and 2017 PSP plan outcomes; review and approval of 2020 bonus plan structures; drafting and approval of Annual Remuneration Report; review and approval of 2020 Remuneration Policy; recommendation to Board on Remuneration Committee appointment (following retirement of Steve Good); and 2020 PSP grants.
- **July 2020:** review of AGM voting and feedback; consideration of changes to PSP for Executive Directors; look-forward to end-of-year reporting; ratification of COVID-19 related salary sacrifices and structure.
- **September 2020:** PSP good leaver; ratification of remuneration structure for CFO; shareholder consultation on proposals for 2021 Remuneration Policy (RSP and tightening of Executive Director shareholding requirements).
- **December 2020:** review of outcome of shareholder consultation and approval of 2021 Remuneration Policy proposals; 2020 Annual Remuneration Report planning; and, annual Committee governance review.

Remuneration Committee members
The names of those who served on the Remuneration Committee during the year can be found in the table below:

Committee member	Member from/until
Gaëlle Hotellier (Committee Chair)	from 8 January 2018 (Chair from 1 June 2018)
David Thomas	from 26 April 2016
Karen Oliver	from 30 July 2020 meeting onwards
Steve Good	From 1 June 2018 to 31 March 2020

All members of the Remuneration Committee are considered independent within the definition set out in the 2018 Code. None of the Remuneration Committee has any personal financial interest in Dialight (other than as shareholders), conflicts of interests arising from cross directorships, or day-to-day involvement in running the business.

During the year, the Remuneration Committee met eight times. Of these, five meetings were formal scheduled meetings and the other three were meetings held to deal with the review and approval of specific technical remuneration matters. Attendance by individual members of the Remuneration Committee is disclosed in the Corporate Governance report on page 56.

Only members of the Remuneration Committee have the right to attend Remuneration Committee meetings. The Chief Executive Officer and the Company Secretary attend the Remuneration Committee's meetings by invitation, but are not present when their own remuneration is discussed. The Remuneration Committee also takes independent professional advice as required.

External advice to the Remuneration Committee
The Remuneration Committee has access to the advice of the Chief Executive Officer, Company Secretary and the Group HR Director as well as external advisers as required. During the year ended 31 December 2020, the Remuneration Committee consulted Mercer Kepler, a part of the Mercer Limited Group, which provided independent advice (for a total fee of £23,080) on: long-term incentive measures and targets; updates on the external remuneration environment; performance testing for long-term incentive plan; the post-2020 AGM Remuneration Report vote review; the consultation for and drafting of the 2021 Remuneration Policy; and the drafting of this report. The Remuneration Committee retains the responsibility for the appointment of remuneration advisers and their associated fees and undertakes due diligence periodically to ensure that its advisers remain independent and that the advice provided is impartial and objective.

Statement of shareholder voting (2020 AGM voting)

The following table shows the voting results at the Company's 2020 Annual General Meeting in respect of the resolutions on: (a) the Remuneration Report for the financial year 2019; and, (b) the 2020 Remuneration Policy. Further details on these votes and subsequent actions are given in the annual Remuneration Committee statement on page 71.

	% of votes for	% of votes against	Votes withheld
Directors' Remuneration report FY2019	**99.65**	0.35	499 (out of 26,811,328 votes cast)
2020 Remuneration Policy	**96.82**	3.18	3,911 (out of 26,807,992 votes cast)

2020 outcomes

Single figure of total remuneration (audited information).

The following tables provide details of the Directors' remuneration for the 2020 financial year, together with their remuneration for the 2019 financial year, in each case before deductions for income tax and national insurance contributions (where relevant):

2020 (all figures in 000s)	Salary/Fee 2020	Benefits 2020	Pension 2020	Sub-total fixed 2020	Bonus 2020	PSP 2020	Sub-total variable 2020	Total remuneration 2020
Executive Directors								
Fariyal Khanbabi[1]	**£404**	**£19**	**£24**	**£447**	–	–	–	**£447**
Wai Kuen Chiang[2]	**£70**	**£3**	**£4**	**£77**	–	–	–	**£77**
Non-Executive Directors								
Stephen Bird[3,4]	**£43**	–	–	**£43**	–	–	–	**£43**
David Blood[5]	**£60**	–	–	**£60**	–	–	–	**£60**
Gotthard Haug[3,6]	**£28**	–	–	**£28**	–	–	–	**£28**
Gaëlle Hotellier[3]	**€59**	–	–	**€59**	–	–	–	**€59**
Karen Oliver[3,6]	**£28**	–	–	**£28**	–	–	–	**£28**
David Thomas[3]	**£43**	–	–	**£43**	–	–	–	**£43**
Past Non-Executive Director								
Steve Good[7]	**£11**	–	–	**£11**	–	–	–	**£11**

1 Fariyal Khanbabi was awarded an uplift of £12,292 pcm (disregarded for the purposes of calculating pension payments, and bonus and PSP awards) with effect from 10 August 2019 and for the duration of, her appointment as Interim CEO of Dialight plc. This period ended on 4 March 2020. From 5 March 2020, upon her appointment as CEO, was remunerated on the basis of a permanent CEO salary (as reported elsewhere in this Remuneration Report at the annualised rate of £440,000). From May to September 2020, Fariyal Khanbabi voluntarily sacrificed 20% of her base salary (as reported elsewhere in this Remuneration Report).

2 Wai Kuen Chiang was appointed as a Director on 1 October 2020.

3 NEDs voluntarily sacrificed 20% of their fees from May to September 2020 inclusive. There were no increases in NED fee rates in 2020.

4 Stephen Bird continued to receive a fixed uplift in recognition of his role as SID. This fee was not increased in 2020.

5 David Blood voluntarily sacrificed 100% of his fees as Board Chair from April to September 2020 inclusive. There were no increases in fee rates in 2020.

6 Gotthard Haug and Karen Oliver were appointed as NEDs on 1 April 2020 and received a pro-rated amount of their annual fees of £42,000.

7 Steve Good stepped down as an NED on 31 March 2020 and received a pro-rated amount of his annual fee of £42,000.

2019 (all figures in 000s)	Salary/Fee 2019	Benefits 2019	Pension 2019	Sub-total fixed 2019	Bonus 2019	PSP 2019	Sub-total variable 2019	Total remuneration 2019
Executive Directors								
Fariyal Khanbabi[1, 2]	£364	£13	£44	£421	–	–	–	£421
Past Executive Director								
Marty Rapp[3]	$404	$16	$53	$473	–	–	–	$473
Non-Executive Directors								
Stephen Bird[4]	£47	–	–	£47	–	–	–	£47
David Blood[5]	£74	–	–	£74	–	–	–	£74
Gaëlle Hotellier[4]	€64	–	–	€64	–	–	–	€64
David Thomas[4]	£47	–	–	£47	–	–	–	£47
Steve Good[4]	£42	–	–	£42	–	–	–	£42
Past Non-Executive Director								
Wayne Edmunds[4, 6]	$167	–	–	$167	–	–	–	$167

1 Following a benchmarking exercise by Mercer Kepler, the salary for Fariyal Khanbabi was increased by £20,000 pa with effect from 1 April 2019, in recognition that her assumption of certain additional responsibilities (including assuming Executive responsibility for the HR and IT functions from the Chief Executive Officer) represented exceptional circumstances as envisaged under the 2017 Remuneration Policy, and was broadly in line with the Mercer Kepler benchmarking for SmallCap CFOs.

2 Fariyal Khanbabi was awarded an uplift of £12,292 pcm (disregarded for the purposes of calculating pension payments, and bonus and PSP awards) with effect from, and for the duration of, her appointment as Interim CEO of Dialight plc from 10 August 2019 to 4 March 2020.

3 Marty Rapp retired from his position as a Director with effect from 9 August 2019.

4 There was no increase in the fee rates paid to Wayne Edmunds (in his capacity as Board Chair) or the Non-Executive Directors' fee rates in 2019.

5 Fees payable to David Blood were increased, above those payable in his capacity as a NED, to £120,000 per annum as a result of his appointment as Board Chair with effect from 5 August 2019.

6 Wayne Edmunds stepped down as a Director of the Company with effect from 5 August 2019.

Additional disclosures (audited information)

Executive Directors' benefits

Executive Directors receive benefits comprising life insurance, healthcare and car allowances.

Pensions

The figure includes the amount of Company contributions to Fariyal Khanbabi's and Wai Kuen Chiang's pensions during the year. Fariyal Khanbabi received Company contributions of 15% of her base salary (as CFO) until 4 March 2020 and thereafter received Company contributions of 5% of her base salary as CEO (electing, mid-year, to receive a cash payment in lieu of the employer contribution). Wai Kuen Chiang received Company contributions of 5% of her base salary. For the avoidance of doubt, the Company is fully compliant with the requirement that Executive Directors' (both UK-based) pensions contributions are aligned with the average pension contribution to the Group's UK workforce (a rate of 5%).

APBP

Following adoption of the 2020 Remuneration Policy, the APBP for Executive Directors operates on the basis that is set out in the remuneration policy report on page 74. Maximum bonus potential, paid in a mixture of cash and, in respect of performance above target, shares, is 150% of salary for the Chief Executive Officer and 125% of salary for the Chief Financial Officer. Anticipating, and applying, the 2020 Remuneration Policy, the 2020 Executive Director APBP was based on three elements: 50% of the available bonus pot being payable against an EBIT metric; 25% against operating cash conversion performance against underlying EBITDA; and, 25% against individual objectives set personally for the Executive Director. As Wai Kuen Chiang commenced her role in Q4 of what was a very challenging year, it was decided that it would not be practicable for her to participate in the 2020 APBP.

Personal objective element

The personal objectives were structured around objectives of a largely quantifiable nature as follows:

- Securing value (10%): targets based on sales functional performance including securing specified increases in new customer and new distributor numbers.
- Transformation (10%): securing an absolute reduction in inventory of at least £7m; achieving a product on-time-delivery target; and achieving an R&D improvement through delivery of "cost-out" product development.
- Culture (5%): launch of charitable foundation; and achieving specified improvements in internal communications and welfare strategies.

Financial element

The performance range in respect of quantitative elements of the 2020 EBIT and cash flow performance were as follows:

	Threshold	Target	Maximum	Actual
EBIT element (after provision for bonus)	£9m	£11m	£13m	£-6.4m
Operating cash conversion/underlying EBITDA performance	80%	100%	120%+	9,200%

2020 outcomes

Whilst the cash flow element of the 2020 APBP and a significant majority of the personal objectives set for Fariyal Khanbabi were met, in light of the considerable hardship experienced during 2020 by employees and the impact of COVID-19 on EBIT performance, it was agreed between the Remuneration Committee and Fariyal Khanbabi that no bonus would be paid to Fariyal Khanbabi in respect of 2020.

PSP (audited information)

The following PSP awards to Executive Directors lapsed in their entirety as the relevant performance conditions were not achieved:

- awards made in 2017 (with the applicable three-year performance testing period ending on 31 December 2019); and
- awards made in 2018 (with the applicable three-year performance testing period ending on 31 December 2020).

Chief Executive Officer's pay ratio

The table below discloses the ratio of the CEO's pay against the remuneration of the Group's UK workforce in 2020. The ratios have been calculated in accordance with "Option A" of the three methodologies provided under the new regulations, which we believe to be the most statistically appropriate approach. The CEO pay figure used for this calculation represents the total 2020 remuneration calculated from Fariyal Khanbabi's remuneration as Interim CEO (prior to 4 March 2020) and her remuneration as CEO (from 5 March 2020) as further detailed on page 85. This data is presented against the comparable, indicative, full-time equivalent total remuneration of those employees whose pay is ranked at the 25th percentile, median and 75th percentile in the Group's UK workforce. Where possible, employee pay was calculated based on actual pay and benefits for the 12 monthly payrolls within the full financial year.

Given the small size of the Group's UK workforce, we have adopted the following protocols to avoid skewing the figures:

- if a role was maintained but the individual(s) in such role changed, the figure provided in respect of such role has been calculated on a pro rata basis for the two or more relevant individuals; and
- if there was a new role or a role was eliminated, the figure provided was calculated as an annualised rate for such role.

It should be noted that all the Group's manufacturing operations and most of its employees are located outside of the UK and therefore do not fall within the reporting requirements. It should be further noted that in 2020 the ratio has been suppressed in part by the impact of COVID-19 on Group performance (and non-payment of any variable remuneration) and has been distorted by the voluntary reduction in CEO base pay across five months of the year by 20%, and by layered salary reductions (with the reductions for employees declining in percentage terms at lower pay thresholds). This ratio is therefore difficult to compare to prior years and can be expected to rise in future years (assuming no such reductions in base pay are repeated) and if variable elements of remuneration become payable.

Year	25th percentile ratio	50th percentile ratio	75th percentile ratio
2020	**11.7:1**	**7.7:1**	**5.6:1**
2019	10.8:1	8.4:1	5.3:1

Percentage change in the remuneration of the Chief Executive Officer

The following table sets out the change in remuneration paid to the Chief Executive Officer from 2019 to 2020 compared with the average percentage change for employees as a whole:

	% change 2019–2020	
	Chief Executive Officer	Group employees
Salary	**-4%**	0%
Bonus	**0%**	0%
Benefits	**-22%**	0%

This analysis is complicated by the three successive changes in remuneration payable to the CEO across this period. In 2019, Marty Rapp was CEO from 1 January 2019 to 9 August 2019. Fariyal Khanbabi was then appointed Interim CEO with effect from 10 August 2019 and remained in post as at 31 December 2019. From 1 January 2020 to 4 March 2020 Fariyal Khanbabi was remunerated on the same Interim CEO basis, and then from 5 March 2020 to 31 December 2020, she was remunerated on the basis of the permanent CEO package. Details of the payments to each of them are set out on page 85.

The amounts for CEO salary and benefits set out in the table represent a blended rate calculated pro rata to the time spent in 2019 as CEO by each of Marty Rapp and Fariyal Khanbabi and pro rata to the period of time spent in 2020 by Fariyal Khanbabi as Interim CEO and permanent CEO. This calculation is formulaic (as set out in the relevant regulations). The reduction in CEO salary of 4% is based on a normalised salary for 2020 before the voluntary COVID-19 related salary reduction. If this is included, the salary reduction increases to 12% year on year. No bonuses were payable in relation to 2019 or 2020 and no PSPs vested. The main benefits provided include healthcare, life insurance and car allowance. There has been no change in the level of benefits provided to Group employees.

Please note that the above disclosures are statutory disclosures and the Committee welcomes this level of disclosure in principle. However, in light of the changing remuneration levels across the last two years caused by role changes and the impact on remuneration levels of COVID-19, the Committee believes that: (a) the ratios set out are unlikely to reflect the long-term ratios; and that, (b) the movement in values year on year is not necessarily indicative of any likely movement in future years.

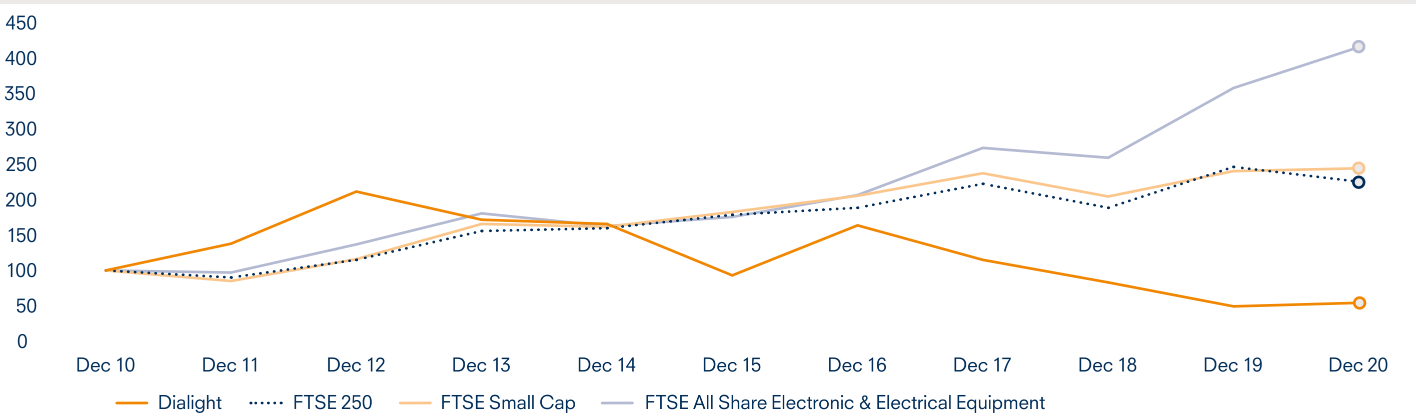
Relative importance of spend on pay

The table below shows the total amount paid by the Company to its employees (excluding severance costs) for each of 2019 and 2020 relative to the total amount of distributions in each year.

	Spend on pay	Distributions
2020	**£27.2m**	£0m
2019	£34.4m	£0m

Performance graph and table

The graph below sets out the Company’s TSR performance over the past 10 years relative to the FTSE 250 Mid Index (excluding investment trusts), the FTSE SmallCap Index (excluding investment trusts) and the FTSE All-Share Electronic and Electrical Equipment Index, indices of which Dialight has been a constituent over the period.



Source: Datastream

The table below sets out the “single figure” of total remuneration of the Chief Executive Officer over the past nine years:

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	R Burton	R Burton	R Burton	R Burton/ R Stuckes/ M Sutsko [1]	M Sutsko	M Sutsko	M Rapp	M Rapp/ F Khanbabi [2]	F Khanbabi [3]
Total remuneration (£’000)[4]	£3,002	£1,222	£901	£681	£1,145	£583	£586	£562	£447
Bonus outcome (% of max)	67	0	29	0	74	0	0	0	0
PSP vesting outcome (% of max)	100	100	0	0	0	0	n/a	0	0

1 R Burton January and February, R Stuckes March to June and M Sutsko July to December.

2 M Rapp to 9 August, F Khanbabi as interim CEO from 10 August.

3 F Khanbabi as interim CEO to 4 March, and as permanent CEO from 5 March.

4 All historic USD figures translated using the average 2020 GBP:USD rate of 1.28 to avoid currency impacts.

PSP awards made in 2020 and reduction in award level to reflect share price movement (audited information)
Awards granted to Fariyal Khanbabi in 2020 are measured against EPS and TSR on the following basis.

50% of the awards made are tested against an EPS metric under which: (a) no part of the EPS award will vest if the Company's EPS across the three-year vesting period is below 24.3 pence; (b) 25% of the EPS award will vest if the Company's EPS across the three-year vesting period equals 24.3 pence; and, (c) rising on a straight-line basis to 100% of the EPS award vesting if the Company's EPS across the three-year vesting period equals or exceeds 39.7 pence.

The remaining 50% of the awards made are tested under a TSR metric under which: (a) no part of the TSR awards will vest if the percentage increase in the Company's TSR over the three-year vesting period is below the percentage increase in the TSR of the comparator index; (b) 25% of the TSR awards will vest if the percentage increase in the Company's TSR across the testing period is equal to the percentage increase in the TSR of the comparator index across the same period; and (c) rising on a straight-line basis to 100% of the TSR awards vesting if the percentage increase in the Company's TSR across the testing period is equal to the increase in the TSR of the comparator index plus 10% per annum. The comparator index for these purposes is the FTSE SmallCap Index, excluding investment trusts.

The total amount of nil cost options awarded to Fariyal Khanbabi in 2020 was reduced by 25% to reflect a significant fall in the Company's share price between March 2019 and March 2020 – a total fall in the share price of 48.7%. In setting this award reduction percentage, the Committee received advice from Mercer on the appropriate level of the reduction. It was noted that some of the fall in the share price may be attributable to the emerging impact of COVID-19, but the Committee decided not to exclude this impact (in calculating the appropriate award reduction), so as to maintain the strong linkage between share-based remuneration and the impact of COVID-19 on shareholders.

If the 2021 AGM approves the proposed 2021 Remuneration Policy, then the vesting criteria for future awards (including 2021 PSP awards) will be on the basis set out in the proposed 2021 Remuneration Policy (on pages 75 to 83). A mandatory two-year post-vesting holding period will apply to any shares received by Executive Directors on the vesting or exercise of the 2020 PSP awards.

The 2020 awards made to the Executive Directors are set out below:

Director	Plan	% of salary awarded	Nature of interest	Exercise price per share	Number of shares subject to an award	Face value of an award[1]	Performance conditions	Date of grant of award	Date of end of performance period
Fariyal Khanbabi	PSP	94%	Nil-cost option	n/a	201,367	£412,500	TSR (50%) and EPS (50%)	27.03.20	31.12.22
Wai Kuen Chiang[2]	–	–	–	–	–	–	–	–	–

1 Based on five-day average share price on date of award of £2.0485.

2 Wai Kuen Chiang joined the Group on 1 October 2020 and will be eligible for PSP grants in 2021.

Payments to past Directors or for loss of office (audited information)
There were no exit payments to past Directors during the reporting period and no past Director became entitled to any vesting of awards under prior APBP and/or PSP schemes.

Implementation of the Remuneration Policy for 2021
2020 remuneration Policy and proposed changes in 2021
The proposed changes to the 2020 Remuneration Policy under the 2021 Remuneration Policy are set out in more detail on pages 71 to 76. These changes only relate to the replacement of the Performance Share Plan with a Restricted Share Plan and a strengthening of Executive Director shareholding and share-retention requirements. The remaining elements of the 2020 Remuneration Policy are unchanged.

Executive Director salaries, pensions and benefits
Where there are any new appointments of Executive Directors in 2021, remuneration packages (including base pay) will be compliant with the 2020 Remuneration Policy and/or 2021 Remuneration Policy (as applicable, depending on the outcome of the Company's 2021 AGM). When setting base pay for Fariyal Khanbabi and Wai Kuen Chiang in 2020, the Remuneration Committee applied the 2020 Remuneration Policy in line with benchmarking and specific advice provided by the Company's external remuneration consultants. In setting an appropriate level of base pay, the Committee was mindful of balancing the need to achieve material reductions in overall Executive Director remuneration (as against predecessors in role) against fairness and the need to ensure a strong alignment with shareholder interests.

The Committee has adopted a clear and principled approach to the setting of Executive Director pension contributions. Under the 2020 Remuneration Policy, all Executive Director pension contributions will be capped at the amount offered in the applicable jurisdiction to the majority of employees. At the present time, in the case of UK-based Executive Directors, this means pension contributions being limited to 5% of base salary.

APBP

The 2021 APBP bonus scheme for Fariyal Khanbabi and Wai Kuen Chiang will be in line with that set out in the 2020 Remuneration Policy. Specifically: 25% of the available bonus opportunity will be tested against personal objectives, 25% against a cash conversion metric; and, 50% against an EBIT metric. Details of the personal objectives and the other performance metrics will be released in the Company's 2021 Annual Report, but in outline they include:

Any bonus payable in excess of target performance (50% of the bonus opportunity) will be paid in shares. 50% of such shares will vest after two years of award date and 50% after three years of award date. Any shares vesting will have to be retained until such time as the recipient meets the applicable shareholding guidelines (which, subject to shareholder approval at the 2021 AGM, will be increased to 200% of base salary).

PSP

The 2021 share scheme awards for Executive Directors will be made following the 2021 AGM and, subject to shareholder approval, follow the structure set out in the 2021 Remuneration Policy (as explained in more detail on pages 71 to 72 and 77) – i.e. to a maximum of 62.5% of base salary (representing a reduction in CEO award value of 50% against the previous PSP scheme, but where the vesting will be based on continuation in role). Any shares that vest after the three year performance period will have to be retained until such time as the recipient meets the applicable shareholding guidelines (which, subject to shareholder approval at the 2021 AGM, will be increased to 200% of base salary).

Outstanding awards under the PSP and APBP (audited information)

	Type of award	Award date	Number at 1.1.20	Awarded in year	Vested in year	Exercised in year	Lapsed in year	Number at 31.12.20	Exercise price	Earliest vesting/ exercise date	Expiry date
Fariyal Khanbabi											
APBP	NCO	09.03.17	1,192	–	(1,192)	–	–	–	–	31.01.20	10.03.22
PSP	NCO	24.03.17	26,588	–	–	–	(26,588)	–	–	24.03.20	24.03.22
PSP	NCO	16.03.18	50,862	–	–	–	–	50,862	–	16.03.21	16.03.23
PSP	NCO	05.03.19	68,803	–	–	–	–	68,803	–	05.03.22	05.03.24
PSP	NCO	27.03.20	–	201,367	–	–	–	201,367		27.03.23	27.03.25
Total			**147,445**	**201,367**	**(1,192)**	**-**	**(26,588)**	**321,032**			

Notes:

Of the 2,384 deferred share options originally awarded to Fariyal Khanbabi under the APBP in 2017, 1,192 had vested on 31 January 2019 and the balance on 31 January 2020.

NCO denotes nil-cost options. These are subject to applicable performance conditions.

The average closing market price of a share over the five trading days of 20 March 2020 to 26 March 2020, which was used for the purpose of calculating award values on 27 March 2020, the date of the awards recorded in the tables above as made during the year, was 204.85 pence. This was then subject to a 25% reduction to reflect the fall in the share price between March 2019 and March 2020.

Options under the PSP scheme are exercisable for two years from the date of vesting. Awards granted since 2018 are subject to a mandatory two-year post-vesting holding period.

Options under the APBP are exercisable for five years from the date of grant.

Under the APBP scheme, awards vest 50% on or after 31 January in the second year after grant with the remaining 50% vesting on or after 31 January in the third year after grant.

During the year, the range of share prices was 170 pence to 340 pence, with the price on 31 December 2020 being 259.5 pence.

Executive Directors' shareholding guidelines

Executive Directors are currently required (under the 2020 Remuneration Policy) to accumulate and maintain a holding of Dialight shares equivalent in value to 100-125% of base salary and are required to retain all net of tax APBP and PSP share vestings until the guidelines have been met. All Dialight shares, whether purchased on the open market or received through vestings and/or exercises under the various Dialight share plans, are included in the relevant calculation. The Dialight share price used to value a holding for the purposes of the guidelines will be the higher of:

(a) the prevailing price on the date that the holding is valued; and

(b) the acquisition price (i.e. the price on the date on which the awards were acquired).

The Remuneration Committee is aware of the significance of Executive Directors having a personal holding of shares in Dialight as that creates an alignment of management's interests with those of the shareholders and is proposing to strengthen the shareholding guidelines under the terms of the proposed 2021 Remuneration Policy. Fariyal Khanbabi's current shareholding position reflects the fact that none of her PSP awards have vested in recent years. Although the Committee recognises that Fariyal Khanbabi has not yet acquired the shareholding required (under the 2020 Remuneration Policy), the Remuneration Committee acknowledges the mitigating circumstances surrounding this issue and welcomes the purchase of shares by Fariyal Khanbabi on 29 April 2020. The holdings of ordinary shares in the Company as at 31 December 2020 by the Executive Directors are included in the table below.

Total shareholding of Directors (audited information)

The table below shows the holdings of ordinary shares in the Company as at 31 December 2020 by each of the Directors:

	Beneficially-held shares[1]		
	Ordinary shares at 1 January 2020	Ordinary shares at 31 December 2020[2]	Unvested and/or subject to performance conditions[3]
Fariyal Khanbabi	7,300	12,389	321,032
Wai Kuen Chiang	–	–	–
Stephen Bird	41,728	41,728	–
David Blood	–	–	–
Gotthard Haug	–	–	–
Gaëlle Hotellier	882	882	–
Karen Oliver	–	–	–
David Thomas	5,994	5,994	–

1 Some of these shares may be held through nominees.

2 No shares of Fariyal Khanbabi's 2016 APBP were sold to settle the tax liability associated with the vesting of her 2016 APBP.

3 Relates to outstanding awards under the PSP.

Directors' service agreements and letters of appointment

The dates on which Directors' initial service agreements/letters of appointment commenced and the expiry dates as at 31 December 2020 are as follows:

	Commencement date	Expiry date of current employment/service agreement or letter of appointment
Chairman and Executive Directors		
David Blood	1 July 2015	David entered into a new letter of appointment in respect of his appointment as chair on 5 August 2019.
Fariyal Khanbabi	8 September 2014	The contract is terminable by the Company or the Director on 12 months' notice. Fariyal entered into a new service agreement on 4 March 2020 upon assuming the CEO role. She retains continuity of service from her earlier agreement entered into on 8 September 2014 (in respect of her CFO role) and supersedes both the arrangements put in place upon her assuming the interim CEO role and her previous contractual entitlement to a higher pension contribution.
Wai Kuen Chiang	1 October 2020	The contract is terminable by the Company or the Director on 6 months' notice.
Non-Executive Directors		
Stephen Bird	10 January 2013	Letter of appointment was for an initial term of three years. During 2016, this was extended for a further three-year period. A further three-year extension was agreed in 2019.
Gotthard Haug	1 April 2020	Letter of appointment was for an initial term of three years.
Gaëlle Hotellier	3 October 2016	Letter of appointment was for an initial term of three years. A further three-year extension was agreed in 2019.
Karen Oliver	1 April 2020	Letter of appointment was for an initial term of three years.
David Thomas	26 April 2016	Letter of appointment was for an initial term of three years. A further three-year extension was agreed in 2019.

Other statutory information

Activities
Dialight plc is a holding company. A list of its subsidiary companies, including its overseas branches, is set out on pages 139 and 140. Our businesses by sector and their activities are set out on pages 4 and 5.

Ordinary dividends
Under the terms of the COVID-19 CLBILS (£8m) and associated additional commercial loan (£2m) facilities, distributions are not permitted where there is an outstanding amount under either facility. The Board is therefore not proposing any final dividend payment for 2020 (2019: nil). The Group has a clear capital allocation discipline and is committed to returning future excess funds to shareholders via future dividend or share repurchase, subject to any restrictions under these facilities.

The Company has established the Dialight Employees' Share Ownership Plan Trust ("ESOT"), in respect of which all employees of the Group, including Executive Directors, are potential beneficiaries. The ESOT held no shares as at 31 December 2020 (2019: nil) although it is likely that it will acquire Dialight shares in 2021 in anticipation of future vestings under the PSP and/or DRSP. It is anticipated that the ESOT will waive any right to dividends payable in respect of any Dialight shares held by the ESOT.

Share capital and capital structure
Details of the share capital, together with details of the movements in the share capital during the year, are shown in note 19 to the financial statements. The Company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no other classes of share capital. There are no specific restrictions on the size of a holding nor on the transfer of shares, with both governed by the general provisions of the Articles of Association (the "Articles") and prevailing legislation. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. No purchases by the Company of its own shares were made in 2020 under the authority granted at the 2020 Annual General Meeting ("AGM).

Rights and obligations of ordinary shares
Holders of ordinary shares are entitled to attend and speak at general meetings of the Company and to appoint one or more proxies or, if the holder of shares is a corporation, one or more corporate representatives.

On a show of hands, each holder of ordinary shares who (being an individual) is present in person or (being a corporation) is present by a duly appointed corporate representative, not themselves being a member, shall have one vote, as shall proxies (unless they are appointed by more than one holder, in which case they may vote both for and against the resolution in accordance with the holders' instructions).

On a poll, every holder of ordinary shares present in person or by proxy shall have one vote for every share of which they are the holder. Electronic and paper proxy appointments and voting instructions must be received not later than 48 hours before the meeting. A holder of ordinary shares can lose the entitlement to vote at general meetings where that holder has been served with a disclosure notice and has failed to provide the Company with information concerning interests held in those shares. Except as set out above and as permitted under applicable statutes, there are no limitations on voting rights of holders of a given percentage, number of votes or deadlines for exercising voting rights.

Restrictions on transfer of shares
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. There are no other restrictions on the transfer of ordinary shares in the Company except certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws). The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Employee share plans
Details of employee share plans are set out in note 21 to the financial statements. The Company currently has in place two share plans: the Performance Share Plan (PSP) and the Annual Performance Bonus Plan (APBP). It also has a Sharesave Plan, but this was not used for subscriptions in 2020 as it is a UK-orientated scheme and was considered insufficiently responsive to the Group's international employee footprint. There are currently no active savers under the Sharesave Plan. Further details of these share plans are provided in the report of the Remuneration Committee.

The rules of the PSP provide that, in the event of a change of control through a general offer or scheme of arrangement, shares subject to awards under the PSP could be released within one month of the date of notification of the likely change of control. The rules of the Sharesave Plan have special provisions which also allow for early exercise in the event of a change of control, reconstruction or winding up of the Company. Internal reorganisations do not automatically trigger the early exercise of options.

The ESOT held no shares as at 31 December 2020 (2019: nil) although it is likely that it will acquire Dialight shares in 2021 in anticipation of future vestings under the PSP. The Trustees of the ESOT retain the voting rights over the shares held in the ESOT and may exercise these rights independent of the interests of the Company.

Appointment and replacement of Directors
With regard to the appointment and replacement of Directors, the Company is governed by its Articles, the UK Governance Code (the "2018 Code"), the Companies Act 2006 and related legislation. Directors can be appointed by the Company by ordinary resolution at a general meeting or by the Board. If a Director is appointed by the Board, such Director will hold office until the next annual general meeting and shall then be eligible subject to Board recommendation, for election at that meeting.

In accordance with Provision 18 of the 2018 Code each of the Directors, being eligible, will offer themselves for election or re-election at this year's AGM (subject to any retirements). The Company can remove a Director from office, either by passing a special resolution or by notice being given by all the other Directors. The Articles themselves may be amended by special resolution of the shareholders.

As announced by the Company on 3 June 2020, and confirmed on 2 October 2020, Wai Kuen Chiang was appointed to the Board on 1 October 2020 as an Executive Director and Chief Finance Officer. Her appointment and continuing membership of the Board are both subject to election at the Company's 2021 AGM.

Powers of Directors
The powers of Directors are described in the Articles and in the Matters Reserved for the Board, copies of which are available on the Company's website at www.ir.dialight.com, and are summarised in the Corporate Governance Report on page 56.

Essential contracts and change of control
The Directors are not aware of there being any significant agreements that contain any material change of control provisions to which the Company is a party, other than in respect of the five-year unsecured £25m multi-

currency revolving credit facility with HSBC Bank plc ("HSBC") which was entered into on 25 February 2020 for an initial duration of three years expiring on February 2023. A £10m CLBILS facility and commercial loan facility was completed on 15 June 2020. Under the terms of both facilities, and in the event of a change of control of the Company, HSBC can withdraw funding and all outstanding loans, accrued interests and other amounts due and owing become payable within 20 business days of the change.

Allotment authority
Under the Companies Act 2006, the Directors may only allot shares if authorised by shareholders to do so. At the 2021 AGM, an ordinary resolution will be proposed which, if passed, will authorise the Directors to allot and issue new shares up to an aggregate nominal value that is in line with Investment Association guidelines. In accordance with the Directors' stated intention to seek annual renewal, an authority granted at the 2021 AGM will expire at the conclusion of the AGM of the Company in 2022. Passing this resolution will give the Directors flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares.

The Companies Act 2006 also requires that, if the Company issues new shares for cash or sells any treasury shares, it must first offer them to existing shareholders in proportion to their current holdings. At the 2021 AGM, a special resolution will be proposed which, if passed, will authorise the Directors to issue a limited number of shares for cash and/or sell treasury shares without offering them to shareholders first. The authority is for an aggregate nominal amount of up to 10% of the issued share capital of the Company as at the relevant date set out in the notice of the 2021 AGM, of which 5% of the issued share capital can only be issued for the purposes of financing an acquisition or other capital investment.

The Company remains mindful of the minority vote against the allotment authorities sought at the 2020 AGM. Whilst it believes that it is entirely appropriate (not least for administrative purposes), and in line with good corporate practice, to seek the allotments that will be set out in the notes accompanying the resolutions to be considered at the 2021 AGM (the "Notes"), it has again provided additional assurance, in the Notes, for shareholders with regards to the circumstances under which such powers may be exercised.

Substantial interests in shares
As at 9 March 2021, the Company had been notified, in accordance with DTR chapter 5, of the following voting rights as a shareholder of the Company.

Shareholder	Holding	% Voting rights
Generation Investment Management LLP	6,532,248	20.06
Sterling Strategic Value Fund S.A., SICAV-RAIF	4,504,940	13.83
Aberforth Partners LLP	3,949,827	12.13
Schroder Investment Management	3,690,575	11.33
DBAY Advisors	3,285,952	10.09
Impax Asset Management	2,794,224	8.58
Blackmoor Investment Partners	1,212,440	3.72
BlackRock Investment Management	579,163	1.78
Legal & General Investment Management	577,934	1.77
Tee Family	546,389	1.68

Auditor
Each of the persons who is a Director at the date of approval of this Annual Report and Accounts confirms that:

— so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
— the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006. The Board is recommending to shareholders the re-appointment of KPMG as auditor of the Company and a resolution authorising the Directors to set its remuneration will be proposed at the forthcoming AGM. However, shareholders' attention is drawn to the matters set out on page 66 in respect of the audit re-tender.

AGM
The Company's AGM will be held on 19 May 2021. The Notice of Meeting, together with an explanation of the proposed resolutions, is enclosed with this Annual Report and Accounts and is also available on the Company's website at www.ir.dialight.com. Further details are set out on page 58.

Scope of the reporting in this Annual Report and Accounts
The Directors present their Annual Report on the affairs of the Group, together with the financial statements and Auditor's Report, for the year ended 31 December 2020.

The Corporate Governance report set out on pages 48 to 61, which includes details of the Directors who served during the year, forms part of this report.

There have been no significant events since the balance sheet date. An indication of the likely future developments in the business of the Company and details of research and development activities are included in the Strategic Report on pages 14 to 19. Details related to employee matters are in the "Our people" section on pages 28 and 29. Environmental matters, including greenhouse gas emissions reporting, are included within the ESG Report on pages 24 to 27. Information about the use of financial instruments by the Company and its subsidiaries is given in note 25 to the financial statements. Information on the Company's political and charitable contributions during the year is set out on page 32.

For the purposes of compliance with DTR 4.1.5 R(2) and DTR 4.1.8 R, the required content of the management report can be found in the Strategic Report and these regulatory disclosures, including the sections of the Annual Report and Accounts incorporated by reference.

By order of the Board.

Richard Allan
Company Secretary

29 March 2021

Directors' responsibility statement

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 international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

In addition the Group financial statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU").

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 the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("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;
- assess the Group and parent Company ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting, unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 Strategic Report, a Directors' report, a Directors' Remuneration Report and a 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 consolidation taken as a whole; and
- the Directors' and Corporate governance reports include 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.

We consider the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

For and on the behalf of the Board of Dialight plc.

Fariyal Khanbabi
Group Chief Executive

29 March 2021

FINANCIAL STATEMENTS

Independent auditor's report to the members of Dialight plc

1. Our opinion is unmodified

We have audited the financial statements of Dialight plc ("the Company") for the year ended 31 December 2020 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, Consolidated statement of financial position, Consolidated statement of cash flows, Company balance sheet, Company statement in changes in equity and the related notes, including the accounting policies in note 3 (page 112) and note 2 (page 148).

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 2020 and of the Group's loss for the year then ended;

— the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;

— the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and

— 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 to the extent applicable.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors in 2001. The period of total uninterrupted engagement is for the 19 financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£0.55m (2019: £0.54m) 0.5% (2019: 0.33%) of Group revenue	
Coverage	99% (2019: 91%) of Group loss before tax	
Key audit matters		**vs 2019**
Recurring risk	Going Concern	
	Inventory cost and valuation	
	New: Recoverability of goodwill	
	Valuation of capitalised development costs	
Event driven	Termination of outsourced manufacturing supply agreement	

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Recurring risk	The risk	Our response
Going concern See note 2 to the Group financial statements.	**Disclosure quality** The financial statements explain how the Board have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The key risks relate to continuity and on time supply of materials into the business which has been impacted as a result of the COVID-19 outbreak and also the timely delivery of final product to customers. Challenges in the management of the supply chain to address these risks have contributed to declining revenues and margins over the past reporting periods. With potential for further impact arising from the COVID-19 outbreak, these risks might affect the Group's and Company's financial resources or ability to continue operations at an appropriate economic level over a period of at least a year from the date of approval of the financial statements. The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have required to have been disclosed.	We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period. We did this by assessing the directors' sensitivity analysis over the level of available financial resources and covenant thresholds indicated by the Group's financial forecasts taking account of severe, but plausible, adverse effects that could arise from these risks individually and collectively. Our procedures also included: — **Funding assessment:** obtaining confirmation letters for the loan and cash balances at 31 December 2020. Obtaining and inspecting the revisions to the facilities' agreements, signed on 23 March 2021, in respect of covenant amendments and assessed the forecasts going forward in light of the new terms to identify any expected future covenant breaches or liquidity shortfalls. — **Historical comparisons:** we compared previous cash flow forecasts against actual cash flows achieved in the year and in previous years to assess historical reliability of the forecasting. — **Benchmark assumptions:** we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of severe but plausible downsides that could arise from these risks individually and collectively; — We challenged the directors' stress testing of forecast revenue, forecast gross profit margin and forecast reduction of inventory applied in the calculation of the forecast covenant tests as initially presented to us and also after amendments made during the audit process. — **Our experience:** we used our own sector experience to assess and challenge the key assumptions in the cash flow forecasts. — **Evaluating directors' actions and intent:** we evaluated both actions already taken, as well as those intended to be taken, by the directors in respect of achieving cost savings and improving manufacturing productivity, e.g. inspecting new supply contracts for improved pricing. We also evaluated the timing and achievability of proposed cost saving actions the Directors consider they would take to improve the position, should the risks materialise, by reference to our understanding of the business. — **Assessing transparency:** we assessed the completeness and accuracy of the matters covered in the going concern disclosure with reference to the outcome of the procedures detailed above. Our results: We found the going concern disclosure in note 2 without any material uncertainty to be acceptable (2019 result: disclosure of the material uncertainty acceptable).

2. Key audit matters: our assessment of risks of material misstatement continued

Recurring risk	The risk	Our response
Inventory valuation and cost (£32.5 million; 2019: £46.1 million) Refer to page 67 (Audit Committee Report), page 115 (accounting policy) and page 130 (financial disclosures).	**Subjective estimate: inventory provision** In 2018, the Group terminated a major outsourcing agreement and brought production back 'in house', resulting in a significant level of inventory being carried. As the Group continues to develop its own manufacturing processes, developments in those processes and product technology may result in inventory becoming slow moving or obsolete. These factors, in turn, may mean that inventory cannot be sold or sales prices are discounted to less than the inventory carrying value. Dialight continues to carry relatively high levels of inventory increasing the risk of provision. During the year, the Group changed its inventory provisioning estimate in relation to certain raw materials, sub-assemblies and finished goods. Provisions for inventory are now assessed on a product by product basis within categories. The category allocation is based upon management's assessment after considering the historical and forecast usage as well as the market development, technological and regulatory evolvement specific to the inventory product as set out in the Group's policy in note 17. There is significant judgement in determining the suitability of the estimate applied by the Group. There is significant judgement in determining an individual product's category allocation. In addition, we consider there is a fraud risk relating to inventory provisioning as a provision can be manipulated in order to create an artificial improvement in trading performance.	Our procedures included: — **Tests of detail:** we recalculated the raw materials, sub assemblies and finished goods provisions based on the methodology provided by management. — **Tests of detail:** we sampled inventory products that had not been either partially or fully provided for. For each inventory product selected we challenged management on their category allocation by forming our own view of what might be considered slow moving and seeking specific corroboration from the Group's engineering team on the continuing value and utility of such inventory. — **Tests of detail:** we verified data elements in the provision calculation such as historic usage back to supporting documentation. — **Assessing transparency:** we assessed the adequacy of the Group's disclosures about the judgments applied and degree of estimation involved in arriving at the provision. This included assessing whether reasonably possible outcomes that could have resulted in a higher provision were made clear. We performed the detailed tests above rather than seeking to rely on any of the Group's controls because our knowledge of the design of these controls indicated that we would be unlikely to obtain the required evidence to support reliance on controls.

Recurring risk	The risk	Our response
Inventory valuation and cost (£32.5 million; 2019: £46.1 million) Refer to page 67 (Audit Committee Report), page 115 (accounting policy) and page 130 (financial disclosures).	**Subjective estimate: allocation of costs to inventory** The Group's methodology for capitalisation of overhead costs, freight costs and certain labour costs to inventory requires use of estimates of the amount to be absorbed. The Group's estimate allocates costs into pools and capitalises a percentage of these based on weighted average inventory turnover days. Freight costs are determined by comparing the level of inventory at year end with the amount of material costs in cost of sales which gives the number of days of freight costs to be capitalized. This is detailed in note 2 of the financial statements. There is a risk that the total balance of capitalised cost can vary materially depending on the estimates used in determining the average inventory turnover days. We also consider there to be a fraud risk that costs are incorrectly capitalised to inventory in such a way as to manipulate the results for the year to include either more or fewer costs in the income statement. The effect of both of these matters in relation to inventory is that, as part of our risk assessment, we determined that the valuation of inventory has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 2) disclose the sensitivity estimated by the Group.	Our procedures included: — **Accounting analysis:** We assessed the appropriateness of the Group's policy relating to costs allocated to inventory and its compliance with accounting standards. We selected costs on a sample basis that were allocated to inventory and checked the nature and amount of these costs to invoices and timesheets. — **Tests of detail:** we assessed the inventory turns calculation methodology, including the formulas and key inputs, that was used in determining the amount of labour and overhead costs allocated to inventory. We recalculated the amount of freight costs allocated to inventory by multiplying inventory turn days against actual freight costs incurred over the corresponding time period. We evaluated the underlying allocation methodology and assumptions. — **Historical comparison:** we assessed the methodologies for allocating costs to inventory against those used in prior year and evaluated the changes against our understanding of changes in business. — **Sensitivity analysis:** we assessed the overall impact of an increase or decrease in the inventory turns used on a daily basis to assess the sensitivity of the allocation to key assumptions. — **Assessing transparency:** we assessed the adequacy of the Group's disclosures about the degree of estimation involved in determining the amount of overhead, freight and relevant labour costs to allocate to closing inventory. We performed the detailed tests above rather than seeking to rely on any of the Group's controls because our knowledge of the design of these controls indicates that we would be unlikely to obtain the required evidence to support reliance on controls. Our results: We found the resulting estimate of the carrying value to be acceptable (2019: acceptable).

2. Key audit matters: our assessment of risks of material misstatement continued

New risk	The risk	Our response
Recoverability of goodwill and other intangible assets (Goodwill:£8.5 million; 2019: £8.7 million Other intangible assets: £12.7 million; 2019: £12.6 million) Refer to page 114 (accounting policy) and page 126 (financial disclosures)	**Subjective estimate:** The Lighting CGU operates within a market subject to high degrees of competition and cost rises which provide challenges. All goodwill recognised is allocated to the Lighting CGU. The Lighting CGU also includes significant intangible assets comprising capitalised development costs. Recoverable amount of Lighting CGU is determined based on value in use calculation. Recoverability of goodwill and other intangible assets is subject to estimation in terms of the assumptions used and inherent uncertainty involved in forecasting the future cash flows that are used in the Group's discounted cash flow models. The key assumptions are gross margin growth rate, discount rate, terminal growth rate and apportionment of stewardship costs. A downturn in revenues in recent years has increased the risk of recoverability of goodwill and other intangible assets. The effect of these matters is that, as part of our risk assessment for audit purposes we determined that the value in use of goodwill has a high degree of estimation uncertainty with a potential range of reasonable outputs greater than our materiality for the financial statements as a whole.	Our procedures included: — **Historical comparison:** assessing the reasonableness of the Group's forecasting by comparing actual performance for the year against forecasts for the same period in the prior year model; — **Benchmark assumptions:** evaluating the Group's assumptions included within the discounted cash flow forecasts by comparing key inputs such as projected gross margins, discount rate, terminal growth rate and apportionment of stewardship costs to internally and externally derived data; — **Sensitivity analysis:** performing sensitivity analysis on the key assumption mentioned above; — **Assessing transparency:** assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the carrying amount of goodwill. We performed the detailed tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that would expect to obtain audit evidence primarily through the detailed procedures described. Our results: We found the resulting estimate of the carrying value of goodwill to be acceptable. Having found the estimate of the recoverable amount to be at the high end of the range we consider to be acceptable, we exercised judgement to determine the acceptability of the amount recognised, taking into account the clarity of the associated disclosure of the sensitivity of key assumptions.

Recurring risk	The risk	Our response
Capitalisation of development costs (£10.3 million; 2019: £10.3 million) Refer to page 67 (Audit Committee Report), page 111 (accounting policy) and page 126 (financial disclosures).	**Accounting treatment** The Group has significant intangible assets including capitalised development costs. Judgement is applied in assessing the ultimate commercial viability of the projects and therefore whether related costs should be capitalised or should be expensed. Once capitalised, there remains risks that costs may not be recovered in full. We have identified a fraud risk that development costs could be incorrectly capitalised to manipulate the results for the year.	Our procedures included: — **Personnel interview:** we enquired with the Technology and Engineering Director about specific projects to understand their status. For closed projects, we enquired whether they were revenue generative or included within the forecasts to be revenue generative. For open projects, we enquired about and challenged the commercial viability of those projects against our understanding of the Group. — **Test of details:** we assessed the Group's policy for capitalisation of development costs and its compliance with accounting standards. We selected costs on a sample basis that were capitalised and checked the nature and amount of these costs to invoices and timesheets. — **Benchmarking assumptions:** for a sample of capitalised projects costs, we challenged the commercial viability of the projects through assessing forecast sales data, with reference to external evidence (where available), actual sales and gross margin achieved during the year and directors' intent to continue development. — **Accessing transparency:** we assessed the adequacy of the Group's disclosures outlining the judgement involved in assessing the carrying amount of the capitalised development costs. We performed the detailed tests above rather than seeking to rely on any of the Group's controls because our knowledge of the design of these controls indicate that we would be unlikely to obtain the required evidence to support reliance on controls. Our results: We found the carrying value of the capitalised development costs to be acceptable (2019: acceptable).

2. Key audit matters: our assessment of risks of material misstatement continued

Event driven risk	The risk	Our response
Termination of outsourced manufacturing supply arrangement: Group and Parent Refer to page 67 (Audit Committee Report), page 111 (accounting policy) and page 141 (financial disclosures).	**Accounting treatment** On 20 December 2019, there was a claim brought against the Parent by its former outsourced manufacturing partner ('the claimant') of £7.5m ($9.9m) relating to excess and obsolete inventory and unpaid trade payables balances, netted off with an amount held for the account of the Parent. Following the termination of the Group's manufacturing supply agreement, the claimant has asserted that it should be reimbursed for this excess and obsolete inventory. The claim has been disclosed as a contingent liability and has not been recognised as a provision in the Group's financial statements. There is significant judgement involved in determining the likelihood of success of the claim, and if the claimant is successful, the potential range of reasonable financial outflows in settlement could be greater than our materiality for the financial statements as a whole, and possibly many times that amount	Our procedures included: — **Enquiry of lawyers:** we assessed the status and likely outcome of the claim through enquires of the Group's internal legal counsel and inspection of internal notes and reports, as well as discussions with and written correspondence from the Group's external counsel. — **Tests of detail:** we have inspected the terms of the contract with the manufacturer to assess whether the contract supports the claim made by the outsource provider that the Group are responsible for the purchase of or reimbursement for excess and obsolete inventory. — **Accounting analysis:** we challenged the assessment performed by the Directors to determine whether the criteria for recognising a provision or a contingent liability was met at year end. — **Assessing transparency:** we assessed whether the Group's and parent company's disclosures relating to the contingent liability and related balances adequately disclose the circumstances and judgement applied. Our results: We found the treatment and disclosure of this contingent liability to be acceptable. (2019: acceptable)

We continue to perform procedures over management override of controls. However, following increased segregation of duties amongst the senior executive team, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

We continue to perform procedures over alternative performance measures (APMs). However, following a reduction in the quantum and use of alternative performance measures, in particularly unaudited proforma numbers, in the current year Group financial statements, we have not assessed this as a significant risk in our current year audit and, therefore, it is not separately identified in our report this year.

We continue to perform procedures over revenue recognition. However, following a number of reporting periods where no misstatements have been identified in our procedures, we have rebutted the significant risk of fraud over revenue. This is explained in further detail in section 5. Our procedures over revenue recognition remain unchanged year on year.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £0.55 million (2019: £0.54m), determined with reference to a benchmark of total revenue, of £119m, of which it represents 0.5% (2019: 0.33% of Group revenue. We consider total revenue to be the most appropriate benchmark given the recent volatility in the Group's profitability benchmarks.

Materiality for the parent company financial statements as a whole was set at £0.3m (2019: £0.4m), determined with reference to a benchmark of gross assets, of which it represents 0.5% (2019: 0.6%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2019: 75%) of materiality for the financial statements as a whole, which equates to £0.4m (2019: £0.4m) for the Group and £0.2m (2019: £0.4m) for the parent company.

We applied this percentage in our determination of performance materiality based on the level of identified control deficiencies and entity level control deficiencies identified during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £27,000 (2019: £27,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's eight (2019: eight) reporting components, we subjected three (2019: four) to full scope audits for Group purposes and two (2019: one) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audits for Group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages illustrated opposite.

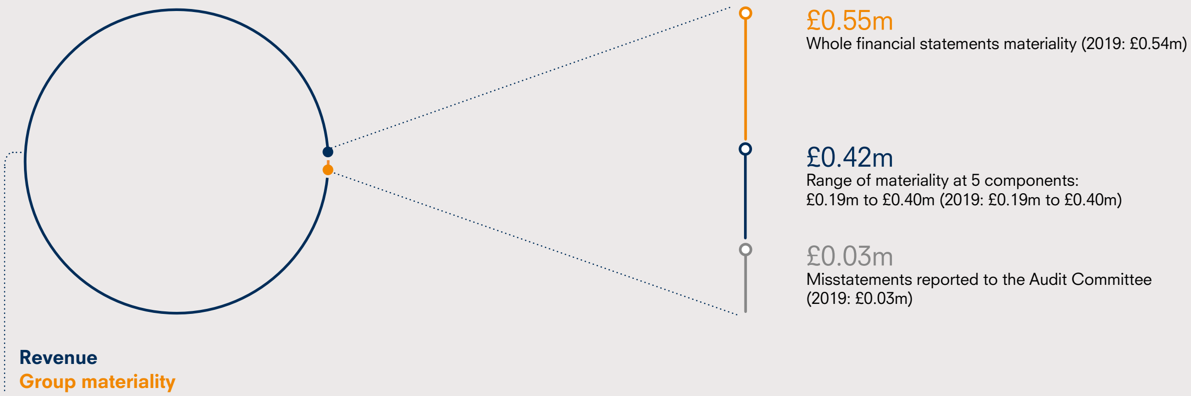
The remaining 3% of total Group revenue (2019: 5%), 0% of the total Group loss before tax (2019: 9% of Group loss before tax) and 3% of total Group assets (2019: 4%) is represented by three of the reporting components (2018: three), none of which individually represented more than 3% of any of total Group revenue, Group loss before tax or total Group assets. For these residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.19m to £0.40m (2019: £0.19m - £0.4m), having regard to the mix of size and risk profile of the Group across the components. The work on two of the eight components (2019: two of the eight components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

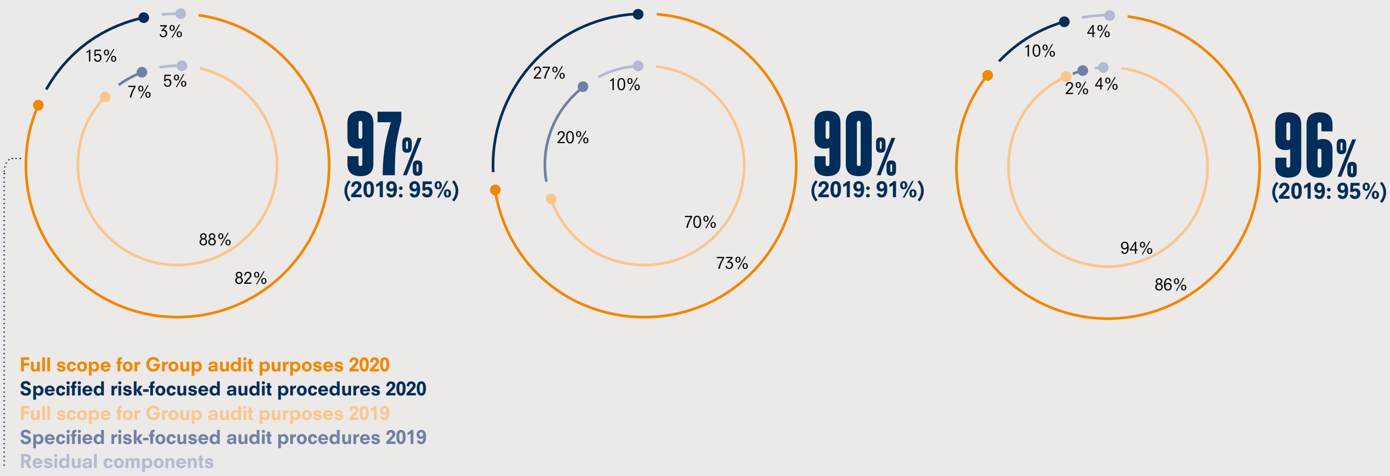
Telephone conference meetings were held with the two component auditors that were not physically visited due to travel restrictions imposed as a result of the COVID 19 pandemic. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Revenue
£119m (2019: £151m)

Group materiality
£0.55m (2019: £0.54m)



Group revenue **Group loss before tax** **Group total assets**



4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 2 to be acceptable; and
- the related statement under the Listing Rules set out on page 62 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and the Audit Committee as to the Group's high level policies and procedures to prevent and detect fraud, and the Group's channel for "whistleblowing" as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communications from the Group to full scope component audit teams of relevant fraud risks identified at the Group level and request full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition as the calculation of revenue recognition is non-complex for Dialight with limited performance obligations for recognition under IFRS 15.

We also identified fraud risks in relation to inappropriate capitalisation of development costs and allocation of overhead and labour costs to inventory cost as well as inventory provision manipulation.

Further detail in respect of the areas mentioned above are set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- Identifying journal entries to test for all full scope components based on a risk criteria and comparing the identified entries to supporting documentation. Those included journals posted by individuals who do not typically make journal entries or whom are not authorised to do so
- Evaluated the business purpose of significant unusual transactions
- Assessing significant accounting estimates for bias

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors (as required by the audit standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining and understanding of the control environment including the entity's procedures for complying with regulatory requirements. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group team and any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Group is subject to laws and regulations that directly affect the financial statements, including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extend of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Group is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Statement on page 63 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Emerging and Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Viability Statement, set out on page 63 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

— the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
— the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
— the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review, and to report to you if a corporate governance statement has not been prepared by the company. We have nothing to report in these respects.

7. We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 92, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

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

Lynton Richmond (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

29 March 2021

Consolidated income statement

for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Revenue	5	**119.0**	151.0
Cost of sales	6	**(85.0)**	(107.1)
Gross profit		**34.0**	43.9
Distribution costs		**(20.8)**	(27.2)
Administrative expenses	6	**(22.0)**	(28.0)
Loss from operating activities	5	**(8.8)**	(11.3)
Underlying loss from operating activities	6	**(6.4)**	(5.0)
Non underlying items	6	**(2.4)**	(6.3)
Loss from operating activities	5	**(8.8)**	(11.3)
Financial expense	8	**(1.3)**	(1.2)
Loss before tax	5	**(10.1)**	(12.5)
Income tax credit/(expense)	9	**2.3**	(3.7)
Loss for the year	10	**(7.8)**	(16.2)
Loss for the year attributable to:			
Equity owners of the Company		**(7.9)**	(16.1)
Non-controlling interests		**0.1**	(0.1)
Loss for the year		**(7.8)**	(16.2)
Loss per share			
Basic	20	**(24.0p)**	(49.8p)

These results are for all continuing operations.

The accompanying notes form an integral part of these financial statements.

In 2019, there were costs that arose from the exit of the outsource manufacturing contract amounting to £10.2m (see note 6), presented as proforma unaudited adjustments. Consequently, the proforma unaudited operating profits in 2019 were £5.2m. There is no equivalent proforma unaudited adjustment in 2020.

Consolidated statement of comprehensive income

for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Other comprehensive expense			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**(1.8)**	(2.6)
Income tax on exchange differences on translation of foreign operations		**(0.3)**	(0.1)
		(2.1)	(2.7)
Items that will not be reclassified subsequently to profit and loss			
Remeasurement of defined benefit pension liability	21	**(1.3)**	1.6
Income tax on remeasurement of defined benefit pension liability	16	**0.3**	(0.3)
		(1.0)	1.3
Other comprehensive expense for the year, net of tax		**(3.1)**	(1.4)
Loss for the year		**(7.8)**	(16.2)
Total comprehensive expense for the year		**(10.9)**	(17.6)
Attributable to:			
Owners of the parent		**(11.0)**	(17.5)
Non-controlling interests		**0.1**	(0.1)
Total comprehensive expense for the year		**(10.9)**	(17.6)

These results are from continuing operations.

The accompanying notes form an integral part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2020

	Note	Share capital £m	Merger reserve £m	Translation reserve £m	Capital redemption reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2020		0.6	0.5	11.6	2.2	52.6	**67.5**	0.3	**67.8**
Loss for the year		–	–	–	–	(7.9)	**(7.9)**	0.1	**(7.8)**
Other comprehensive (expense)/income:									
Foreign exchange translation differences, net of tax		–	–	(2.1)	–	–	**(2.1)**	–	**(2.1)**
Disposal of subsidiary				(0.2)	–	0.2	**–**	–	**–**
Remeasurement of defined benefit pension liability, net of tax	21	–	–	–	–	(1.0)	**(1.0)**	–	**(1.0)**
Total other comprehensive expense		–	–	(2.3)	–	(0.8)	**(3.1)**	–	**(3.1)**
Total comprehensive (expense)/ income for the year		–	–	(2.3)	–	(8.7)	**(11.0)**	0.1	**(10.9)**
Transactions with owners, recorded directly in equity:									
Share-based payments	7	–	–	–	–	0.4	**0.4**	–	**0.4**
Total transactions with owners		–	–	–	–	0.4	**0.4**	–	**0.4**
Balance at 31 December 2020		0.6	0.5	9.3	2.2	44.3	**56.9**	0.4	**57.3**

	Note	Share capital £m	Merger reserve £m	Translation reserve £m	Capital redemption reserve £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2019		0.6	1.4	14.3	2.2	66.2	**84.7**	0.4	**85.1**
Loss for the year		–	–	–	–	(16.1)	**(16.1)**	(0.1)	**(16.2)**
Other comprehensive (expense)/income:									
Foreign exchange translation differences, net of tax		–	–	(2.7)	–	–	**(2.7)**	–	**(2.7)**
Remeasurement of defined benefit pension liability, net of tax	21	–	–	–	–	1.3	**1.3**	–	**1.3**
Total other comprehensive (expense)/income		–	–	(2.7)	–	1.3	**(1.4)**	–	**(1.4)**
Total comprehensive expense for the year		–	–	(2.7)	–	(14.8)	**(17.5)**	(0.1)	**(17.6)**
Transfer of merger reserve on disposal of business		–	(0.9)	–	–	0.9	**–**	–	**–**
Transactions with owners, recorded directly in equity:									
Share-based payments	7	–	–	–	–	0.3	**0.3**	–	**0.3**
Total transactions with owners		–	(0.9)	–	–	1.2	**0.3**	–	**0.3**
Balance at 31 December 2019		0.6	0.5	11.6	2.2	52.6	**67.5**	0.3	**67.8**

The accompanying notes form an integral part of these financial statements.

Consolidated statement of total financial position

at 31 December 2020

	Note	2020 £m	2019 £m
Assets			
Property, plant and equipment	11	**12.8**	15.6
Right of use assets	12	**9.8**	12.2
Intangible assets	13	**21.2**	21.3
Deferred tax assets	16	**1.4**	1.7
Employee benefits	21	**1.1**	2.3
Other receivables	31	**5.0**	4.7
Total non-current assets		**51.3**	57.8
Inventories	17	**32.5**	46.1
Trade and other receivables	18	**19.9**	23.8
Income tax recoverable		**1.0**	1.1
Cash and cash equivalents	24	**5.3**	0.5
Total current assets		**58.7**	71.5
Total assets		**110.0**	129.3
Liabilities			
Trade and other payables	23	**(21.5)**	(28.4)
Provisions	22	**(1.5)**	(0.9)
Tax liabilities		**(1.5)**	(1.5)
Lease liabilities	15,25	**(1.4)**	(1.6)
Borrowings	14	**(4.0)**	–
Total current liabilities		**(29.9)**	(32.4)
Provisions	22	**(1.2)**	(1.4)
Borrowings	14	**(12.7)**	(17.0)
Lease liabilities	15,25	**(8.9)**	(10.7)
Total non-current liabilities		**(22.8)**	(29.1)
Total liabilities		**(52.7)**	(61.5)
Net assets		**57.3**	67.8
Equity			
Issued share capital	19	**0.6**	0.6
Merger reserve	19	**0.5**	0.5
Other reserves		**11.5**	13.8
Retained earnings		**44.3**	52.6
		56.9	67.5
Non-controlling interests		**0.4**	0.3
Total equity		**57.3**	67.8

The accompanying notes form part of these financial statements. These financial statements were approved by the Board of Directors on 29 March 2021 and were signed on its behalf by:

Fariyal Khanbabi
Group Chief Executive

Wai Kuen Chiang
Chief Finance Officer

Company number: 2486024

Consolidated statement of cash flows

for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Operating activities			
Loss for the year		**(7.8)**	(16.2)
Adjustments for:			
Financial expense	8	**1.3**	1.2
Income tax (credit)/expense	9	**(2.3)**	3.7
Share-based payments		**0.4**	0.3
Depreciation of property, plant and equipment	11	**3.1**	2.6
Depreciation of right of use assets	12	**2.0**	1.7
Amortisation of intangible assets	13	**3.0**	2.0
Loss on disposal of property, plant and equipment		**–**	0.1
Impairment losses on intangible assets	13	**0.3**	–
Loss on disposal of business	6	**1.1**	1.7
Operating cash flow before movements in working capital		**1.1**	(2.9)
Decrease/(increase) in inventories		**12.6**	(1.9)
Decrease in trade and other receivables		**2.7**	8.8
Decrease in trade and other payables		**(6.3)**	(0.3)
Increase in provisions	22	**0.5**	0.3
Pension contributions in excess of the income statement charge	21	**(0.1)**	(0.5)
Cash generated by operations		**10.5**	3.5
Income taxes received/(paid)		**2.9**	(0.6)
Interest paid[2]	8,15	**(1.3)**	(1.1)
Net cash generated by operations		**12.1**	1.8
Investing activities			
Capital expenditure	11	**(0.8)**	(6.8)
Capitalised expenditure on development costs	13	**(3.4)**	(6.0)
Purchase of software and licences	13	**(0.3)**	(0.3)
Cash and cash equivalents in business disposed of	6	**–**	(0.5)
Disposal of business	6	**–**	(0.5)
Net cash used in investing activities		**(4.5)**	(14.1)
Financing activities			
Drawdown of bank facility	14	**10.0**	11.9
Repayment of bank facility	14	**(10.3)**	–
Repayment of lease liabilities[1]	15	**(1.7)**	(1.2)
Net cash (outflow)/generated from financing activities		**(2.0)**	10.7
Net increase/(decrease) in cash and cash equivalents		**5.6**	(1.6)
Cash and cash equivalents at beginning of year		**0.5**	2.2
Effect of exchange rates		**(0.8)**	(0.1)
Cash and cash equivalents at end of year	24	**5.3**	0.5

The Group has classified:
1 cash payments for the principal portion of lease payments as financing activities;
2 cash payments for the interest portion as operating activities consistent with the presentation of interest payments chosen by the Group.

1. Reporting entity

Dialight plc is a company domiciled in England. Details of the Company's Registered office are set out on page 156 under the "Directory and Shareholder Information" section. The consolidated financial statements of the Company for the year ended 31 December 2020 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 in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The Company has elected to present its parent company financial statements in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

(b) Consolidated basis of preparation

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 4 to 45. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are discussed in the Group Chief Financial Officer Review on pages 42 to 45.

The uncertainty as to the future impact on the financial performance and cash flows of the Group as a result of the ongoing COVID-19 pandemic has been considered as part of the Group's adoption of the going concern basis in the preparation of the consolidated financial statements. The consolidated financial statements are prepared on a going concern basis which the Directors believe to be appropriate for the reasons stated below.

The Group's current £25m revolving credit facility with HSBC which matures in February 2023 has an option for two consecutive one-year extensions, with the approval of the bank. In order to ensure the availability of sufficient liquidity, the Group increased its banking facility with HSBC on 15 June by adding a further £10m facility on a 3-year basis by utilising a combination of £8m under the COVID-19 Large Business Interruption Scheme (CLBILS) and a £2m commercial loan. This new facility is in addition to the existing banking facility with HSBC of £25m. The Group now has access to £35m of banking facilities and has drawn £16.7m against both facilities as at 31 December 2020, with a net debt headroom of £18.3m and cash on hand of £5.3m. At the date of approving these consolidated financial statements the funding position of the Group has remained unchanged and the cash position is not materially different.

The £25m revolving credit facility term loan runs up till February 2023 whilst the £10m loan will be repaid in equal installments starting on the 15th January 2021.

As part of the new facility, the original banking covenants of net debt to EBITDA ratio and interest cover have been replaced by a new test based on exceeding a 12-month rolling EBITDA level that was derived from a COVID-impacted business plan as agreed with HSBC, for the testing periods of June 2020 to June 2021. The Group is compliant with its revised banking covenant as at 31 December 2020.

Covenant test		For Q3-21	For Q4-21 onwards
Ratio	**Calculation**	**Threshold**	**Threshold**
Leverage ratio	Net debt/Adjusted EBITDA	**<3.5x**	**<3.0x**
Interest cover	Adjusted EBITDA/interest expense	**>4.0x**	**>4.0x**

In assessing going concern, the Directors have prepared various scenarios incorporating the continuing impact of COVID-19 based disruptions. These include the extent and financial impact of new government restrictions on our operations in the countries where we operate, a potential time period of these disruptions and the timescale to recover from them. In addition, we have also considered the mitigating actions that can be taken to reduce the impact on the Group. We have modelled future financial performance taking into account these restrictions, mitigations, expected inventory unwind not materialising and a negative outcome from ongoing litigation as per note 28.

In the base case scenario, consistent with current trading patterns, our factories which have been granted "essential business" status will remain in operation albeit with reduced capacity in line with local guidelines with a gradual recovery. In this scenario, the Directors consider that the Group will continue to operate within its available committed facilities with sufficient headroom and meet its financial covenant obligations.

In a severe but plausible downside scenario, the Directors have assumed a significant adverse development from a global pandemic, the associated forecast outturns alongside identified downside risks, having considered the following:

1. Revenue recovery is delayed by one year, with 2021 achieving 0% growth and recovery in the beginning of 2022 with 8% revenue growth
2. Gross margin reduction ranging from 2.5% to 4.5% over the three years from the Board-approved strategic plan
3. Targeted inventory reduction is not achieved in 2021 and reduction in the inventory of £2m -£3m in 2022 and 2023
4. Litigation by the former outsource manufacturing partner is settled at the maximum liability of their claim (£8.0m) and the Dialight claim for damages in excess of £190m was unsuccessful

In all these scenarios, the Group assumes a series of mitigating actions can be put in place swiftly, including various temporary and permanent cost and cash reductions.

2. Basis of preparation (continued)

In this severe but plausible downside scenario, the Group continues to retain sufficient committed headroom on liquidity and is able to meet its financial covenant obligations within the going concern assessment period. It has also been assumed that no additional debt is raised during the assessment period.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

(c) Use of estimates, judgements and assumptions

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates, judgements and assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The areas which require the most use of management estimation and judgement are set out below.

Significant judgements

Termination of outsourced manufacturing agreement

We have sought to reach a negotiated conclusion on various outstanding matters following the termination of the manufacturing services agreement with our former outsourced manufacturing partner, Sanmina Corporation. On Friday, 20th December 2019, both parties issued legal proceedings against the other, with Sanmina claiming up to £8m against Dialight and Dialight counter claiming up to £190m against Sanmina. The basis of the claim filed by Sanmina Corporation relates to outstanding invoices and residual inventory they allege they purchased for Dialight. The claim filed by Dialight is more complex in nature and relates to significant costs and losses suffered as a direct consequence of Sanmina Corporation not performing in accordance with the terms of the manufacturing services agreement. In the unlikely event that Sanmina's claim is successful, the range of outcomes could be £0 - £8m. Management have assessed the claim in conjunction with external legal advice and the judgement is that we are confident of the merits of our legal position. In the view of management it is not probable that the Group will have to make a payment. Therefore no provision is required and the matter is disclosed as a contingent liability.

Development and patent costs

The Group capitalises development costs and patent costs provided they meet all criteria in the respective accounting policy. Costs are only capitalised when management apply judgement that they are satisfied as to the ultimate commercial viability of the projects based on review of the relevant business case. The capitalised costs are amortised over the expected useful economic life, which is determined based on the reasonable commercial prospects of the product and a comparison to similar products being sold by the Group.

The Group has £11.9m (2019: £11.8m) of development and patent costs that relate to the current product portfolio and new products expected to launch over the next 1-2 years. All of these are within the Lighting CGU, and are tested for impairment at the CGU level as part of the goodwill testing. However, management perform a review of each project to see if there are any indications of specific impairment. Management review all of these for specific impairment by comparing carrying amount of development assets with net present value derived from the Board approved three-year strategic plan.

Inventory reserve

In the previous year, the basis for reserving Lighting and Obstruction raw materials and sub-assemblies was to reserve for items greater than 24 months old, whilst for finished goods it was to reserve for items greater than 12 months old. The basis for reserving Signals and Components inventory was based on a system generated calculation using an algorithm based on historical and forecast usage compared with the quantity on hand. In addition to the ageing basis, inventory is reviewed regularly by operational and financial management for useability.

In view of the significant impact the prolonged pandemic has had on our operations and the consequential logistics and supply chain challenges it posed on our inventory holding strategy, the Group has revised the basis of estimate to calculate the inventory reserve by focusing on usage (historical or forecast usage, whichever is higher) for all inventory. During this process, management considered the nature and condition of the inventory on an item by item and category basis giving due consideration to external market developments, change in strategy or business model, regulatory and technology changes.

Reserves were made accordingly under different assessment categories, applying the updated standard costs and historical or forecast usage. Lighting raw materials and sub-assemblies are reserved if the quantity on hand exceeds 2 years historic or forecast usage, or it has not been used in the past 12 months. Signals and components raw materials and sub-assemblies are reserved if the quantity on hand exceeds 2 years historic usage. This took into consideration the longer and different sales cycles of components, traffic and vehicle within this segment. Items identified as relating to products where a redesigned version had been launched were reviewed to ensure that they continued to be usable. Brackets, packaging, batteries and kits were specifically identified given they are common parts for our entire product range and their long useful life. As such they are not considered excess and no provision was made. Mechanical parts similarly have a long useful life and mostly do not have an expiration date. A 5-year usage measure is applied to these items. Any quantity on hand that is higher than the past 5 years usage is specifically reserved for. As part of the review process, management applied judgement to reserve for an additional £0.3m taking into consideration the overall uncertainty and potential impact to the business as a result of the ongoing pandemic.

2. Basis of preparation (continued)

Finished goods were reviewed by discrete segments. Inventory on hand was compared to historical sales, current backlog orders, sales pipeline and new product holdings. Management judgement was applied in the categorisation assessment (for example active stock of existing and new product range, items for rework) for each discrete segment; which will determine if a reserve is required or not.

Significant estimates

Inventory reserve

The overall level of inventory in the Group has reduced significantly during the year as outlined in note 17. As outlined in the significant judgement section above, the Group has revised the basis of estimate to calculate the inventory reserve with focus on usage (historical or forecast usage, whichever is higher) for raw materials, sub-assemblies and finished goods.

For raw materials and sub-assemblies, all excess quantity or items identified by Engineers for partial scrap are provided for at 50% of the excess quantity. Scrap items are fully provided for. For items identified to be excess or obsolete where Supply Chain recommends for sale through third-party agents, a 50% provision is made in consideration of the commission payable and the likely success rate of sale.

Finished goods which are identified to fall within the rework category are reserved at a range of 10% to 25% where consideration is given to the cost of reworking the item and the ultimate sale. Items identified as slow moving (active items but quantity on hand is excessive considering the current sales and potential orders) are reserved at a range of 10% to 50% where consideration is given to the specific situation in each of the regions and segments.

Details of the inventory reserve are set out in note 17.

Inventory–absorbed overhead costs

The valuation of inventory, detailed in note 17, requires the use of estimates in the amount of costs to be absorbed into inventory valuation. There are two elements of cost over which estimates are applied.

Firstly, in relation to the amount of production overheads that are included in the inventory valuation. The pools of cost related to production comprise labour and direct overheads attributable to the production process. They are assessed to ensure that costs not related to production are excluded. Consistent with last year, the Group uses the weighted average inventory turns calculated by comparing the level of inventory on hand with the amount of production by month. This gives the number of days of overhead that should be absorbed in inventory. The value of directly attributable costs over which judgement was exercised was £4.3m (2019: £6.3m) and this represents 13% (2019: 14%) of the inventory value. For every day that the estimate of the days used for the overheads absorbed changes, it changes the calculation by £44k.

Secondly, in relation to the amount of freight costs that are included in the inventory valuation. The costs represent transportation costs for raw materials and the labour cost of the buyers placing the orders. The cost is absorbed into inventory by comparing the level of inventory on hand with the amount of material costs in the cost of sales. This gives the number of days of freight costs that are capitalised. Costs of transporting finished goods to distribution centres on a global basis are included in the inventory valuation until the associated finished goods have been sold outside the Group. The value of freight costs over which judgement was exercised was £2.2m (2019: £2.4m) and this represents 7% (2019: 5%) of the inventory value. For every day that the estimate of the days used for the overhead absorbed changes, it changes the calculation by £8k.

Goodwill and other intangible assets

The Group tests at least annually whether goodwill has suffered any impairment in accordance with the accounting policy set out in note 4(h). The recoverable amounts of the Group's cash-generating units (CGU) have been determined based on value in use calculations, which this year involve a higher inherent level of estimation due to the uncertainty caused by COVID. These calculations require the use of estimates and assumptions consistent with the Board approved three-year strategic plan.

Although the impact of COVID is not expected to impact the long-term prospects of the business, the impact of a prolonged global pandemic resulting in a slower recovery and consequently lower growth rates over the assessment period have reduced the level of headroom in the Lighting CGU. The key assumptions used for the value in use calculations and sensitivity analysis are set out in note 13.

3. Changes in significant accounting policies

The following accounting standards, interpretations, improvements and amendments have become applicable for the current period and although the Group have adopted them, they have had no material impact on the Group. These comprise:

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate benchmark Reform.
- Amendments to References to the Conceptual Framework for IFRS Standards.
- Amendments to IFRS 3: Definition of a Business.
- Amendments to IAS 1 and IAS 8: Definition of Material.

The following accounting standards and amendments that are applicable to the Group have been issued by the IASB but had either not been adopted by the European Union or were not yet effective in the European Union as at 31 December 2020.

- IFRS 17 Insurance Contracts. The current effective date is 1 January 2022. This is not expected to be applicable to the Group.
- Sale or Contribution of Assets between an Investor and its Associate or Joint venture (Amendments to IFRS 10 and IAS 28).

These amendments are not expected to be material to the Group, if adopted.

4. Significant accounting policies

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

(a) Basis of consolidation

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. In assessing control, the Group takes into consideration potential voting rights that were then currently exercisable.

Acquisitions on or after 1 January 2010

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

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

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions between 1 January 2004 and 1 January 2010

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

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

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

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

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Non-underlying items

The Group incurs costs and earns income that is non-underlying in nature or that, in the Directors' judgement, need to be disclosed separately by virtue of their size and incidence in order for users of the consolidated financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

These items could include (but are not limited to):

- The costs directly arising from transferring production to an outsourced manufacturer
- The costs related to transferring production back from an outsourced manufacturer
- The impairment of tangible or intangible assets which relate to the closure of part of a business or removal of a product line
- The impairment of inventory as a result of a significant change in product design
- Individual restructuring projects which are material or relate to the closure of a part of the business and are not expected to recur.
- Gains or losses on disposal of businesses.
- Gains or losses arising on significant changes to or closures of defined benefit pension plans.

Determining whether an item is part of specific non-underlying items requires judgement to determine the nature and the intention of the transaction.

(c) Foreign currency translation

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

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

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

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

4. Significant accounting policies (continued)

(d) Derivative financial instruments

Derivative financial instruments are recorded initially at cost and are remeasured to fair value at subsequent reporting dates. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

(e) Property, plant and equipment

All items of property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment. Subsequent costs are included in the asset carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repair and maintenance costs are charged to the income statement in the financial period they are incurred.

(f) Other intangible assets

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

(g) Depreciation and amortisation

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, except for right of use assets which are depreciated over the shorter of the lease contract period and their useful lives. Land is not depreciated.

The estimated useful lives are as follows:

Plant, equipment and vehicles	3–10 years
Right of use assets	2–10 years

Amortisation

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

The estimated useful lives are as follows:

Patents and trademarks	3–5 years
Development costs	
– Product upgrades	3 years
– New product	4 years
– Control and technology related products	5 years

(h) Goodwill

Goodwill that arises upon acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 4(a).

Subsequent measurement

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

(i) 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.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product and process is technically and commercially viable, future economic benefits are probable and the Group intends and has sufficient resources to complete the development and to use or sell the asset. Costs are only capitalised once the initial research phase has been completed and the business case for development has been approved by management. The expenditure capitalised includes direct cost of material, direct labour and directly attributable 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.

4. Significant accounting policies (continued)

(j) Impairment

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

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

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

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 one or more events have had a negative effect on the estimated future cash flows expected to arise from that asset. Any impairment losses are recognised through the income statement.

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventory comprises of all costs of purchase, costs of conversion and other costs to bring the inventory to its existing location and condition, including an appropriate share of production overheads based on normal operating capacity. Inventory is accounted for on a first-in, first-out basis. When calculating the reserve, management considers the nature and condition of the inventory on an item by item and category basis, as well as basing on an assessment of market developments, change in strategy or business model, regulatory and technology evolvement; and analysis of historical and projected usage with regard to quantities on hand for all raw materials, sub-assemblies and finished goods.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(m) Share capital

(i) Dividends are recognised in the period in which they are approved by the Company's shareholders, or, in the case of an interim dividend, when the dividend is paid.
(ii) When share capital recognised as equity is repurchased by the ESOT, the amount of the consideration paid is recognised as a deduction from equity.
(iii) Under the terms of the PSP and deferred bonus scheme, dividends accrue on shares not yet vested; however, in the event that the shares lapse or are forfeited then the dividends will not be paid and the accrual is reversed.

(n) Employee benefits

(i) Defined contribution pension plans

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

(ii) Defined benefit pension plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned for their service in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation is performed by an independent qualified actuary using the projected unit credit method. In accordance with IFRIC 14 – IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", the pension surplus can be recognised as an asset on the balance sheet, limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

4. Significant accounting policies (continued)

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised immediately in other comprehensive income. The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in the income statement.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service, or the gain or loss on curtailment, is recognised immediately in the income statement. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Share-based payments and deferred bonus transactions

The PSP allows Group employees to acquire shares of the Company. The fair value of the grants is measured using the Monte Carlo or Black-Scholes models, taking into account the terms and conditions upon which the grants were made. The amount recognised as an expense is only adjusted to reflect forfeitures resulting from failures to meet non-market conditions. The share-based payments are equity-settled. Key Group employees are awarded shares in the Company under the Annual Performance Bonus Plan The fair value of the award granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the performance period during which the employees become unconditionally entitled to the award.

(o) Other 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. Warranty provision is made for the expected costs of future warranty claims relating to past product sales. This provision is estimated based on historical trends for returns, product-specific warranty terms, internal knowledge of product performance characteristics and the expected costs of remedying warranty-returned products. All other provisions are based on management's best estimate of a probable expected outcome.

(p) Trade and other receivables

Trade and other receivables are recognised at fair value (which ordinarily reflects the invoice amount) and carried at amortised cost, less an allowance for expected lifetime losses as permitted under the simplified approach in IFRS 9. Fully provided balances are not written off from the balance sheet until the Group has decided to cease enforcement activity.

The Group has applied the simplified approach as permitted by IFRS 9. The expected credit loss model (ECL) considers the Group's historical credit loss, factors specific to each receivable, the current economic environment and expected changes in future forecasts (see note 25).

(q) Trade and other payables

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

(r) Revenue recognition

Revenue from the sale of goods is measured by completion of the performance obligations in the contract and at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and product returns. An allowance is made for expected returns, discounts and rebates based on distributor agreements and historic trends. Revenue represents the invoiced value of goods supplied and is recognised in the income statement in line with performance of contractual obligations and based on Incoterms in contract. The majority of our sales are on an ex works basis with revenue recognised on dispatch of finished goods. Warranty is not a separable performance obligation so has no impact on revenue recognition.

(s) Expenses

(i) Operating lease payments – See note(u) below.

(ii) Net financing costs

Net financing costs comprise interest receivable, interest payable, borrowings, interest payable on lease liabilities, interest on pension assets and liabilities, foreign exchange gains and losses and unwinding of discount.

(t) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement 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 not 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.

4. Significant accounting policies (continued)
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Deferred tax is calculated using tax rates that are enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to profit and loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(u) Leases
The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

(i) As a lessee
At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group operates in multiple economic environments so the IBR that applies will vary from lease to lease.

Discount rates applied for different jurisdictions
IFRS 16 allows the use of two possible discount rates, namely the interest rate implicit in the lease from the perspective of the lessor (implicit rate) or the Group's incremental borrowing rate (IBR). The Group has used the IBR for existing leases at the date of transition of 1 January 2019 as well as for new leases after that date.

The incremental borrowing rate is the rate of interest that Dialight pays to borrow, a) over a similar term b) with a similar security, c) the funds necessary to obtain an asset of a similar value to the right-of-use asset d) in a similar economic environment. The rate reflects the amount that the Group could borrow over the term of the lease.

The Group operates in multiple jurisdictions and the economic environment in those jurisdictions would also influence the IBR. This is expected to lead to a different IBR for every lease in a different territory. Key information that the Group considered while determining the IBR at the date of initial application of IFRS 16 relates to the region where the lease is domiciled, the functional currency and the currency of the lease, the asset being leased and the remaining years left on the lease.

The Group has property leases in the USA, Mexico, UK, Australia and Malaysia. The Mexican and Malaysian leases are for industrial premises with the remaining leases being for office buildings.

The IBR is determined based on the interest rates available to the Group entities in which the underlying leases are held, based on the credit rating of each of these entities. Certain adjustments are made to these interest rates to reflect the terms of the individual leases and the types of assets leased.

The IBR's calculated for use by the Group vary between 2% to 5% for the UK, USA and Australia jurisdictions and between 5% to 7% for the Mexico and Malaysia jurisdictions.

4. Significant accounting policies (continued)

Lease payments included in the measurement of the lease liability comprise the following:

Fixed payments, including in-substance fixed payments; variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; amounts expected to be payable under a residual value guarantee; and the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right of use assets that do not meet the definition of investment property in right of use assets and lease liabilities separately in the statement of financial position.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. The Group classifies the sub-lease as an operating lease as the lease does not transfer substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of "other revenue".

(i) As a lessee

In the comparative period the Group had no finance leases. Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

In the comparative period the Group did not act as a lessor and had no sub-leases.

(v) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework, appropriate for the size and complexity of the Group, with respect to the measurement of fair values. When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

5. Operating segments

The Group has two reportable operating segments. These segments have been identified based on the internal information that is supplied regularly to the Group's chief operating decision maker for the purposes of assessing performance and allocating resources. The chief operating decision maker is considered to be the Group Chief Executive Officer.

The two reportable operating segments are:

- Lighting, which develops, manufactures and supplies highly-efficient LED lighting solutions for hazardous and industrial applications in which lighting performance is critical and includes anti-collision obstruction lighting; and
- Signals & Components, which develops, manufactures and supplies status indication components for electronics OEMs, together with niche industrial and automotive electronic components and highly-efficient LED signaling solutions for the traffic and signals markets.

There is no inter–segment revenue and there are no individual customers that represent more than 10% of revenue.

All revenue relates to the sale of goods. Segment gross profit is revenue less the costs of materials, labour, production and freight that are directly attributable to a segment. Overheads comprise operations management, selling costs plus corporate costs, which include share-based payments.

Segmental assets and liabilities are not reported internally and are therefore not presented below.

Reportable segments

2020	Lighting £m	Signals & Components £m	Unallocated £m	Total £m
Revenue	**81.7**	**37.3**	**–**	**119.0**
Gross profit	**23.7**	**10.3**	**–**	**34.0**
Overheads	**(26.8)**	**(7.7)**	**(5.9)**	**(40.4)**
Underlying (loss)/profit from operating activities	**(3.1)**	**2.6**	**(5.9)**	**(6.4)**
Non-underlying items	**(2.4)**	**–**	**–**	**(2.4)**
(Loss)/profit from operating activities	**(5.5)**	**2.6**	**(5.9)**	**(8.8)**
Financial expense				**(1.3)**
Loss before tax				**(10.1)**
Income tax credit				**2.3**
Loss after tax				**(7.8)**

2019	Lighting £m	Signals & Components £m	Unallocated £m	Total £m
Revenue	111.5	39.5	–	151.0
Gross profit	31.3	12.6	–	43.9
Overheads	(34.5)	(8.3)	(6.1)	(48.9)
Underlying (loss)/profit from operating activities	(3.2)	4.3	(6.1)	(5.0)
Non-underlying items	(6.3)	–	–	(6.3)
(Loss)/profit from operating activities	(9.5)	4.3	(6.1)	(11.3)
Financial expense				(1.2)
Loss before tax				(12.5)
Income tax expense				(3.7)
Loss after tax				(16.2)

5. Operating segments (continued)

Other segmental data

	2020			2019		
	Lighting £m	**Signals & Components £m**	**Total £m**	Lighting £m	Signals & Components £m	Total £m
Depreciation of property, plant and equipment	**2.1**	**1.0**	**3.1**	1.9	0.7	2.6
Depreciation of right of use assets	**1.4**	**0.6**	**2.0**	1.3	0.4	1.7
Amortisation	**2.1**	**0.9**	**3.0**	1.5	0.5	2.0
Impairment of intangible assets	**0.3**	**–**	**0.3**	–	–	–

Geographical segments

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

Sales revenue by geographical market

	2020 £m	2019 £m
North America	**89.8**	117.8
EMEA	**9.9**	12.6
Rest of World	**19.3**	20.6
	119.0	151.0

6. Non-underlying items

Statutory operating loss included the following non-underlying costs which are separately disclosed to allow the reader to obtain a full understanding of the financial information and the best indication of the underlying performance of the Group. The table below presents the components of non-underlying profit or loss recorded within cost of sales and administrative expenses.

	2020 £m	2019 £m
Non-underlying items		
Redundancy costs	**0.9**	1.1
Litigation costs	**0.7**	–
Write off of receivable from outsource manufacturer	**–**	2.7
Loss on disposal of subsidiary	**0.8**	2.5
Non-underlying items recorded in administrative expenses	**2.4**	6.3

Redundancy costs of £0.9m relate to severance payments for the various initiatives during the year to right-size the cost base, including the facility exit costs for the UK research and development centre. Litigation costs of £0.7m relate to legal fees and potential claims for and against the Group. The loss on disposal of subsidiary relates to the sale of the Group's Brazil business in November 2020. The revenue of this business was £2.1m with an operating profit of £0.4m for the period of ownership whilst 2019 full year revenue was £0.9m with an operating loss of £0.1m.

	2020 £m	2019 £m
Proforma unaudited adjustments		
Costs to move equipment from outsourced manufacturer's site	**–**	0.9
Costs to move inventory from outsourced manufacturer's site	**–**	3.2
Additional costs from using 3rd party vendors to make sub-assemblies and internal ramp-up costs	**–**	6.1
Proforma unaudited costs recorded in cost of sales	**–**	10.2

In the prior year £10.2m of production costs relating to in-sourcing were identified separately as unaudited costs. These were management's best estimate of the cost of in-sourcing and due to their subjective nature, it was not possible to audit them and they were presented as proforma unaudited costs. There are no similar costs in the current year.

6. Non-underlying items (continued)

The net assets and the net loss on disposal of Dialight Do Brasil Technologia Led Ltda were as follows:

	2020 £m
Current assets	**1.4**
Current liabilities	**(0.6)**
Net assets of the business disposed of	**0.8**
Loss on disposal of the business	**(1.1)**
Total consideration paid	**(0.3)**
Satisfied by:	
Foreign translation	**(0.2)**
Other disposal costs	**(0.1)**
Total	**(0.3)**

7. Personnel expenses

	2020 £m	2019 £m
Wages and salaries	**27.2**	34.4
Social security contributions	**3.3**	3.9
Equity-settled share-based payment transactions	**0.4**	0.3
Contributions to defined contribution plans	**0.8**	1.3
Total charge for defined benefit plans	**0.1**	0.1
	31.8	40.0

Wages and salary costs have decreased year on year due to furloughed staff and voluntary salary reductions between May and September, and the impact of a limited redundancy programme. There were no management incentives in 2020 or the prior year.

The above expenses exclude £0.9m (2019: £1.1m) paid in respect of redundancy costs (see "Non-underlying costs" above).

The average number of employees by geographical location was:

	2020 Number	2019 Number
US and Mexico	**1,360**	1,478
Rest of World	**254**	323
	1,614	1,801

In 2020, the Group employed an average of 1,022 direct staff (2019: 1,091) and 592 indirect staff (2019: 710).

The main Board Directors are considered to be the Group's key management personnel.

Key management personnel compensation comprised the following:

	2020 £m	2019 £m
Short-term employee benefits	**1.0**	1.1
Post-retirement benefits	**–**	0.1
Share-based payments	**0.4**	0.3
	1.4	1.5

The aggregate of remuneration and amounts receivable under long-term incentive schemes of the highest paid Director was £0.4m (2019: £0.4m), and pension contributions of £nil (2019: £nil) were made to a money purchase scheme on their behalf. During the year, the highest paid Director received 201,367 shares under a long-term incentive scheme.

7. Personnel expenses (continued)

	2020	2019
Number of Directors accruing benefits under money purchase schemes	**1**	2
Number of Directors who exercised share options	**–**	–
Number of Directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes	**1**	2

8. Financial expense

	2020 £m	2019 £m
Net interest on defined benefit liability	**0.1**	0.1
Interest expense on financial liabilities, except lease liabilities	**0.6**	0.5
Interest expense on lease liabilities	**0.6**	0.6
Net financing expense recognised in the consolidated income statement	**1.3**	1.2

9. Income tax credit/(expense)

Recognised in the income statement

	2020 £m	2019 £m
Current tax expense		
Current year	**0.3**	0.6
Adjustment for prior years	**(2.9)**	(0.1)
Total current tax	**(2.6)**	0.5
Deferred tax expense		
Origination and reversal of temporary differences	**(0.9)**	(0.9)
Adjustment for prior years	**1.2**	(0.4)
Derecognition of deferred tax assets in respect of European losses	**–**	4.5
Total deferred tax	**0.3**	3.2
Total tax (credit)/expense	**(2.3)**	3.7

Reconciliation of effective tax rate

	2020 %	2020 £m	2019 %	2019 £m
Loss for the year		**(7.8)**		(16.2)
Total income tax (credit)/charge		**(2.3)**		3.7
Loss before income tax		**(10.1)**		(12.5)
Income tax using the UK corporation tax rate	**(19.0)**	**(1.9)**	(19.0)	(2.4)
Non-deductible loss on disposal of a business	**1.0**	**0.1**	4.0	0.5
Reduction in tax rate	**(1.0)**	**(0.1)**	–	–
Non-deductible expenses	**1.9**	**0.2**	1.6	0.2
Current year losses for which no deferred tax is recognised	**9.9**	**1.0**	8.0	1.0
US carry back claim	**(12.5)**	**(1.3)**	–	–
De-recognition of deferred tax previously recognised	**–**	**–**	35.9	4.5
Adjustment for prior years	**(4.0)**	**(0.4)**	(4.0)	(0.5)
Research and development credits	**(1.0)**	**(0.1)**	(0.8)	(0.1)
Recovery of foreign taxes suffered	**1.9**	**0.2**	3.9	0.5
	(22.8)	**(2.3)**	29.6	3.7

The effective tax rate for the year is 22.8% compared with 29.6% in the prior year and compared with the standard rate of 19.0% (2019: 19.0%) in the UK.

9. Income tax expense (continued)
The normalised tax rate for the Group in the year is 21.0% (tax rate before adjustments), and based on a pre-tax loss of £10.1m this would generate a tax credit of £2.2m. However, in the year there is a tax credit of £2.3m (22.8%). The major difference of 1.8% is due to the following factors:

- the current losses in the European Lighting business not recognised as a deferred tax asset, resulting in £1.0m (charge of 9.9%) of tax credit not being recognised in the year. We do not anticipate this business making sufficient taxable profits in the short-term to utilise the losses;
- we have benefited from the stimulus package under the Cares Act in the US which allows us to get tax relief by carrying back losses made in 2018 and 2019 for 5 years. This allows us to benefit from tax recovery at 35% rather than the current rate of 21% that was used to calculate the recoverable amount in 2019 and this gives rise to a one-off tax credit of £1.3m (credit of 12.5%)
- A non-deductible loss of £0.1m (charge of 1.0%) on disposal of Dialight Brazil which was sold in November 2020

Tax charge/(credit) recognised directly in equity

	2020 £m	2019 £m
Employee benefits	**(0.3)**	0.3
Other	**0.3**	0.1

Current tax
Current tax is calculated with reference to the profit or loss of the Company and its subsidiaries in their respective countries of operation. Set out below are details in respect of the significant jurisdictions where the Group operates and the factors that influenced the current and deferred taxation in those jurisdictions.

UK
The UK companies are subject to a corporate tax rate of 19.0% (2019: 19.0%). No UK corporation tax rate reductions have been announced. There are no UK timing differences recognised at 31 December 2020.

US
The majority of the Group's profits arise in the US where the corporation tax rate is 21% (2019: 21%).

Group
The lower overall effective tax rate is due to the mix of profits being weighted towards higher tax jurisdictions and the loss carry back claim as result of stimulus package under the Cares Act in the US, allowing the Group to carry losses back 5 years as mentioned above.

10. Loss for the year
Loss for the year has been arrived at after charging:

	2020 £m	2019 £m
Research and development costs:		
Expensed as incurred	**4.6**	2.8
Amortisation charge	**2.1**	0.9
Total research and development costs	**6.7**	3.7
Depreciation of fixed assets, excluding right of use assets	**3.1**	2.6
Depreciation of right of use assets	**2.0**	1.7
Impairment of intangible assets	**0.3**	–
Lease expense – low value leases and leases with a remaining term of less than one year	**0.3**	0.4

There is lower capitalisation of, and a higher profit and loss charge for research and development costs in 2020 compared to the prior year. Some development projects were paused in 2020 in response to disruptions caused by COVID-19. Also, during 2020 the Engineering team focused on inventory projects to consume raw materials on hand. These factors resulted in less time being capitalised, and a consequently a higher profit and loss charge. The amortisation charge increased as new products became available for use in 2020.

Auditor's remuneration

	2020 £m	2019 £m
Audit of these financial statements	**0.4**	0.4
Amounts receivable by auditor in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**0.2**	0.1
	0.6	0.5

11. Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Total £m
Cost			
At 1 January 2019	3.2	51.3	54.5
Reclassification to intangible assets	–	(5.4)	(5.4)
Exchange adjustments	(0.1)	(1.7)	(1.8)
Additions	–	6.8	6.8
Disposal of business	(0.1)	(0.2)	(0.3)
Other disposals	–	(2.7)	(2.7)
At 31 December 2019	3.0	48.1	51.1
Exchange adjustments	(0.1)	(1.4)	(1.5)
Additions	–	0.8	0.8
Disposal of business	–	(0.1)	(0.1)
Other disposals	–	(2.9)	(2.9)
Balance at 31 December 2020	**2.9**	**44.5**	**47.4**
Accumulated depreciation			
At 1 January 2019	(3.1)	(36.7)	(39.8)
Reclassification to intangible assets	–	4.3	4.3
Exchange adjustments	0.1	1.2	1.3
Charge for the year	(0.1)	(2.5)	(2.6)
Disposal of business	0.1	0.1	0.2
Other disposals	–	1.1	1.1
At 31 December 2019	(3.0)	(32.5)	(35.5)
Exchange adjustments	0.1	1.0	1.1
Charge for the year	–	(3.1)	(3.1)
Disposals	–	2.9	2.9
Balance at 31 December 2020	**(2.9)**	**(31.7)**	**(34.6)**
Carrying amount at 31 December 2020	**–**	**12.8**	**12.8**
Carrying amount at 31 December 2019	–	15.6	15.6

12. Right of use assets

	Buildings £m	Total £m
Cost		
Balance at 1 January 2020	13.9	13.9
Exchange adjustments	(0.3)	(0.3)
Modifications	(0.1)	(0.1)
Balance at 31 December 2020	13.5	13.5
Accumulated depreciation		
Balance at 1 January 2020	(1.7)	(1.7)
Charge for the year	(2.0)	(2.0)
Balance at 31 December 2020	**(3.7)**	**(3.7)**
Carrying amount at 31 December 2020	**9.8**	**9.8**
Carrying amount at 31 December 2019	12.2	12.2

The Group leases various industrial premises and office buildings. Rental contracts are typically for fixed periods of 1.5 to 10 years, but may have extension options as described in note 33A.iv. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

13. Intangible assets

	Concessions, patents, licences and trademarks £m	Goodwill £m	Software and Licences £m	Development costs £m	Total £m
Cost					
Balance at 1 January 2019	8.4	13.0	–	23.8	45.2
Reclassification from property, plant and equipment	–	–	5.4	–	5.4
Additions	0.7	–	0.3	5.3	6.3
Effects of foreign exchange movement	(0.3)	(0.1)	(0.1)	(1.0)	(1.5)
Balance at 31 December 2019	8.8	12.9	5.6	28.1	55.4
Additions	0.8	–	0.3	2.6	3.7
Effects of foreign exchange movement	(0.3)	(0.2)	(0.2)	(0.8)	(1.5)
Balance at 31 December 2020	**9.3**	**12.7**	**5.7**	**29.9**	**57.6**
Amortisation and impairment losses					
Balance at 1 January 2019	(7.0)	(4.2)	–	(17.5)	(28.7)
Reclassification from property, plant and equipment	–	–	(4.3)	–	(4.3)
Amortisation for the year	(0.6)	–	(0.5)	(0.9)	(2.0)
Effects of foreign exchange movement	0.3	–	–	0.6	0.9
Balance at 31 December 2019	(7.3)	(4.2)	(4.8)	(17.8)	(34.1)
Amortisation	(0.6)	–	(0.3)	(2.1)	(3.0)
Impairment	–	–	–	(0.3)	(0.3)
Effects of foreign exchange movement	0.2	–	0.2	0.6	1.0
Balance at 31 December 2020	**(7.7)**	**(4.2)**	**(4.9)**	**(19.6)**	**(36.4)**
Carrying amount at 31 December 2020	**1.6**	**8.5**	**0.8**	**10.3**	**21.2**
At 31 December 2019	1.5	8.7	0.8	10.3	21.3

The amortisation charge for the year is included within administrative expenses in the income statement.

Goodwill and other intangible assets (development costs, patents)

The Group has two cash-generating units (CGUs), Lighting and Signals & Components, which are the smallest identifiable independent groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where assets and costs are shared between the two cash-generating units a reasonable apportionment of these is made for the purpose of the impairment calculation.

Goodwill of £8.5m (2019: £8.7m) is recognised in the Group's balance sheet and is attributable to Lighting. The goodwill balance arose from a number of acquisitions in the Lighting segment in the past years.

Impairment testing

The Group tests goodwill and capitalised development costs (at the CGU level) annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGU are determined from value in use calculations. The key assumptions for the value in use calculations are externally derived long term growth rate; pre-tax discount rate and operating cash flow forecasts derived from the Board approved three-year strategic plans. The plans take into account the impact of COVID on recent trading and reflect the Board's latest expectations of future trading activity in a post COVID environment.

	2020
Discount Rate	**18.2%**
Terminal Growth Rate	**3.00%**
Revenue 3-year growth rate range	**12-13%**
Gross margin 3-years average growth rate	**4.1%**
Stewardship Cost allocation %	**50%**

13. Intangible assets (continued)

The pre-tax discount rates is based on the Group's weighted average cost of capital which reflects current market assessments of a number of factors that impact on the time value of money and any risk specific to the CGU. The rate includes management's assessment of a normal level of debt-to-equity ratio within similar companies in the Company's sector. The costs of the ultimate holding company (stewardship costs) have been allocated to each CGU as they provide necessary support to the CGUs to generate cash inflows. These costs have been allocated on the same allocation basis as the Administration costs. The long-term growth rate into perpetuity has been determined as the lower of the nominal gross domestic product (GDP) rates for the countries in which the CGU operates and a moderate long-term compound annual EBITDA growth rate estimated by management.

Management has arrived at the three-year strategic plan based upon certain assumptions derived from a combination of an internal assessment of the market size, customer product requirements, production capacity requirements, the operational costs of the organisation and external economic factors, including the impact of COVID-19. The key assumptions within the plan are revenue growth and gross profit, which are based on management's best estimate of material, labour and production cost trends, material availability and manufacturing efficiencies alongside the impact of COVID-19, which is reflected principally in the first two years.

The risk-adjusted pre-tax discount rate used to discount the forecast cash flows for the Lighting CGU was 18.2% (2019: 18.9%). Management has applied different growth rates for the value-in-use calculations of each underlying element of the CGU over the three-year period to take into account the differing nature of the individual products, and the countries in which the CGU operates. The impairment tests showed a recoverable amount of £63m against all of the assets associated with the goodwill, giving rise to a headroom of £4m (2019: £77m).

Sensitivity to changes in key assumptions:

Management has identified that a reasonably possible change in the five key assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these five assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount.

In percentage	Change required for carrying amount to equal recoverable amount
Discount rate	0.9%
Terminal Growth Rate	1.15%
Revenue 3-year growth rate range	5%
Gross margin 3-year growth rate range	1.5%
Stewardship Cost allocation %	7%

The recoverable amount incorporates management's view of the impact of COVID-19 on the near-term trading. In a base case scenario, the Directors have assumed the business is impacted by COVID-19 for an extended period. During this time it is assumed that the Group's factories would remain open as they would retain their "essential business" status, but that they would have reduced capacity due to local guidelines. The impact of this and identified downside risks is reflected in the forecast out-turn. In all scenarios, it is assumed that a series of mitigating actions can be put in place quickly, including a recruitment freeze and the elimination of discretionary operating costs and non-essential capital expenditure. In this scenario, the Group continues to operate within its available committed facilities with sufficient headroom and meet its financial covenant obligations.

The magnitude of the impact and the rate of recovery from COVID-19 is a key assumption. The Board takes into consideration the management's ability to take swift mitigation actions as demonstrated in 2020 to counteract the impact of COVID-19. Consequently, the Board considers that no impairment of goodwill is required.

14. Borrowings

The Group's financing arrangements consisted of a revolving credit facility with HSBC of £25m which matures in February 2023 and has an option for two extensions of one year each, with the approval of the bank. In order to ensure the availability of sufficient liquidity, the Group increased its banking facility with HSBC on 15 June by adding a further £10m facility on a 3-year basis by utilising a combination of £8m under COVID-19 Large Business Interruption Scheme (CLBILS) and a £2m commercial loan. The remaining facility fees of £0.3m are amortised over the tenure of the facility till February 2023.

	Loans £m
At 1 January 2019	5.1
Facility drawdown	11.9
At 31 December 2019	17.0
Facility drawdown	**10.0**
Facility repayment	**(10.3)**
At 31 December 2020	**16.7**

The £25m revolving credit facility term loan runs up till February 2023 whilst the £10m loan will be repaid in equal installments starting on the 15th January 2021.

Details of the facilities	Tenure	Interest rate per annum	Maturity date	Amount drawn down as at 31 December 2020 £m	Amount drawn down as at 31 December 2019 £m
£25m revolving credit facility	3 years*	3.15%	February 2023	6.7	17.0
£8m CLBILS	3 years	2.11%	June 2023+	8.0	–
£2m commercial loan	3 years	3.03%	June 2023+	2.0	–

* The Group's current £25m revolving credit facility with HSBC which matures in February 2023 has an option for two consecutive one-year extensions, with the approval of the bank.

\+ This loan will be repaid in equal installments over 3 years, starting on the 15th January 2021.

As part of the new facility, the original banking covenants of net debt to EBITDA ratio and interest cover have been replaced by a new test based on exceeding a 12-month rolling EBITDA level that was derived from a COVID impacted business plan as agreed with HSBC, for the testing periods of June 2020 to June 2021. The Group is compliant with its banking covenant as at 31 December 2020.

Covenant test		For Q3-21	For Q4-21 onwards
Ratio	**Calculation**	**Threshold**	**Threshold**
Leverage ratio	Net debt/Adjusted EBITDA	**<3.5x**	**<3.0x**
Interest cover	Adjusted EBITDA/interest expense	**>4.0x**	**>4.0x**

15. Lease liabilities

	£m
Lease liabilities recognised at 1 January 2019	3.7
Interest expense	0.6
New lease liabilities	10.1
Repayment of liabilities	(1.8)
Exchange adjustments	(0.3)
Lease liabilities recognised at 1 January 2020	**12.3**
Interest expense	**0.6**
Lease liabilities variations	**(0.1)**
Repayment of liabilities	**(2.3)**
Exchange adjustments	**(0.2)**
Lease liabilities recognised at 31 December 2020	**10.3**

16. Deferred tax assets and liabilities
Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Property, plant and equipment	**–**	–	**(1.3)**	(1.4)	**(1.3)**	(1.4)
Right of use assets	**0.2**	0.1	**–**	–	**0.2**	0.1
Intangible assets	**–**	–	**(1.8)**	(1.9)	**(1.8)**	(1.9)
Employee benefits	**–**	–	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Provisions	**2.7**	2.3	**–**	–	**2.7**	2.3
Losses and other items	**1.7**	2.7	**–**	–	**1.7**	2.7
Tax assets/(liabilities)	**4.6**	5.1	**(3.2)**	(3.4)	**1.4**	1.7

Deferred tax assets have been recognised in respect of all tax losses in entities expected to generate sufficient future taxable profits. As mentioned in note 9, losses relating to the European businesses have not been recognised in the year as it not expected to generate sufficient short-term taxable profits to justify recognising the associated deferred tax assets, as the recovery plan has been delayed due to COVID. The Group expects to generate sufficient taxable profits to recover the remaining deferred tax assets within 3 to 4 years. The geographic split of the deferred tax asset in relation to trading losses is Malaysia £0.4m, US £1.2m and Singapore £0.1m. The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred taxation liabilities have not been recognised is £nil (2019: £nil).

Movement in temporary differences during the year

	Property, plant and equipment £m	Intangible assets £m	Employee benefits £m	Provisions £m	Other short-term timing differences £m	Right of use asset £m	Total £m
Balance at 1 January 2019	(0.9)	(1.4)	0.1	2.4	5.1	–	5.3
Recognised in income	(0.5)	(0.6)	0.1	(0.1)	(2.2)	0.1	(3.2)
Recognised in equity	–	0.1	(0.3)	–	(0.2)	–	(0.4)
Balance at 31 December 2019	(1.4)	(1.9)	(0.1)	2.3	2.7	0.1	1.7
Recognised in income	0.1	0.2	(0.1)	0.4	(1.0)	0.1	(0.3)
Recognised in equity	–	–	0.3	–	–	–	0.3
FX translation reserve	–	(0.1)	(0.2)	–	–	–	(0.3)
Balance at 31 December 2020	**(1.3)**	**(1.8)**	**(0.1)**	**2.7**	**1.7**	**0.2**	**1.4**

(i) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits.

	2020 £m		2019 £m	
	Gross amount	**Tax effect**	Gross amount	Tax effect
Deductible temporary differences	**0.2**	**–**	1.2	0.2
Tax losses	**35.1**	**7.0**	28.1	5.4
	35.3	**7.0**	29.3	5.6

(ii) Tax losses carried forward

Tax losses for which no deferred tax assets were recognised expire as follows.

	2020 £m	**Expiry date**	2019 £m	Expiry date
Expire	**–**	**–**	–	–
Never expire	**35.1**	**–**	28.1	–

17. Inventories

	2020 £m	2019 £m
Raw materials and consumables	**13.5**	17.3
Work in progress	**6.1**	11.2
Finished goods	**12.6**	17.2
	32.2	45.7
Spare parts	**0.3**	0.4
	32.5	46.1

Inventories to the value of £56.3m (2019: £65.7m) were recognised as expenses in the year. The inventory reserve at the balance sheet date was £2.4m, which represents 7.0% of inventory (2019: £2.1m representing 4.4% of inventory). This is an increase of £0.3m on the inventory reserve from 31 December 2019. This movement is comprised of a net increase in reserve of £0.5m less an exchange movement of £0.2m.

As at 31 December 2020, management's best estimate of the amount of inventory that will not be used within the next 12 months is circa £4m. These inventories were held for product support and commercial purposes. Management is unable to estimate the 2019 comparable figure as a like for like measure was unavailable following the repurchase of inventory from our former outsource manufacturer.

During the year, we changed the estimates used to calculate the inventory reserve from an aged-based calculation to a usage-based (historical or forecast usage, whichever is higher) calculation to identify inventory at risk. Management assesses this inventory at risk for its nature and condition on an item by item and category basis, based on market developments, technology and regulatory evolvement specific to the inventory on hand.

The level of inventory was reduced by £13.6m in 2020. During the year, the Engineering team focused on inventory projects to consume raw materials on hand by using them as alternatives to those in the original specification without compromising the safety and integrity of the fixtures. We also started to see the benefit of having sub-assembly production in-house as this allowed more just-in-time production and reduced the required level of sub-assemblies on hand. The resurgence of the MRO (Maintenance, Repair and Operations) business with fast delivery times resulted in faster turns on finished goods and reduced the required quantities on hand.

18. Trade and other receivables

	2020 £m	2019 £m
Trade receivables	**18.1**	20.9
Other non-trade receivables	**0.4**	0.9
Prepayments and accrued income	**1.4**	2.0
	19.9	23.8

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 25.

19. Capital and reserves

Share capital

	2020 Number	2020 £m	2019 Number	2019 £m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,562,466**	**0.6**	32,539,165	0.6

During the year, 23,301 shares were issued (2019: 4,928) in order to satisfy the requirement for shares that vested as part of the Sharesave scheme, the proceeds of issue were less than £0.0m (2019: £0.0m). The ordinary shares issued in the year have the same rights as the other shares in issue.

	Ordinary shares	
Issued share capital	2020 Number	2019 Number
In issue at 1 January	**32,539,165**	32,534,237
Shares issued	**23,301**	4,928
Issued and fully paid at 31 December	**32,562,466**	32,539,165

Merger reserve

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

On acquiring Dialight A/S in 2010, the Company issued ordinary shares as part of the consideration. Merger relief was taken in accordance with Section 612 of the Companies Act 2006 and hence £903,000 was credited to the merger reserve. On disposal of Dialight A/S in September 2019, the £903,000 merger reserve balance attributable to that business was transferred to retained earnings.

Translation reserve

The translation reserve comprises all foreign exchange differences from 1 January 2004 arising from the translation of the financial statements of the Company's overseas subsidiaries.

Capital redemption reserve

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

Dividends

No dividends were declared in the current or the prior year. After the balance sheet date no dividends were proposed by the Directors and there are no income tax consequences for the Company.

20. Loss per share

Basic loss per share

The calculation of basic earnings/(loss) per share ("EPS") at 31 December 2020 was based on a loss for the year of £7.8m (2019: £16.2m loss) and the weighted average number of ordinary shares outstanding during the year of 32,555,137 (2019: 32,536,701).

Weighted average number of ordinary shares

	2020 £m	2019 £m
Weighted average number of ordinary shares	**32,555**	32,537

	2020 per share	2019 per share
Basic loss	**(24.0)p**	(49.8)p

21. Employee benefits

Defined benefit pension obligations

The Group makes contributions to two closed defined benefit plans (referred to below as Plan A and Plan B) to provide benefits for employees and former employees upon retirement. The plans expose the Group to actuarial risks, such as longevity risk, interest rate risk and investment risk. Both plans are administered by discrete funds (the "Funds") that are legally separate from the Group. Trustees include independent and Company-appointed individuals. The Trustees of the plans are required by law to act in the best interests of the plan participants and are responsible for setting certain policies (e.g. investment) of the Funds.

The Company is required to agree a Schedule of Contributions with the Trustees of the Funds following a valuation which must be carried out at least once every three years with the latest valuation in 2020. The outcome of the valuation is that Company contributions are reduced. The Company expects to pay contributions of £0.3m in respect of the Funds in the year to 31 December 2021. The weighted average duration of the defined benefit obligation is 14 years. There is no effect on recognition of the net defined benefit surplus as a result of the asset ceiling.

For the principle defined benefit plan, the Group considers that it has the right to a refund of a surplus, assuming the gradual settlement of the plan liabilities over time until all members have left the plan. The plan trustees can purchase annuities to ensure member benefits and can, for the majority of benefits, transfer these annuities to members. The trustees cannot unconditionally wind up the plan or use the surplus to enhance member benefits without employer consent. Our judgement is that these trustee rights do not prevent us from recognising an unconditional right to a refund and therefore a surplus.

21. Employee benefits (continued)

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit asset and its components:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability/(asset)	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Balance at 1 January	**24.6**	24.9	**(26.9)**	(25.3)	**(2.3)**	(0.4)
Included in profit or loss						
Current service cost	**–**	–	**0.1**	0.1	**0.1**	0.1
Interest cost/(income)	**0.5**	0.7	**(0.5)**	(0.6)	**–**	0.1
	0.5	0.7	**(0.4)**	(0.5)	**0.1**	0.2
Included in other comprehensive income						
Remeasurements (gain)/loss						
Actuarial (gain)/loss arising from:						
– changes in demographic assumptions	**–**	(2.0)	**–**	–	**–**	(2.0)
– changes in financial assumptions	**0.2**	2.3	**–**	–	**0.2**	2.3
– return on plan assets excluding interest income	**2.1**	–	**(1.0)**	(1.9)	**1.1**	(1.9)
	2.3	0.3	**(1.0)**	(1.9)	**1.3**	(1.6)
Other						
Contributions paid by the employer	**–**	–	**(0.1)**	(0.5)	**(0.1)**	(0.5)
Benefits paid	**(1.2)**	(1.3)	**1.1**	1.3	**(0.1)**	–
	(1.2)	(1.3)	**1.0**	0.8	**(0.2)**	(0.5)
Balance at 31 December	**26.2**	24.6	**(27.3)**	(26.9)	**(1.1)**	(2.3)

Represented by:	**2020 £m**	2019 £m
Net defined benefit asset (Plan A)	**(0.2)**	(0.1)
Net defined benefit asset (Plan B)	**(0.9)**	(2.2)
	(1.1)	(2.3)

Plan assets consist of the following:

	2020 £m	2019 £m
Equities (class 2)	**9.8**	10.1
Bonds and gilts (class 2)	**17.4**	16.7
Cash	**0.1**	0.1
	27.3	26.9

All equity securities and government bonds have quoted prices in active markets.

21. Employee benefits (continued)

Actuarial assumptions

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

	% per annum	
	2020	2019
Discount rate at 31 December	**1.1**	1.9
Future salary increases	**n/a**	n/a
Future pension increases	**3.0**	3.1
Inflation – RPI	**3.1**	3.2
Inflation – CPI	**2.3**	2.2

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows:

	2020		2019	
	Plan A	**Plan B**	Plan A	Plan B
Longevity at age 65 for current pensioners				
Males	**23.5**	**20.5**	23.4	20.4
Females	**25.1**	**23.6**	24.9	23.4
Longevity at age 65 for current members aged 45				
Males	**24.5**	**21.5**	24.3	21.4
Females	**26.2**	**24.7**	26.0	24.6

Sensitivity analysis

Potential changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	Defined benefit obligation	
	Increase £m	**Decrease £m**
Discount rate (0.5% movement)	**(1.6)**	**1.7**
Inflation (0.5% movement)	**1.2**	**(1.2)**
Life expectancy (+/–1 year)	**1.5**	**(1.5)**

Although the analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown.

21. Employee benefits (continued)
Share-based payments
PSP
In September 2005, the shareholders approved the PSP.

During the year, an award under the PSP was made to the Executive Directors and senior managers, details of which are set out below. The award was split into three components, based on the EPS performance of the Group, based on the Group's total shareholder return ("TSR") performance and based on service conditions.

Date of award	Number of awards at the beginning of the year	Number of awards granted during the year	Number of awards vested during the year	Number of awards forfeited during the year	**Number of awards at the year end**	Fair value pence per share	Vesting period	Maturity date
January 2017 (service condition)	1,192		(1,192)		**–**	1037	3 years	Jan 2020
March 2017 (EPS)	42,040			(42,040)	**–**	990	3 years	Mar 2020
March 2017 (TSR)	14,013			(14,013)	**–**	701	3 years	Mar 2020
March 2017 (service condition)	19,889		(18,501)	(1,388)	**–**	990	3 years	Mar 2020
August 2017 (service condition)	3,608		(3,608)		**–**	832	3 years	Aug 2020
March 2018 (EPS)	72,907				**72,907**	550	3 years	Mar 2021
March 2018 (TSR)	24,303				**24,303**	272	3 years	Mar 2021
March 2018 (service condition)	46,681			(1,430)	**45,251**	522	3 years	Mar 2021
March 2018 (service condition)	2,307				**2,307**	536	3 years	Mar 2021
March 2019 (EPS)	66,707				**66,707**	453	3 years	Mar 2022
March 2019 (TSR)	22,236				**22,236**	314	3 years	Mar 2022
March 2019 (service condition)	99,278			(17,387)	**81,891**	453	3 years	Mar 2022
March 2020 (EPS)		100,684			**100,684**	205	3 years	Mar 2023
March 2020 (TSR)		100,684			**100,684**	130	3 years	Mar 2023
March 2020 (service condition)		353,054		(56,745)	**296,309**	205	3 years	Mar 2023
	415,161	554,422	(23,301)	(133,003)	**813,279**			

Further details of the PSP are included in the Directors' Remuneration Report on pages 68 to 89.

The 2020 awards linked to EPS have been valued using the Black-Scholes model and those linked to TSR have been valued using the Monte Carlo model.

The following key assumptions and inputs have been used in the calculation of the fair values:

	March 2020 EPS and TSR award
Share price	**2.05**
Exercise price	**Nil**
Expected volatility	**60%**
Award life	**3 years**
Correlation:	
Dialight and the FTSE 250 Index (excluding investment trusts)	**29%**

The employee expense in 2020 was £0.4m (2019: £0.3m) (see note 7).

Save As You Earn ("SAYE")
In 2014, the Group initiated an all-employee UK Sharesave Plan and established equivalent arrangements in the US and Mexico. Under the terms of the SAYE scheme employees can save up to £250 per month (or local currency equivalent) per scheme and up to £500 per month for all schemes. Awards under the scheme were made at a 20% discount to the closing mid-market price on the date of invitation, vesting over a three-year period. There are no performance conditions attached to the SAYE scheme. All the schemes are now closed.

21. Employee benefits (continued)

	2017 scheme number
Outstanding at 1 January 2020	35,841
Granted during the year	–
Vested in the year	–
Forfeited during the year	(35,841)
Outstanding at 31 December 2020	**–**

Options were valued using the Black-Scholes option pricing model.

22. Provisions

	Warranty and claims £m	Lease - restoration £m	Total £m
Balance at 1 January 2020	2.0	0.3	2.3
Provisions made during the year	2.0	–	2.0
Provisions used during the year	(1.4)	(0.1)	(1.5)
Effects of foreign exchange movement	(0.1)	–	(0.1)
Balance at 31 December 2020	**2.5**	**0.2**	**2.7**

The potential claims provision relates to warranty provisions for sales made over the past seven years, and other claims across the Group. The warranty provision has been estimated based on historical warranty data with similar products. The Group expects to settle the majority of the liability over the next two to three years.

The table below provides a breakdown of the provisions into their short-term and long-term portions:

	Total 2020 £m	Total 2019 £m
Due within one year	**1.5**	0.9
Due between one and five years	**1.1**	1.2
Due after five years	**0.1**	0.2
	2.7	2.3

23. Trade and other payables

	2020 £m	2019 £m
Trade payables	**12.2**	18.9
Other taxes and social security	**1.4**	0.8
Non-trade payables and accrued expenses	**7.9**	8.7
	21.5	28.4

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

24. Cash and cash equivalents

	2020 £m	2019 £m
Cash and cash equivalents	**5.3**	0.5

25. Financial risk management

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

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

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

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

Credit risk

Trade and other receivables

Credit risk is the risk of financial loss if a customer fails to meet its contractual obligations by not paying the receivables due. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has no significant credit risk as it does not have any major customer concentration.

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 conditions and 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 who 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 expected future losses in respect of trade and other receivables. Impairment losses are determined having taken into account special customer circumstances and financial position, together with Group information about general payment trends.

IFRS 9 introduces an expected credit loss model for calculating impairment of financial assets. The Group has applied the simplified approach as permitted by IFRS 9. The expected credit loss model (ECL) considers the Group's historical credit loss, factors specific to each receivable, the current economic environment and expected changes in future forecasts. The application of this new ECL model did not result in a material impact to the Group's financial performance or the financial position in the current year or prior year. The trade receivables balance below is shown net of the provision for bad debts. The Group provides against trade receivables based on an expected credit loss model, calculated from the probability of default for the remaining life of the asset. The application of IFRS 9 has not resulted in any material impact to the Group.

Exposure to credit risk

The ageing of trade receivables at the reporting date was:

	Gross 2020 £m	**Specific Impairment 2020 £m**	Gross 2019 £m	Specific Impairment 2019 £m
Not past due	**15.3**	**–**	16.9	–
Past due 0–30 days	**2.3**	**–**	3.5	–
Past due 31–120 days	**0.2**	**–**	0.5	–
Past due 121–365 days	**0.3**	**–**	–	–
More than one year	**–**	**–**	0.1	(0.1)
Total	**18.1**	**–**	21.0	(0.1)

25. Financial risk management (continued)

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

	£m
Balance at 1 January 2020	0.1
Effects of foreign exchange	–
Utilisation of provision	(0.1)
Provision created	–
Balance at 31 December 2020	**–**

The allowance in respect of trade receivables is used to record forecast impairment losses unless the Group is satisfied that no recovery of the amount owing is possible, at which point the amount considered irrecoverable is written off against the financial asset directly. Other non-trade receivables of £5.4m (2019: £5.6m) are not past due and have no impairment. The ECL provision for the current year is not material and was not material in the prior year.

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, whilst optimising the return.

Interest rate risk

The Group's policy is to manage exposure to interest rate risk by utilising borrowings at LIBOR plus applicable margins. At 31 December 2020, the Group had total borrowing of £16.7m (2019: £17m).

Foreign currency risk

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

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than each subsidiary's functional currency. The currencies giving rise to risk are primarily the Euro, CAD Dollar and the US Dollar.

Where possible 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 a different Group company. The Group has borrowing facilities in US Dollars in order to match the currency of the Group's major market. Foreign exchange contracts may be taken out to manage exposures that are not mitigated through natural hedging but the Group had no foreign exchange contracts at the balance sheet date.

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

The Group's exposure to foreign currency risk was as follows:

	2020 $m	**2020 CAD'm**	**2020 €m**	2019 $m	2019 CAD'm	2019 €m
Trade receivables	**0.1**	**2.1**	**0.7**	0.3	2.0	0.7
Currency cash	**(9.2)**	**0.2**	**0.1**	(17.3)	0.1	–
Trade payables	**–**	**–**	**–**	–	–	–
Gross balance sheet exposure	**(9.1)**	**2.3**	**0.8**	(17.0)	2.1	0.7

The following significant exchange rates applied during the year:

	2020 Average rate	**2020 At balance sheet date**	2019 Average rate	2019 At balance sheet date
US Dollar	**1.28**	**1.36**	1.28	1.32
Euro	**1.12**	**1.11**	1.14	1.18
Canadian Dollar	**1.72**	**1.74**	1.69	1.72
Mexican Peso	**27.51**	**27.14**	24.56	24.93

25. Financial risk management (continued)

Liquidity risk

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

Exposure to liquidity risk*

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

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

31 December 2020	Carrying amount £m	Contractual cash flow £m	2 months or less £m	2–12 months £m	1–2 years £m	2–5 years £m	More than 5 years £m
Non-derivative financial liabilities							
Trade and other payables	**(21.5)**	**(21.5)**	**(17.7)**	**(0.5)**	**(3.3)**	**–**	**–**
Borrowings	**(16.7)**	**(16.7)**	**(0.7)**	**(3.3)**	**(4.0)**	**(8.7)**	**–**
Lease liabilities	**(10.3)**	**(10.3)**	**(0.2)**	**(1.3)**	**(1.1)**	**(3.7)**	**(4.0)**
	(48.5)	**(48.5)**	**(18.4)**	**(5.2)**	**(8.4)**	**(12.5)**	**(4.0)**

31 December 2019	Carrying amount £m	Contractual cash flow £m	2 months or less £m	2–12 months £m	1–2 years £m	2–5 years £m	More than 5 years £m
Non-derivative financial liabilities							
Trade and other payables	(28.4)	(28.4)	(21.4)	(7.0)	–	–	–
Borrowings	(17.0)	(17.0)	–	–	–	(17.0)	–
Lease liabilities	(12.3)	(12.3)	(0.2)	(1.4)	(1.4)	(3.7)	(5.6)
	(57.7)	(57.7)	(21.6)	(8.4)	(1.4)	(20.7)	(5.6)

* The Group has disclosed a contractual maturity analysis for its financial liabilities, which is the minimum disclosure under IFRS 7 in respect of liquidity risk. IFRS 7 does not mandate the number of time bands to be used in the analysis so the Group has applied judgement to determine an appropriate number of time bands. The Group has included both interest and principal cash flows in the analysis.

The Group has a five-year unsecured £25m multi-currency revolving credit facility and £10.0 CLBILS, of which £16.7m is drawn at 31 December 2020 (2019: £17.0m), see note 14.

Capital management

The Board's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. The Board considers consolidated total equity as capital. As at 31 December 2020, this totaled £58.3m (2019: £67.8m).

The Board is not proposing a final dividend for 2020. The Group has a clear capital allocation discipline and is committed to returning any excess funds to our shareholders via either a future dividend or a share re-purchase, subject to the restrictions imposed by the CLBILS borrowing.

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 2020, it is estimated that a general increase of 1% in the value of the Euro and the US Dollar against UK Sterling would have had no impact on the Group's loss before tax for the year ended 31 December 2020 (2019: no impact), but would have increased the Group's equity for the year ended 31 December 2020 by £0.4m (2019: £0.5m).

25. Financial risk management (continued)

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 2020 £m	**Fair value 2020 £m**	Carrying amount 2019 £m	Fair value 2019 £m
Financial assets				
Cash and cash equivalents	**5.3**	**5.3**	0.5	0.5
Loans and receivables				
Trade and other receivables	**18.5**	**18.5**	21.8	21.8
Total financial assets	**23.8**	**23.8**	22.3	22.3
Financial liabilities				
Lease liabilities	**(10.3)**	**(10.3)**	(12.3)	(12.3)
Trade and other payables	**(20.1)**	**(20.1)**	(28.4)	(28.4)
Borrowings	**(16.7)**	**(16.7)**	(17.0)	(17.0)
Total financial liabilities	**(47.1)**	**(47.1)**	(57.7)	(57.7)
Net financial liabilities	**(23.3)**	**(23.3)**	(35.4)	(35.4)

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 4(v).

26. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2020 £m	2019 £m
Less than one year	**0.3**	0.2
Between one and five years	**0.3**	0.1
	0.6	0.3

Of the £0.6m (2019: £0.3m), £nil (2019: £nil) relates to property and the balance to plant and equipment.

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

27. Capital commitments

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

	2020 £m	2019 £m
Contracted	**0.4**	0.4

28. Contingencies

As previously reported, we have sought to reach a negotiated conclusion of various outstanding matters following the termination of the manufacturing services agreement with our former outsource manufacturer, Sanmina Corporation. On 20th December 2019, both parties issued legal proceedings against the other. The parties are therefore in formal litigation, with no conclusion expected before 2022. The basis of the claim filed by Sanmina Corporation relates to outstanding invoices and to residual inventory, which they allege that they purchased for Dialight. The claim filed by Dialight is more complex in nature and relates to significant costs and losses suffered as a direct consequence of Sanmina Corporation not performing in accordance with the terms of the manufacturing services agreement. The Group has sought external legal advice and is paying for the legal costs as and when it occurs. As at 31 December 2020, the Group has not made any provision for future legal costs.

The Group is confident of the merits of our legal position, however in the unlikely event that Sanmina's claim is successful, the range of outcomes could be £0 – £8m, including legal fees.

The claim filed by Dialight alleges that Dialight suffered significant costs and losses with total damages exceeding £190m suffered as a result of: (a) Sanmina's fraudulent inducement of Dialight to enter into a manufacturing services agreement (MSA); (b) Sanmina breaching the terms of the MSA in a wilful and/or grossly negligent manner (for example in respect of their failure to appropriately manage supply chain and inventory levels and to deliver product on time and free of workmanship defects); and, (c) Sanmina's gross negligence and/or wilful misconduct.

During 2011, the Roxboro UK Pension Fund (the "Scheme") was closed to future accrual. This Scheme is included within pension asset. As part of the negotiations regarding closure, the Company agreed to grant a parent company guarantee in respect of all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally and in any capacity whatsoever) of Dialight Europe Limited, the principal employer, to make payments in the Scheme up to a maximum amount equal to the entire aggregate liability, on the date on which any liability under the guarantee arises, of every employer (within the meaning set out in Section 318 of the Pensions Act 2004 and regulations made thereunder) in relation to the Scheme, were a debt under Section 75(2) of the Pensions Act 1995 to have become due on that date. No provision has been made in relation to this contingency.

The Group operates in certain jurisdictions that are unstable or have changing political conditions, giving rise to occasional uncertainty over the tax treatment of items of income and expense. In addition, from time to time certain tax positions taken by the Group are challenged by the relevant tax authorities, which carry a financial risk as to the final outcome. The Directors have considered the potential impact arising from these uncertainties and risks, on the Group's tax assets and liabilities, both recognised and unrecognised, and believe that they are not material to the Financial Statements.

The Group has received two claims from former employees in France and, whilst recognising the inherent risks of employee-related litigation in France, the Directors believe that these two claims are without merit and will be robustly defended, and are not considered likely to result in any material outflow of funds from the Group.

29. Related parties

The ultimate controlling party of the Group is Dialight plc. Transactions between the Company and its subsidiaries have been eliminated on consolidation.

Transactions with key management personnel

Directors of the Company and their immediate relatives control less than 1% of the Company.

30. Subsidiaries

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries as at 31 December 2020 is disclosed below. Those companies stated in table (a) below are those, in the opinion of Directors, which principally affect the revenue, profit or assets of the Dialight Group.

The remaining companies that comprise the Dialight Group are set out in table (b) below. These did not change during 2020. The investment is held directly by Dialight plc except for those companies indicated by *.

(a) Trading companies

Name	Percentage owned	Registered office	Principal activity
Dialight Corporation*	100%	1501 Route, 34 South Farmingdale, NJ 07727 United States	Design, assembly and sale of Lighting and Signals & Components products
Dialight Europe Limited**	100%	Leaf C Level 36, Tower 42 25 Old Broad Street London EC2N 1HQ United Kingdom	Sale of Lighting products
Dialight GmbH*	100%	Maximilianstrasse 54 80538 Munchen Germany	Sale of Lighting products
Dialight ILS Australia Pty Limited*	75%	Level 2 Spectrum 100 Railway Road Subiaco WA 6008 Australia	Sale of Lighting products
Dialight Asia Pte. Ltd*	75%	33 Ubi Avenue 3 07–72 Vertex (Tower A) Singapore, 408868	Sale of Lighting products
Dialight Penang Sdn. Bhd.*	100%	Room B, 3rd Floor 309-K Perak Road 10150, Penang Malaysia	Assembly and sale of Lighting and Signals & Components products
Dialight de Mexico, S. de R.L. de C.V.*	100%	Calle Lirios S/N Colona Pacheco Ensenada Baja California Mexico	Assembly of Lighting, Signals & Components products

The only change in trading companies during 2020 was the disposal of Dialight Do Brazil Tecnologia Led Ltda.

There is only one class of share, and all shares held are considered to be ordinary shares. There have been no changes in the class of shares held during the year.

Dialight ILS Australia Pty Limited and Dialight Asia Pte. Ltd are owned 75% by the Group and there are non-controlling interests of 25%. The total profit for the year attributable to non-controlling interests is £0.1m (2019: loss £0.1m) and their share of equity is £0.4m (2019: £0.3m).

The Group also has branches in France and the United Arab Emirates.

30. Subsidiaries (continued)

(b) Other companies

Unless otherwise stated, the registered office for the subsidiaries listed below is the same as the Company's Registered Offices set out on page 156 under the "Directory and Shareholder Information" section.

Name	Percentage owned	Registered office	Principal activity
Belling Lee Limited**	100%		Intermediary holding company
Roxboro Overseas Limited**	100%		Non-trading/intermediary holding company
The Roxboro Trust Company Limited**	100%		Dormant
The Roxboro UK Pension Trustee Limited*	50%		Corporate pension fund trustee
Dialight Latin America, S. de R.L. de C.V.*	100%	Calle Lirios S/N Colona Pacheco Ensenada Baja California Mexico	Non-trading
CRL Components, Inc.*	100%	The Corporation Trust Co. Corporation Trust Centre 1209 Orange Street City of Wilmington County of New Castle DE United States	Dormant
Roxboro Analytical Inc.*	100%	1501 Route 34 South Farmingdale NJ 07727 United States	Non-trading
Roxboro Holdings Inc.*	100%	The Corporation Trust Co. Corporation Trust Centre 1209 Orange Street City of Wilmington County of New Castle DE, United States	Non-trading/intermediary holding company
Roxboro Metrology Inc.*	100%	1501 Route 34 South Farmingdale NJ 07727 United States	Non-trading

** these companies are exempt from the requirement to prepare individual audited financial statements in respect of the year ended 31 December 2020, by virtue of sections 479A and 479C of the Companies Act 2006.

31. Other receivables

	2020 £m	2019 £m
Other receivables	**5.0**	4.7

These relate to deposits on leasehold properties and amounts paid on account related to inventory at our former outsource manufacturer which form part of the legal case disclosed in note 28.

32. Reconciliation to non-GAAP performance measures

As explained in note 6, the Group incurs costs and earns income that is not considered to be reflective of the underlying performance of the business. In the assessment of performance of the business units of the Group, management examines underlying performance, which removes the impact of non-underlying costs and income.

In addition, the results of businesses disposed of during the year are re-classified to non- underlying for the current year, as those businesses are no longer part of the Group's on-going underlying business.

	2020 £m	2019 £m
Loss from operating activities	**(8.8)**	(11.3)
Non-underlying items (see note 6)	**2.4**	6.3
Underlying loss from operating activities	**(6.4)**	(5.0)
Loss from operating activities	**(8.8)**	(11.3)
Non-underlying items (see note 6)	**2.4**	6.3
Depreciation of property, plant and equipment (see note 11)	**3.1**	2.6
Amortisation of intangible assets (see note 13)	**3.0**	2.0
Share-based payments	**0.4**	0.3
Underlying EBITDA	**0.1**	(0.1)
Proforma unaudited costs added back (see note 6)	**n/a**	10.2
Proforma unaudited EBITDA	**n/a**	10.1
Loss from operating activities	**(8.8)**	(11.3)
Non-underlying items (see note 6)	**2.4**	6.3
Depreciation of property, plant and equipment (see note 11)	**3.1**	2.6
Amortisation of intangible assets (see note 13)	**3.0**	2.0
Share-based payments	**0.4**	0.3
Net movement on working capital (Inventories, trade and other receivables, trade and other payables) as per Consolidated statement of cash flows	**9.0**	6.6
Underlying operating cashflow	**9.1**	6.5
Proforma unaudited costs added back (see note 6)	**n/a**	10.2
Proforma unaudited operating cashflow	**n/a**	16.7

Underlying loss from operating activities and underlying EBIT referred to in the earlier sections of the Annual Report are the same measures. Underlying operating cash flow and adjusted operating cash flow referred to in the earlier sections of the Annual Report are the same measures.

Constant Currency

The Group's revenues are mainly earned in the US and it presents certain key metrics on a constant currency basis to remove any impact of currency fluctuations. The constant currency impact is calculated by re-translating the prior year numbers at the exchange rate prevailing in the current year.

Net (debt)/cash

Net debt is defined as total Group borrowings less cash. Net debt of £11.4m at the year-end (2019: £16.5m) consisted of borrowings of £16.7m (2019: £17.0m) less cash of £5.3m (2019: £0.5m).

33. Leases

See accounting policy in note 4(u).

A. Leases as lessee (IFRS 16)

The Group leases industrial premises, office buildings, IT and other equipment. The leases typically run for a period of 2–10 years, with various options to renew the leases after that date. Lease payments are renegotiated dependent on the lease terms to reflect market rentals. Some leases provide for additional rent payments that are based on fixed percentage changes and/or changes in local price indices.

The Group leases IT and other equipment with contract terms of one to four years. These leases are short term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the Group is a lessee is presented below.

33. Leases (continued)

(i) Right of use assets

Right-of-use assets related to leased properties are presented separately (in note 12) from property, plant and equipment (in note 11).

(ii) Amounts recognised in profit or loss

	2020 £m	2019 £m
2020 – Leases under IFRS 16		
Interest on lease liabilities	**(0.6)**	(0.6)
Expenses relating to short-term leases	**(0.1)**	(0.2)
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	**(0.3)**	(0.2)
	(1.0)	(1.0)

(iii) Amounts recognised in statement of cash flows

	2020 £m
Total cash outflow for leases	**2.3**

Of the total £2.3m cash outflow in 2020, £1.7m was for the principal portion of lease liabilities, and £0.6m was for interest on lease liabilities.

(iv) Extension options

Extension options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the Group as a lessee. The Group has estimated that the potential future lease payments, should it exercise all the extension options, would result in an increase in lease liabilities of £9.7m.

B. Leases as lessor

The Group has a lease on an office that was entered into during 2019 and which it is also sub-letting.

(i) Operating lease

The Group has classified this sub-lease as an operating lease, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the asset. Note 3(c) sets out information about the operating lease for the sub-leased property. The head lease expires in 2029 and the sub-lease expires in 2026. The sub-lessor has the option to renew the lease at its sole discretion.

Rental income recognised by the Group during 2020 was £nil (2019: £nil). The following table sets out a maturity analysis of the lease rentals receivable relating to the sub-lease, showing the undiscounted lease payments to be received after the reporting date:

Operating leases minimum rentals receivable under IFRS16	2020 £m	2019 £m
Less than one year	**0.2**	0.2
One to two years	**0.2**	0.2
Two to three years	**0.2**	0.2
Three to four years	**0.2**	0.2
Four to five years	**0.3**	0.2
More than five years	**0.3**	0.6
Total	**1.4**	1.6

34. Post balance sheet events

There are no material post balance sheet events requiring adjustment or disclosure.

Company balance sheet (prepared under FRS 102)

at 31 December 2020

	Note	2020 £m	2019 £m
Fixed assets			
Tangible fixed assets	4	–	0.1
Investments	5	**9.8**	9.4
Pension fund asset	15	**0.2**	0.2
		10.0	9.7
Current assets			
Debtors (of which £25.6m due after 1 year (2019: £nil))	8	**49.9**	55.5
Bank and cash balances		**2.0**	–
		51.9	55.5
Total assets		**61.9**	65.2
Creditors			
Amounts falling due within one year:			
Other creditors	9	**(1.7)**	(1.5)
Provisions	10	**(0.4)**	(0.4)
Borrowings	11	**(16.7)**	(17.9)
Total liabilities		**(18.8)**	(19.8)
Net current assets		**33.1**	35.7
Net assets		**43.1**	45.4
Capital and reserves			
Called up share capital	13, 14	**0.6**	0.6
Capital redemption reserve		**2.2**	2.2
Other reserve		**4.4**	4.0
Profit and loss account		**35.9**	38.6
Equity shareholders' funds		**43.1**	45.4

As permitted by Section 408 of the Companies Act 2006, a separate profit and loss account of the parent company has not been presented. The parent company's loss for the year was £2.7m (2019: loss of £9.5m).

The accompanying notes form part of these financial statements.

These financial statements were approved by the Board of Directors on 29 March 2021 and were signed on its behalf by:

Fariyal Khanbabi
Group Chief Executive

Wai Kuen Chiang
Chief Finance Officer

Company statement of changes in equity

for the year ended 31 December 2020

	Share capital £m	Other reserve capital contribution £m	Capital redemption £m	Retained earnings £m	**Total equity £m**
Balance at 1 January 2020	0.6	4.0	2.2	38.6	**45.4**
Loss	–	–	–	(2.7)	**(2.7)**
Total other comprehensive income	–	–	–	–	**–**
Total comprehensive expense for the year	–	–	–	(2.7)	**(2.7)**
Transactions with owners, recorded directly in equity					
Share-based payments, net of tax	–	0.4	–	–	**0.4**
Total contribution by and distribution to owners	–	0.4	–	–	**0.4**
Balance at 31 December 2020	**0.6**	**4.4**	**2.2**	**35.9**	**43.1**

	Share capital £m	Other reserve capital contribution £m	Capital redemption £m	Retained earnings £m	**Total equity £m**
Balance at 1 January 2019	0.6	3.7	2.2	48.3	**54.8**
Loss	–	–	–	(9.5)	**(9.5)**
Other comprehensive income:					
Remeasurement of defined benefit pension liability, net of tax	–	–	–	(0.2)	**(0.2)**
Total other comprehensive income	–	–	–	(0.2)	**(0.2)**
Total comprehensive income for the year	–	–	–	(9.7)	**(9.7)**
Transactions with owners, recorded directly in equity					
Share-based payments, net of tax	–	0.3	–	–	**0.3**
Total contribution by and distribution to owners	–	0.3	–	–	**0.3**
Balance at 31 December 2019	**0.6**	**4.0**	**2.2**	**38.6**	**45.4**

At 31 December 2020 the number of shares held by the Group through the ESOT was nil ordinary shares (2019: nil). The market value of these shares at 31 December 2020 was £nil (2019: £nil).

1. General information

Dialight plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the Registered Office is given on page 156 of this Annual Report and Accounts. The Company is a holding company that manages the other trading subsidiaries of the Dialight Group. The functional currency of Dialight plc is considered to be UK Sterling because that is the currency of the primary economic environment in which the Company operates.

2. Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102").

Under section s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of the Company include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 Share Based Payments; and,
- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements:

(a) Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of no less than 12 months from the date of this report. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(b) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over their expected useful life, which is between three and ten years.

(c) Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

The Company's debt instruments are subsequently measured at amortised cost using the effective interest method.

Debt instruments that are classified as payable or receivable within one year on initial recognition, and which meet the above conditions, are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

(ii) Investments

Investments in subsidiaries and associates are measured at cost less impairment. For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus the fair value of other consideration. Any premium is ignored.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

2. Basis of preparation (continued)

(d) Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss.

(e) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

(f) Employee benefits

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

For the defined benefit arrangements, the assets are measured at market values. The liabilities are measured using the projected unit credit method, discounted at the current rate of return of a high–quality corporate bond appropriate to the term and currency of the liability.

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

Other long–term employee benefits are measured at the present value of the benefit obligation at the reporting date.

(g) Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Exchange differences are recognised in profit or loss in the period in which they arise.

(h) Leases

Rentals under operating leases are charged on a straight–line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight–line basis over the lease term.

(i) Share–based payment

The Company grants to its employees' rights to the equity instruments of Dialight plc. The fair value of awards granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to receive the awards. The fair value of the awards granted is measured using a pricing model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual value of share awards that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. Where the Company grants awards over its own shares to 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 subsidiaries' financial statements with the corresponding credit being recognised directly in equity.

(j) Dividends

Dividends are recognised in the period in which they are approved by the Company's shareholders, or in the case of an interim dividend, when the dividend is paid. Dividends receivable from subsidiaries are recognised when either received in cash or applied to reduce a creditor balance with a subsidiary.

(k) Provisions

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

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Directors consider that there are no critical accounting judgements or key sources of estimation uncertainty within the Company's individual financial statements.

4. Fixed assets

	Fixtures, fittings and equipment £m
Cost	
At 1 January 2020	0.4
Depreciation	
At 1 January 2020	(0.3)
Charge for the year	(0.1)
At 31 December 2020	**(0.4)**
Net book value at 31 December 2020	**–**
Net book value at 31 December 2019	0.1

5. Investments

Investments in subsidiary undertakings

	£m
Cost	
At 1 January 2020	20.8
Share-based payments	0.4
At 31 December 2020	**21.2**
Provisions	
At 1 January 2020	(11.4)
Net book value at 31 December 2020	**9.8**
Net book value at 31 December 2019	9.4

In accordance with Section 26 of FRS 102, the cost of investment is increased to reflect the cost of share options awarded to employees of the Company's subsidiaries.

A full list of subsidiaries of the Company is provided in note 30 to the Consolidated Financial Statements on pages 141 and 142.

6. Financial risk management

The Company has exposure to market risk and liquidity risk from its use of financial instruments. The overall framework for managing risk and the interest rate risk that affects the Company is discussed in note 25 to the Consolidated Financial Statements.

All carrying values are considered to be fair values.

A sensitivity analysis has been carried out in note 25 to the consolidated financial statements, and is considered to not be materially different for the results of the Company only.

Foreign currency risk

The Company holds monetary assets and liabilities in currencies other than UK Sterling. The majority of these relate to intercompany balances which provide a natural hedge elsewhere in the Group.

The Company's exposure to foreign currency risk to third parties was as follows:

	2020 $m	2019 $m
Currency cash	**(9.2)**	(17.3)
Other creditors	**–**	–
Gross balance sheet exposure	**(9.2)**	(17.3)

The exchange rates applied during the year are disclosed in note 25 to the Consolidated Financial Statements.

Liquidity risk

The Company's exposure to liquidity risk relates to its borrowings. This is discussed in note 25 to the Consolidated Financial Statements.

7. Share-based payments

Share-based payments are described in full in note 21 to the Consolidated Financial Statements.

PSP

The PSP relating to employees of the Company is disclosed on page 75 in the Directors' Remuneration Report.

Save As You Earn ("SAYE")

The options under the SAYE relating to employees of the Company are as follows:

	2017 scheme number	2015 scheme number
Outstanding at 1 January	2,786	–
Vested during the year	–	–
Forfeited during the year	(2,786)	–
Outstanding at 31 December	–	–

Details on assumptions and inputs used in the calculation of share-based payment amounts are disclosed in note 21 to the Consolidated Financial Statements.

8. Debtors

	2020 £m	2019 £m
Amounts owed by subsidiary undertakings < 1 year	**24.0**	55.3
Amounts owed by subsidiary undertakings > 1 year	**25.6**	–
Other debtors	**0.3**	0.2
	49.9	55.5

9. Creditors

	2020 £m	2019 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	**0.4**	0.4
Accruals and deferred income	**0.8**	0.8
Other creditors	**0.5**	0.3
	1.7	1.5

10. Provisions

	2020 £m	2019 £m
At 1 January	**0.4**	–
Additions	**–**	0.4
At 31 December	**0.4**	0.4

Following the disposal of the Dialight A/S business in September 2019, a provision was established for the maximum amount that may be payable by the Company in respect of future warranty claims relating to historic sales by the business sold, in accordance with the Sale and Purchase Agreement.

The contingent liability for the Company in relation to litigation by Sanmina Corporation is disclosed in note 28 of the Group Accounts.

11. Borrowings

The Group's financing arrangements consisted of a revolving credit facility with HSBC of £25m which matures in February 2023 and has an option for two extensions of one year each, with the approval of the bank. In order to ensure the availability of sufficient liquidity, the Group increased its banking facility with HSBC on 15 June by adding a further £10m facility on a 3-year basis by utilising a combination of £8m under COVID-19 Large Business Interruption Scheme (CLBILS) and a £2m commercial loan. The remaining facility fees of £0.3m are amortised over the tenure of the facility till February 2023.

The £10m loan will be repaid in equal installments over 3 years starting on the 15th January 2021 whilst the £25m revolving credit facility term loan runs up till February 2023.

As part of the new facility, the original banking covenants of net debt to EBITDA ratio and interest cover have been replaced by a new test based on exceeding a 12-month rolling EBITDA level that was derived from a COVID impacted business plan as agreed with HSBC, for the testing periods of June 2020 to June 2021. The Group is compliant with its banking covenant as at 31 December 2020.

12. Deferred tax assets

	2020 £m	2019 £m
At 1 January	**–**	0.3
Impairment	**–**	(0.3)
At 31 December	**–**	–

13. Called up share capital

	2020 Number	2020 £m	2019 Number	2019 £m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,562,466**	**0.6**	32,539,165	0.6
Shares classified as liabilities		**–**		–
Shares classified in shareholder funds		**0.6**		0.6
		0.6		0.6

During the year 23,301 shares were issued (2019: 4,928) in order to satisfy the requirement for shares that vested as part of the Sharesave scheme and the proceeds of issue were less than £0.1m (2019: £0.1m). The ordinary shares issued in the year have the same rights as the other shares in issue.

14. Capital and reserves

Dividends

No dividends were declared in the current or the prior year. After the balance sheet date no dividends were proposed by the Directors and there are no income tax consequences for the Company.

15. Pensions

The Company operates a defined contribution plan and a defined benefit pension arrangement called the Roxboro UK Executive Pension Fund (the "Executive Fund"). The Executive Fund provides benefits based on final salary and length of service on leaving. The Executive Fund is closed to new members. The following disclosures exclude any allowance for defined contribution funds operated by the Company.

The Executive Fund is subject to the "Statutory Funding Objective" under the Pensions Act 2004. An actuarial valuation of the Executive Fund is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the Trustees of the Executive Fund the contributions to be paid to address any shortfall against the Statutory Funding Objective.

The Company is required to agree a Schedule of Contributions with the Trustees of the Funds following a valuation which must be carried out at least once every three years with the latest valuation in 2020. The outcome of the valuation is that Company contributions are reduced. The Company expects to pay contributions of £0.1m in respect of the Funds in the year to 31 December 2021. The weighted average duration of the defined benefit obligation is 14 years. There is no effect on recognition of the net defined benefit surplus as a result of the asset ceiling.

Recognised assets for defined benefit arrangements

	2020 £m	2019 £m
Present value of funded obligations	(3.1)	(2.9)
Fair value of plan assets	3.3	3.1
Recognised asset for defined benefit arrangements	0.2	0.2

Plan assets consist of the following:

	2020 £m	2019 £m
Bonds	3.3	3.1

The assets do not include any investments in shares of the Company.

Movements in the present value of defined benefit obligations

	2020 £m	2019 £m
Liabilities at 1 January	2.9	2.5
Interest cost	0.1	0.1
Benefits paid	(0.1)	(0.1)
Changes in financial assumptions	0.2	0.4
Liabilities at 31 December	3.1	2.9

Movements in fair value of plan assets

	2020 £m	2019 £m
Assets at 1 January	3.1	2.8
Interest on assets	0.1	0.1
Employer contributions	–	0.1
Benefits paid	(0.1)	(0.1)
Return on plan assets less interest	0.2	0.2
Assets at 31 December	3.3	3.1

Expense recognised in the profit and loss account

	2020 £m	2019 £m
Interest on obligation	0.1	0.1
Interest on plan assets	(0.1)	(0.1)
	–	–

15. Pensions (continued)

Liability for defined benefit obligations

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

	UK scheme (% per annum)	
	2020	2019
Discount rate at 31 December	**1.10**	1.90
Future pension increases	**3.00**	3.10
Inflation – RPI	**3.05**	3.20
Inflation – CPI	**2.30**	2.20

For its UK pension arrangements, the Group has for the purpose of calculating its liabilities as at 31 December 2020, used SAPS S2NA mortality tables based on year of birth (as is published by the Institute and Faculty of Actuaries). The UK mortality tables are based on the latest mortality investigations and reflect an industry-wide recognition that life expectations have improved. The average life expectancy of an individual currently aged 45 years and retiring at age 65 years is 24.5 years for males and 26.2 years for females. For individuals currently aged 65 years the average life expectancy is 23.5 years for males and 25.1 years for females.

16. Related party transactions

During the period, the Company received no management fees or interest on inter-company loans (2019: £nil) from subsidiaries that are not wholly owned. At 31 December 2020 a total of £0.1m was owed to the Company by those subsidiaries (2019: £0.3m).

Five-year summary (unaudited)

	Prepared under IFRS				
	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Revenue	**119.0**	151.0	169.6	181.0	182.2
Research and development cash expenditure	**4.6**	8.1	7.3	6.9	6.0
Underlying (loss)/profit from operating activities	**(6.4)**	5.2*	8.0	9.7	13.1
Non-underlying items	**(2.4)**	(6.3)	(0.4)	(6.4)	(16.4)
(Loss)/profit from operating activities	**(8.8)**	(11.3)	7.6	3.3	(3.3)
Finance charges	**(1.3)**	(1.2)	(0.2)	(0.3)	(0.5)
(Loss)/profit before taxation	**(10.1)**	(12.5)	7.4	3.0	(3.8)
Cash generated by/(used in) operations	**10.5**	3.5	(7.4)	13.1	16.3
Net (debt)/cash	**(11.4)**	(16.5)	(2.9)	12.8	8.0
Shareholders' funds	**57.3**	67.8	85.1	76.1	77.1

* after adding back £10.2m of unaudited costs related to insourcing (see note 6)

Statistical information					
Basic (loss)/earnings per ordinary share - pence	**(24.0)**	(49.8)	16.4	4.8	(8.4)
Dividends per share - pence	**n/a**	n/a	n/a	n/a	n/a
Underlying operating margin	**(5.4)%**	3.3%	4.7%	5.4%	7.2%

Directory and shareholder information

Company Secretary and Registered Office

Registered in England and Wales

Company number: 2486024

Company secretary: Richard Allan

Registered office:
Leaf C, Level 36, Tower 42,
25 Old Broad Street
London EC2N 1HQ

Contact details:
Email (company secretary):
dsecretary@dialight.com

Email (investor relations): ir@dialight.com

Web: www.dialight.com

Website

Shareholders are encouraged to visit our website, www.dialight.com, which contains information about Dialight. Any information on or linked from the website is not incorporated by reference into the Annual Report and Accounts unless expressly stated in this Annual Report. There is a section designed specifically for investors at www.ir.dialight.com, which includes detailed coverage of Dialight's share price and our financial results, historic reporting, announcements and other governance information. Investors can register for news alerts by email at www.ir.dialight.com/news-and-media/emailalerts/. You can also review this year's Annual Report and Accounts. Our share price is also available on the London Stock Exchange's website, www.londonstockexchange.com.

Electronic communications

The carbon footprint and cost saving from electronic communications rather than hard copy printing can be very considerable. We strongly encourage all Dialight shareholders to move to electronic communications. The process to elect for electronic communications is very simple. To receive notification to your email address or in hard copy, whenever shareholder documents are available on the Company's website, please register online by visiting our Registrar's website, www.shareview.co.uk/clients/Dialight and complete your details.

Registrars

Address:
Equiniti
Aspect House, Spencer Road
Lancing, West Sussex BN99 6DA

Telephone:
Equiniti's Shareholder Contact Centre can be contacted by telephone on 0371 384 2495 (international callers: +44 121 415 7047) between 8.30am and 5.30pm Monday to Friday, excluding bank holidays.

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

Dealing service

Equiniti offers "Shareview Dealing"–a service which allows you to sell your Dialight plc shares or add to your holding if you are a UK resident. You can deal in your shares on the internet or by telephone. For more information about this service and for details of their rates, log on to www.shareview.co.uk/dealing or telephone 0345 603 7037 between 8.30am and 4.30pm, Monday to Friday. If you wish to deal, you will need your account/shareholder reference number which appears on your share certificate. Alternatively, if you hold a share certificate, you can also use any bank, building society or stockbroker offering share dealing facilities to buy or sell shares. If you are in any doubt about buying or selling shares, you should seek professional financial advice.

Advisers

Financial advisers:
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Legal advisers:
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London Fruit & Wool Exchange
London E1 6PW

Osborne Clarke
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Barbican, London EC2Y 5EB

Principal bankers:
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West London Corporate Centre
1 Beadon Road
London W6 0EA

2021 Financial calendar

Annual General Meeting:
19 May 2021

Half Yearly Financial Report:
Early August 2021

Forward-looking statements

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

Trademarks

The following registered trademarks of the Dialight Group appear in this document: "DIALIGHT" and "VIGILANT".

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