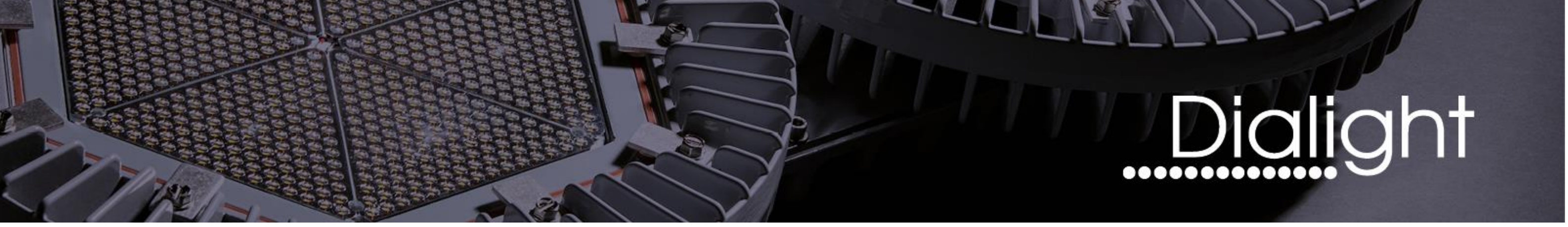

Dialight plc
("Dialight" or "the Group")

Half year results 2020

Dialight plc (LSE: DIA.L), the global leader in sustainable LED lighting for industrial applications, announces its half year results for the period ended 30 June 2020.

Financial summary	H1 2020 £m	H1 2019 £m
Revenue	**56.3**	76.1
Loss from operating activities	**(5.5)**	(3.5)
Loss for the period	**(3.1)**	(3.3)
Statutory EPS – basic	**(9.5)p**	(10.1)p
Debt facilities	**35.0**	25.0
Net debt	**(18.0)**	(11.0)

Key points

- Q1 trading was in line with expectations, with Q2 significantly impacted by COVID-19
- Statutory and underlying operating loss of £5.5m reflects lower revenue and includes £3.6m of COVID-19 related costs, offset by £1.8m of cost savings
- Net debt increased by £1.5m since December 2019 largely reflects operating losses and FX movements offset by inventory reductions
- Inventory reduced by £7.0m at constant FX, compared to FY 2019, despite recently securing supplies of crucial components. Further improvement expected during H2 2020
- Group acted decisively to reduce costs and conserve cash. £10.0m of additional bank finance secured with HSBC and through UK CLBILS scheme
- Maintained un-interrupted supply to our customers
- Appointment of Wai Kuen Chiang as CFO, start date in Q4 2020
- Increase in quoting activity in recent weeks; range of outcomes for full year

Fariyal Khanbabi, Group Chief Executive, said:

"We are operating the Group on the basis that it will continue to be impacted by COVID-19 for the foreseeable future. The work we have done to embed a proactive safety culture has played a key role in how we have responded to COVID 19 and ensured the safety and wellbeing of our employees and I would like to publicly recognise their significant contribution. We have adopted an agile approach balancing risk mitigation and business continuity with a primary focus on cash and ensuring we have sufficient liquidity to weather this crisis. We have undertaken measures to reinforce our financial position and ongoing performance by implementing cost reductions across the Group. Although the short term remains uncertain, the longer-term prospects of the industrial LED lighting market remain strong and the sustainability benefits to our customers are even more relevant."

Half year results presentation

A pre-recorded video of the H1 2020 results presentation can be found at:
http://ir.dialight.com/reports-presentations-and-results/results-presentation/

The slides of the H1 2020 results presentation can be found at:
http://ir.dialight.com/reports-presentations-and-results/reports-and-presentations/#Page=1

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Fariyal Khanbabi - Group Chief Executive

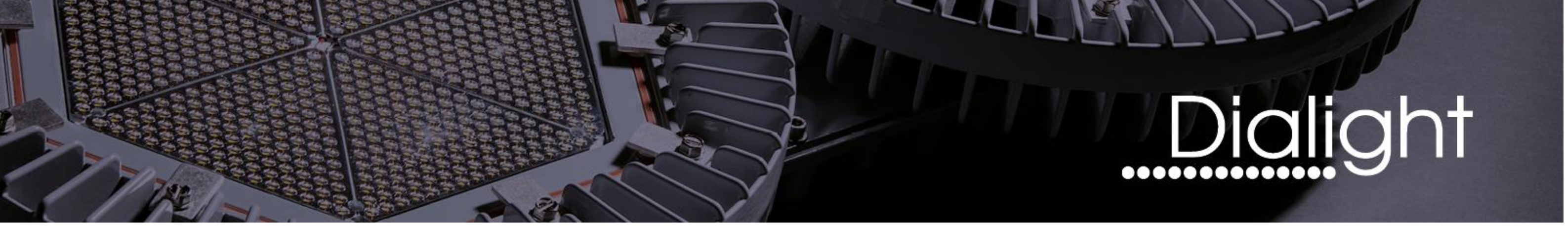
About Dialight:

Dialight (LSE: DIA.L) is a global leader in sustainable LED lighting for industrial applications**.** Dialight's LED products are providing the next generation of lighting solutions that deliver reduced energy consumption and create a safer working environment. Our products are specifically designed to provide superior operational performance, reliability and durability, reducing energy consumption and ongoing maintenance and achieving a rapid return on investment.

The company is headquartered in the UK, with operations in the USA, UK, Mexico, Malaysia, Singapore, Australia, Germany, Dubai and Brazil. www.dialight.com.

Notes:

1. Net debt excludes lease liabilities under IFRS 16
2. Constant currency impact is calculated by re-translating the prior year numbers at the exchange rate prevailing in the current year.
3. Cautionary Statement: This announcement contains certain statements, statistics and projections that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Dialight plc and its subsidiaries is not warranted or guaranteed. These statements typically contain words such as 'intends', 'expects', 'anticipated', 'estimates' and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Although Dialight plc believes that the expectations will prove to be correct. There are a number of factors, many of which are beyond the control of Dialight plc, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. This announcement contains inside information on Dialight plc.



OVERVIEW

The COVID-19 pandemic has and continues to present an unprecedented challenge across all industries and geographies. We remain focused on the assessment and mitigations where possible of the potential effects on our key markets and regions. The safety and wellbeing of our employees and their families is our first priority and we are pleased with our response despite the major challenges we have faced.

Our Mexican and Malaysian manufacturing facilities were shut for most of April pending notification of "essential business" status. This was received at the start of May and the facilities were able to re-start, with reduced capacity in line with local guidelines. New ways of working have been implemented to reflect the latest guidance on safe operation, which has led to some additional costs being incurred. We have also flexed production based on changing customer demand. This has only been possible due to the exceptional contribution of our people and the measures put in place to ensure their safety in our facilities.

We have been focused on maintaining an un-interrupted supply to our customers, the majority of whom are critical businesses that have continued to operate throughout this pandemic. We saw a significant reduction in our overall order intake during April and May due to weakness in our main industrial sectors when the crisis was at its peak. In June we saw a modest recovery in order intake.

In response to the pandemic, and likely global recession, we have undertaken measures to reinforce our financial position and ongoing performance. The Group has acted decisively to reduce costs and conserve cash with all discretionary spend curtailed. The Board and executive team have taken a 20% reduction in salaries, and the Chairman is forgoing all fees, for the time being. Regretfully, we also had to furlough a number of employees and additional salary reductions across the majority of our employees. All capital expenditure on new products was paused temporarily while we evaluated which projects will derive the highest return when the crisis is over. The Group has permanent cost savings plans that will be implemented in the second half of the year.

Our balance sheet remains robust and we have secured substantial liquidity by increasing our committed banking facilities to £35.0 million (from £25.0 million at 31 December 2019). This has been 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 has received waiver on its existing banking covenant for the June 2020 to June 2021 period. These have been replaced by a new test based on exceeding a 12-month rolling EBITDA level derived from a COVID impacted business plan provided to HSBC. The Group is compliant with its revised banking covenant at 30 June 2020.

The key to success within the Group's operations continues to be a sustainable supply chain. Our products are complex with a large variety of SKUs and therefore managing the supply chain is not straightforward. We have been focused on negotiating key supplier agreements and more actively managing those relationships, while ensuring we have no single-sourced components. We are pleased to say that we have managed to extend credit terms with c.60% of our supply chain and we expect to see working capital benefits in H2 2020. We are now focused on cost reductions for our critical components at the same time as sourcing more locally to avoid disruptions caused by extended transportation.

We have made significant progress in reducing our inventory levels and are closer to the goals we set at the end of 2019. While to date component supply has been resilient, we have chosen to increase purchases of critical inventory on a temporary basis to ensure business continuity in these uncertain times. We continue to monitor the supply chain situation closely.

Sustainability considerations are important in our industry. The company's LED products provide lighting solutions that deliver reduced energy consumption and create a safer working environment. Our products are specifically designed to provide superior operational performance, reliability and durability, reducing energy consumption and ongoing maintenance. In addition, our new products are designed with field replaceable parts, which continues to solidify our commitment to sustainability.

Business performance

Our H1 2020 performance was significantly impacted by COVID-19 in Q2. Lighting sales were impacted more severely than Signals and Components due to our sales force not being able to conduct site visits during Q2. In addition, our factories in Mexico and Malaysia were closed for most of April. There is no furlough scheme in either country therefore we continued to incur all our fixed costs during this period of disruption. The net impact of this has been an operating loss of £5.5m in H1 2020. We have estimated that the costs relating to the COVID-19 impact on production to be in the region of £3.6m. This includes an impairment charge of £1.6m under IAS 2 due to the lower levels of production. In order to mitigate against the impact COVID-19 has had on the business a number of cost reductions including furloughs and salary reductions were taken which saved the Group £1.8m.

We have made good progress in reducing our inventory levels and on a constant currency basis we have reduced inventory by £7.0m since 31 December 2019. We finished the half year with net debt of £18.0m, a £1.5m increase compared to the position at 31 December 2019, due to the operating loss partially offset by tight cash management.

In our largest market, the US, strong performance in Q1 was negated by the "shelter in place" message and customers and distributors not allowing visitors onto their sites, with Lighting orders falling by more than 31% for the half year. We are seeing an increase in small and medium sized orders with order count up by more than 30% year on year, indicative of customers keeping sites operational. This is reflected in our maintenance, repair and operations (MRO) business which performed well. We believe we are clawing back the MRO decline we saw during the problems with Sanmina demonstrating that we are regaining the market share we lost previously. The project business which accounted for 60% of US orders in 2019 was largely delayed beyond Q2 due to the inability to enter customer sites to evaluate solutions and customers delaying projects to preserve cash. The US market started opening up in June but only 10% of our distributors and customers were taking face to face meetings. This makes sales meetings very inefficient as unless the customers are located near each other the sales teams are only able to do one meeting per day. There is still very little project activity but we have recently started quoting for larger orders and the pipeline is improving.

Our focus as we started 2020 was on rebuilding customer and distributor confidence through our strengthened operational base. This continues to be a key focus and we have maintained our service levels through the pandemic, creating a positive response from our wider customer base. Despite not being able to visit customers we have maintained our experienced US sales team to ensure we provide good service levels to our customers. We have used this time to provide extensive product training internally and with customers and distributors. We have also had targeted marketing campaigns focused on key sectors and on promoting the benefits of using our fixtures. These initiatives together with our operational performance are helping us recover market share.

The EMEA region exceeded its revenue target for Q1 but saw a significant slowdown in orders as the crisis resulted in most of region being in lockdown. Many of the industries we sell into ran skeleton staff and did not allow contractors on site with many projects put on hold. EMEA has a smaller MRO business than the US and Australia resulting in the current crisis impacting them harder. We have furloughed half of the EMEA team and are currently evaluating whether further actions need to be taken.

Australia had a strong H1 2020 and is 9% above H1 2019 driven by strong order intake in the mining sector. Australian borders (both international and state) remain closed, but regional restrictions are starting to lift. Asia had a poor Q2 with most countries disrupted by lockdowns. We do expect Asia to recover quickly once restrictions are lifted and sales plans have been put in place, so we are ready once we can start visiting customers again.

Operationally we had a very good Q1 with market leading lead times for our products. The major challenge was ensuring that our facilities remained open. Our Penang facility closed in March for a total of six weeks and did not reopen until the end of April. Our Mexico facility was closed for three weeks in April while we awaited "essential business" status. The restarting of our manufacturing facilities in May was not without its challenges due to the social distancing measures which required significant re-balancing of the production lines. Penang and Mexico have ramped up production well and are getting close to normal service levels particularly for Lighting products. The challenge has been with Signals and Components due to the increased order levels and securing component supply where some of our suppliers have not been fully operational.

Our strict COVID-19 prevention measures, including temperature checks on entrance and exit of a facility are now core to how we operate. We have established disinfection routines in all work areas, provided PPE, increased the number of shifts and continue to provide awareness training to all employees, followed up with floor audits, to make sure everyone is following the safety measures. Dialight is also providing meals and transportation to minimise the exposure of our employees to and from the plants. So far, we have not had any positive cases in our facilities.

Operationally we continue to make significant progress with on-time delivery at 84% and lead times at pre-COVID levels despite the general disruption. We have been able to execute on our comprehensive plan to drive down inventory which is £7.0m lower than at the start of the year. This has been achieved through significant improvements to the supply chain and focusing on localising supply chain sourcing. We have successfully negotiated with all our largest suppliers on enhanced terms and continue to focus on cost reductions.

Our Obstruction business consists of lighting systems for cell phone towers in the US. This business was significantly behind expectations despite customers and distributors being open for business. The slowdown in orders has been as a result of reduced capex spending on tower upgrades as general contractors have been fixing problems on a temporary basis locally to try to avoid putting personnel at risk with travel and hotel stays.

The Signals and Components division has fared relatively very well during this crisis. We have seen an increased level of orders driven by demand for medical and communications components combined with customers buying increased amounts forward to secure components in case of extended lead times or potential supply chain disruptions. We have also seen an increase in the level of Traffic orders as US states have taken advantage of lane closures and lighter traffic to pull forward many large infrastructure projects. The bus market has seen a severe downturn with bus ridership very low due to the COVID-19 lockdowns.

COVID-19 has caused us to pause the new product development projects to conserve cash. This has also given us the opportunity to revisit the pipeline to assess which projects will be the most important as we emerge from this pandemic. Dialight is a technology company and our technology enriched products are our biggest differentiation, hence we need to preserve this strength while working through these challenging times. We have restructured key projects that are critical in maintaining our leading technology position and filling our portfolio gaps in the heavy industrial space. We have also focused our engineering team on handling a number of special projects that will enhance and strengthen our business including supply chain initiatives to reduce inventory and locally source more components. We have also been working on increasing our factory productivity by streamlining some of our processes such as burn in times.

Strategy

The industrial lighting market is still estimated to be at relatively low levels of conversion to LED. Cost savings from high-energy efficiency and maintenance along with safety, health, and environmental benefits and regulations are the main drivers of adoption. There are still some growth inhibiting factors such as initial investment costs and industrial technical standards that are slowing full-fledged adoption.

Some of the significant industry trends that will continue to shape the LED lighting industry in the next generation of products are:

- Smaller and denser form factors
- Easier installation methods
- Connected lighting
- Lighting type and quality as an influencer on health and safety

Our focus on product development remains unchanged, filling the gaps in our product portfolio for the heavy industrial markets we operate within. We are using the technologies that we developed in 2019, such as the new power supply to upgrade our existing product range, which will result in significant cost reductions. The projects were targeted for the first half of 2020 but have been delayed until the latter part of the year to preserve cash. Our supply chain team has been integrated into the New Product Development process so they are able to influence the components used in new products.

In June 2020, we announced the appointment of Wai Kuen Chiang as Chief Financial Officer ("CFO") and executive director of the Group. Her appointment follows a thorough recruitment process led by the Board. 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, a FTSE 250 company. Over her nine years in Coats, she has held a number of senior global and regional finance roles before moving onto a corporate role in 2017.

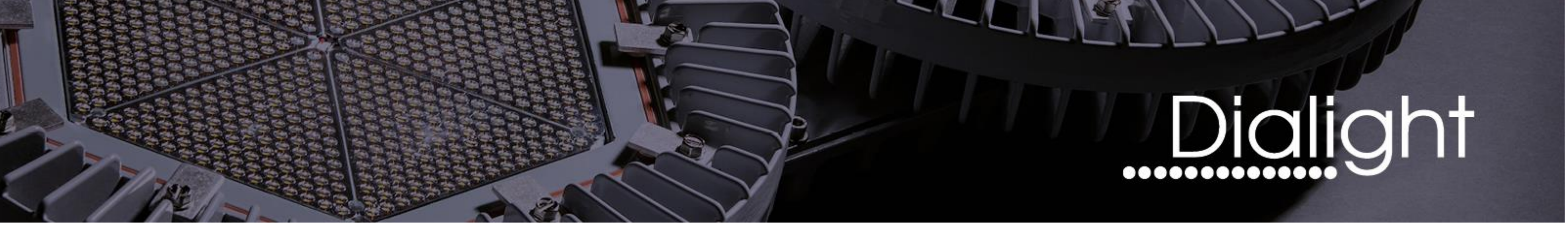
Prior to Coats, Wai Kuen's career has included working for the Goodrich Corporation, Canon Inc, Technicolor and Gardner Denver. Wai Kuen has a Bachelor of Accountancy from the National University of Singapore and qualified as a chartered accountant with Ernst & Young. We expect Wai Kuen to start with Dialight in Q4 2020.

Full year guidance for 2020

In the remainder of 2020, the impact of COVID-19 on the economies in which we operate is likely to continue to impact demand from industrial customers and add to operating costs. With the current economic uncertainty, we continue to focus on our employees, our customers, our communities and on our operating efficiency and cash generation and stopping non-essential expenditure. We continue to expect FY 2020 net debt to be at a similar level to FY 2019.

As we enter H2 2020, we have seen an improvement in quoting activity but it is too early to tell whether this is sustainable and there are a range of possible outcomes for the full year.

In the longer-term, the growth drivers of LED lighting and sustainability are as strong as ever. The COVID-19 crisis is also expected to accelerate the structural drivers for LED lighting and our scale and innovation led customer offering positions us well and gives us confidence for the future.



FINANCIAL REVIEW

The H1 2020 performance was significantly impacted by COVID-19. Overall revenue for the half year was 26% lower than the prior year at £56.3m. Our factories were closed during April due to Government restrictions in Mexico and Malaysia. There are no furlough schemes in either of these countries and we continued to incur the fixed costs of people and facilities.

We took measures to conserve cash and improve liquidity (see cash and borrowings section). By having finished goods inventory on hand, we were able to negate some of the impact of the factory closures and ensure continued revenue generation, albeit at a lower level.

Excluding the impact of COVID-19, we estimate gross margin was in line with prior year. The expected margin improvements from cost reduction projects were deferred as we temporarily paused all spending on new product development.

We had a statutory EBIT loss of £5.5m compared to an underlying EBIT profit of £0.9m in H1 2019 (see note 2 on page 20).

The key drivers for the reduction of £6.4m are as follows:

- (£5.3m) EBIT impact of lower revenues
- (£3.6m) COVID-19 costs

Partly offset by:

- £1.0m in lower travel costs for sales staff and management
- £0.8m operating costs reductions due to furlough and salary reductions
- £0.7m savings from redundancies in Q4 2019 and expenditure deferment

Impact of COVID-19

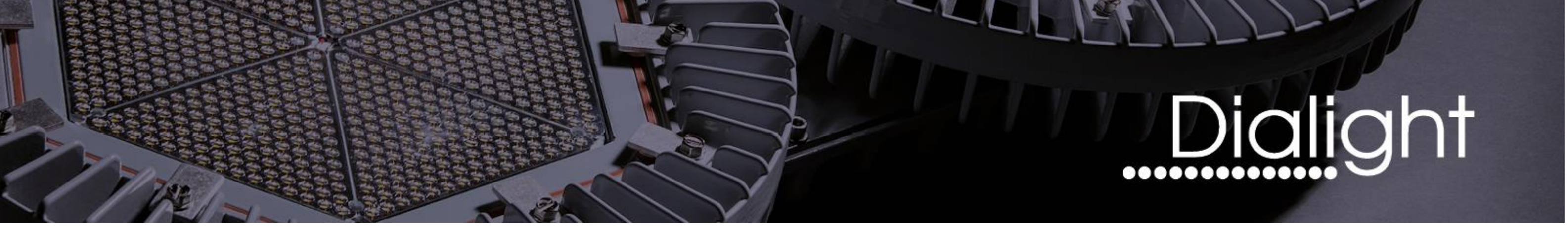
The impact of COVID-19 has been most significant on order intake with the project business diminishing as customers conserve cash. The estimated impact of our lower revenues has been a reduction in EBIT of £5.3m. In addition, our Malaysia factory was closed for six weeks and our Mexican facility was 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 are protected due to underlying health issues and their salaries protected until 31 August 2020. Once we re-opened our facilities there were restrictions on the number of staff allowed per shift. There were also additional costs for sanitisation, protective equipment, staff transportation and food to reduce the risk of transmission. The combined cost of these closures and inefficiencies was £2.0m.

The impact of COVID-19 has also meant that production was 40% below the expected level and in accordance with IAS 2, we have impaired £1.6m of capitalised production overheads to reflect additional inefficiency.

The cost on the business related to COVID-19 are as follows:

	H1 2020 £'m Unaudited
Facility and labour costs while factories closed	1.5
Inefficient operation of open facilities	0.5
Impairment of capitalised production overhead	1.6
Total	**3.6**

In order to mitigate against the impact COVID-19 has had on the business a number of cost reductions including furloughs and salary reductions were taken which saved the Group £1.8m.



Currency impact

Dialight reports its results in Sterling. Our major trading currency is the US Dollar, which in H1 2020 comprised 81% of the Group's revenue. The Group has both translational and transactional currency exposure. Translational exposures arise on the consolidation of overseas results into Sterling and this is the major currency exposure. Transactional exposure is where the currency of sales or purchases differ from the local functional currency. We use natural hedging on revenue and purchases to mitigate the majority of the currency risk.

The US dollar has strengthened by 2% compared to the first half of 2019 with the average rate for the US Dollar against Sterling moving from 1.29 in first half of 2019 to 1.26 in the first half of 2020. We have seen much larger volatility in the spot rate with the US Dollar strengthening by 7% 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 £0.5m and has no impact on EBIT.

Lighting segment

Lighting	H1 2020 £m	H1 2019 £m	Variance
Revenue	**40.7**	56.4	(28%)
Gross profit	**11.7**	19.6	(40%)
Gross profit %	**29%**	35%	-600bps
Overheads	**(14.4)**	(17.7)	+19%
Underlying EBIT	**(2.7)**	1.9	(242%)

The Lighting segment represented 72% of the Group's revenue. The impact of COVID-19 was seen in all our main geographical markets. Europe locked down early and for a prolonged period. The EMEA business is nearly all project based and the lockdowns resulted in order intake being 37% lower than the first half of 2019.

The Asian market was also locked down for the majority of the half year resulting in a 36% reduction in orders. In Australia, there is a good and sizeable MRO business and due to its early lockdown, it re-opened earlier than some other markets. We had some good success in securing project orders that were deferred in 2019 and overall order intake was 9% ahead of H1 2019.

In the US, we had close to zero project orders in Q2 but we saw a resurgence in our MRO business which coupled with holding inventory in our distribution centre in Tijuana, Mexico, enabled us to take orders that could be fulfilled even when the factory was closed. The resilience of the MRO business resulted in orders being down 31% in the US in H1 2020.

Revenue by geography followed a similar trend to order intake and the overall impact of the different order profiles and production disruption was that revenue was 28% lower than the first half of 2019.

Gross margins reduced by 600 bps year on year to 29%. The reduction was due to the impact of COVID-19 on reduced revenue and the factory closures.

Operating costs were £3.3m lower than prior year due to a combination of lower revenue related costs, lower travel costs, salary reductions and furloughs.

Signals and Components

Signals and Components	H1 2020 £m	H1 2019 £m	Variance
Revenue	**15.6**	**19.7**	(21%)
Gross profit	**3.8**	**6.1**	(38%)
Gross profit %	**24%**	**31%**	-700bps
Overheads	**(3.8)**	**(4.1)**	7%
Underlying EBIT	**-**	**2.0**	(100%)

Signals and Components is a high-volume business operating within highly competitive markets. This business has proved to be relatively resilient during COVID-19. There are three main elements to this business, traffic lights, opto-electronic (OE) components and vehicle lights. The OE 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.

The closure of our factories for a period of time and supply chain shortages impacted our ability to manufacture in H1 and therefore revenue reduced by 21%, but we enter H2 with a healthy order backlog. The impact of the factory closures resulted in a gross margin reduction of 700 bps. The combination of these factors results in a breakeven EBIT position.

Central overheads

Central overheads are comprised of costs not directly attributable to a segment and therefore not allocated to these segments. In H1 2020 they were £2.8m, a reduction of £0.2m due to reduced travel and COVID 19 related salary reductions by the Board and senior managers.

Inventory

We had targeted an unwind of inventory in the half year and on a constant currency basis it reduced by £7.0m (15%) to £38.7m. Due to the strengthening of the USD compared to GBP, there is an FX impact of £2.4m which increases the balance sheet value to £41.1m. Some of our suppliers have been significantly impacted by the current crisis and have not fully recovered their operations. We therefore increased our level of components in May and June to safeguard our operations from potential shortages.

We expect for full year 2020 to deliver a further improvement in inventory levels.

With factory closures and disruption to operations as a result of COVID-19, production levels were significantly below a normalised level of production. We reviewed the level of capitalised labour and overhead in the balance sheet to ensure compliance with the requirements of IAS 2 Inventories. The standard highlights that where production is significantly lower than the expected level, it is necessary to impair the value of overheads carried and following completion of this exercise, we impaired £1.6m.

Cash and borrowings

The Group ended the H1 2020 with net debt of £18.0m, an increase of £1.5m from December 2019. Net debt excludes lease liabilities related to the adoption of IFRS 16 Leases as these are excluded for covenant testing purposes.

The roll forward of net debt was as follows:

Net Debt	£m
Opening balance 01 January 2020	**(16.5)**
EBITDA loss *	**(2.8)**
Unwind of inventory	**7.0**
Net working capital excluding inventory	**(1.8)**
Capital expenditure	**(2.6)**
Provisions and other movements	**(0.2)**
FX	**(1.1)**
Closing balance at 30 June 2020	**(18.0)**

* Loss from operating activities (EBIT) of £5.5m with depreciation of property, plant and equipment of £1.7m and amortisation of £1.0m added back

The impact of COVID-19 resulted in lower revenues in Q2 2020. The Group undertook cost reductions to mitigate the impact of the revenue reduction. We put in place a series of cash conservation measures at the start of Q2, as follows:

- Furlough of administrative staff in the UK and US
- Reduction of temporary staff and hiring freeze
- Salary reductions across the Group ranging from 5% to 20%
- Deferral of rent payments
- Reduced level of product development expenditure

For the full year we expect total capex of circa £6m including £5m of product development expenditure. Encouragingly, to date, customers have continued to pay on time and to agreed terms.

Closing cash reflects the additional facility of £10m with HSBC.

Banking

The Group has its banking relationships with HSBC Bank plc and Wells Fargo. The Group has a revolving credit facility with HSBC of £25m which was re-negotiated in February 2020 and runs to February 2023. 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 Group has £35m of available funds across both facilities and has £15.8m of cash on hand at 30 June 2020.

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 impacted business plan provided to HSBC. The Group is compliant with its revised banking covenant at 30 June 2020.

Tax

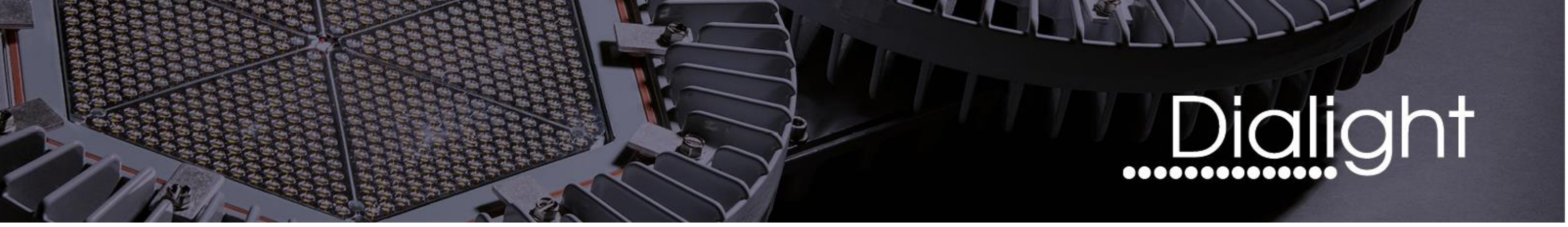
The tax credit of £2.9m is comprised of two elements. Based on a loss before tax of £6.0m in the half year and an expected full year tax rate of 26%, we have a tax credit of £1.6m. In addition, we have taken advantage of the stimulus package under the Cares Act in the US which allows us to get tax relief 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% that was used to calculate the recoverable amount in 2019, giving rise to a one-off tax credit of £1.3m.

We have our claim under the Cares Act for the £1.3m in addition to the £1.7m (based on 21% tax rate) that we were already entitled to recover and therefore have a tax receivable of £3.0m in the US which we expect to receive in the second half for 2020. We have also filed our Malaysian tax returns for 2019 and expect to receive £0.6m in the second half.

For the full year we expect a Group tax rate of 26%.

Brexit

The majority of the Group's European sales are outside the UK and are not impacted by Brexit. Finished goods will be imported from our Mexico or Malaysia manufacturing plant and we may consider moving our UK distribution centre to continental Europe. We continue to monitor developments related to Brexit but we do not expect it to have a material impact on the business.



Capital management and dividend

The Board's policy is to maintain 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 30 June 2020 this equated to £69.4m (H1 2019: £82.1m).

The Board is not proposing any interim 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.

Fariyal Khanbabi, Group Chief Executive

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the period ended 30 June 2020 (unaudited)

	Note	**6 months ended 30 June 2020 (unaudited)**	6 months ended 30 June 2019 (unaudited)	12 months ended 31 December 2019 (audited)
		Total £'m	**Total £'m**	Total £'m
Revenue	2	**56.3**	76.1	151.0
Cost of sales	4	**(40.8)**	(53.1)	(107.1)
Gross profit		**15.5**	23.0	43.9
Distribution costs		**(11.1)**	(14.1)	(27.2)
Administrative expenses *		**(9.9)**	(12.4)	(28.0)
Loss from operating activities	4	**(5.5)**	(3.5)	(11.3)
Financial expense	6	**(0.5)**	(0.3)	(1.2)
Loss before tax		**(6.0)**	(3.8)	(12.5)
Income tax credit/(charge)	7	**2.9**	0.5	(3.7)
Loss for the period		**(3.1)**	(3.3)	(16.2)
Loss for the period attributable to:				
Equity owners of the Company		**(3.1)**	(3.3)	(16.1)
Non-controlling Interests		**-**	-	(0.1)
(Loss) for the period		**(3.1)**	(3.3)	(16.2)
Earnings per share				
Loss per share basic and diluted	8	**(9.5)p**	(10.1)p	(49.8)p

The accompanying notes form an integral part of these interim financial statements.

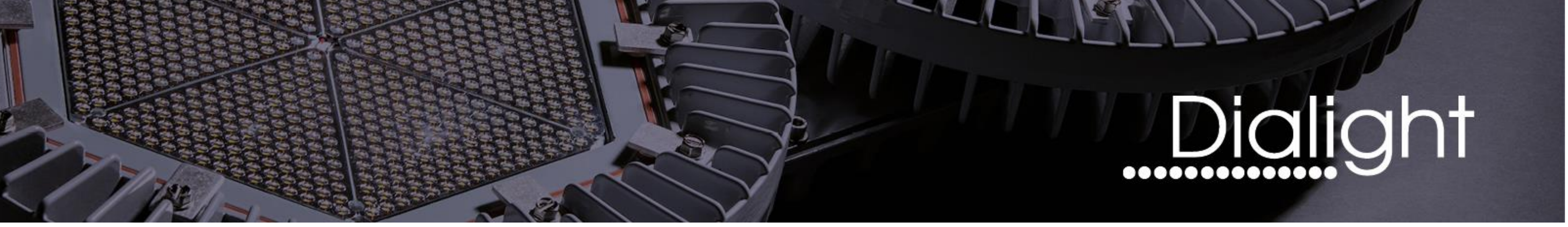
*At 30 June 2019, the proposed sales of our Danish subsidiary was accounted for as a discontinued operation. Following the actual sale in September 2019, it was reclassified as a non-underlying item within administrative costs for the year ended 31 December 2019 amounting to £1.7m and the results to 30 June 2019 have been restated to be consistent.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2020 (unaudited)

	6 months ended 30 June 2020 (unaudited) £'m	6 months ended 30 June 2019 (unaudited) £'m	12 months ended 31 December 2019 (audited) £'m
Other comprehensive income/(expense)			
Exchange difference on translation of foreign operations	**4.9**	0.3	(2.6)
Income tax on exchange differences on transactions of foreign operations	**(0.4)**	-	(0.1)
Remeasurement of defined benefit liability	**-**	(0.1)	1.6
Income tax on remeasurement of defined benefit liability	**-**	-	(0.3)
Other comprehensive income/(expense) for the period, net of tax	**4.5**	0.2	(1.4)
Loss for the period	**(3.1)**	(3.3)	(16.2)
Total comprehensive income/(expense) for the period	**1.4**	(3.1)	(17.6)
Attributable to:			
- Owners of the parent	**1.4**	(3.1)	(17.5)
- Non-controlling interest	**-**	-	(0.1)
Total comprehensive profit/(loss) for the period	**1.4**	(3.1)	(17.6)

The accompanying notes form an integral part of these interim financial statements.



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2020 (unaudited)

	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 period	-	-	-	-	(3.1)	**(3.1)**	-	**(3.1)**
Other comprehensive income:								
Foreign currency translation differences, net of taxes	-	-	4.5	-	-	**4.5**	-	**4.5**
Remeasurement of defined benefit liability, net of taxes	-	-	-	-	-	**-**	-	**-**
Total other comprehensive income	-	-	4.5	-		**4.5**	-	**4.5**
Total comprehensive income for the period	-	-	4.5	-	(3.1)	**1.4**	-	**1.4**
Transactions with owners, recorded directly in equity:								
Share–based payments, net of tax	-	-	-	-	0.2	**0.2**	-	**0.2**
Total contributions by and distributions to owners	-	-	-	-	-	**-**	-	**-**
Balance at 30 June 2020	0.6	0.5	16.1	2.2	49.7	**69.1**	0.3	**69.4**

The accompanying notes form an integral part of these interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2019 (unaudited)

	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 period	-	-	-	-	(3.3)	**(3.3)**	-	**(3.3)**
Other comprehensive income:								
Foreign currency translation differences, net of taxes	-	-	0.3	-	-	**0.3**	-	**0.3**
Remeasurement of defined benefit liability, net of taxes	-	-	-	-	(0.1)	**(0.1)**	-	**(0.1)**
Total other comprehensive income	-	-	0.3	-	(0.1)	**0.2**	-	**0.2**
Total comprehensive income for the period	-	-	0.3	-	(3.4)	**(3.1)**	-	**(3.1)**
Transactions with owners, recorded directly in equity:								
Share–based payments, net of tax	-	-	-	-	0.1	**0.1**	-	**0.1**
Total contributions by and distributions to owners	-	-	-	-	0.1	**0.1**	-	**0.1**
Balance at 30 June 2019	0.6	1.4	14.6	2.2	62.9	**81.7**	0.4	**82.1**

For the period ended 31 December 2019 (audited)

	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 period	-	-	-	-	(16.1)	**(16.1)**	(0.1)	**(16.2)**
Other comprehensive income:								
Foreign currency translation differences, net of taxes	-	-	(2.7)	-	-	**(2.7)**	-	**(2.7)**
Remeasurement of defined benefit liability, net of taxes	-	-	-	-	1.3	**1.3**	-	**1.3**
Total other comprehensive income	-	-	(2.7)	-	1.3	**(1.4)**	-	**(1.4)**
Total comprehensive income for the period	-	-	(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, net of tax	-	-	-	-	0.3	**0.3**	-	**0.3**
Total contributions by and distributions to owners	-	-	-	-	0.3	**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**

CONDENSED CONSOLIDATED STATEMENT OF TOTAL FINANCIAL POSITION

As at 30 June 2020 (unaudited)

	Note	**30 June 2020 (unaudited) £'m**	30 June 2019 (unaudited) £'m	31 December 2019 (audited) £'m
Assets				
Property, plant and equipment		**15.6**	16.6	15.6
Right of use assets		**11.8**	8.6	12.2
Intangible assets		**24.0**	18.6	21.3
Deferred tax asset		**1.7**	6.1	1.7
Employee Benefits		**2.4**	0.6	2.3
Other Receivables		**4.8**	0.2	4.7
Total non-current assets		**60.3**	50.7	57.8
Inventories	5	**41.1**	50.0	45.7
Inventories – spare parts		**0.4**	-	0.4
Trade and other receivables		**21.4**	33.0	23.8
Income tax recoverable		**3.6**	-	1.1
Cash and cash equivalents		**15.8**	2.0	0.5
Assets classified as held for sale		**-**	0.1	-
Total current assets		**82.3**	85.1	71.5
Total assets		**142.6**	135.8	129.3
Liabilities				
Trade and other payables		**(23.9)**	(29.4)	(28.4)
Provisions		**(1.0)**	(0.9)	(0.9)
Tax liabilities		**(0.8)**	(0.6)	(1.5)
Lease liabilities		**(1.6)**	(1.5)	(1.6)
Liabilities directly associated with assets classified as held for sale		**-**	(0.8)	-
Total current liabilities		**(27.3)**	(33.2)	(32.4)
Borrowings		**(33.8)**	(13.0)	(17.0)
Provisions		**(1.6)**	(0.6)	(1.4)
Lease liabilities		**(10.5)**	(6.9)	(10.7)
Total non-current liabilities		**(45.9)**	(20.5)	(29.1)
Total liabilities		**(73.2)**	(53.7)	(61.5)
Net assets		**69.4**	82.1	67.8
Equity				
Issued share capital		**0.6**	0.6	0.6
Merger reserve		**0.5**	1.4	0.5
Other reserves		**18.3**	16.8	13.8
Retained earnings		**49.7**	62.9	52.6
		69.1	81.7	67.5
Non-controlling interests		**0.3**	0.4	0.3
Total equity		**69.4**	82.1	67.8

The accompanying notes form an integral part of these interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 June 2020 (unaudited)

	6 months ended 30 June 2020 (unaudited) £'m	6 months ended 30 June 2019 (unaudited) £'m	12 months ended 31 December 2019 (audited) £'m
Operating activities			
Loss for the period	**(3.1)**	(3.3)	(16.2)
Adjustments for:			
Financial expense	**0.5**	0.3	1.2
Income tax (credit)/charge	**(2.9)**	(0.5)	3.7
Share–based payments	**0.2**	0.1	0.3
Depreciation of property, plant and equipment	**1.7**	1.5	2.6
Depreciation of right of use assets	**1.0**	0.8	1.7
Amortisation of intangible assets	**1.0**	0.6	2.0
Loss on disposal of property, plant and equipment	**-**	-	0.1
Loss on disposal of business	**-**	-	1.7
Operating cash flow before movements in working capital	**(1.6)**	(0.5)	(2.9)
Decrease/(Increase) in inventories	**7.0**	(3.8)	(1.9)
Decrease in trade and other receivables	**4.5**	3.6	8.8
Decrease in trade and other payables	**(6.3)**	(0.2)	(0.3)
Increase in provisions	**0.4**	-	0.3
Pension contributions in excess of the income statement charge	**(0.1)**	(0.2)	(0.5)
Cash generated/(used in) operations	**3.9**	(1.1)	3.5
Income taxes paid	**(0.2)**	-	(0.6)
Interest paid	**(0.5)**	(0.3)	(1.1)
Net cash generated/(used in) operating activities	**3.2**	(1.4)	1.8
Capital expenditure	**(0.4)**	(3.3)	(6.8)
Capitalised expenditure on development	**(2.2)**	(2.8)	(6.0)
Purchase of software and licenses	**-**	-	(0.3)
Bank and cash balances in disposed business	**-**	-	(0.5)
Disposal of business	**-**	-	(0.5)
Net cash used in investing activities	**(2.6)**	(6.1)	(14.1)
Financing activities			
Drawdown of bank facility	**15.8**	7.9	11.9
Repayment of lease liabilities	**(1.0)**	(0.6)	(1.2)
Net cash from financing activities	**14.8**	7.3	10.7
Net increase/(decrease) in cash and cash equivalents	**15.4**	(0.2)	(1.6)
Cash and cash equivalents at beginning of period	**0.5**	2.2	2.2
Effect of exchange rates on cash held	**(0.1)**	-	(0.1)
Cash and cash equivalents at end of period	**15.8**	2.0	0.5

The accompanying notes form an integral part of these interim financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 30 June 2020 (unaudited)

1. Basis of preparation and principal accounting policies

Statement of compliance

The unaudited condensed financial statements for the six months ended 30 June 2020 have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34), and have been prepared on the basis of International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union that are effective for the year ending 31 December 2020. The Directors have a reasonable expectation that the Group has sufficient resources to continue in existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing financial statements.

The unaudited condensed financial statements for the six months ended 30 June 2020, which were approved by the Board on 3 August 2020, and the comparative information in relation to the half year ended 30 June 2019, do not comprise statutory accounts for the purpose of Section 434 of the Companies Act 2006. This interim financial report does not include all the notes included in the Annual Report and accordingly, it should be read in conjunction with the Annual Report for the year ended 31 December 2019 and any public announcements made by the Group during the interim reporting period. Those accounts have been reported upon by the Group's auditor and delivered to the Registrar of Companies.

The report of the auditor for the year ended 31 December 2019 was unqualified, but it did draw attention by way of emphasis that there was a material uncertainty with regard to the Group potentially breaching its banking covenants if certain downside scenarios related to COVID-19 occurred. 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. As part of this arrangement, the existing banking covenants have been replaced for the testing periods June 2020 to June 2021 (inclusive) by a new test based on exceeding a 12-month rolling EBITDA level that was derived from a COVID impacted business plan provided to HSBC. The Group is compliant with its revised banking covenants at 30 June 2020.

The new facility is in addition to the existing banking facility with HSBC of £25m (until February 2023). The Group now has access to £35m of banking facilities and has drawn £33.8m against both facilities. The Group has cash on hand of £15.8m and can access an additional £1.2m of cash, if required.

In assessing the going concern assumptions, the Board has undertaken a rigorous assessment of the forecast outturns and assessed downside risks and mitigating actions. The downside risks include a number of severe but plausible scenarios incorporating underperformance against internal targets for revenue due to a second wave of the COVID-19 and production disruption due to a further period of factory closures, not achieving cost reductions and unexpected cash outflows. The scenarios modelled still gives a range of EBITDA that is higher than the EBITDA from the business plan provided to HSBC.

The broader political and economic uncertainty coupled with the potential future impact on the Group of the recent COVID-19 outbreak has been factored into the scenarios considered as part of the Group's adoption of the going concern basis. The Group has also considered what mitigating actions are available to it in the event that such downside scenarios arise. The Group believes that with its revised banking covenants, additional liquidity and available mitigating actions, it could address all such plausible downside scenarios. Reflecting the Board's confidence, the Group therefore continues to adopt the going concern basis in preparing its financial statements.

1. Basis of preparation and principal accounting policies (continued)

Adoption of new and revised standards

The accounting policies adopted in the preparation of these unaudited condensed financial statements are consistent with the policies applied by the Group in its consolidated financial statements for the year ended 31 December 2019. The following accounting standards, interpretations, improvements and amendments have become applicable for the current period and have had no material impact on the Group. These comprise

- Amendments to References to Conceptual Framework for IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)

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 at 30 June 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.

Estimates and judgements

In preparing these condensed financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2019.

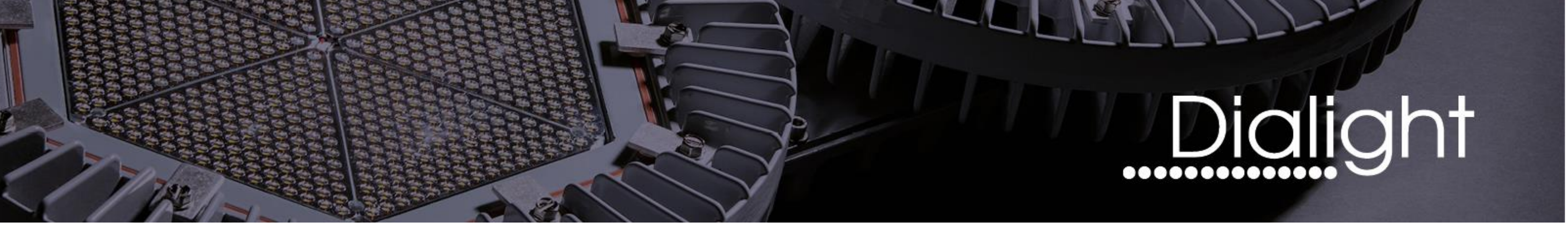
2. Operating segments

The Group comprises 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’s Chief Executive.

The two reportable operating segments are:

a) 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 b) Signals and 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.

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. There are no individual customers representing more than 10% of revenue and there is no inter-segment revenue.



2. Operating segments (continued)

Reporting segments

6 months ended 30 June 2020 (Unaudited)	**Lighting £'m**	**Signals and Components £'m**	**Total £'m**
Revenue	**40.7**	**15.6**	**56.3**
Gross profit	**11.7**	**3.8**	**15.5**
Overhead costs	**(14.4)**	**(3.8)**	**(18.2)**
Segment operating profit	**(2.7)**	**-**	**(2.7)**
Unallocated expenses			**(2.8)**
Loss from operating activities			**(5.5)**
Net financing expense			**(0.5)**
Loss before tax			**(6.0)**
Income tax credit			**2.9**
Loss for the period			**(3.1)**

Other segmental data

Depreciation of property, plant and equipment	**1.2**	**0.5**	**1.7**
Depreciation of right of use asset	**0.7**	**0.3**	**1.0**
Amortisation	**0.9**	**0.1**	**1.0**

6 months ended 30 June 2019 (Unaudited)	Note	Lighting £'m	Signals and Components £'m	Total £'m
Revenue		56.4	19.7	76.1
Underlying gross profit*		19.6	6.1	25.7
Overhead costs*		(17.7)	(4.1)	(21.8)
Segment operating profit		1.9	2.0	3.9
Unallocated expenses				(3.0)
Underlying operating profit				0.9
Non-underlying expenses	4			(4.4)
Loss from operating activities				(3.5)
Net financing expense				(0.3)
Loss before tax				(3.8)
Income tax credit				0.5
Loss for the period				(3.3)

Other segmental data

Depreciation of property, plant and equipment	1.3	0.2	1.5
Depreciation of right of use asset	0.6	0.2	0.8
Amortisation	0.4	0.2	0.6

* excludes non-underlying costs

2. Operating segments (continued)

Year ended 31 December 2019	Note	Lighting £'m	Signals and Components £'m	Total £'m
Continuing operations				
Revenue		111.5	39.5	151.0
Statutory gross profit		31.3	12.6	43.9
Unaudited non-recurring costs		10.2	-	10.2
Proforma unaudited gross profit		41.5	12.6	54.1
Overhead costs		(34.5)	(8.3)	(42.8)
Proforma unaudited segmental profit		7.0	4.3	11.3
Unallocated expenses				(6.1)
Audited non-underlying costs	4			(6.3)
Unaudited non-recurring costs	4			(10.2)
Statutory (loss) from operating activities				(11.3)
Net financing expenses				(1.2)
Loss before tax				(12.5)
Income tax expense				(3.7)
Loss for the period				(16.2)

Other segmental data

	Lighting £'m	Signals and Components £'m	Total £'m
Depreciation of property, plant and equipment	1.9	0.7	2.6
Depreciation of right of use asset	1.3	0.4	1.7
Amortisation	1.5	0.5	2.0

Geographical segments

The Lighting, Signals and 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

	6 months ended 30 June 2020 £'m Unaudited	6 months ended 30 June 2019 £'m Unaudited	12 months ended 31 December 2019 £'m Audited
North America	**42.2**	59.2	117.8
EMEA	**4.9**	5.8	12.6
Rest of World	**9.2**	11.1	20.6
Revenue	**56.3**	76.1	151.0

3. COVID-19 costs

Loss for the year is after charging the cost impact of COVID 19 which we have estimated to be as follows:

COVID 19 cost impacts	6 months ended 30 June 2020 £'m Unaudited
Facility and labour costs while factories closed	1.5
Inefficient operation of open facilities	0.5
Impairment of capitalised production overhead	1.6
Total	**3.6**

COVID-19 had a significant impact on the business, mainly in the second quarter. Our Malaysia 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 in Mexico that have not been allowed to work for the past three months due to being at high-risk of contracting COVID-19 and we are required to continue paying for them. Once we re-opened our facilities there were restrictions on the number of staff allowed per shift and new distancing arrangements had to be put in place to protect staff. We also had additional costs for sanitisation, protective equipment and staff transportation to reduce the risk of transmission. The combined cost of these closures and inefficiencies was £2.0m.

In 2019 we insourced our sub-component production and increased our fixed production costs base by adding two new facilities in order to deliver growth in 2020. The impact of COVID 19 has meant that production was 40% below the expected level and in accordance with IAS 2, we have impaired £1.6m of capitalised production overheads to expense the additional inefficiency caused by this.

4. Non-recurring costs (audited and unaudited)

The Group incurs costs and earns income that is non-recurring in nature or that is otherwise considered to not be reflective of the underlying performance of the business. In the assessment of performance of the Group, management examines underlying performance, which removes the impact of non-recurring costs and income. The table below presents the components of non-recurring profit or loss recorded within administrative expenses and cost of sales:

	6 months ended 30 June 2020 £'m Unaudited	6 months ended 30 June 2019 £'m Unaudited	12 months ended 31 December 2019 £'m Audited
Non-underlying costs			
Redundancy costs	-	-	1.1
Loss on disposal of subsidiary	-	1.7	2.5
Write-off receivable from outsourced manufacturer	-	-	2.7
Non-underlying costs recorded in administrative expenses	**-**	**1.7**	**6.3**
Pro-forma unaudited costs			
Costs to move equipment from outsourced manufacturer's site	-	0.8	0.9
Costs to move inventory from outsourced manufacturer's site	-	1.9	3.2
Additional costs from using 3rd party vendors to make sub-assemblies and internal ramp-up costs	-	-	6.1
Unaudited costs recorded in cost of sales	**-**	**2.7**	**10.2**
Total non-recurring costs	**-**	**4.4**	**16.5**

4. Non-recurring costs (audited and unaudited) Non-underlying costs (continued)

In the prior year there were redundancy costs of £1.1m relate to various initiatives during the year to deal with areas of the business that were not performing well and also to right-size the cost base. The loss on disposal of subsidiary relates to the sale of the Group's Wind business in Denmark in September 2019 and the exit from that operational site and there was a write-off of a £2.7m receivable from our former outsource manufacturer.

Proforma unaudited costs

In the prior year, there were costs that arose directly from the decision to exit our outsource manufacturing contract in September 2018. We had to pay £0.9m for the removal of our CNC machines and paint line from the former outsource manufacturer's premises and then transport them and have them re-installed and calibrated at our Tijuana plant. We also incurred costs of £3.2m to move inventory that we purchased from our former outsource manufacturer and transport it to our own facilities in Mexico and Malaysia. The exit also resulted in the acquisition of a new facility in Tijuana, Mexico that is used primarily to carry out machining and painting functions. The costs of ramping up lasted until the end of Q3. Whilst we ramped up our own facility, we were paying smaller third-party vendors to make sub-assemblies. These factors resulted in higher prices and payments that covered their overheads and profit margin. We have calculated the additional costs relating to these at £3.9m and treated these as non-recurring.

The costs of exit of £10.2m are management's best estimate of the costs. Due to their subjective nature and their similarity to standard manufacturing processes, it is difficult to audit them so they were presented as proforma unaudited costs.

5. Inventories

	6 months ended 30 June 2020 £'m Unaudited	6 months ended 30 June 2019 £'m Unaudited	12 months ended 31 December 2019 £'m Audited
Raw materials and consumables	**16.2**	21.3	17.3
Work in progress	**10.7**	14.6	11.2
Finished goods	**14.2**	14.1	17.2
Total	**41.1**	50.0	45.7

Inventories to the value of £26.4m (30 June 2019: £35.7m) were recognised as expenses in the year. During the period, inventory reserve charges totalled £0.2m (30 June 2019: write-back £0.2m).

We had targeted an unwind of inventory in the half and on a constant currency basis it reduced by £7m (15%) to £38.7m. Due to the strengthening of the USD compared to GBP, there is an FX impact of £2.4m which increases the balance sheet value to £41.1m. Our finished goods inventory reduced by £3.0m as it was consumed while our factories were closed. This was particularly the case for our Lighting inventory held in Mexico to support the North American market.

Reductions in raw materials were impacted by the COVID-19 situation as we have had to bring £2.5m of inventory into our facilities early due to potential shortages. As some of our suppliers who have not fully recovered their own operations from COVID-19 impacts and to ensure materials are on hand in a timely manner due to significant increases in freight transit times.

With factory closures and disruption to operations resulting from the COVID-19 pandemic, production levels were significantly below a normalised level of production. We reviewed the level of capitalised labour and overhead in the balance sheet to ensure compliance with the requirements of IAS 2 Inventories. The standard highlights that where production is significantly lower than the expected level, it is necessary to impair the value of overheads carried and following completion of this exercise, we impaired £1.6m.

6. Net financing expense

	6 months ended 30 June 2020 £'m Unaudited	6 months ended 30 June 2019 £'m Unaudited	12 months ended 31 December 2019 £'m Audited
Interest expense on the lease liability	(0.3)	(0.1)	(0.6)
Interest expense on financial liabilities	(0.2)	(0.2)	(0.5)
Net interest on defined benefit liability	-	-	(0.1)
Net financing expense	(0.5)	(0.3)	(1.2)

7. Income tax expense

The tax credit of £2.9m is comprised of two elements. Based on a loss before tax of £6.0m in the half and an expected full year tax rate of 26%, we have a tax credit of £1.6m. In addition, 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.

We have our claim under the Cares Act for the £1.3m in addition to the £1.7m (based on 21% tax rate) that we were already entitled to recover and therefore have a tax receivable of £3.0m in the US which we expect to receive in the second half. We have also filed our Malaysian tax returns for 2019 and expect to receive £0.6m in the second half.

8. Earnings per share

Basic earnings per share

The calculation of basic loss per share at 30 June 2020 was based on a loss for the period of £3.1m (2019: loss of £3.3m) and a weighted average number of ordinary shares outstanding during the six months ended 30 June 2019 of 32,548,429 (2019: 32,534,237).

Weighted average number of ordinary shares

	6 months ended 30 June 2020 Number '000	6 months ended 30 June 2019 Number '000	Year ended 31 December 2019 Number '000
Weighted average number of shares	32,548	32,534	32,537
Dilutive effect of share options	-	-	-
Diluted weighted average number of shares	32,548	32,534	32,537

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

	6 months ended 30 June 2020 Per share Unaudited	6 months ended 30 June 2019 Per share Unaudited	12 months ended 31 December 2019 Per share Audited
Basic and diluted loss per share	(9.5)p	(10.1)p	(49.8)p
Underlying basic and diluted earnings per share*	-	1.5p	5.8p

* Underlying earnings per share excludes non-underlying items (audited and unaudited) as explained in note 4 and allocates tax at the appropriate rate (see note 7)

9. Dividends

There were no dividends declared or paid in the six months ended 30 June 2020. The Directors have not declared an interim dividend for 2020 (2019: nil).

10. Debt facilities

The Group increased its banking facility with HSBC on 15 June 2020 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. As part of this arrangement, the existing banking covenants have been replaced for testing periods June 2020 to June 2021 (inclusive) by a new test based on exceeding a 12-month rolling EBITDA level that was derived from a revised business plan. These new facilities are in addition to the existing banking facilities with HSBC of £25m (until February 2023). The Group has drawn £33.8m (Dec 2019: £17.0m) against both facilities and has £15.8m (Dec 2019: £0.5m) of cash on hand at 30 June 2020.

	6 months ended 30 June 2020 £'m Unaudited	6 months ended 30 June 2019 £'m Unaudited	12 months ended 31 December 2019 £'m Audited
Borrowings at the beginning of the period	**17.0**	5.1	5.1
Proceeds from loans or borrowings	**15.8**	7.9	11.9
Impact of revaluing USD borrowings	**1.0**	-	-
Borrowings at the end of the period	**33.8**	13.0	17.0

11. Principal exchange rates

	6 months ended 30 June 2020	6 months ended 30 June 2019	12 months ended 31 December 2019
Average for the period			
US dollar	**1.26**	1.29	1.28
Canadian Dollar	**1.72**	1.72	1.69
Euro	**1.14**	1.14	1.14
Mexican Peso	**27.22**	24.77	24.56

	30 June 2020	30 June 2019	31 December 2019
Spot rate			
US dollar	**1.23**	1.26	1.32
Canadian	**1.68**	1.66	1.72
Euro	**1.10**	1.11	1.18
Mexican Peso	**28.44**	24.34	24.93

12. Contingent liabilities

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 Friday, 20th December 2019, both parties issued legal proceedings against the other. The parties are therefore in formal litigation, with no conclusion expected before 2021. 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 confident of the merits of its legal position, however in the unlikely event, that Sanmina's claim is successful, the range of financial liability for the Group could be between £0 - £8m. 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);

12. Contingent liabilities (continued)

(b) Sanmina breaching the terms of the MSA in a willful 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 willful misconduct.

During 2011, the Roxboro UK Pension Fund (the "Scheme") was closed to future accrual. This Scheme is included within the 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.

13. Related party transactions

There have been no changes in the nature of related party transactions to those described in the 2019 Annual Report that could have a material effect on the financial position or performance of the Group in the period to 30 June 2020.

14. Principal and emerging risks

The principal risks and uncertainties affecting the business activities of the Group for the next six months of 2020 remain as listed on pages 34 to 36 of the Annual Report for the year ended 31st December 2019 (which can be found at www.dialight.com). We have expanded the risks to include more on COVID-19 due to the impact on the business in H1-20.

A summary of the principal risks and uncertainties is set out below:

- **Production capacity** – Dialight needs to ensure that it has sufficient production capacity to fulfill customer orders in a timely manner and to be scalable to support growth. Insufficient capacity results in an inability to fulfill orders
- **Reputational risk associated with products** – potential customer fatigue that might have built up in respect of the Group's recent operational challenges.
- **Supply chain management** – The procurement planning process is dependent on the accuracy of sales forecast to ensure adequacy of component supply. The inability to source key raw materials and components required for the manufacture of our products could impact our ability to manufacture products and satisfy customer orders. Inaccuracy in forecasting could also lead to higher inventory obsolescence.
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- **IT systems** – The Group uses IT systems to operate and control its businesses: any disruption would lead to an adverse impact on the business
- **Political conditions** – The Group's main manufacturing plant is in Mexico and its main market is in North America. Proposed tariffs on goods moving between Mexico and the US could impact the Group. "Brexit" has introduced uncertainty to the level of tariffs on goods moving between the European Union and the UK
- **Biological risk** – The Group has seen its internal operations impacted by the COVID-19 pandemic with our factories in Mexico and Malaysia closed for a period during H1-20 and reduced demand from some end customers in Q2-20. We continue to monitor this risk and the impact of the pandemic on H2-20 is uncertain.
- **Succession planning and staff caliber** – The Groups performance is dependent on attracting and retaining high quality of staff
- **Intellectual property** – Theft or violation of intellectual property or third parties taking legal action for infringements will have an adverse impact on the Group
- **Market trend and competition** – The Group must be able to identify customer demands and ensure its product portfolio match their requirements
- **Product development strategy** – The Group needs to ensure it can deliver new products to the market in a timely manner
- **Product recall** – The Group gives a ten-year warranty on its Lighting products
- **Foreign exchange** – This is the most significant treasury risk and in times of currency volatility it can have a material impact on the performance of the Group.

The identification of risks and opportunities, the development of action plans to manage the risks and maximise the opportunities, and the continual monitoring of progress against agreed key performance indicators (KPIs) are integral parts of the business process and core activities throughout the Group.

These will continue to be evaluated, monitored and managed through the remainder of 2020.

Directors' responsibilities

The Interim Report complies with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Conduct Authority in respect of the requirement to produce a half-yearly financial report. The Interim Management Report is the responsibility of, and has been approved by, the directors.

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34;
- the Interim Management Report includes a fair review of the important events during the first six months and description of the principal risks and uncertainties for the remaining six months of the year, as required by DTR 4.2.7R;
- the Interim Management Report includes a fair review of disclosure of related party transactions and changes therein, as required by DTR 4.2.8R; and
- the directors have permitted the auditor to undertake whatever inspections it considers to be appropriate for the purpose of enabling the auditor to conduct its review.

On behalf of the Board

Fariyal Khanbabi

Chief Executive Officer

The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS).

International Accounting Standard 34 (IAS 34), defines the minimum content of an interim financial report, including disclosures, and identifies the accounting recognition and measurement principles that should be applied to an interim financial report.

Directors are also required to:

- select suitable accounting policies and then apply them consistently;

present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and

- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have a 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.

The directors are also 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.

About Dialight

Dialight (LSE: DIA.L) is a global leader in sustainable LED lighting for industrial applications. Dialight's LED products are providing the next generation of lighting solutions that deliver reduced energy consumption and create a safer working environment. Our products are specifically designed to provide superior operational performance, reliability and durability, reducing energy consumption and ongoing maintenance and achieving a rapid return on investment.

The company is headquartered in the UK with operations in the USA, UK, Mexico, Malaysia, Singapore, Australia, Germany, Dubai and Brazil.

The web site of the Group is as follows: www.dialight.com

Cautionary statement

This announcement contains certain statements, statistics and projections that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Dialight plc and its subsidiaries is not warranted or guaranteed. These statements typically contain words such as 'intends', 'expects', 'anticipated', 'estimates' and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Although Dialight plc believes that the expectations will prove to be correct. There are a number of factors, many of which are beyond the control of Dialight plc, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements.