2005
annual report and accounts
worldwide leader in applied LED technology

Dialight

Highlights

Group highlights

- Disposal of Solartron business for £72 million in aggregate
- Return of £46.5 million to shareholders (£90 million since 2003)
- Name changed to Dialight plc

Continuing business highlights

- Strong increase in profits in second half as a result of increased orders and sales
- Profit before tax and exceptional items increased 4% to £4.5 million
- Basic EPS increased 12% to 10.1p
- Good cash generation
- Strong year-end balance sheet
- Increased order intake in 2006
- LumiDrives acquisition in January 2006

Welcome to Dialight…

World leaders in the application of light emitting diodes (LEDs), driving the solid state lighting revolution

Our LED beacons send flashing red warnings from the top of towers and tall buildings. Our white LEDs illuminate hazardous petrochemical plants and make road signs visible at night. Our LED lights in any combination of colours, dramatise stage productions and rock concerts. They tell mobile phone operators what's happening and they tell train drivers to stop… and go. They show when it's safe to cross the road.

Our LED lights signal the future and safeguard the environment by offering energy savings.

Signals and illumination

We are uniquely positioned to exploit the lighting revolution, as LEDs become the obvious choice for many applications. Our entrenched positions in traffic, rail, obstruction and architectural/industrial illumination are the basis of our expansion plans.

Components

Our components division, centred on low brightness LEDs, is world leader in this specialist market. We hold "Preferred Supplier" status with many blue-chip manufacturers, including Nokia, Lucent and IBM. As more products convert to LED indication, we'll gain increasing benefits from our technological and market leadership.

Chairman's statement

2005 was a successful year for the Company culminating in the execution of the Board's strategy of creating a focused growth company based on Dialight's applied LED capability. The disposal of the Solartron businesses in two separate transactions to Emerson and Ametek for gross proceeds in aggregate of £72.1 million (after cash adjustment) marked the successful completion of the Board's strategy to exit the electronic measurement sector. This strategy, which began with the sale of Weston in 2003 and was completed with the Solartron disposals, realised aggregate proceeds of over £125 million in cash, a premium of 40% over the market capitalisation of the whole Group prior to the Weston transaction.

Following shareholder approval at the September EGM, the Board returned £46.5 million to shareholders, which, taken with the return of £42.6 million in 2003 following the Weston disposal, makes a total return to shareholders from the disposal strategy of almost £90 million.

The profit on disposals during the year of £22 million (after tax of £9 million) is shown as an exceptional item.

"The disposal of the Solartron businesses and the return of capital to shareholders was the final step of the Board's strategy of repositioning the Group. The Company is now focused on the emerging solid state lighting market with high growth potential and with a new name and new management."

Financial Results

These are the first full year results to be prepared under International Financial Reporting Standards (IFRS). All comparative information has been restated although the change has had a limited impact on the reported numbers.

Overall Group turnover for the year to 31 December 2005 was £95.2 million with Solartron contributing for only part of the year (2004: £118.9 million). Group profit before interest and tax was £39.3 million (2004: £12.7 million) including the profits before tax on disposals of £31 million. EPS was 92.2p per share (2004: 27.4p per share).

Profit before tax and exceptional items was £8.7 million (2004: £12.5 million) which included £4.5 million (2004: £4.3 million) from the continuing businesses. Basic earnings per share from the continuing businesses were 10.1p per share showing a 12% increase over last year.

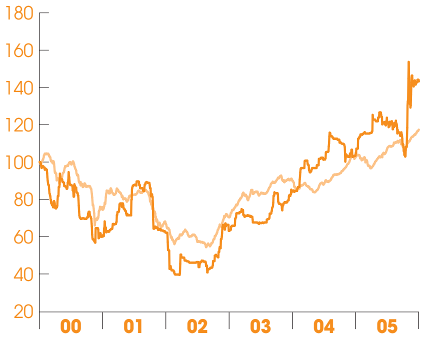
Operating cash flow in the year was £7.6 million (2004: £15.5 million). In addition cash from disposals, net of tax, amounted to £60.4 million. Following the return of £46.5 million to shareholders and the £7.4 million contribution to pension funds, the net cash balance at the year-end was £9.8 million (2004: £6.8 million).

Dividend

In the Circular dated 6 September 2005 the Board announced that the dividend policy going forward would be designed to reflect the new profile and growth potential of the continuing Group. We expect the Group to continue to have good cash generation and a strong balance sheet. However the dividend requires rebasing to reflect the disposals and return of capital to shareholders. Our aim is to pursue a progressive dividend policy which is linked to the performance of the Group and the cash requirements of a growing business. The Board is therefore recommending a final dividend of 3p per share and expects the future pattern of dividend payments to follow past practice. The full year dividend is 6.4p. The dividend will be paid on 12 May 2006 to shareholders on the register at 24 March 2006.

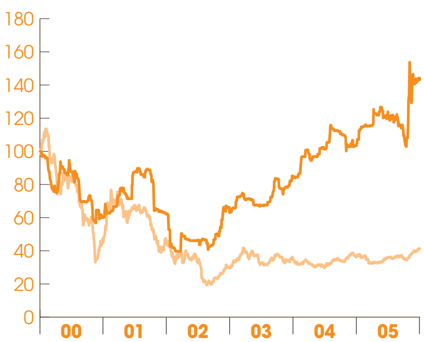
Total shareholder return indices 2000-2005

— Dialight plc
— FTSE Small Cap



Dialight TSR v FTSE Electronic and Electrical Equipment TSR

— Dialight plc
— FTSE Electronics



Board Changes

Sir Alan Cockshaw has retired from the Board having chaired the Group since July 1997. I would like to thank Sir Alan for his contribution, his wise counsel and leadership, particularly in the past few years of substantive change. We wish Sir Alan well in his retirement.

I would also like to pay tribute to Alf Vaisey, who retired from the Board following the completion of the Solartron disposal, for the nine years he spent with the Group as Finance Director. Alf made an enormous contribution to the Group and was a vital member of the executive team culminating in the key role he played in the successful disposals of the Solartron businesses.

I was very pleased to be invited to take the role of Chairman on Sir Alan's retirement in October and at the same time Roy Burton and Cathy Buckley joined the Board as Group Chief Executive and Group Finance Director respectively.

Our People

The Group has been through many changes over the past few years in response to ever changing market conditions and the repositioning of the Group. Our staff have had to cope with many challenges as a result. I want to thank all those who worked with the Group over this period many of whom left the Group as a result of the disposals completed by the Group. The loyalty, commitment and endeavour shown by everyone cannot be overstated and our thanks go to all of them.

Outlook

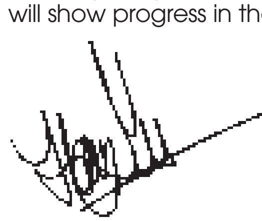
The Group is now focused on one business specialising in applied LED technology and in particular Solid State Lighting.

The order intake for the Components Segment for the current year to date shows an underlying growth in its run rate, supported by strong project wins for electromagnetic components in the metering sector.

Demand for Signals/Illumination products is expected to show growth driven by increase in European Traffic Light demand. The benefits of the reorganisation of European manufacturing operations will start to produce results in the second half of the current year.

Growth will be further enhanced by the introduction of new products in Hazardous Location Lighting and the exploitation of the LumiDrives acquisition on a worldwide basis.

Consequently, the Board is confident that the continuing operations will show progress in the current year.



Harry Tee
Chairman

Operating review

"Dialight is well positioned to grow as the application of solid state lighting technology expands. The acquisition of LumiDrives, early in 2006, enhances our position in this emerging sector."

Continuing business

	2005 £ million	2004 £ million
Sales	**56.1**	55.3
Profit before tax	**4.5**	4.3

On a continuing operations basis revenue increased from £55.3 million to £56.1 million and Profit Before Tax improved from £4.3 million to £4.5 million. There was a strong improvement in sales and profits in the second half when compared to the first half (revenue £30.3 million (£25.8 million), PBT £3.1 million (£1.4 million)). These increases were largely driven by the strong uptick in orders in the second half of last year.

On a pro-forma basis the profit before tax for the continuing operations is £5.4 million compared with the reported profit of £4.5 million. This reflects the reduction to corporate overhead costs, following the disposal of the Solartron businesses. The increase to profit of £0.9m assumes that the disposal of Solartron had taken place at the start of the year.

For the first time we will be reporting Dialight's business in two segments:

- Components comprising indication products and electromagnetic components.
- Signals/Illumination which includes Traffic and Rail Signals, Obstruction Lights and the new Solid State Lighting products of the Group.

The reason for this segmentation is the different growth characteristics and customer profiles of the two segments.

Components

	2005 £ million	2004 £ million
Sales	**26.6**	27.2
Contribution*	**13.3**	14.7

*Contribution is defined as sales less material, direct labour costs and commissions.

Performance in this segment was adversely affected by the performance of a major OEM customer for electromagnetic devices who experienced a significant slowdown in 2005 due to factory relocation. Without this slowdown, the segment would have shown growth over 2004. Volumes with this customer are now back to historical levels. In addition, early in 2006, two major utility orders have been secured for customers in the USA totalling over £1.5 million, adding new business to normal run rates. It is expected that a majority of this new business will be shipped in 2006.

A major piece of the Components Segment is sales of Dialight LED indicator products to US based Distributors. Dialight tracks the success of this business through Distributor Point of Sales data, which grew by over 5% in 2005 over 2004, although Dialight sales to those distributors were slightly affected by some de-stocking throughout 2005.

For many years Dialight has held a preferred vendor position with the world's major electronic OEMs. These relationships continue and our position expands as our salespeople and engineers design Dialight's products into the new programs of these OEMs.

In the latter part of 2005 we were awarded a program to supply LED indicators in a wing mirror application for a major Japanese automotive manufacturer. It is expected that shipments will start in the middle of 2006. Dialight will continue to pursue other niche automotive applications where we can bring value to our customers.

Over time we expect the Components Segment to show steady growth based upon Dialight's unique position with major worldwide OEMs and large distributors.

Signals/Illumination

	2005 £ million	2004 £ million
Sales	**29.6**	28.0
Contribution*	**9.9**	9.2

*Contribution is defined as sales less material, direct labour costs and commissions.

High Brightness LEDs have been used in coloured signalling applications for some years. They contribute major energy savings when compared with conventional light sources and they have a lifetime stretching to tens of thousands of hours. For applications such as Traffic Lights, Rail Signals and similar devices, there is a very compelling value proposition. LEDs, being semiconductor devices, also lend themselves to digital control and can be very versatile in Architectural and Entertainment Lighting applications, where sophisticated coloured lighting effects are needed. It is only in recent times that white LEDs have become available with enough power and at a cost to make white lighting applications viable.

During the year, this segment posted 5% sales growth in spite of the US Traffic Market being essentially flat and 2004 sales benefiting from a major one-off contract with FAA. The US Traffic Light segment of this market has become relatively constant so it is essential that we focus our efforts on those areas which will drive strong growth for the Company.

Traffic lights

For some years, Dialight has been a major supplier to the US traffic light market. Many of the major city and state retrofits have already been completed and the market is over 50% adopted. Dialight's channels to market are well established and it is expected that sales of traffic lights and relative market shares in this geography will remain stable.
In Europe and Asia the situation is quite different. The European adoption of LED traffic lights is less than 5% and European authorities at this point have been relatively slow to adopt LED technology. It is clear that, at some stage, adoption will occur and over the past few years we have been expanding our customer and geographical base in preparation for the rapid growth of this market. In 2005 Dialight sold to traffic customers in almost every West European country and a number of East European countries also. In 2005 this business grew by close to 20%.

In spite of this growth, 2005 is best characterised as a year of preparation for the European traffic business. Our European operations have spent their time developing products for the new German OCIT and Dutch Astrin II specifications as well as introducing a new high brightness signal for multi-country application – all these products being based on the new Eclipse platform. We have forged new relationships with traffic systems OEMs throughout Europe and are particularly pleased at the progress we have made in developing products for several groups within the Siemens traffic organisations throughout Europe.

2006 should be a year of more adoption by the European customers and further penetration by Dialight into this market. In order to better fulfil this anticipated demand, manufacturing is being concentrated in our Newmarket and Mexico facilities. This will improve operational performance while maintaining a marketing and engineering presence in Munich. The benefits of this reorganisation will begin to be realised in the second half of the current year, although costs will be incurred in the first half.

Operating review continued

Similarly, the Asian market has not adopted LED technology to any great degree. We will address opportunities as they arise and look to drive Dialight's high brightness traffic lights into this market.

Rail signals

Rail signals logically follow traffic signals as a commercially compelling application for Dialight's products. In 2005, our US Operations completed a retrofit of wayside signals for New York City Transit Authority. This involved over 50,000 signals; all designed and built to stringent safety standards. Rail transport however, is not as densely developed in the USA as it is in Europe. In the 2nd half of 2005 Dialight secured a contract with the Danish rail authorities for the supply of rail signals. Multiple discussions are taking place with other rail authorities throughout Europe regarding the specification and supply of LED rail signals and Dialight's products are in qualification with the Russian Rail authorities. Whilst the normal caution of the rail industry may make this market slower to take off than traffic signals, we believe there is good growth potential for Dialight in this European segment.

Obstruction lights

Red warning lights adorn broadcast towers, wind towers and tall buildings near airports and these lights are there to give warning to aircraft. In 2002 Dialight produced the first FAA qualified LED version of these lights. Since that time, we have developed the market for these products and have sold over 44,000 LED Beacons and Sidelights. We believe there are over 600,000 left to change to LED as the market is still in the early stages of adoption. This business grew over 25% in 2005 on top of strong growth in 2004. We have an extensive customer base on both sides of the Atlantic and expect to see our obstruction lighting business develop as we drive further LED usage in this market. The value proposition is quite simple; a Dialight LED Beacon uses 40 watts of electricity versus over 1200 watts used by a conventionally lit Beacon. In addition to this, Dialight warrants its products for 5 years thus avoiding the cost of climbing to the top of a tall tower or building just to change a light bulb.
To enhance the adoption of these products, for 2006 we have launched versions which are qualified for hazardous locations. Our obstruction lights can now be used in oil and petrochemical establishments, offshore platforms and anywhere aviation warning is needed.

As energy costs rise, not only do LED applications become more important, but new sources of energy also become more important – in particular wind energy. This is a big plus for LED Obstruction Lights as each Wind Tower over a certain size has to be lit.

Solid state lighting

The end objective for LED technology is to replace conventional white light sources for illumination. It is only in recent times that LEDs have been sufficiently effective to see any of this happen. White LEDs, whilst more energy efficient today than incandescent and halogen sources and approaching the efficiency of fluorescent lights, are still too expensive for general lighting. There are however niche applications where long life, maintenance and safety make white LEDs a viable proposition.
One example of this is in Lighting for Hazardous Locations. Dialight has developed the first white LED light qualified to a UL Class 1 Division 2 rating for use in areas where explosive vapours may be present. Conventional light fixtures for this type of application have to be designed especially for this type of use and tend to be bulky and expensive. For LEDs, Dialight has developed the concept of "inherent safety" and combined with a 5 year life this makes a very compelling value proposition for operators of petrochemical plants, refineries and offshore platforms. The potential installed market for this type of device is in excess of £100 million and Dialight expects to see good growth over a number of years from this and other "industrial lighting" applications.

LumiDrives

LEDs and coloured LEDs in particular are finding application today in Architectural, Entertainment and Theatre Lighting. Dialight has developed Spectramix™, a proprietary colour mixing protocol along with a number of unique colour mixing light engine technologies. The acquisition of LumiDrives, a UK based manufacturer of LED based lights and modules for the European Architectural Lighting market will give Dialight a strong position in this sector in Europe

Founded in late 2001, LumiDrives has grown its revenues profitably to over £3 million in 2005. The acquisition has integrated well into Dialight and is making good progress. The prospect for the coming year is for continued growth in Europe with existing product types and with the added potential of Dialight developed products being introduced into Europe through the LumiDrives' sales channels. In addition to European sales, Dialight is in the process of introducing LumiDrives products to the North American market. There is potential for both OEM products and the introduction of light modules – optics, drivers and light engines – to the Dialight Distribution channel.

The addition of LumiDrives to Dialight is a very important step bringing products, channel, customers and a Management Team that has demonstrated the ability to grow profitably in the Solid State Lighting market.

Summary

Dialight can look forward with confidence to the coming years, as markets are enabled by new technology. The challenge is to grasp the opportunities early as they reach viability.

We are well positioned to take advantage of the growing Signals and Solid State Lighting markets. Dialight has good channel access in the USA and Europe and is developing a presence through its partners in Asia. Our technical expertise is strong, having more experience with high brightness LEDs than almost any other company in the world. Operationally we have excellent capability with our low cost ISO 9000 registered operation in Ensenada, Mexico and the purchasing volume to drive best prices for our component parts.

There are many small niche players emerging in this exciting new market but Dialight has the position, the expertise and perhaps most importantly the size to seize the multiple opportunities which will emerge and maintain a strong market position.

Roy Burton
Chief Executive

Traffic signals

A green light for growth

Across Europe, over 95% of traffic signals have yet to be converted to low energy, low maintenance LED lighting. That's around 10 million signals. In Asia, the potential is even brighter, as there's little adoption so far. Around 15 million old-fashioned signals need to be replaced. For us, the future's bright: the future's red, amber and green.

There's little to stop us

We're a world Number 1 in LED traffic signals. While we're pleased with this position, we're more excited by the potential. Using 90% less energy and lasting 10 times longer than incandescent lamps, LED devices are clearly the way forward in traffic signalling. Already, pioneered by Dialight, North America has switched more than half its signals to LED. We intend to maintain our leadership as the remaining 6 million incandescent lights are replaced.

The hefty energy and maintenance savings cause no loss in performance.

Compared to conventional lights, they also bring other environmental benefits. They're free of hazardous mercury, and with 1 LED lasting as long as 12 incandescent bulbs, they produce less landfill waste.

Aviation obstruction lighting

New obstructions to growth
We value the potential installed global market for LED obstruction warning lights at over £100 million. Since the worldwide adoption rate is just 5%, the prospects for Dialight are excellent. Naturally, other suppliers will attempt to put obstructions in our way, but our technological leadership, strong OEM relationships in America and access to European customers should help us avoid competitive hazards.

Watch out for Dialight

We're Number 1 in LED obstruction lighting. Worldwide, more towers, bridges, cranes and tall buildings carry Dialight LED hazard warning lights than anyone else's. It's not hard to see why. In America, our lighting fixtures are approved by the Federal Aviation Authority and are compliant to the major European standards. Our lighting is also inherently safe, as the LED array is low voltage and low temperature. Crucially, of course, we offer important energy and maintenance saving benefits. It can cost hundreds of pounds to send a climber up a tower to replace a light bulb, so lights that need replacing less often lessen day-to-day overheads.

Wind turbines form an increasingly important opportunity in our marketing plans. Onshore and offshore, wind farms need flashing red warning beacons on their towers, and LED is the most efficient way to provide them. Broadcast towers, too, are a growing market for Dialight.

Rail signals

This way to Europe
Although we can look forward to steady US business the main market potential lies in Europe. We estimate that over 1 million signals could be retrofitted to LED, cutting running costs and enhancing safety.

We're not stopping at New York

How many rail workers does it take to change a light bulb? In the future, not many, as more and more rail operators switch to cost-efficient LED signalling supplied by Dialight. We've just completed an order to supply over 50,000 LED signals to the New York Transit Authority.

Apart from saving energy, our signals should save lives, as far fewer rail maintenance workers will need to venture down dark, dangerous tunnels.

In Europe we've signed a contract with Danish Rail to supply over 2000 LED signals and we're working with rail authorities in Belgium, the Czech Republic, Holland, Italy, Norway and Switzerland. Further east, we're in a qualification process with Russia Rail.


LR
415

The light, Leeds, UK.

Architectual lighting

**Acquiring growth.
Inventing growth**

Our purchase of LumiDrives adds impetus to our development of this dynamic market. We estimate the available worldwide market for architectural illumination to be worth many millions of pounds and growing. We are well positioned to gain a major share. As our research teams open up new applications, our marketing people rapidly open up new sales opportunities.

Building sights

Our products for lighting are enabling lighting designers, architects, entertainment venues and end users with new methods of lighting and invigorating existing lighting products. Opening up a world of dynamic lighting effects with sleeker, smarter products offering the potential of reduced energy, using materials which are kinder to the environment.

Our proven track record in solid state lighting technology means we are well placed to exploit the lighting revolution. We are working niche by niche to solve the technical challenges to wider adoption of LED technology in general lighting. Solving these challenges and pushing the boundaries is creating a valuable portfolio of intellectual property.

Recognising the huge potential in the illumination market we recently acquired LumiDrives, a fast growing company specialising in this area of LED technology. LumiDrives has laid firm foundations through technical innovation and developing a strong customer base.

Industrial illumination

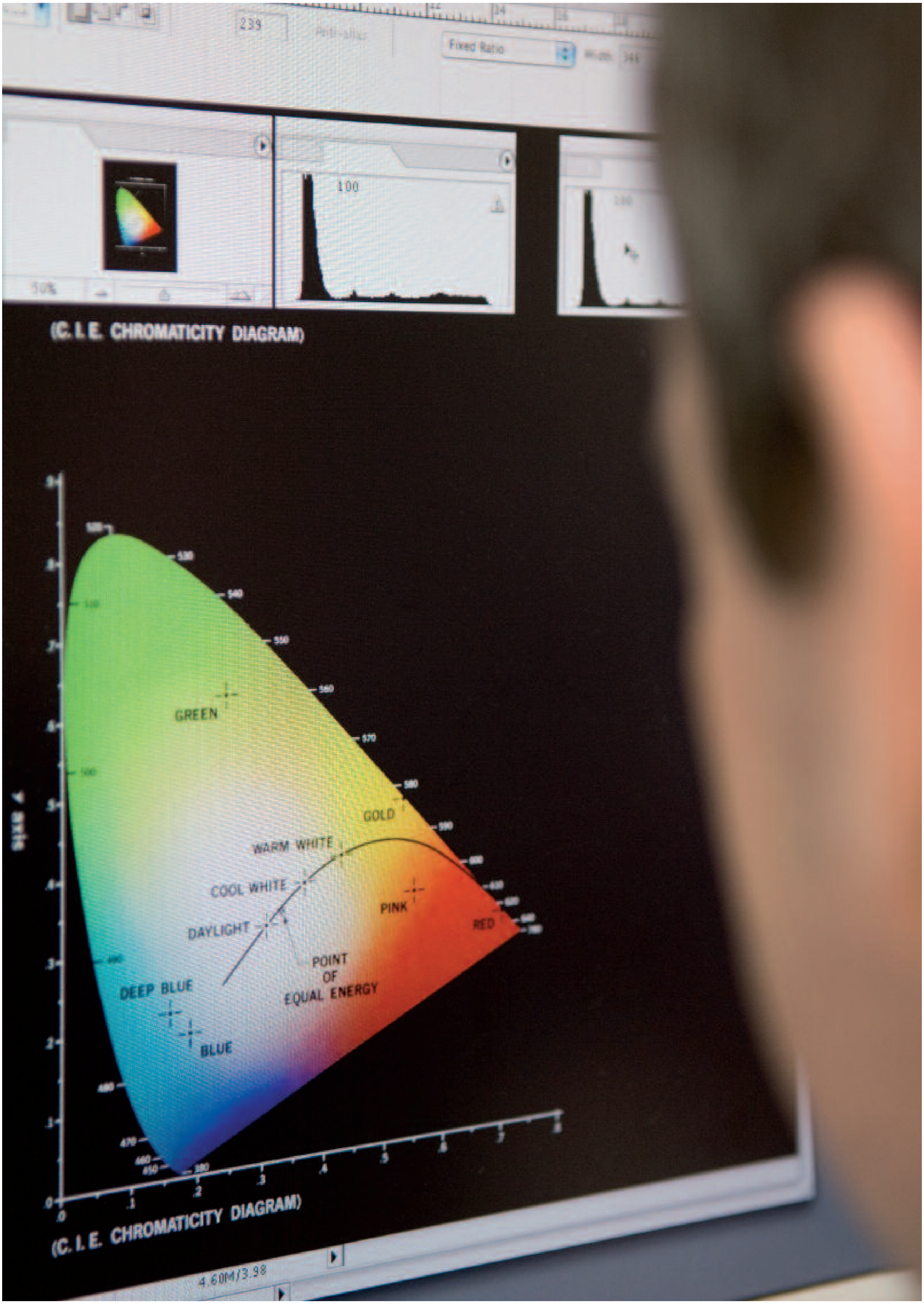
An ever-growing pool of industrial light
We see worldwide growth opportunities for LED industrial illumination. As white LEDs become more efficient and more cost-effective, they'll move from niche applications to more widespread use.

Hazardous Location (HazLoc) Lighting

We provide safe and rugged LED lighting in hazardous industrial locations. Offshore drilling platforms, mines and petrochemical plants are typical locations. Inherently safe and always cool, our LEDs don´t need protective armour plating like conventional incandescent or halogen bulbs.

Our HazLoc certified products include a red aviation beacon, a full range of colour signalling lights and a downward-facing white light for area and task illumination.

These industrial LEDs are another shining example of the way advances in LED technology are driving down running costs. Their life span of more than 50,000 hours, compared to just 1,000 hours for a typical light bulb, means that maintenance budgets can be cut dramatically. It also means that maintenance workers need spend less time in dangerous situations. The initial cost of our lights may be higher but over time they more than pay for themselves.


(C. I. E. CHROMATICITY DIAGRAM)
GREEN
GOLD
WARM WHITE
COOL WHITE
DAYLIGHT
PINK
RED
POINT
OF
EQUAL ENERGY
DEEP BLUE
BLUE
(C. I. E. CHROMATICITY DIAGRAM)

Research and development

We invest up to 6% of our turnover in product development. It's money well spent, as the efforts in our laboratories and workshops lead directly to products in the marketplace. This market-led (or "market-LED") approach stems from the close links between our engineers, scientists and sales people who match technical solutions to customer problems and vice versa.

Facing a range of technical issues, we create multi-disciplined project teams to speed innovation. A typical team might include an optical engineer, mechanical engineer, electronics expert and software specialist. They could be based in one location, or four. As part of our policy to keep research and development close to our customers, we have teams in the United States, Germany, Mexico and the UK. In this way we also foster close links between our R&D people and national standard-setters, speeding up the new-product qualification and certification process.

Developing growth

Our R&D facilities will be the engine rooms powering our drive for double-digit growth. Now, with LumiDrives part of the group, we can boost this single-minded pursuit of growth still further. Tapping into their R&D resources, and sharing our knowledge with their engineers, will accelerate our expansion.

Finance Director's review

Group summary

The results for the year reflect the disposal of the Solartron businesses, the capital reorganisation and the adoption of International Financial Reporting Standards ("IFRS"). The capital reorganisation was required to create distributable reserves to facilitate the return of £46.5 million to shareholders. The results from the continuing operations comprise Dialight operations and the previously separately identified central costs. The results of the Solartron businesses up to the date of their disposal are reported under Discontinued Operations.

Summary of financial results

Overall Group sales decreased by £23.7 million to £95.2 million. The reduction in Solartron sales from 2004 following their disposal in the third quarter of the year was £24.6 million. Sales for the continuing operations increased by £900,000, of which exchange rate movements arising from the translation of sales reported from overseas operations increased sales by £400,000. Group profit before the gain on the sale of the discontinued operations was £8.7 million (2004: £12.5 million).The profit before tax from continuing businesses increased by 4% to £4.5 million (2004: £4.3 million).

Summary of results from continuing operations

The ongoing Group has one trading activity, "Dialight" and Note 1 to the accounts sets out the segmental results for Dialight, analysed between Components and Signals/Illumination.

On a like-for-like currency basis (using 2005 exchange rates) the segmental results are as follows:

	Sales			Contribution		
	2003 £m	2004 £m	**2005 £m**	2003 £m	2004 £m	**2005 £m**
Components	24.8	27.4	**26.5**	12.9	14.8	**13.3**
Signals /Illumination	28.2	28.2	**29.6**	7.0	9.3	**9.9**
	53.0	55.6	**56.1**	19.9	24.1	**23.2**

Over the two year period Component sales have grown by 6.9%. In 2004 Components had a strong first half and although similar demand levels were being reached towards the end of the current year, full year sales show an overall decline from 2004. The reduced contribution from Components in 2005 over 2004 results directly from the lower sales volume compared with 2004 and a significantly lower contribution from one particular customer in the UK.

Within the Signals/Illumination segment there are a number of key product lines, being traffic, rail, and obstruction. As noted in the Chief Executive's Review, sales in traffic are expected to remain at a relatively constant rate in the US, being a more "mature" market, with growth anticipated as adoption rates improve, from a very low percentage adoption to date, in Europe and Asia. This is a similar pattern for rail, with obstruction still at relatively early stages of adoption globally but showing good growth over the last two years.

Summary of results from discontinued operations

Sales from the Solartron businesses for the period 1 January 2005 to the dates of disposal were £39.0 million, a reduction of £24.6 million from £63.6 million for the full year in 2004.

The division's operating profit was £4.4 million, compared with £8.3 million as reported in the previous full year.

Gain on sale of discontinued operations

An analysis of the Group profit on sale is set out below:

	£m
Net cash proceeds	72.1
Less expenses	(6.4)
Less tax arising on the disposals	(8.9)
Less net assets sold	(22.6)
Less goodwill	(12.2)
Profit on sale	22.0

Adoption of International Financial Reporting Standards

The impact of the conversion of the previously reported 2004 results is set out on pages 59 to 65. In summary, the key impact of the adoption of IFRS compared with reporting under UK GAAP on the Continuing Operations is as follows:

	Impact on profit after tax		Impact on net assets	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Capitalisation of development costs	**0.3**	0.4	**1.0**	0.7
Accounting for defined benefit pension schemes	**0.1**	0.6	**(3.9)**	(7.4)
Accounting for goodwill	**0.2**	0.2	**0.7**	0.6
Accounting for dividends	**–**	–	**0.9**	2.3
Accounting for B shares	**–**	–	**(2.2)**	–
Deferred tax on development costs and pension liabilities	**(0.1)**	(0.4)	**0.9**	2.7
	0.5	0.8	**(2.6)**	(1.1)

Notes

1. Development costs are capitalised and amortised when they meet the specific criteria of IFRS.
2. In accordance with IAS 19 the overall funding deficits on the defined benefit pension schemes (as calculated by independent actuaries) are recorded on the Group's balance sheet.
3. Under IFRS goodwill amortisation is not charged on an annual basis but the carrying value of goodwill is subject to annual impairment testing.
4. Dividends payable on the ordinary shares are reported once approved and not as previously, when declared. The impact is that the final dividend declared on the ordinary shares is reported in the period of approval.
5. At 31 December 2005 the Group had B shares with a nominal value of £2.2 million. Under IAS 32 this amount is reported as a financial liability in creditors.

Share-based payments

IFRS 2 requires that a fair value is calculated for shares and share options granted to employees and that this fair value is charged through the profit and loss account over the vesting period. The Group has opted not to adopt the standard for options granted before November 2002.

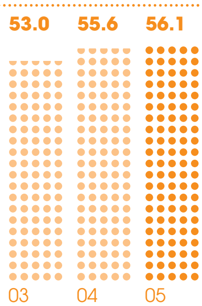
Earnings per share

Basic earnings per share were 92.2p (2004: 27.4p) which included 72.5p earnings related to the profit on disposal of the Solartron businesses. The earnings per share for the continuing businesses which excludes the earnings of Solartron and the gain on sale is 10.1p (2004: 9.0p). Details of the detailed calculation are included in Note 14 to the accounts.

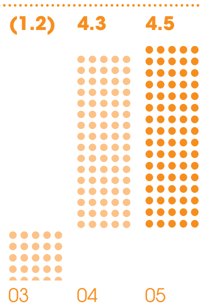
Taxation

The Group's effective tax rate on profit before the gain on disposals was 31.5% (2004: 34.2%). For the continuing group the effective tax rate is 31.5% (2004: 36.9%). The rate is higher than the underlying UK rate as it is impacted by the higher overseas rates, particularly in the US, and by the losses incurred in Europe for which no tax relief is available although the current year tax rate benefited by one off deductions. We expect the rate of tax for the continuing group in 2006 to be broadly similar to 2005 once adjusted for the one off adjustments which reduced the rate by 6%.

Sales for continuing businesses*
*Adjusted for exchange rates



Profit before tax for continuing businesses
*2003 profit reported under UK GAAP after central costs



Cash flow

The Group has generated net cash inflows from operations of £7.6 million (2004: £15.5 million).

At the year end the Group had a cash balance of £9.8 million. During the capital restructuring process the Group placed cash into a separate bank account to meet certain liabilities principally related to the tax due from the disposals. At the year end the balance of the cash held in this "Restricted cash account" is £4 million. This balance is not included in the cash balance of £9.8 million but is held as an asset within other receivables (see Note 11 to the accounts). Since the year end the Group has used £2.5 million of the cash balance in acquiring LumiDrives. The Board believes that the cash balance is reasonable for the Group due to growth and acquisition prospects. Your Board will continue to review the ongoing cash requirements of the Group.

Treasury policy

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

The treasury function is not a profit centre and no speculative transactions are undertaken. The Group's treasury policy is to ensure that adequate financial resources are available for the business operations whilst managing its currency and interest rate risks.

Currency translation

The results of the Group's foreign subsidiaries are translated into sterling at the average exchange rates for the relevant year. The balance sheets of foreign subsidiaries are translated into sterling at the relevant closing exchange rates. Any gains or losses from translating these items from one year to the next are recorded in reserves.

The principal translation currencies to which the Group is exposed are US dollars and the Euro. The average exchange rates and the closing year end rates for the year and the comparatives are as detailed in the following table:

Currency translation rates used	**2005**	2004
US dollar – average rate	**1.82**	1.833
US dollar – year end rate	**1.72**	1.92
Euro – average rate	**1.46**	1.474
Euro – year end rate	**1.46**	1.413

Currency transaction exposure

As with the majority of international companies, the Group's UK and overseas businesses purchase and sell some of its products in non-functional currencies. Where possible, the Group nets such exposures and maintains hedging programmes utilising foreign exchange forward contracts and currency overdrafts to cover specific contracts and such proportion of other anticipated exposures as can be estimated with reasonable certainty. The Group's principal exposure is to US dollar and Euro currency fluctuations.

Funding and deposits

The Group utilises short and medium term facilities to finance its operations. The Group has two principal bankers with a combined facility of £15 million. At the year end the Group has unutilised facilities of £15 million. The Group may borrow in selected currencies at both fixed and floating rates of interest. Fixed rates of interest may be managed by interest rate swaps to limit the Group's exposure to interest rate fluctuations. Surplus funds are placed on short-term deposit utilising banks approved by the Board.

Dialight plc Company balance sheet

The individual results for Dialight plc and subsidiary companies are prepared on a UK GAAP basis with the adoption of IFRS applied only to the consolidated accounts.

Post balance event

On 11 January 2006 the Group acquired the entire issued share capital of LumiDrives for a total consideration of £3 million. The consideration was satisfied by £2.45 million in cash and £0.55 million by the issue of Dialight plc shares.

C. A. Buckley

Cathy Buckley
Finance Director

Board of Directors

Executive Directors

01
Roy Burton (age 58 years)
Group Chief Executive
Appointed President and CEO Dialight Corporation in July 2002, Roy Burton became Group Chief Executive in September 2005. Now with many years' experience in the electronics industry, Roy started his career in the UK working with Philips Electronics, ITT and Amphenol Corporation with whom he transferred to the US. In 1994 he became Group President Electronics for Thomas and Betts Corporation headquartered in Memphis, and prior to his appointment at Dialight was CEO of Coraza Systems Inc.

02
Cathryn Buckley (age 43 years)
Group Finance Director and Company Secretary
Cathy joined Dialight plc (formerly The Roxboro Group PLC) in 1999 as Company Secretary and was appointed as Group Finance Director in September 2005. Previously she qualified and spent 12 years post qualification at KPMG, Birmingham.

03
Harry Tee (age 60 years)
Chairman
Harry Tee founded The Roxboro Group (now Dialight plc) in 1990 and has over 30 years' experience in management within the electronics industry. He is now Chairman having retired as Group Chief Executive of the Group on 29 September 2005. Prior to forming Roxboro he was a main board director at Graseby plc and previously held a number of senior management posts in Schlumberger and ITT. He is Chairman of Pera International and Piezotag Ltd and is a director of Information Technology Telecommunications and Electronics Association Ltd (Intellect) Mr Tee has recently been appointed by the DTI Minister of State, Alun Michael, as Chairman of the Electronics Leadership Council, an industry-wide alliance with high quality analytical and leadership skills established by the electronics industry and Government to give strategic management and leadership within the UK electronics industry.

Non Executive Directors

04
Jeffrey Hewitt (age 58 years)
Jeff Hewitt joined Dialight as a Non-Executive Director in September 2001. He is now Deputy Chairman, having been the Senior Independent Director since April 2003, and chairs the Remuneration Committee. He is a non executive director of the Cookson Group plc and TDG plc and is a non executive member of the John Lewis Partnership Audit Committee. Until August 2005, he was Deputy Chairman and Finance Director of Electrocomponents plc, which he joined in 1996 from Unitech plc where he was Finance Director. He joined Unitech from Coats Viyella plc and was previously with The Boston Consulting Group and Arthur Andersen.

01

03

02

04

05
Robert Jeens (age 52 years)
Robert Jeens joined Dialight as a Non-Executive Director in May 2001. He was previously Group Finance Director of Woolwich plc and prior to that Finance Director of Kleinwort Benson Group plc. He is also currently a non executive director of The Royal London Mutual Assurance Society Limited, TR European Growth Trust plc, Bank Insinger de Beaufort N.V. and a number of private companies.

06
Bill Whiteley (age 57 years)
Bill Whiteley joined Dialight as a Non-Executive Director in September 2001. He became Chief Executive of Rotork plc in 1996 and has been a main board director since 1984. He is also a Non-Executive Director of Spirax-Sarco Engineering plc and is Vice Chairman of the British Valve and Actuator Manufacturers Association.

05

06

Advisers

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

Stockbrokers
JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA

Auditors
KPMG Audit Plc
2 Cornwall Street
Birmingham B3 2DL

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

Piliero Goldstein Kogan & Miller, LLP
10 East 53rd Street
New York
New York 10022
USA

Registrars
Lloyds TSB Registrars
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ

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

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

Company secretary
Cathryn Buckley

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

Registered number
2486024

Directors' report

The Directors present their report and the audited accounts of the Group for the year ended 31 December 2005.

Principal activities
The principal activities of the Company and its subsidiary undertakings during the year were the manufacture and sale of electronic lighting and electromagnetic products for the communications and transportation markets. During the year the Group sold its businesses whose principal activities were the manufacture and sale of electronic measurement products for the energy and process markets.

A review of the significant events during the year can be found in the Chairman's statement, the Operating review and the Finance Director's review on pages 2 to 23.

Change of name
On 29 September 2005 the Company changed its name to Dialight plc from The Roxboro Group PLC.

Results
Results for the year are set out in the profit and loss account on page 38.

The Directors recommend a final dividend of 3p per ordinary share, amounting to £937,000. This final dividend together with the interim dividend of 3.4p per ordinary share paid on 14 October 2005, which amounted to £1,053,000, gives a total dividend for the year of 6.4p per ordinary share amounting to £1,990,000. The recommended final dividend, if approved at the Annual General Meeting, will be payable on 12 May 2006, to members on the register at close of business on 24 March 2006.

Directors
The members of the Board of Directors at the date of this report are detailed on pages 24 and 25, together with brief biographical details.

In accordance with the Articles of Association, Messrs Tee and Hewitt will retire at the forthcoming Annual General Meeting by rotation and being eligible offer themselves for re-appointment. Mr Tee is a member of the Nominations Committee. Mr Hewitt is a member of the Audit, Remuneration and Nominations Committees. Miss Buckley and Mr Burton who were both appointed as Directors on 29 September 2005 will stand for reappointment at the forthcoming Annual General Meeting.

Following the amendment of the Companies Act 1985 (the "Act"), the Company is required to disclose that under article 143 of the Company's articles of association, the directors have the benefit of an indemnity, to the extent permitted by the Act, against liabilities incurred by them in the execution of their duties and exercise of their powers. This indemnity is currently in force. A copy of the Company's articles of association is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Company's forthcoming Annual General Meeting.

Substantial shareholdings
The following shareholders, other than Directors, had notified the Company of a holding of 3% or more of the issued share capital of the Company:

	13 March 2006 ordinary shares of 1.89p each	Percentage of issued ordinary shares of 1.89p each
Aberforth Partners	8,186,097	26.2%
Trustees of BT Pension Scheme	2,973,438	9.5%
Aviva	1,826,252	5.8%
Bluecrest Capital Management	1,150,000	3.7%
Legal and General Investment Management	1,035,505	3.3%

Political and charitable contributions
No contributions were made for political purposes. A total of £2,000 (2004: £3,000) was donated to various charities.

Employees
It is the aim of the Group to attract, retain and motivate the best people through the design of its employment policies. The Group considers itself to be an equal opportunities employer.

The Group recognises the importance of good communications and relations with its employees. As the Group operates internationally its employment policies are designed to meet local conditions and requirements, and enable any special needs to be accommodated within the particular environment.

Staff appraisals and consultations take place between individuals and local management with training and development undertaken locally. All employees are given equal opportunities to develop their experience and their careers.

It is Group policy to keep employees as fully informed as possible on matters which affect them, through communication procedures which include regular briefings on each site.

The Group gives full and fair consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Employees who become disabled are provided, wherever practicable, with continuing employment under normal terms and conditions and are provided with training and career development wherever appropriate.

Engineering technology
Dialight continues to invest resources engaged in technology and product development in the UK, Germany and the USA, and to update and expand its product range. Investment in this area is essential for the Group to retain and increase its market share in its competitive markets.

Creditor payment policy and practice
Terms of payment are agreed with individual suppliers prior to supply. It is the Group's policy to settle with its suppliers as payments fall due, provided the supplier has delivered the goods and services in accordance with agreed terms and conditions. As the Company is a non-trading holding company it therefore has no trade creditors. At 31 December 2005, the Group had an average of 46 days (2004: 45 days) purchases outstanding in trade creditors.

Going concern
The Directors have reasonable expectations, after making appropriate enquiries, that the Group has adequate resources to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Special business at the Annual General Meeting
The resolutions that will be proposed at the Annual General Meeting on 9 May 2006 are set out in the Notice of Annual General Meeting on page 77 of this document. Resolutions 1 to 7 are resolutions relating to ordinary business, whilst resolutions 8 to 11 will be special business. Details of the resolutions relating to special business are set out below:

Special Resolution 8 seeks to renew the authority from shareholders to enable the Company to purchase its own ordinary shares. This authority will apply for 3,123,951 ordinary shares, representing approximately 10% of the Company's issued ordinary share capital. Purchases will only be made on the London Stock Exchange at a maximum price per share equal to 105% of the average middle market quotations for an ordinary share of the Company taken from the Daily Official List of the United Kingdom Listing Authority for the five business days immediately before the day on which the ordinary shares are purchased and at a minimum price of 1.89 pence. If granted, the authority will expire at the conclusion of the Annual General Meeting in 2007 or within 15 months of the passing of this resolution, whichever is the earlier.

The Directors will determine whether any ordinary shares acquired pursuant to this authority are to be cancelled or held in treasury at the time that they resolve to exercise the authority. As at 13 March 2006 the total number of options to subscribe for ordinary shares outstanding was 7,500 which represents 0.02% of the issued ordinary share capital at that time and would represent 0.02% of the issued ordinary share capital if the directors used the full authority (both existing and being sought) to purchase shares.

The Directors are of the opinion that this authority, if renewed, will continue to give them greater flexibility to manage the issued share capital of the Company, for the benefit of the shareholders and would only use this authority if it is for the benefit of the shareholders as a whole. The Directors have no present intention of exercising the authority conferred by this resolution.

Resolution 9 which is an ordinary resolution which gives authority to the Directors to allot ordinary shares up to an aggregate nominal amount of £139,567 being the authorised ordinary share capital less issued share capital, and representing approximately 24% of the ordinary share capital in issue at the latest practicable date prior to publication of the Notice of the Annual General Meeting. If granted, the authority will expire at the earlier of the conclusion of the Annual General Meeting to be held in 2007 and the date 15 months from the date of the passing of the resolution, and will replace a similar authority granted on 10 May 2005 and which expires at the conclusion of the forthcoming Annual General Meeting. Save for any ordinary shares issued pursuant to the exercise of options granted under the Share Option Schemes, the Directors have no present intention of exercising the authority conferred by this resolution. The Company holds no ordinary shares in treasury.

Special Resolution 10 seeks authority for the Directors, until the earlier of the conclusion of the Annual General Meeting to be held in 2007 and the date 15 months from the date of the passing of the resolution, to make issues of equity securities for cash made otherwise than to existing shareholders in proportion to their existing shareholdings up to an aggregate nominal amount of £29,521 representing approximately 5% of the ordinary share capital in issue on the date of the notice of the Annual General Meeting. The power will, if granted, replace the similar power conferred on the Directors on 10 May 2005 and which expires at the forthcoming Annual General Meeting.

Resolution 11, which is an ordinary resolution, seeks shareholder approval of the Directors' remuneration report, which is set out on page 28 of this document.

Auditors
In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors will be proposed at the Annual General Meeting.

So far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all steps that he ought to have taken as Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

C A Buckley
Company Secretary

13 March 2006

Directors' remuneration report

Remuneration strategy
The Board considers itself to be responsible for the Group's remuneration policy, however it has charged the Remuneration Committee with determining and maintaining a remuneration package for the Company's Executive Directors and the Group's senior executives that aligns executive rewards with shareholder value creation, motivates executives to attain challenging performance levels and considers both individual and company performance.

Remuneration Committee
The Remuneration Committee was chaired throughout the year by J Hewitt with the other Non-Executive Directors, R Jeens and W Whiteley as members. Sir Alan Cockshaw was a member of the Remuneration Committee until his retirement as Chairman on 29 September 2005 when he was succeeded by Mr Tee who is consulted by the Committee when it is considered relevant. During the last financial year the committee met on 7 occasions to determine on behalf of the Board the framework of executive remuneration.

In determining the remuneration packages, the Remuneration Committee may seek the view of other Board members. The Committee also draws on advice from independent consultants to provide independent market information and remuneration advice. During the year The Committee asked Kepler Associates for advice in respect of executive remuneration and share schemes. The Committee consults with the Chief Executive on matters relating to the performance and remuneration of other senior executives within the Group. The Chairman was not present when the Committee discussed his remuneration as Chairman of the Company having succeeded Sir Alan Cockshaw in October. The Chief Executive was present for part of some of the Remuneration Committee meetings, but not when his own remuneration was discussed.

Remuneration policy
The objective of the remuneration policy is to provide packages for Executive Directors and senior executives that are designed to attract, retain and motivate people of high quality and experience.

The remuneration package for the Executive Directors and senior executives consists of an annual salary, short and long-term incentive schemes, pension arrangements, car or cash alternative and health care benefits.

The Committee believes that the base salary and benefits for Executive Directors should represent a fair return for employment but that the maximum total potential remuneration may only be achieved in circumstances where the Executive has met challenging objectives that contribute to Dialight's overall profitability and performance. Performance-related elements, being the annual performance bonus and the long-term Performance Share Plan, form a significant proportion of the remuneration of the Executive Directors aligning their interests with those of the shareholders and providing incentives for performance. A significant part of the Executive Directors' total package is therefore required to be at risk.

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

Basic salary and benefits
The basic salary is reviewed annually, and is determined by reference to relevant market data and the individuals experience, responsibilities and performance. Benefits principally comprise pension arrangements, a fully expensed company car or cash alternative and private healthcare.

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

For 2005 the annual bonus target was based on growth in the Group's operating profit before goodwill and exceptional items. There was no award under this plan.

For 2006 the target for the annual bonus plan has been set against growth in the Group's 2005 operating profit (on a pro forma basis for the continuing group). An improvement of 15% in the operating profit would result in a bonus payable of 50% of basic salary for the Executive Directors and the senior executives of the businesses. An improvement in the operating profit of 25% would result in the maximum bonus payable to the Chief Executive of 100% of basic salary however 50% of this award is dependent on the operating profit for 2007 being at least 5% higher than the 2006 operating profit. An improvement in the operating profit of 20% would result in the maximum bonus payable to the Group Finance Director of 75% of basic salary however the additional bonus of 25% is dependent on the operating profit for 2007 being at least 5% higher than the 2006 operating profit.

Transaction bonuses
Given the significance of the disposal transactions in realising shareholder value and the related major reshaping of the Group, the Board considered that it was appropriate to pay bonuses to certain executives upon the successful completion of the transactions. The bonuses were calculated by reference to the excess of the gross consideration over a target set by the Remuneration Committee.

No. 1, No. 2 and No. 3 Executive Share Option Schemes
The No. 1, No. 2 and No. 3 Executive Share Option Schemes were available for certain executives in the Group's businesses. It is the policy of the Committee that annual awards should not exceed the annual basic salary of the recipient in any one year. The option price is based on the mid market price of the Company's shares on the last dealing date preceding the granting of the options and the options can be exercised between the third and tenth anniversary of the grant date. All options under these Executive Share Option Schemes became exercisable during 2005 and a total of 913,833 options were exercised during the year. There will be no further awards made under these schemes.

Performance Share Plan

The Remuneration Committee, in conjunction with their advisers Kepler Associates, undertook a review of long-term incentive schemes in light of the management requirements of the Continuing Group following the Solartron disposals.

The new Performance Share Plan ("PSP") was approved by shareholders at the EGM held on 29 September 2005.

The PSP uses relative total shareholder return ("TSR") as the performance condition as the Committee believes TSR to be an appropriate measure which best aligns the Group's success with the interests of shareholders and executives. TSR performance will be measured relative to two indices (FTSE All Share Electronic/Electrical Equipment Index and FTSE Small Cap Index), each index having equal weighting. TSR is measured over a 3 year period with the measurement period beginning on the first day of the financial year in which the award is made. If the percentage increase in the Company's TSR is equal to the percentage increase in the TSR of the comparator index, 25% of the ordinary shares subject to an award will vest, rising, on a straight-line basis, to 100% vesting if the percentage increase in the Company's TSR is equal to the increase in the TSR of the index plus 15% per annum. No ordinary shares will vest if the percentage increase in the Company's TSR is below the percentage increase in the TSR of the comparator index.

Awards may normally be made in the 6 week period following the announcement by the Company of its results for any period. The number of awards which are the subject of the award will be calculated by dividing the value of the award by the average price of the ordinary share on the London Stock Exchange over the 30 days prior to the date of the award. There have been no awards made to date but it is anticipated that the first award will be made in the period following the announcement of the 2005 year-end results.

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

The initial value of an award granted in any one financial year will be determined by the Remuneration Committee with the policy that awards will not normally exceed one hundred per cent of an individual's basic salary.

The PSP contains a limit such that the number of ordinary shares issued under the Plan in any 10 year period or that may be issued on the exercise of options granted in that 10 year period under all the Company's employer share schemes may not exceed such number as represents 10% of the ordinary share capital in issue.

Directors' remuneration and pension entitlements

The auditors have audited the information contained in this section of the report.
The remuneration, excluding pensions, of the Directors is set out below:

	Salary/ fees £'000	**Bonuses[1] £'000**	**Salary supplement[2] £'000[3]**	**Taxable benefits £'000**	**Share options exercised[8] £'000**	**Other payments £'000**	**Total 2005 £'000**	Total 2004 £'000
H L Tee	**272**	**–**	**–**	**31**	**478**	**–**	**781**	473
R Burton	**55**	**–**	**–**	**3**	**–**	**–**	**58**	–
C A Buckley	**31**	**–**	**–**	**3**	**–**	**–**	**34**	–
J Hewitt	**24**	**–**	**–**	**–**	**–**	**–**	**24**	20
R Jeens	**23**	**–**	**–**	**–**	**–**	**–**	**23**	20
W Whiteley	**21**	**–**	**–**	**–**	**–**	**–**	**21**	20
Sir Alan Cockshaw	**38**	**–**	**–**	**–**	**–**	**12[5]**	**50**	50
A J Vaisey	**188**	**180**	**36**	**1**	**381**	**358[4]**	**1,144**	374
	652	**180**	**36**	**38**	**859**	**370**	**2,135**	957

(1) The Executive Directors were not awarded bonuses during 2005 under the performance-related scheme described above. A J Vaisey was awarded a discretionary bonus on the disposal of the Solartron businesses of £180,000. The bonus was calculated by reference to the excess of the gross consideration of the transaction over the target set by the Remuneration Committee.

(2) On the anniversary of the car replacement date A J Vaisey chose the cash alternative to a company car and has received an additional payment of £12,000 classified as salary supplement.

(3) Mr Vaisey received an additional payment amounting to £24,000 classified as a salary supplement, to compensate for the expected tax liability which arises in respect of the Company's contribution to the unapproved pension scheme.

(4) On 24 May 2005 and pursuant to letters of variation, most recently dated 10 August 2005, The Board acknowledged it was important to the Group to retain Alf Vaisey's services at a critical time for the Group in light of the disposal programme. Pursuant to such letter on the completion of the Solartron disposals Mr Vaisey could within 3 months terminate his employment on 30 day's notice (The Board acknowledging that completion of the sale would be likely to significantly diminish his role) and if he did so then he would receive a sum equal to 12 months base salary, salary supplement and Company pension contributions. This was disclosed in the Circular to Shareholders dated 6 September 2005 and approved at the EGM on 29 September 2005.

(5) Sir Alan Cockshaw was paid a notice period of 3 months in accordance with his written agreement with the Company.

(6) The remuneration for Mr Burton has been translated at the rate of $1.82:£1.

(7) The remuneration for Mr Burton and Miss Buckley relates to the period after their appointment as Directors on 29 September 2005.

(8) Gain on share options exercised.

Directors' remuneration report continued

On 20 September 2005 Messrs Tee and Vaisey exercised their outstanding options as follows:

	Date granted	Options granted	Exercise price per share	Market value of exercise	Gain on share options exercised £'000
Mr H Tee	21 September 1999	80,000	246.5p	390p	115
	14 March 2000	84,970	250.5p	390p	118
	14 September 2001	125,000	194.0p	390p	245
					478
Mr A J Vaisey	21 September 1999	60,000	246.5p	390p	86
	14 March 2000	71,202	250.5p	390p	99
	14 September 2001	100,000	194.0p	390p	196
					381

There are no options outstanding at 31 December 2005 under the Executive Share Option Schemes.

Fees for the provision of W Whiteley's services are payable to Rotork plc and for J Hewitt were payable to Electrocomponents plc through to the end of August 2005.

The Non-Executive Directors receive a set fee for their services, which can be enhanced for taking on or providing additional responsibilities or services.

No additional payments were made during the year.

Pension benefits earned by Directors (defined benefit schemes)
The auditors have audited the information contained in this section of the report.
Mr Tee was a contributory member of The Roxboro UK Executive Pension Fund during part of the year. This fund is a defined benefit scheme and is approved by the Inland Revenue.

Coincident with Mr Tee assuming the role of Chairman of Dialight plc, with effect from 14 October 2005, Mr Tee ceased accruing benefits in the fund. At this point Mr Tee's accrued pension amounted to £147,000 per annum (this compares to an accrued benefit of £136,000 per annum at 31 December 2004).

With effect from 31 December 2005, Mr Tee transferred his benefits out of the fund. The transfer value of the benefits at 31 December 2005 amounted to £3,170,000, which included the value of the discretionary early retirement benefits, which had not been reflected in the value as at 31 December 2004. A summary of the various elements is set out below:

	Accrued benefit at 14/10/05 £'000	Increase in accrued benefits excluding inflation (A) £'000	Increase in accrued benefits including inflation £'000	Transfer value of (A) less Directors' contributions £'000	Transfer value of accrued benefits at 31/12/04 £'000	**Transfer value of accrued benefits at 31/12/05 £'000**	Increase in transfer value less Directors' contributions £'000
Mr H L Tee	**147**	7	11	140	2,281	**3,170**	878

The accrued pension is calculated based on the total period of service with the Company, both before and after becoming a Director. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.

The actuaries advised the Company that the assumptions used under GN11 have been revised, particularly in respect of life expectancy tables and rates of investment returns. This contributed to part of the increase in transfer value.

Pension contributions paid on behalf of Directors to money purchase schemes.
The auditors have audited the information contained in this section of the report.

	Contributions £'000
Miss C A Buckley	3
Mr. R Burton	3
Mr A J Vaisey	75
	(2004: 88 (see Note 1))

Notes

1. The contributions shown above for Mr Vaisey of £75,000 in 2005 and £88,000 in 2004 are the total amounts paid by the Company in equal amounts to The Roxboro Group UK Pension Scheme and to an unapproved pension scheme.

As part of the pension arrangements, the Directors are entitled to life assurance cover equal to four times basic salary.

Directors' beneficial interests

Directors' beneficial interests in the shares in the Company are set out below:

	Ordinary shares at 31 December 2005	**B shares at 31 December 2005 and 31 December 2004**	Ordinary shares at 31 December 2004 or if later date of appointment
H L Tee	**1,370,857**	**2,590,922**	1,370,857
J Hewitt	**4,232**	**–**	4,232
R Jeens	**10,000**	**–**	10,000
W Whiteley	**–**	**–**	–
R Burton	**3,692**	**–**	3,692
C A Buckley	**–**	**–**	–

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

None of the Directors had or has an interest in any material contract relating to the business of the Company or any of its subsidiary undertakings.

Share price

The share price range for the ordinary shares during the period was a lowest market mid-point of 189p per share and highest market mid-point price of 409p per share. On 31 December 2005 the market mid-point price was 250.5p per share. In November 2005 the Company returned 150p for each ordinary share in issue. The highest mid market price of 409p per share was at a date prior to this return to shareholders.

Service contracts

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

The service contract with Miss C A Buckley, dated 29 September 2005 includes an ongoing terminable period of 12 months if given by the Company and 6 months if given by Miss Buckley.

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

Remuneration policy for Non-Executive Directors

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

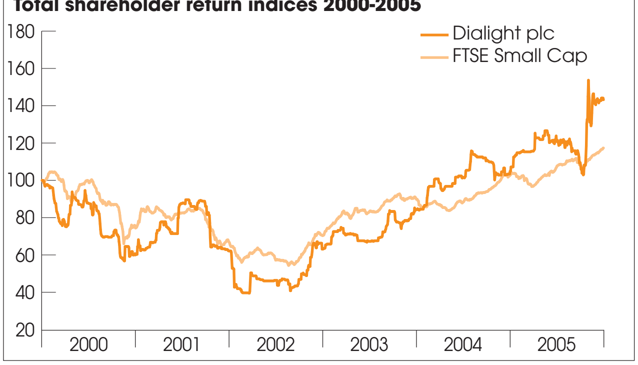
The agreement with Non-Executive Directors is that they have an initial term of 3 years. This may be extended by a further 3 year period by mutual consent of the Director and the Board and thereafter for 1 year periods upon agreement between the Company and the Non-Executive Director. All agreements with the Non-Executive Directors include notice periods of 3 months.

The agreement with Mr Tee is from the AGM in May 2006 he will reduce his time commitment from the current 2 days per week.

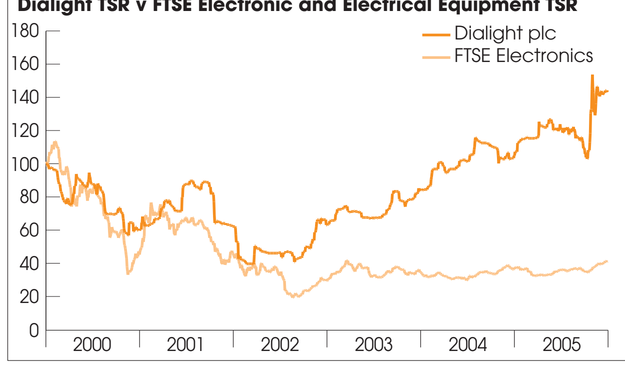
Performance review

The following graphs show the 5 year total shareholder return performance of the Company, compared with the total shareholder return over the same period for the FTSE Small Cap Index and the FTSE Electronics Index. These were selected as they were considered to be a broad representation of Dialight's Peer Group in terms of its size and industry sector.

Total shareholder return indices 2000-2005



Dialight TSR v FTSE Electronic and Electrical Equipment TSR



J Hewitt
Chairman of the Remuneration Committee
On behalf of the Board

13 March 2006

Corporate governance

The Board remains committed to maintaining high standards of corporate governance throughout the Group. The Board is accountable to the Company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance ("Combined Code"). Section 1 of the Combined Code establishes 14 main principles and 21 supporting principles of good governance in 4 areas: Directors; Remuneration of Directors; Accountability and Audit; and Relations with Shareholders. The following sections, together with the Remuneration Report, give details of how the principles of the Combined Code have been applied.

Statement by the Directors on compliance with the provisions of the Combined Code
The Board considers that the Company has been in full compliance with the provisions set out in Section 1 of the Combined Code throughout the year except in the following 3 areas:

As set out in the Circular to Shareholders dated 6 September 2005, Harry Tee, the former Chief Executive of the Group, succeeded Sir Alan Cockshaw, as Chairman on 29 September 2005. The Board considered it essential to have the continuing commitment of Mr Tee to assist the new executive team to continue to add shareholder value through the development of the Group. Mr Tee's long experience in the industry and his new role as Chairman of the Electronics Leadership Council would be of benefit to Dialight plc over the next few years. The Non-Executive Directors are all considered to be independent, J Hewitt has been appointed as Deputy Chairman and there remain clearly defined roles and responsibilities of both the Chairman and Chief Executive.

The Combined Code provides that the Nomination Committee should only comprise independent Non-Executive Directors. The Board does not accept this recommendation as it considers that Harry Tee, as Chairman, should participate in any decisions concerning nominations, due to his experience and knowledge.

During the year the Group implemented a formal whistleblowing policy which contains arrangements for the Senior Independent Director and Chairman of the Audit Committee to receive, in confidence, complaints on accounting risk issues, internal controls, auditing issues and related matters. This arrangement formalised the informal policy which had been in place.

The Directors' statement regarding compliance with requirements relating to internal control are dealt with below.

The workings of the Board and its committees

The Board
The Board comprises the Chairman, who is part-time, 2 Executive Directors and 3 independent Non-Executive Directors. J Hewitt has acted as Senior Independent Director throughout the year and became Deputy Chairman on 29 September 2005. The Board considers that its current composition reflects an appropriate balance of Executive and Non-Executive Directors. The Board is collectively responsible for the performance of the Company. All of the Non-Executive Directors are independent of management and are free from any relationship which could affect the exercise of their independent judgement and therefore meet the criteria set out in the Combined Code. Their biographies appear on pagess 24 and 25. These demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which is vital to the success of the Group. The Board is responsible to shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the accounts is set out on page 36 and a statement on going concern is given on page 27.

The Board had 9 full Board meetings during the year which were attended by all the Directors.

The Board has a formal schedule of matter specifically reserved to it for decision including the approval of annual and interim results, annual budgets, review of Group Strategic Plans, larger capital expenditure and investment proposals and the overall system of internal control and risk management. Other responsibilities are delegated to the Board committees, being the Audit, Remuneration and Nominations committees, which operate within clearly defined terms of reference, and reporting back to the Board. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. In addition, the Company Secretary ensures that the Directors receive appropriate training as necessary.

The Articles of Association require that one-third of the Directors retire by rotation at the Annual General Meeting in each year subject to the requirement that each Director seeks re-election every 3 years.

The Non-executive Directors constructively challenge and assist in developing the strategy of the Group. They scrutinise the performance of management against the Group's objectives and also monitor the reporting of performance.

Until his retirement on 29 September 2005, Sir Alan Cockshaw acted as Chairman and Harry Tee as Chief Executive. The roles were defined to ensure a clear division of responsibilities between the 2 roles. On his retirement Sir Alan was succeeded by Harry Tee who in turn was succeeded as Group Chief Executive by Roy Burton who had been Chief Executive of Dialight division for the previous 3 years.

The Board set out in September that Mr Tee would, for the initial period of his Chairmanship, spend approximately 2 days per week, working with the executive team whom the Board believed would benefit significantly from Mr Tee's knowledge and experience. With effect from the AGM in May 2006, Mr Tee will reduce his time commitment from 2 days per week.

The Board considers that the Non-Executive Directors who are all considered to be independent, provide a solid foundation for good corporate governance for the Group, and ensure that no individual or group dominates the Board's decision making process. In addition there continues to be clearly defined roles for the Chairman and Chief Executive.

The Chairman is responsible for leadership of the Board, ensuring the effectiveness of the Board in all aspects, conducting Board meetings and the effective and timely communication of information to shareholders.

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

Relevant papers are distributed to members in advance of Board and Committee meetings. Directors' knowledge and understanding of the Group is enhanced by visits to the operations and by receiving presentations by senior management on the results and strategies of the business units. In October 2005 the Board meeting was held at the manufacturing site in Mexico when the local management also gave presentations to the Board and arranged a factory visit. Directors may take independent professional advice on any matter at the Company's expense if they deem it necessary in order to carry out their responsibilities. The Company has continued to secure appropriate insurance cover for Directors and officers.

The Chairman also holds meetings with the Non-Executive Directors, without the presence of the Executive Directors, to discuss any issues affecting the Group.

The following committees deal with the specific aspects of the Group's affairs.

Nomination Committee

The Nomination Committee comprises the Chairman and the Non-Executive Directors. Sir Alan Cockshaw ceased to be a member on 29 September at which date Mr Tee joined the Committee. The Committee is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. In appropriate cases, recruitment consultants are used to assist the process. All Directors are subject to election by shareholders at the first Annual General Meeting following their appointment and to re-election thereafter at intervals of no more than 3 years. Non-executive Directors are appointed for an initial 3 year term. The committee is also involved in the selection and recruitment of Managing Directors of the operations. The Nominations Committee met 4 times during the year and each meeting was fully attended by all of the members. Terms of reference of the Committee are available on the Company's website at www.dialight.com.

Remuneration Committee

The Group's Remuneration Committee was chaired by J Hewitt throughout the year with the other members being the independent Non-Executive Directors, R Jeens and W Whiteley. Sir Alan Cockshaw retired as a member on 29 September 2005 when he was succeeded by Mr Tee who is not a member of the Remuneration Committee but is consulted by the Committee when it is considered relevant as is the Group Chief Executive. The Committee is responsible for making recommendations to the Board, within agreed Terms of Reference, on the Company's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance-related bonus schemes, pension rights and compensation payments. The Remuneration Committee met 7 times during the year and each meeting was fully attended by all the members.

The Board itself determines the remuneration of the Non-Executive Directors. The Committee calls for advice by leading firms of remuneration consultants as they consider appropriate.

Further details of the Company's policies on remuneration and service contracts are given in the Board Report on Directors' Remuneration on pages 28 to 31.

A copy of the Terms of Reference for the Remuneration Committee can be found on the Company's website at www.dialight.com.

Audit Committee

The Audit Committee, which is chaired by R Jeens, comprises the Non-Executive Directors and meets not less than twice annually and more frequently if required. Sir Alan Cockshaw retired as a member of the Committee on 29 September 2005.

The Board considers that each of the members of the Audit Committee has recent and relevant financial experience, and an understanding of accounting and financial issues relevant to the industries in which Dialight operates. The Committee provides a forum for reporting by the Group's external auditors. Meetings are also attended by invitation to the Chairman and Executive Directors. The Audit Committee met 3 times during the year and each meeting was attended by all of the members.

The Audit Committee is responsible for reviewing a wide range of matters including the half-year and annual accounts before their submission to the Board, and monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The Audit Committee makes recommendations to the Board on the appointment and responsibilities of external auditors and on their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with external auditors.

The Audit Committee is responsible for monitoring risk management and internal control processes which include overseeing the internal audit function for which an independent firm is used. The primary function of the internal audit is to review the systems and controls for financial reporting. The Audit Committee receives copies of the reports prepared by the internal audit firm and Group personnel for any internal control review visits they may perform. The internal audit firm will attend the Audit Committee as requested to report directly on any significant findings.

Corporate governance continued

The Committee is also responsible for monitoring the cost effectiveness, independence and objectivity of KPMG Audit Plc, the external auditor, and agreeing the level of remuneration and extent of non-audit services. The scope of the external audit for each business, together with the audit fees were presented by KPMG Audit Plc at the December 2005 Committee meeting. Both the audit scope and related fees were approved at the meeting. The Chairman and Executive Directors attended the meeting by invitation.

Non-audit work is subject to approval by the Audit Committee if it is above £20,000, to ensure that the auditor's independence is not compromised. All fees for non-audit work are subject to the agreement of the Group Finance Director. The approach of the Group over the past few years has been to use the Group's auditors for tax work if they are considered to be best suited to do the work. In the current year the Audit Committee approved the auditors appointment to advise on the Solartron disposals due to their knowledge and understanding of the Group's legal and tax structure. Their advice principally related to taxation and also the capital restructure of the Company's balance sheet and in total accounted for £496,000 of the total non-audit fees paid during the year of £695,000.

The Audit Committee meets with the auditors without management present.

Performance evaluation
In the final quarter of the year the Chairman issued a Board questionnaire to all Board members for the purposes of assessing overall Board performance. The responses from the questionnaires were collated independently and a summary report distributed to all Directors. The Board discussed the summary findings from which a list of actions was agreed.

The Non-Executive Directors held a meeting without the Chairman present to discuss the performance of the Chairman.

The process in 2005 confirmed that all Directors continue to contribute effectively and with proper commitment including of time to their roles.

Relations with shareholders
Communications with shareholders are given high priority. The review of the Chief Executive and Finance Director on pages 4 to 23 includes a detailed review of the business and future developments. There is regular dialogue with institutional shareholders to foster mutual understandings of objectives. Such dialogue is controlled by written guidelines to ensure protection of share price sensitive information that has not already been made available generally to the Company's shareholders. Similar guidelines also apply to communications between the Company and parties such as financial analysts, brokers and the press.

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the Chairman of the Audit, Remuneration and Nomination Committees are available at these meetings to answer questions. Details of resolutions to be proposed at the Annual General Meeting on 9 May 2006 can be found in the Notice of the Meeting on page 77.

Internal control
The Board has overall responsibility for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness in accordance with the guidance set out in "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull Guidance). The Directors have reviewed the effectiveness of the system of internal controls in operation throughout the year. The role of the Group's management is to implement Board policies on risk and control. Internal control systems are designed to meet the particular needs of the business concerned and the risks to which it is exposed and by their nature can provide reasonable but not absolute assurance against material misstatement or loss.

The Group's management operates an ongoing risk management process for identifying, evaluating and managing the significant risks faced by Dialight. The process is reviewed by the Board during the year.

The key procedures, which the Directors have established to review and confirm the effectiveness of the system of internal control, include the following:

- **Management structure** The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Each Executive Director has been given responsibility for specific aspects of the Group's affairs. The Executive Directors together with key senior executives constitute the Executive Committee, which meets regularly, to discuss day-to-day operational matters. The Executive Directors also meet regularly with the Managing Directors of the subsidiary businesses, together with their management teams.
- **Risk assessment** Each business is required to maintain a Risk Register. The Risk Register identifies the key risks facing the business, the probability of those risks occurring, the impact should the risk occur, and the actions being taken to manage those risks to the approved level. Each business must submit the Register to the Board on an annual basis. The risk assessment is performed on a continual basis and reports are submitted to the Board on a periodic basis to update them on progress as appropriate.
- **Corporate accounting and procedures manual** Responsibility levels are communicated throughout the Group as part of the corporate accounting and procedures manual which sets out, inter-alia, the general ethos of the Group, delegation of authority and authorisation levels, segregation of duties and other control procedures together with accounting policies and procedures. The manual is updated regularly.

- **Quality and integrity of personnel** The integrity and competence of personnel is ensured through high recruitment standards and subsequent training courses. High quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated through the corporate accounting and procedures manual.
- **Financial information** Each year the Board approves the annual budget and updated business plan. Key risk areas are identified. Performance is monitored and relevant action taken throughout the year through the monthly reporting to the Board of variances from the budget, updated forecasts for the year together with information on the key risk areas.

  The business produces detailed 5 year business plans which are updated regularly to reflect changing circumstances. The plan will include consideration of the financial projections and the evaluation of business alternatives.

  The Board receives and reviews monthly management accounts together with full year forecasts which are updated monthly. Performance against forecast and budget is closely monitored.
- **Investment appraisal** Capital expenditure and research and development projects are regulated by budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board. Reviews are carried out after the acquisition is complete, and for some projects, during the acquisition period, to monitor expenditure; major overruns are investigated. Due diligence work is carried out if a business is to be acquired.
- **Audit Committee** The Audit Committee monitors, through reports to it by the senior financial personnel and Internal Auditors, the controls which are in force and any perceived gaps in the control environment. The Audit Committee also considers and determines relevant action in respect of any control issues raised by these reports or the external auditors.

The Group does not have an in-house internal audit function, but engages a firm of independent auditors to perform internal audit reviews at each of the main businesses. The programme of visits has continued throughout the year and reports issued to the Audit Committee. The firm of independent auditors does not provide any other services to the Group and their appointment is considered to enhance the monitoring process already in place. In addition internal control visits are made at least once a year to a number of the subsidiaries by senior financial personnel from group companies to review control procedures.

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

Corporate Social Responsibility
The Board considers social and environmental matters and will review any items of significance where appropriate. The Risk Assessment processes in operation are designed to identify any major areas of concern in areas including Health and Safety and environmental issues.

Social policy
Dialight takes its responsibilities to its employees, customers and shareholders seriously but it also recognises its social responsibilities.

Dialight has a policy of not making donations to political groups, parties or individuals, but has a positive policy of supporting worthwhile institutions which benefit either the communities in which it operates or the industry in which it works.

Environmental policy
Dialight recognises its responsibility for the environment in which it operates. The business operations within the Group have a minimal environmental impact. Each business operates within a policy of reducing the environmental effects of its operations and to meet any statutory requirements placed upon it.

Social, ethical and environmental matters
Dialight's industry leadership extends beyond technologically advanced products and solutions, as social, ethical and environmental stewardship help ensure the businesses' success. The Group promotes a safe and equitable work environment, where equal opportunity abounds and employees are provided social benefits beyond insurance against illness and disability. For instance, the Employee Assistance Program, while not mandated by law, provides employees access to confidential counselling services pertaining to a wide range of personal issues and dependencies. A written code of conduct to prevent harassment and workplace violence is in place.

Dialight's manufacturing processes are designed to have minimal environmental impact; procedures are established to reduce, re-use and recycle all materials, including by-products of the manufacturing process. Emissions of gases, chemicals and water are well below government thresholds and, in most cases, undetectable. Dialight actively manages its supply chain and processes to eliminate or reduce the inclusion of hazardous substances in its end product and works to meet and exceed internationally recognised regulations such as RoHS – 2002/95/EC, WEEEE – 2002/96/EC, ELV – 200/53/EC dated 27 June 2002, JGPSSI dated 22 July 2003 and many regulations in discussion worldwide.

Statement of directors' responsibilities in respect of the annual report and accounts and the financial statements

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and have elected to prepare the parent company financial statements in accordance with the UK Accounting Standards.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and parent company financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Independent auditors' report to the members of Dialight plc

We have audited the Group and parent company financial statements ("the financial statements") of Dialight plc for the year ended 31 December 2005 which comprise Group Income Statement, the Group and parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), are set out in the Statement of Directors' Responsibilities on page 36.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRS Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements, and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- The Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended; and
- The Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.
- The parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2005; and
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit plc
Chartered Accountants
Registered Auditor
Birmingham

13 March 2006

Consolidated income statement

For the year ended 31 December 2005

	Notes	2005 Continuing operations £'000	2005 Discontinued operations £'000	2005 Total £'000	2004 Continuing operations £'000	2004 Discontinued operations £'000	2004 Total £'000
Revenue	1	**56,129**	**39,023**	**95,152**	55,268	63,584	118,852
Cost of sales		**(41,432)**	**(24,639)**	**(66,071)**	(39,359)	(39,489)	(78,848)
Gross profit		**14,697**	**14,384**	**29,081**	15,909	24,095	40,004
Distribution expenses		**(4,485)**	**(6,381)**	**(10,866)**	(4,883)	(10,878)	(15,761)
Administrative expenses		**(6,266)**	**(3,637)**	**(9,903)**	(6,571)	(4,957)	(11,528)
Operating profit	1	**3,946**	**4,366**	**8,312**	4,455	8,260	12,715
Financial income	3	**2,201**	**198**	**2,399**	1,388	358	1,746
Financial expense	3	**(1,691)**	**(302)**	**(1,993)**	(1,544)	(391)	(1,935)
Net financing costs	3	**510**	**(104)**	**406**	(156)	(33)	(189)
Profit before tax		**4,456**	**4,262**	**8,718**	4,299	8,227	12,526
Income tax expense	4	**(1,403)**	**(1,339)**	**(2,742)**	(1,588)	(2,702)	(4,290)
Profit after tax but before gain on discontinued operation		**3,053**	**2,923**	**5,976**	2,711	5,525	8,236
Gain on sale of discontinued operations, net of tax	25	**-**	**22,022**	**22,022**	–	–	–
Profit for the year attributable to equity holders of the parent	13	**3,053**	**24,945**	**27,998**	2,711	5,525	8,236
Basic earnings per share	14	**10.1p**	**82.1p**	**92.2p**	9.0p	18.4p	27.4p
Diluted earnings per share	14	**10.1p**	**82.1p**	**92.2p**	8.9p	18.2p	27.1p

Consolidated statement of recognised income and expense

For the year ended 31 December 2005

	2005 £'000	2004 £'000
Exchange difference on translation of foreign operations	**1,100**	(1,077)
Exchange realised on disposal of businesses	**(13)**	–
Actuarial losses on defined benefit pension schemes	**(1,266)**	(1,194)
Tax on items taken directly in equity	**424**	340
Net expense recognised directly in equity	**245**	(1,931)
Profit for the period	**27,998**	8,236
Total recognised income and expense for the period attributable to equity holders of the parent	**28,243**	6,305
Effect of change in accounting policy		
Impact of adoption of IAS 32 and 39 (net of tax) to:		
– retained earnings: Cash flow hedges	**190**	–
– share capital: Reclassification of preference shares	**(2,280)**	
Attributable to members	**(2,090)**	–

Consolidated balance sheet
As at 31 December 2005

	Notes	2005 £'000	2004 £'000
Assets			
Property, plant and equipment	7	**5,983**	11,463
Intangible assets	8	**4,321**	19,254
Deferred tax assets	9	**2,405**	2,619
Total non-current assets		**12,709**	33,336
Inventories	10	**6,742**	15,404
Trade and other receivables	11	**16,685**	25,363
Cash and cash equivalents	12	**9,829**	6,819
Total current assets		**33,256**	47,586
Total assets		**45,965**	80,922
Liabilities			
Current liabilities			
Interest-bearing loans and borrowings	15	**(2,213)**	(51)
Trade and other payables	18	**(7,477)**	(16,644)
Tax liabilities		**(3,364)**	(977)
Total current liabilities		**(13,054)**	(17,672)
Non-current liabilities			
Employee benefits	16	**(3,104)**	(11,030)
Provisions	17	**(890)**	(1,667)
Deferred tax liabilities	9	**(53)**	(66)
Total non-current liabilities		**(4,047)**	(12,763)
Total liabilities		**(17,101)**	(30,435)
Net assets		**28,864**	50,487
Equity			
Issued share capital	13	**587**	2,849
Share premium	13	**–**	6,049
Other reserves	13	**29**	39,295
Retained earnings	13	**28,248**	2,294
Total equity		**28,864**	50,487

R Burton
Group Chief Executive

C A Buckley
Group Finance Director

13 March 2006

Consolidated cash flow statement

For the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
Operating activities			
Profit for the year		**27,998**	8,236
Adjustments for:			
Financial income		**(2,399)**	(1,746)
Financial expense		**1,993**	1,935
Income tax expense		**2,742**	4,290
Gain on disposal of discontinued operations		**(22,022)**	–
Depreciation of property, plant and equipment		**1423**	2,606
Amortisation of intangible assets		**567**	387
Operating cash flow before movements in working capital		**10,302**	15,708
Decrease in inventories		**1,017**	238
Increase in trade and other receivables		**(3,115)**	(1,076)
(Decrease)/Increase in trade and other payables		**(168)**	734
Decrease in pension liabilities		**(418)**	(80)
Cash generated from operations	6	**7,618**	15,524
Income taxes paid on profit on ordinary activities		**(2,777)**	(3,583)
Income tax paid on gain on disposals		**(5,237)**	–
Interest paid		**(1,986)**	(1,935)
Net cash from operating activities		**(2,382)**	10,006
Investing activities			
Interest received		**2,399**	1,746
Disposal of discontinued operations		**65,689**	–
Capital expenditure		**(2,228)**	(1,299)
Expenditure on development		**(1,505)**	(2,129)
Sale of tangible fixed assets		**44**	13
Net cash generated from investing activities		**64,399**	(1,669)
Financing activities			
Dividends paid		**(3,341)**	(3,135)
Proceeds from the issue of shares		**2,089**	74
Transfer to "Restricted Cash"	12	**(4,000)**	–
Special contributions to pension funds		**(7,374)**	–
Preference shares redeemed		**(67)**	(267)
Return to shareholders following disposal of businesses		**(46,524)**	–
Net cash used in financing activities		**(59,217)**	(3,328)
Net increase in cash and cash equivalents		**2,800**	5,009
Cash and cash equivalents at 1 January		**6,768**	1,968
Effect of exchange rates on cash held		**261**	(209)
Cash and cash equivalents at 31 December	12	**9,829**	6,768

Notes to the consolidated financial statements

Significant accounting policies
The consolidated financial statements of the Company for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Group").

(a) Statement of compliance
The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to present its parent company financial statements in accordance with UK GAAP. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group is set out in note 28 to the accounts.

In preparing these Financial Statements, the Group has applied the mandatory exemptions and certain of the optional exemptions from full retrospective application of Adopted IFRS.

- Business combinations – Business combinations that took place prior to 1 January 2004 have not been restated.
- Employee benefits – All cumulative actuarial gains and losses on defined benefit plans have been recognised in equity at 1 January 2004.
- Cumulative translation differences – Cumulative translation differences for all foreign operations have been set to zero at 1 January 2004.
- IFRS 2 is only applied to share awards made after 7 November 2002 that have not vested at 1 January 2005.

In addition the Group has chosen to adopt the exemption delaying the implementation of IAS 32 Financial Instruments: Disclosure and Presentation, and IAS 39 Financial Instruments: Recognition and Measurement. The standard requires derivatives which are held off balance sheet to be recognised in the balance sheet in full at fair value. In accordance with IFRS 1 the implementation has been applied first in the year ended 31 December 2005.

IAS 19 (Revised) has been adopted in advance of the effective date of 1 January 2006.

The following Adopted IFRS was available for early application but has not been applied by the Group in these financial statements:

- IFRS 7 Financial instruments: Disclosure applicable for years commencing on or after 1 January 2007. The application of IFRS 7 in 2005 would not have affected the balance sheet or income statement as the standard is concerned only with disclosure.

(b) Basis of preparation
The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments which have been accounted for in accordance with IAS 32 and IAS 39 from 1 January 2005.

(c) Basis of consolidation
Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(d) 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. Exchange differences from 1 January 2004 arising are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as local currency assets and liabilities of the foreign entity and are translated at the closing rate.

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 assets and liabilities denominated in foreign currencies are recognised in the income statement.

In order to hedge its exposure to certain foreign exchange risks the Group enters into forward contracts (see below (e) for details of the Group's accounting policies in respect of such derivative financial instruments).

(e) Cash flow hedges
Derivative Financial instruments are recorded initially at fair value if any, and are re-measured to fair value at subsequent reporting dates.

The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity. Any ineffective portion is recognised immediately in the income statement. If the cash flow hedge is a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then at the time the asset or liability is recognised, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods which the hedged forecast transaction affects profit or loss.

Significant accounting policies continued

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. When the hedged item occurs or is no longer expected to occur any cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

The fair value of the derivative financial instruments are determined based on market forward interest and exchange rates at the balance sheet date.

The Group has chosen to adopt the IFRS 1 exemption delaying the implementation of IAS 32, Financial Instruments: Disclosure and Presentation; and IAS 39, Financial Instruments: Recognition and Measurement to 1 January 2005. The impact of the adoption on the balance sheet at 1 January 2005 is set out in Note 13.

The comparative information for 2004 has been prepared using UK GAAP as follows:

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account.

(f) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation.

(g) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

- Buildings 16-50 years.
- Plant and equipment 3-10 years.
- Tooling 2-4 years.
- Fixture and fittings 5-10 years.

(h) Goodwill

Business combinations are accounted for by applying the purchase method. In respect of business acquisitions that have occurred before 1 January 2003 goodwill represents the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with IFRS 3 and is recognised as an asset. Where this excess is negative it is recognised directly in the income statement. In respect of acquisitions prior to 1 January 2003, goodwill is included on the basis of its deemed cost which represents the amounts recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred to 1 January 2003 has not been reconsidered in preparing the Group's opening balance sheet at 1 January 2004.

After the initial recognition, goodwill is measured at cost less any accumulated impairment losses until disposal or termination of the previously acquired business when the profit or loss on disposal or termination will be calculated after charging the gross amount at current exchange rates, of any such goodwill through the income statement. Goodwill is allocated to the cash generating units and is tested at least annually for impairment. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(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.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible, and the Group has sufficient resources to complete the development. The expenditure capitalised includes direct cost of material, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill is systematically tested for impairment at each balance sheet. The estimated useful lives of the current development cost projects are between 3 and 5 years.

(j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their location and condition at the balance sheet date. Items are valued using the first in, first out method. When inventories are used, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. Provision for write-down to net realisable value and losses of inventories are recognised as an expense in the period in which the write-down or loss occurs.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Notes to the consolidated financial statements continued

Significant accounting policies continued

(l) Share capital

(i) Preference share capital
Preference share capital is classified as a liability if it is redeemable on a specific date or if dividends are not discretionary. Dividends thereon are recognised in the income statement as an interest expense.

(ii) Dividends
Dividends on preference shares are recognised as a liability and expressed on an accrual basis. Other dividends are recognised as a liability in the period in which they are declared.

(m) Employee benefits

(i) Defined contribution plans
Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

(ii) Defined benefit plans
The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AAA credit rated bonds that have maturity dates approximating to the Group's obligations. The calculation is performed by an independent qualified actuary using the projected unit method.

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

All actuarial gains and losses as at 1 January 2004, the date of transition to IFRSs, were recognised. In respect of actuarial gains and losses that arise subsequent to 1 January 2004, the Group recognises them in the period they occur directly into equity through the statement of recognised income and expense

Where the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(iii) Share-based payment transactions
The Performance Share Plan allows Group employees to acquire shares of the Company. The fair value of the award granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the performance period during which the employees become unconditionally entitled to the award.

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

(n) Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(i) Warranties
A provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

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

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

(p) Trade and other payables
Trade and other payables are stated at amortised cost.

(q) Revenue recognition
Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyers.

(r) Expenses

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

(ii) Net financing costs
Net financing costs comprise interest receivable, interest payable, borrowings, interest on pension assets and liabilities, dividends on redeemable preference shares, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

Significant accounting policies continued

(s) Income tax

Income tax expense represents the sum of the current tax payable and deferred tax. The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases, used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated using tax rates that are enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to profit and loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or in providing products in a particular economic environment which is subject to risks and rewards that are different from those of the other segments.

1. Segment reporting

The primary format used for segmental reporting is by business segment as this reflects the internal management structure and reporting of the Group. Intra group trading is determined as an arm's length basis.

Business segments

The Group comprises the following business segments:

- Components comprising the indication businesses and the electromagnetic components.
- Signals/Illumination which includes Traffic and Rail Signals, Obstruction Lights and Solid State Lighting products.

The business segment, Solartron, was sold during 2005 (see Note 25) and is shown as discontinued operations below.

All revenue relates to the sale of goods. The 2004 segment results and assets and liability allocations have been restated for the continuing operations between Components and Signals/Illumination to reflect the reporting structure of the Group going forward. The contribution shown below for the continuing operations represents sales less direct costs incurred by each business segment.

Business segments

2005	**Components £'000**	**Signals/ Illumination £'000**	**Discontinued operations £'000**	**Total £'000**
Revenue	**26,564**	**29,565**	**39,023**	**95,152**
Contribution	**13,313**	**9,902**	**4,366**	**27,581**
Unallocated expenses from continuing operations				**(19,269)**
Operating profit from continuing operations				**3,946**
Operating profit from discontinued operations				**4,366**
Operating profit				**8,312**
Net financing income				**406**
Profit before tax and sale of discontinued operations				**8,718**

2004	Components £'000	Signals/ Illumination £'000	Discontinued operations £'000	Total £'000
Revenue	27,236	28,032	63,584	118,852
Contribution	14,717	9,227	8,260	32,204
Unallocated expenses from continuing operations				(19,489)
Operating profit from continuing operations				4,455
Operating profit from discontinued operations				8,260
Operating profit				12,715
Net financing costs				(189)
Profit before tax				12,526

Notes to the consolidated financial statements continued

1. Segment reporting continued

Other information	Components £'000	Signals/ Illumination £'000	Discontinued operations £'000	2005 Total £'000
Capital Additions	**458**	**839**	**931**	**2,228**
Depreciation and amortisation	**941**	**1,017**	**32**	**1,990**

Other information	Components £'000	Signals/ Illumination £'000	Discontinued operations £'000	2004 Total £'000
Capital Additions	318	331	650	1,299
Depreciation and amortisation	812	882	1,299	2,993

Balance sheet – assets	Components £'000	Signals/ Illumination £'000	2005 Total £'000
Segment assets	**11,937**	**17,376**	**29,313**
Unallocated assets			**16,652**
Consolidated total assets			**45,965**

Balance sheet – liabilities	Components £'000	Signals/ Illumination £'000	2005 Total £'000
Segment liabilities	**(2,892)**	**(4,307)**	**(7,199)**
Unallocated liabilities			**(9,902)**
Consolidated total liabilities			**(17,101)**

Balance sheet – assets	Components £'000	Signals/ Illumination £'000	Discontinued operations £'000	2004 Total £'000
Segment assets	13,195	15,404	45,950	74,549
Unallocated assets				6,373
Consolidated total assets				80,922

Balance sheet – liabilities	Components £'000	Signals/ Illumination £'000	Discontinued operations £'000	2004 Total £'000
Segment liabilities	(8,359)	(3,103)	(14,080)	(25,542)
Unallocated liabilities				(4,893)
Consolidated total liabilities				(30,435)

Geographical segments

The Components and Signals/Illumination segments are managed on a worldwide basis, but operate in 3 principal geographic areas, being UK, Europe and North America. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods. All revenue relates to the sale of goods.

Sales revenue by geographical market

	Continuing operations		Discontinued operations		Total	
	2005 £'000	2004 £'000	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000
North America	**35,201**	35,653	**7,630**	10,308	**42,831**	45,961
UK	**7,523**	6,449	**8,276**	16,558	**15,799**	23,007
Rest of Europe	**7,435**	6,376	**13,242**	23,074	**20,677**	29,450
Rest of world	**5,970**	6,790	**9,875**	13,644	**15,845**	20,434
	56,129	55,268	**39,023**	63,584	**95,152**	118,852

	Segmental assets		Capital expenditure	
Continuing operations	**2005 £'000**	2004 £'000	**2005 £'000**	2004 £'000
North America	**23,996**	20,986	**1,016**	470
UK	**15,412**	7,986	**198**	87
Rest of Europe	**6,557**	6,000	**83**	102
	45,965	34,972	**1,297**	659

2 Personnel expenses

	2005 £'000	2004 £'000
Wages and salaries	**22,882**	30,226
Social security contributions	**2,385**	3,226
Contributions to defined contribution plans	**865**	1,046
Total charge for defined benefit plans	**990**	605
	27,122	35,103

The average number of employees by geographical location was:

	2005 Number	2004 Number
UK	**468**	656
USA and Mexico	**652**	627
Rest of the world	**109**	173
	1,229	1,456

At 31 December 2005 the total number of employees across the Group was 866.

3. Net financing costs

	2005 £'000	2004 £'000
Interest income	**717**	5
Expected return on assets in the defined benefit pension schemes	**1,682**	1,741
	2,399	1,746
Interest expense	**(75)**	–
Net foreign exchange losses	**(47)**	–
Interest charge on pension scheme liabilities	**(1,871)**	(1,935)
	(1,993)	(1,935)
Net finance cost	**406**	(189)

4. Income tax expense

Recognised in the income statement

	2005 £'000	2004 £'000
Current tax expense		
Current year	**2,335**	3,678
Adjustment for prior years	**(308)**	(360)
	2,027	3,318
Deferred tax expense		
Origination and reversal of temporary differences	**616**	765
Adjustment for prior years	**99**	207
Total income tax expense in income statement	**2,742**	4,290

Reconciliation of effective tax rate:

	2005 %	2005 £'000	2004 %	2004 £'000
Profit after gain on disposal before tax		**39,702**		12,526
Gain on disposals		**(30,984)**		–
Profit before tax		**8,718**		12,526
Income tax using the UK corporation tax rate of 30%	**30.0**	**2,615**	30.0	3,758
Effect of tax rates in foreign jurisdictions	**4.1**	**354**	2.1	263
Non-deductible expenses	**0.4**	**40**	0.7	88
Unrecognised losses	**3.5**	**302**	2.6	334
Deduction for gain on share options	**(4.1)**	**(360)**	–	–
Over provision in prior years	**(2.4)**	**(209)**	(1.2)	(153)
	31.5	**2,742**	34.2	4,290

Deferred tax recognised directly in equity

	2005 £'000	2004 £'000
Relating to pension accounting	**424**	340

Notes to the consolidated financial statements continued

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

Research and development	Continuing operations 2005 £'000	Continuing operations 2004 £'000	Discontinued operations 2005 £'000	Discontinued operations 2004 £'000	Total 2005 £'000	Total 2004 £'000
Expensed as incurred	**2,051**	2,288	**1,786**	2,439	**3,837**	4,727
Amortisation charge	**360**	80	**32**	63	**392**	143
	2,411	2,368	**1,818**	2,502	**4,229**	4,870
Depreciation of fixed assets	**1,423**	1,436	**–**	1,170	**1,423**	2,606

Total auditors remuneration in the year is £833,000 (2004: £684,000).

The audit and non-audit fees are analysed as follows:

	2005 £'000	2004 £'000
Group audit fee	**138**	218
Non-audit fees:		
Taxation	**85**	103
Pension advisory	**15**	15
Advisory re strategic tax planning	**0**	269
Advice given to pension schemes and not recharged to the schemes	**73**	79
Advisory re Mobrey and Solartron disposals and capital restructuring*	**496**	–
Other	**3**	–
Other advisory re IFRS adoption	**23**	–
	695	466

*Charged against the gain on sale of discontinued operations.

6. Operating cash flow – continuing operations
Cash generated from the Group's continuing operations:

	2005 £'000
Operating profit	**3,946**
Depreciation and other amortisation	**1,790**
Decrease in inventories	**1,649**
Increase in trade and other receivables	**(2,378)**
Increase in trade and other payables	**331**
Cash generated before payment to pension funds	**5,338**
Decrease in pension liabilities	**(418)**
Cash generated from continuing operations	**4,920**
Cash generated from discontinuing operations	**2,698**
Cash generated from operations	**7,618**

7. Property, plant and equipment

	Freehold land and buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost			
At 1 January 2004	6,768	35,149	41,917
Exchange adjustments	(113)	(1,017)	(1,130)
Additions	2	1,297	1,299
Disposals	–	(2,336)	(2,336)
At 31 December 2004	**6,657**	**33,093**	**39,750**
At 1 January 2005	6,657	33,093	39,750
Exchange adjustments	155	1,633	1,788
Additions	4	2,224	2,228
Disposals	(15)	(385)	(400)
Disposal of businesses	–	(16,432)	(16,432)
At 31 December 2005	**6,801**	**20,133**	**26,934**
Accumulated depreciation			
At 1 January 2004	(2,358)	(26,459)	(28,817)
Exchange adjustments	88	798	886
Charge for the year	(181)	(2,425)	(2,606)
Disposals	–	2,250	2,250
At 31 December 2004	**(2,451)**	**(25,836)**	**(28,287)**
At 1 January 2005	(2,451)	(25,836)	(28,287)
Exchange adjustments	(145)	(1,339)	(1,484)
Charge for the year	(163)	(1,260)	(1,423)
Disposals	10	341	351
Disposal of businesses	–	9,892	9,892
At 31 December 2005	**(2,749)**	**(18,202)**	**(20,951)**
Carrying amount			
At 31 December 2005	**4,052**	**1,931**	**5,983**
At 31 December 2004	4,206	7,257	11,463
At 1 January 2004	4,410	8,690	13,100

8. Intangible assets

	Concessions, patents, licences and trademarks £'000	Goodwill £'000	Development costs £'000	Total £'000
Costs				
Balance at 1 January 2004	573	15,541	1,642	17,756
Other acquisitions – internally developed	–	–	2,130	2,130
Exchange difference	–	14	–	14
Balance at 31 December 2004	573	15,555	3,772	19,900
Balance at 1 January 2005	573	15,555	3,772	19,900
Other acquisitions – internally developed	–	–	1,505	1,505
Disposal of businesses	–	(12,165)	(3,807)	(15,972)
Exchange difference	–	(99)	–	(99)
Balance at 31 December 2005	**573**	**3,291**	**1,470**	**5,334**
Amortisation and impairment losses				
Balance at 1 January 2004	(207)	–	(105)	(312)
Amortisation for the period	(191)	–	(143)	(334)
Balance at 31 December 2004	**(398)**	**-**	**(248)**	**(646)**
Balance at 1 January 2005	(398)	–	(248)	(646)
Amortisation for the period	(175)	–	(392)	(567)
Disposal of businesses	–	–	200	200
Balance at 31 December 2005	**(573)**	**-**	**(440)**	**(1,013)**
Carrying amounts at 31 December 2005	**-**	**3,291**	**1,030**	**4,321**
At 31 December 2004	175	15,555	3,524	19,254
At 1 January 2004	350	15,541	1,537	17,428

Notes to the consolidated financial statements continued

8. Intangible assets continued

Goodwill acquired in a business combination is allocated at acquisition to the cash generating unit (CGUs) that is expected to benefit from the business combination. The carrying amount of the goodwill had been allocated as follows:

	2005 £'000	2004 £'000
Signals/Illumination	**3,291**	3,390
Discontinued businesses	**–**	12,165
	3,291	15,555

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts in the CGU's are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and growth rates. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and any risk specific to the CGU. The growth rates are based on management view of growth in the emerging market supported by industry projections. The Group prepares cash flow forecasts derived from the most recent budget and three year business plan and extrapolates cash flows based on an estimated growth rate of 5%. Any adverse change in this assumption could reduce the recoverable amount below carrying amount. The rate used to discount the forecast cash flow for Signals/Illumination is 13%.

9. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Property, plant and equipment	**–**	–	**(214)**	(477)	**(214)**	(477)
Intangible assets	**–**	–	**(347)**	(1,073)	**(347)**	(1,073)
Employee benefits	**2,399**	3,243	**–**	–	**2,399**	3,243
Provisions	**764**	1,450	**–**	–	**764**	1,450
Other items	**–**	–	**(250)**	(590)	**(250)**	(590)
Tax assets/(liabilities)	**3,163**	4,693	**(811)**	(2,140)	**2,352**	2,553
Set off of tax	**(758)**	(2,074)	**758**	2,074	**–**	–
Net tax assets/(liabilities)	**2,405**	2,619	**(53)**	(66)	**2,352**	2,553

Deferred tax assets have not been recognised in respect of tax losses of £62,000 (2004: £62,000) as the utilisation of the losses against future profits will be subject to agreements by the Tax Authorities.

Movement in temporary differences during the year

	Property, plant and equipment £'000	Intangible assets £'000	Employee benefits £'000	Other short-term timing differences £'000	Total £'000
Balance at 1 January 2004	(506)	(460)	3,624	828	3,486
Recognised in income	7	(613)	(449)	83	(972)
Exchange	22	–	(272)	(51)	(301)
Recognised in equity	–	–	340	–	340
Balance at 31 December 2004	**(477)**	**(1,073)**	**3,243**	**860**	**2,553**
Balance at 1 January 2005	(477)	(1,073)	3,243	860	2,553
Recognised in income	56	(356)	(280)	(135)	(715)
Exchange	(39)	–	80	78	119
Recognised in equity	–	–	424	–	424
Other movements	–	–	(592)	305	(287)
Disposal of businesses	247	1,082	(476)	(595)	258
Balance at 31 December 2005	**(213)**	**(347)**	**2,399**	**513**	**2,352**

10. Inventories

	2005 £'000	2004 £'000
Raw materials and consumables	**3,906**	9,271
Work in progress	**1,180**	2,695
Finished goods	**1,656**	3,438
	6,742	15,404

Inventories to the value of £40,865,000 (2004: £45,808,000) were recognised as expenses in the year.

11. Trade and other receivables

	2005 £'000	2004 £'000
Trade receivables	**11,303**	22,142
Other non-trade receivables	**1,034**	1,917
Prepayments and accrued income	**348**	1,304
Restricted cash (see Note 12)	**4,000**	–
	16,685	25,363

12. Cash and cash equivalents

	2005 £'000	2004 £'000
Total Bank balances	**13,829**	6,819
Less: Restricted cash (see Note 11)	**(4,000)**	–
Cash and cash equivalents	**9,829**	6,819

As part of the Capital Reduction approval the Court required certain cash to be set aside into a separate bank account "Creditors Account" for the protection of actual, prospective or contingent liabilities of the Company.

As at 31 December 2005 the balance on the Creditors Account was £4,000,000. This "Restricted Cash" is required principally to pay the outstanding tax due from the 2005 disposal of businesses and is included in Trade and other receivables (see Note 11).

13. Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £'000	Share premium £'000	Translation reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2005	2,849	6,049	(1,077)	40,372	2,294	50,487
Impact of adoption of IAS 32 and IAS 39	(2,280)	–	–	–	190	(2,090)
At 1 January as restated	569	6,049	(1,077)	40,372	2,484	48,397
Profit for the period attributable to equity holders of the Company	–	–	–	–	27,998	27,998
Net expense recognised directly in equity (See Statement of Recognised income and expense)	–	–	1,087	–	(842)	245
Dividends to shareholders	–	–	–	–	(3,341)	(3,341)
Capital reorganisation	31,137	(8,120)	–	(40,420)	17,403	–
Capital reduction	(31,137)	–	–	–	4,463	(26,674)
Special dividend to shareholders	–	–	–	–	(19,850)	(19,850)
Transfer to capital redemption	–	–	–	67	(67)	–
Share options exercised	18	2,071	–	–	–	2,089
Balance at 31 December 2005	**587**	**–**	**10**	**19**	**28,248**	**28,864**
At 1 January 2004	3,115	5,976	–	40,104	(1,642)	47,553
Profit for the period attributable to equity holders of the Company	–	–	–	–	8,236	8,236
Net expense recognised directly in equity (See Statement of Recognised income and Expense)	–	–	(1,077)	–	(854)	(1,931)
New share issue	2	73	–	–	–	75
Transfer to capital redemption reserve	(268)	–	–	268	(268)	(268)
Dividends to shareholders	–	–	–	–	(3,178)	(3,178)
Balance at 31 December 2004	2,849	6,049	(1,077)	40,372	2,294	50,487

On 26 October 2005 the Company's entire share premium account and other reserves were capitalised to create one C share for each issued ordinary share. On 26 October 2005 31,015,923 C shares were issued having a nominal value of 100.39p per share.

On 27 October 2005 the authorised share capital of Dialight plc was by virtue of a special resolution and with the sanction of an order of the High Court of Justice dated 26 October 2005 reduced from £34,413,758 divided into 38,624,400 ordinary shares of 1.89p each, 3,395,829 redeemable Preference B shares of 75p each and 31,015,923 C shares of 100.39p each to £3,276,923 divided into 38,624,400 ordinary shares of 1.89 each and 3,395,829 redeemable Preference B shares of 75p each.

The effect of the Capital reorganisation was a return to shareholders of 86p in cash in respect of the cancellation of each C share, giving a total cash return of £26,673,693.

In addition shareholders received a special dividend of 64p for each ordinary share held totalling £19,850,190. This special dividend together with the return from the cancellation of C shares gave a total return to shareholders of £46,524,000.

Notes to the consolidated financial statements continued

13. Capital and reserves continued
Called up share capital

	2005 Number	2005 £'000	2004 Number	2004 £'000
Authorised ordinary shares of 1.89p each	**38,624,000**	**730**	38,624,000	730
Issued and fully paid ordinary shares of 1.89p each	**31,015,923**	**587**	30,102,090	569

The Company has 2,950,526 redeemable Preference shares ("B Shares") in issue (2004: 3,039,521). Each B share has a nominal value of 75p. The holders of B shares are not entitled to receive notification of any general meeting of the Company, or to attend, speak or vote at any such general meeting unless the business of the meeting includes the consideration of a resolution for the winding up of the Company, in which case the holders of the B shares shall have the right to attend the general meeting and shall be entitled to speak and vote only on any such resolution. B shares carry the right to a dividend paid at a rate of 70% of six month LIBOR, in arrears on a semi-annual basis. The shares may be redeemed at six monthly intervals on every 30 June and 31 December. Unless redeemed earlier the Company will redeem the outstanding B shares on 31 December 2008.

As at 31 December 2005 the authorised share capital for the redeemable Preference shares was 3,395,829 (2004: 3,395,829).

	Ordinary shares		Redeemable "B" Preference shares		C Shares	
Issued share capital	2005 Number	2004 Number	2005 Number	2004 Number	2005 Number	2004 Number
On issue at 1 January	**30,102,090**	30,072,090	**3,039,521**	3,395,829	**-**	–
Issued for cash	**913,833**	30,000	**-**	–	**-**	–
Shares redeemed	**-**	–	**(88,995)**	(356,308)	**-**	–
Shares created from reserves	**-**	–	**-**	–	**31,015,923**	–
Shares cancelled	**-**	–	**-**	–	**(31,015,923)**	–
Issued and fully paid at 31 December	**31,015,923**	30,102,090	**2,950,526**	3,039,521	**-**	–

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

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

Final proposed dividend	2005 £'000	2004 £'000
3.0p per ordinary share (2004: 7.6p)	**937**	2,288

During the year the following dividends were paid:

	2005 £'000	2004 £'000
Interim-3.4p per ordinary share (2004: 3.4p)	**1,053**	1,023
2004 Final-7.6p per ordinary share (2003:6.9p)	**2,288**	2,075
	3,341	3,098

14. Earnings per share
Basic earnings per share
The calculation of basic earnings per share at 31 December 2005 was based on the profit for the year of £27,998,000 (2004: £8,236,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 30,369,000 (2004: 30,091,000).

Diluted earnings per share
The calculation of diluted earnings per share at 31 December 2005 was based on profit for the year of £27,998,000 (2004: £8,236,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 30,371,000 (2004: 30,339,000) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2005 £'000	2004 £'000
Weighted average number of ordinary shares	**30,369**	9.0
Effect of share options on issue	**2**	18.4
Weighted average number of ordinary shares (diluted)	**30,371**	27.4

14. Earnings per share continued
Earnings per share for continuing and discontinued operations

	2005 Pence	2004 Pence
Continuing operations	**10.1**	9.0
Discontinued operations	**9.6**	18.4
Gain (net of tax) from the disposal of operations	**72.5**	–
	92.2	27.4

Earnings per share for continuing and discontinued operations has been calculated using the same figures as the basic earnings per share except that the profit for the period used in the calculation is the profit relating to continuing operations of £3,053,000 (2004: £2,711,000) and the one relating to discontinued operations of £2,923,000 (2004: £5,525,000). The calculation of the earnings per share from the gain of discontinued operations is calculated using the weighted average number of shares shown above and the gain after tax on the disposals of £22,022,000 (2004: £nil).

15. Interest-bearing loans and borrowings
Redeemable preference B shares
In 2003 the Group issued 56,800,170 redeemable preference B shares of which 53,849,644 shares had been redeemed at 31 December 2005. At 31 December 2004 there were 2,950,526 B shares outstanding (£2,213,000). The shares had been redeemed at six monthly intervals on every 30 June and 31 December. Unless redeemed earlier the Company will redeem the outstanding shares on 31 December 2008. The Company has the option to compulsorily redeem the outstanding B shares at any time.

The B shares earn the right to a dividend paid at the rate of 70% of six month LIBOR in arrears on a semi-annual basis. B shares "rights" are described in Note 13.

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

	2005 £'000	2004 £'000
Interim	**39**	43
Final	**36**	37
	75	80

16. Employee benefits

Recognised liability for defined benefit obligations

	2005 £'000	2004 £'000
Present value of liabilities	**32,464**	38,682
Fair value of plan assets	**(29,360)**	(27,652)
Recognised liability for defined benefit obligations	**3,104**	11,030

Defined benefit pension obligations
The Group makes contributions to three defined benefit plans to provide benefits for employees upon retirement. All three plans are closed to new members. A fourth defined benefit plan was transferred with the sale of the Mobrey business (see Note 25).

Movements in fair value of defined benefit obligations

	2005 £'000	2004 £'000
Liabilities at 1 January	**38,682**	36,184
Current service cost	**497**	778
Employee element of service cost	**133**	232
Interest cost	**1,871**	1,935
Benefits paid	**(1,415)**	(1,497)
Actuarial loss	**3,283**	2,054
Liabilities extinguished on settlements	**(11,961)**	(173)
Currency losses/(gains)	**1,374**	(831)
Liabilities at 31 December	**32,464**	38,682

16. Employee benefits continued

Movements in the present value of scheme assets

	2005 £'000	2004 £'000
Assets at 1 January	**27,652**	25,074
Expected return on scheme assets	**1,682**	1,741
Employer contributions	**9,084**	1,857
Member contributions	**133**	232
Benefit paid	**(1,415)**	(1,497)
Actuarial gains	**2,017**	860
Assets distributed on settlement	**(10,870)**	–
Currency gains/(losses)	**1,077**	(615)
Assets at 31 December	**29,360**	27,652

Expense recognised in the income statement

	2005 £'000	2004 £'000
Current service costs	**497**	778
Interest on obligation	**1,871**	1,935
Expected return on plan assets	**(1,682)**	(1,741)
Settlement gain	**(1,092)**	(173)
	(406)	799

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

	2005 £'000	2004 £'000
Cost of sales	**227**	392
Distribution costs	**63**	106
Administrative expenses	**700**	107
Net financing income	**189**	194
Profit on sale of discontinued operations	**(1,585)**	–
	(406)	799
Actuarial gain on plan assets	**2,017**	860
Actuarial loss from liabilities	**(3,283)**	(2,054)
Currency (losses)/gains	**(297)**	216
Net actuarial loss recognised in Consolidated Statement of Recognised Income and Expense	**(1,563)**	(978)
Cumulative actuarial loss recognised in Consolidated Statement of Recognised Income and Expense	**(1,563)**	(978)

	2005 £'000	2004 £'000
Defined benefit obligation	**(32,464)**	(38,682)
Scheme assets	**29,360**	27,652
Deficit	**(3,104)**	(11,030)
Experience adjustments on liabilities	**(3,283)**	(2,054)
Experience adjustments on assets	**2,017**	860
Experience adjustments on currency	**(297)**	216

Liability for defined benefit obligations

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

	UK Schemes (% per annum)			US Scheme (% per annum)		
	2005	2004	2003	**2005**	2004	2003
Discount rate at 31 December	**4.75**	5.25	5.3	**5.5**	5.75	6.0
Future salary increases	**3.5**	3.5	3.5	**N/a**	n/a	3.25
Future pension increases	**3.0**	2.9	2.75	**–**	–	–
Inflation	**3.0**	2.9	2.75	**N/a**	n/a	2.0

The expected rates of return were:

	UK Schemes (% per annum)			US Scheme (% per annum)		
	2005	2004	2003	**2005**	2004	2003
Equities	**6.5**	6.5	6.5	**7.5**	8.0	8.0
Bonds	**4.5**	5.0	5.3	**4.75**	4.75	6.5
Property	**6.5**	6.5	6.5	**n/a**	n/a	n/a
Cash	**4.1**	4.5	4.0	**n/a**	n/a	n/a

16. Employee benefits continued

Share-based payments

In September 2005 the shareholders approved the Performance Share Plan.

No awards have been made to date under the Plan, details of which are included in the Report of the Remuneration Committee.

Additionally 2 Executive Share Options Schemes made grants of options before 7 November 2002. The recognition and measurement principles in IFRS 2 have not been adopted to these grants in accordance with the transitional provisions in IFRS 1 and IFRS 2.

The Executive Share Option Schemes in operation through the year were:

	Roxboro No. 1 Executive Share Option Scheme		Roxboro No. 3 Executive Share Option Scheme	
	Shares	Pence per share	Shares	Pence per share
Options granted in previous years	–		402,500	246
	5,000	233	203,833	251
	–		325,000	194
Options granted at 1 January 2005	5,000		931,333	
Options lapsed during year			(15,000)	246
Options exercised during year			(203,833)	251
Options exercised during year			(380,000)	246
Options exercised during year	(5,000)	(233)	(325,000)	194
At 31 December 2005	**–**		**7,500**	

Exercise dates	Between 1 November 1996 and 14 November 2006	Between 21 September 2002 and 14 September 2011

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price Pence 2005	Number of options 2005	Weighted average exercise price Pence 2004	Number of options 2004
Outstanding at the beginning of the year	229	936,333	238	1,399,260
Forfeited during the year	246	(15,000)	256	(43,292)
Exercised during the year	229	(913,833)	244	(30,000)
Outstanding at the end of the year	246	7,500	229	936,333
Exercisable at the end of the year	246	7,500	229	936,333

The options outstanding at 31 December 2005 have an exercise price of £2.46 and a contractual life of 6 years.

Roxboro No. 3 Executive Share Option Scheme

The vesting conditions require 3 years of service and that compound adjusted EPS growth over a 3 year period should exceed the movement in the retail price index by at least 3% for each year. The performance criteria has been achieved and the options have therefore vested.

17. Provisions

	Warranty £'000	**Dilapidation costs £'000**	**Total £'000**
Balance at 1 January 2005	1,067	600	1,667
Provisions made during the year	924	–	924
Provisions used during the year	(822)	–	(822)
Businesses sold	(279)	(600)	(879)
Balance at 31 December 2005	**890**	**–**	**890**
Non-current	890	–	890

Warranty

The provision is based on estimates made from historical warranty data associated with similar products. The Group expects to incur the liability over the next five years.

18. Trade and other payables

	2005 £'000	2004 £'000
Trade payables	**4,087**	9,656
Other taxes and social security	**112**	1,142
Non-trade payables and accrued expenses	**3,278**	5,846
	7,477	16,644

Notes to the consolidated financial statements continued

19. Financial instruments
Exposure to currency risks arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in exchange rates.

Credit risk
Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers requiring credit over a certain amount. At the balance sheet date there was no significant concentration of credit risk.

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

Foreign currency risk
The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than UK sterling. The currencies giving rise to risk are primarily Euro and US dollars.

The Group uses "natural" hedging within the Group to hedge the majority of its foreign currency risk.

Natural hedging is the mechanism whereby the cash inflows in a particular currency are matched to the cash outflows in that currency at the same business or different group company. The Group uses forward exchange contracts to hedge any risk outside of the "natural" hedging programme. The forward exchange contracts have maturities of less than 1 year after the balance sheet date.

In respect of other monetary assets and liabilities held in currencies other than sterling, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and state them at fair value. The fair value of forward exchange contracts at 1 January 2005 was adjusted against the opening balance of reserves at that date. The net fair value of forward exchange contracts used as hedges of forecasted transactions at 31 December 2005 was £1,000.

Recognised assets and liabilities
Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the income statement. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognised as part of "net financing costs" (see Note 3). The fair value of forward exchange contracts used as economic hedges of monetary assets and liabilities in foreign currencies at 31 December 2005 was £1,000 recognised in trade and other receivables.

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

At 31 December 2005 it is estimated that a general increase of one percentage point in the value of the Euro and US dollar against UK sterling would have reduced the Group's profit before tax by approximately £30,000 for the year ended 31 December 2005 (2004: £42,000). The forward exchange contracts have been included in this calculation.

Fair values
The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2005 £'000	**Fair value 2005 £'000**	Carrying amount 2004 £'000	Fair value 2004 £'000
Trade and other receivables	**16,685**	**16,685**	25,363	25,363
Cash and cash equivalents	**9,829**	**9,829**	6,819	6,819
Forward exchange contracts – assets	**345**	**344**	–	272
Redeemable preference shares	**(2,213)**	**(2,213)**	(2,280)	(2,280)
Dividends on redeemable preference shares	**(36)**	**(36)**	(37)	(37)
Trade and other payables	**(7,477)**	**(7,477)**	(16,644)	(16,644)
	17,133	**17,132**	13,221	13,493

Estimation of fair values
The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Derivatives
Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps broker quotes are used.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

19. Financial instruments continued

Trade and other receivables/payables

For receivables/payables with a remaining life of less than 1 year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine their fair value.

The following sections set out the disclosure under UK GAAP for the comparative information.

The following table sets out the carrying amounts and the fair values of the Group's financial instruments at 31 December 2004. Where available market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest and exchange rates. Short-term debtors and creditors have been excluded from these disclosures.

	2004	
	Book value £'000	Fair value £'000
Current assets:		
Cash at bank	6,819	6,819
Liabilities:		
Short-term borrowings and overdrafts	(51)	(51)
Foreign exchange contracts	–	272
Interest-bearing loans (B Shares)	(2,280)	(2,280)
	(2,331)	(2,059)

1. Cash at bank: The carrying amount reported in the balance sheet approximate to fair value.
2. Short-term borrowings and overdrafts – the fair value approximates to the carrying amount reported in the balance sheet because of the short maturity of these instruments.
3. Interest – bearing loans (B Shares) – the fair value approximates to the carrying amount because of the short maturity.
4. Foreign exchange contracts: The fair value of the Group's forward exchange contracts is based on market prices and exchange rates at the balance sheet date.

Currency risk

As detailed in the Financial Review, the Group's policy is to utilise forward currency contracts to match exposures on financial assets and liabilities. As at 31 December 2004, after taking into account the effects of forward foreign exchange contracts, the Group had no material currency exposure.

Hedges

The Group's policy is to hedge against transactional currency exposures and currency exposures on future expected sales.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses and deferred gains and losses on financial instruments used for hedging are as follows:

	Gain/(loss) £'000
Gains and losses unrecognised at 31 December 2003	362
Gains recognised in the profit and loss account in 2004	362
Gains and losses unrecognised at 31 December 2004	272

Borrowing Facilities

At 31 December 2004 the Group had the following undrawn committed borrowing facilities available:

	2004 £'000
Expiring within 1 year	15,000

Shareholders' funds at 31 December 2004 are analysed as follows:

	£'000
Equity	48,207
Non-equity B shares	2,280
	50,487

20. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2005 £'000	2004 £'000
Less than 1 year	**625**	3,589
Between 1 and 5 years	**1,234**	6,735
More than 5 years	**235**	7,879
	2,094	18,203

Of the £2,094,000, £1,781,000 relates to property and the balance to plant and equipment.

Notes to the consolidated financial statements continued

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

	2005 £'000	2004 £'000
Contracted	**290**	589

22. Contingencies

	2005 £'000	2004 £'000
Performance guarantees and indemnities	**100**	900

23. Related parties
The ultimate controlling party of the Group is Dialight plc. Transactions between the Company and its subsidiaries have been eliminated on consolidation. Intra group transactions are priced on arm's length basis.

Transaction with key management personnel
Directors of the Company and their immediate relatives control 4% of the Company.

Details of the remuneration for the Company Directors are set out in the Report of the Remuneration Committee on pages 28 to 31.

24. Significant subsidiaries

	Country of incorporation	Principal activity
Dialight Corporation	USA	Manufacture and sale of indicators and Signals/ Illumination products
Dialight Garufo GmbH	Germany	Manufacture and sale of indicators and Signals/ Illumination products
Dialight Europe Limited	Great Britain	Sale of Signals/ Illumination products
BLP Components	Great Britain	Manufacture and sale of electromagnetic components.

The Group owns all of the equity of the above companies either directly or indirectly through an intermediate holding company.

25. Disposal of businesses
On 15 July 2005 and 26 September 2005 the Group completed the disposals of the Mobrey and Solartron businesses respectively. Together these businesses comprised the Solartron business segment. The net assets of the businesses at the date of disposal were as follows:

	Mobrey £'000	Solartron £'000	Total £'000
Intangible assets	1,781	1,826	3,607
Tangible assets	3,171	3,373	6,544
Inventories	5,344	2,913	8,257
Trade receivables	10,021	5,549	15,570
Bank balance and cash	2,055	(664)	1391
Retirement benefit obligations	(1,585)	–	(1,585)
Deferred tax	415	(673)	(258)
Trade payables	(5,660)	(4,386)	(10,046)
Provisions	(809)	(70)	(879)
Attributable goodwill	9,648	2,517	12,165
Exchange recycled through reserves	33	(46)	(13)
	24,414	10,339	34,753
Gain on disposal	2,974	28,010	30,984
Total consideration – satisfied by cash (net of expenses)	27,388	38,349	65,737

Net cash inflow arising on disposals

	Mobrey £'000	Solartron £'000	Total £'000
Cash consideration received	28,731	38,349	67,080
Cash and cash equivalents disposed of	(2,055)	664	(1391)
	26,676	39,013	65,689

The tax charge arising from the disposals of the businesses has been estimated at £8,962,000

During the year ended 31 December 2005, Solartron and Mobrey had cash inflows from operating activities of £417,000 (2004: £9,650,000) cash outflows from investing activities of £1,762,000 (2004: £2,265,000) and cash flows from financing activities of £Nil (2004: £Nil).

26. Events after the balance sheet
On 11 January 2006 the Company completed the acquisition of the entire issued share capital of LumiDrives Limited for a total consideration of £3 million. The consideration was satisfied in part by cash of £2.5 million and the balance of £0.5 million satisfied by the issue of 223,578 Dialight plc ordinary shares. The ordinary shares were issued at a price of £2.46 being the market price of the 1.89p ordinary shares at the close of business on the day immediately preceeding completion.

Due to the recent timing of the acquisition the assessment of the fair values to be attributed to goodwill and any intangible assets has not yet been completed.

27. Accounting estimates and judgements
Management discussed with the Audit Committee the disclosure of critical accounting policies and estimates.

The Key sources of estimation uncertainty are set out below:
Note 8 contains information about the assumptions and their risk factors relating to goodwill impairment; In Note 19 detailed analysis is given of the foreign exchange exposure and risks in relation to foreign exchange movements.

28. Basis of accounting – transition to IFRS
First time adoption of IFRS (IFRS 1)
This Standard has been issued to assist the first time adoption of IFRS. The Standard allows alternative treatments for certain areas of the financial statements during the initial transition period:

Business combinations
The Group has made the elective exemption that allows goodwill in respect of acquisitions made prior to 1 January 2004 to remain as stated under UK GAAP.

IAS 38, Intangible Assets
IAS 38 requires the costs incurred on development projects that meet certain criteria to be recognised as intangible assets in the balance sheet. The Group's policy under UK GAAP is to expense all such costs as they are incurred. The application of the IAS 38 criteria results in the costs of a number of current and recent development projects being recognised as intangible assets in the balance sheet under IFRS. However, it has not been possible in all cases to assess accurately whether costs expensed under UK GAAP prior to the IFRS transition date met the IAS 38 criteria for recognition at the time they were incurred. IFRS does not permit such assessments to be performed retrospectively and with the benefit of hindsight, so where contemporary records were insufficiently detailed or unavailable it has not been possible to recognise the asset under IAS 38. Procedures are now in place to monitor research and development projects against the IAS 38 criteria and recognise their costs as intangible assets when they meet those criteria.

Under IAS 38, intangible assets are amortised over their useful lives, which for current development projects are between 3 and 5 years. The Group does not expect any of its intangible assets to have indefinite useful lives.

Employee benefits
IFRS requires that a balance sheet asset or liability must be shown in respect of defined benefit pension schemes. Actuarial gains and losses arise when the actual returns on scheme assets differ from those initially expected by the actuary. The Group has adopted the exemption in IFRS 1 allowing all actuarial gains and losses arising before 1 January 2004 to be shown in the opening balance sheet at 1 January 2004. In the future, actuarial gains and losses will be included in the Statement of Recognised Income and Expense.

Cumulative translation differences
In the Group financial statements the results of overseas subsidiaries are translated into sterling at the average exchange rate. The balance sheet is translated at the closing rate. This leads to exchange gains and losses being generated on consolidation. IFRS requires translation differences on the revaluation of the assets and liabilities of overseas subsidiaries to be taken directly to reserves.

On the disposal of an overseas entity, exchange differences previously taken to reserves will be transferred to the income statement as part of the profit/loss on disposal of that entity.

The elective exemption in IFRS 1 means that any translation differences prior to the date of transition (1 January 2004) do not need to be analysed retrospectively and so the deemed cumulative translation differences at this date can be set to £nil. Thus, any cumulative translation differences arising prior to the date of transition are excluded from any future profit/loss on disposal of any entities. The Group has adopted this exemption.

Share-based payment (IFRS 2)
The Group has chosen to adopt the exemption whereby IFRS 2, Share-Based Payment, is applied only to awards made after 7 November 2002 that have not vested at 1 January 2005.

Financial instruments (IAS 32 and 39)
The Group has chosen to adopt the exemption delaying the implementation of IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement, which require certain financial instruments to be measured at fair value. Derivatives which are held off balance sheet under UK GAAP must be recognised in the balance sheet in full, at fair value, under IFRS. Subject to hedge accounting, any gains or losses in the period arising from the movement in the fair values of derivatives are recognised in the income statement. In accordance with IFRS 1 the implementation has been applied first in the year ended 31 December 2005.

Notes to the consolidated financial statements continued

Explanation of IFRS adjustments
The following paragraphs explain the key adjustments made to the financial results for the year ended 31 December 2004, in order to reflect IFRS.

Employee benefits (IAS 19)

Long term
The primary long-term employee benefits are pensions, which were accounted for under SSAP 24 with accompanying disclosures prepared using FRS 17. Under SSAP 24, the costs of providing benefits was charged against the operating profit over the period during which the Group expected to benefit from the employees' services. The application of SSAP 24 resulted in a prepayment of £0.6 million as at 31 December 2004, and this asset is eliminated as a result of the adoption of IAS 19.

The IAS 19 approach is similar to FRS 17. In summary, IAS 19 requires that the Group's pension deficits be recorded as balance sheet liabilities. The Group has elected to adopt the amendment to IAS 19, which allows the impact of changes in the actuarial value of the deficits to be recorded in the statement of recognised income and expenses rather than the income statement. Annual charges to the income statement will comprise service costs and a net finance cost. The following is a table summarising the main impacts of IAS 19, FRS 17 and SSAP 24 with regard to the pension schemes.

	Profit and loss account Year ended 31 December 2004	
	IAS 19 £'000	SSAP 24 £'000
Defined benefit schemes		
UK	992	916
US	(193)	438
Pre-tax cost	799	1,354

	Balance sheet 31 December 2004	
	IAS 19 £'000	FRS 17 £'000
Defined benefit schemes		
UK	(8,548)	(8,548)
US	(2,482)	(2,482)
Deficit in the scheme	(11,030)	(11,030)
Deferred tax asset	3,507	3,507
Net pension liability	(7,523)	(7,523)

Business combinations and goodwill (IFRS 3)
A business combination occurs when one entity gains control of another. The acquired assets and liabilities should be stated at fair value in the books of the acquirer (if appropriate) or in the Group accounts. The excess of the purchase price over the cost is classified as goodwill on the face of the balance sheet in the Group accounts. Goodwill should not be amortised but should be reviewed, at least annually, for impairment and carried in the balance sheet at cost less any accumulated impairment losses. For goodwill already in existence at the transition date to IFRS the goodwill amortisation already recognised will not be adjusted. The impact on the income statement for the year ended 31 December 2004 is that goodwill amortisation of £0.9 million that was previously charged during 2004 is now removed.

Events after the balance sheet date (IAS 10)
Under IAS 10, dividends on ordinary shares declared after the balance sheet date should not be accrued. This is a change from the current treatment under UK GAAP. This means that each dividend will be charged in the period in which it is approved rather than in the period to which it relates.

Income taxes (IAS 12)
Under UK GAAP deferred tax was provided on the basis of timing differences between accounting profit and taxable profit. IAS 12 requires that deferred taxation is based on temporary differences between the carrying value of an asset or liability and its tax base.

The impact of IFRS on the total tax charge to the Group's income statement for the year ended 31 December 2004 is an increase of £828,000 to £4.3 million. The effective tax rate for the Group is unchanged at 34.0%.

	Year ended 31 December 2004 £'000
Total tax charge under UK GAAP	3,462
Total tax charge under IFRS	
Increase in deferred tax on employee benefits	217
Increase in deferred tax on capitalised development costs	611
Total tax charge under IFRS	4,290

The impact of IFRS on deferred tax in the balance sheet is as follows:

	At 31 December 2004 £'000
Net deferred tax asset – UK GAAP	316
IFRS adjustments:	
Deferred tax on pension deficit	3,508
Deferred tax on development costs	(1,046)
Rollover gain	(159)
Net deferred tax asset – IFRS	2,619
Net deferred tax liability – UK GAAP	
IFRS adjustments:	
Deferred tax on pension deficit	41
Deferred tax on development costs	25
Net deferred tax liability – IFRS	66

Other changes

There are a number of other minor changes. These have no material effect on either reported profits or net assets.

Consolidated income statement

For the year ended 31 December 2004

				IFRS adjustments	
	UK GAAP £'000	Development costs £'000	Employee benefits £'000	Goodwill £'000	IFRS £'000
Revenue	**118,852**				**118,852**
Cost of sales	(80,521)	1,987	116	–	(78,418)
Gross profit	**38,331**	**1,987**	**116**	**-**	**40,434**
Distribution costs	(15,777)	–	17	–	(15,760)
Administrative expenses	(13,501)	–	616	926	(11,959)
Operating profit	**9,053**	**1,987**	**749**	**926**	**12,715**
Financial income	5	–	–	–	5
Financial expenses	–	–	(194)	–	(194)
Net financing income	5	–	(194)	–	(189)
Profit before tax	**9,058**	**1,987**	**555**	**926**	**12,526**
Income tax expense	(3,462)	(611)	(217)	–	(4,290)
Profit for the year attributable to shareholders	**5,596**	**1,376**	**338**	**926**	**8,236**
Earnings per share					
Basic	18.3p				27.4p
Diluted	18.2p				27.1p

Consolidated statement of recognised income and expense

For the year ended 31 December 2004

				IFRS adjustments	
	UK GAAP £'000	Development costs £'000	Employee benefits £'000	Goodwill £'000	IFRS £'000
Foreign exchange translation differences	(1,195)	–	104	14	(1,077)
Actuarial loss on defined benefit pension schemes	**-**	**-**	**(1,194)**	**-**	**(1,194)**
Tax on items taken directly to equity	–	–	340	–	340
Net income recognised directly in equity	**(1,195)**	**-**	**(750)**	**14**	**(1,931)**
Profit for the year	5,596	1,376	338	926	8,236
Total recognised income and expense for the year	**4,401**	**1,376**	**(412)**	**940**	**6,305**

Reconciliation of movement in shareholders' equity:

	Share capital £'000	Share premium £'000	Translation reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2004	3,115	5,976	–	40,104	2,473	51,668
Impact of adoption of IFRS	–	–	–	–	(4,115)	(4,115)
At 1 January 2004 as restated	3,115	5,976	–	40,104	(1,642)	47,553
Profit for the period attributable to equity holders of the Company	–	–	–	–	8236	8,236
Net expense recognised directly in equity (see Statement of Recognised Income and Expense)	–	–	(1,077)	–	(854)	(1,931)
New share issue	2	73	–	–	–	75
Transfer to capital redemption reserve	(268)	–	–	268	(268)	(268)
Dividends to shareholders	–	–	–	–	(3,178)	(3,178)
Balance at 31 December 2004	**2,849**	**6,049**	**(1,077)**	**40,372**	**2,294**	**50,487**

Consolidated balance sheet

As at 31 December 2004

						IFRS adjustments	
	UK GAAP £'000	Development costs £'000	Employee benefits £'000	Goodwill £'000	Dividend £'000	Other £'000	IFRS £'000
Non-current assets							
Intangible assets	14,347	3,524	–	1,383	–	–	19,254
Property, plant and equipment	11,463	–	–	–	–	–	11,463
Trade and other receivables falling due after more than one year	635	–	(635)	–	–	–	–
Deferred tax asset	316	(1,046)	3,508	–	–	(159)	2,619
	26,761	**2,478**	**2,873**	**1,383**	**–**	**(159)**	**33,336**
Current assets							
Inventories	15,404	–	–	–	–	–	15,404
Trade and other receivables	25,363	–	–	–	–	–	25,363
Cash and cash equivalents	6,819	–	–	–	–	–	6,819
	47,586	**–**	**–**	**–**	**–**	**–**	**47,586**
Current liabilities							
Trade and other payables	(18,932)	–	–	–	2,288	–	(16,644)
Loans and borrowings	(51)	–	–	–	–	–	(51)
Tax liabilities	(1,212)	–	235	–	–	–	(977)
Net current assets	**27,391**	**–**	**235**	**–**	**2,288**	**–**	**29,914**
Total assets less current liabilities	**54,152**	**2,478**	**3,108**	**1,383**	**2,288**	**(159)**	**63,250**
Non-current liabilities							
Trade and other payables falling due after more than one year	(1,667)	–	–	–	–	–	(1,667)
Retirement benefit obligations	–	–	(11,030)	–	–	–	(11,030)
Deferred tax liability	–	(25)	–	–	–	(41)	(66)
Net assets	**52,485**	**2,453**	**(7,922)**	**1,383**	**2,288**	**(200)**	**50,487**
Equity							
Called-up share capital	2,849	–	–	–	–	–	2,849
Share premium account	6,049	–	–	–	–	–	6,049
Capital redemption reserve	40,372	–	–	–	–	–	40,372
Retained earnings	3,215	2,453	(7,922)	1,383	2,288	(200)	1,217
Equity attributable to the shareholders of the parent	**52,485**	**2,453**	**(7,922)**	**1,383**	**2,288**	**(200)**	**50,487**

Consolidated balance sheet

As at 31 December 2003

	UK GAAP £'000	Development costs £'000	Employee benefits £'000	Goodwill £'000	Dividend £'000	Other £'000	IFRS £'000
		IFRS adjustments					
Non-current assets							
Intangible assets	15,464	1,537	–	442	–	–	17,443
Property, plant and equipment	13,100	–	–	–	–	–	13,100
Deferred tax asset	488	(462)	3,656	–	–	(156)	3,526
	29,052	**1,075**	**3,656**	**442**	**-**	**(156)**	**34,069**
Current assets							
Inventories	16,118	–	–	–	–	–	16,118
Trade and other receivables	25,391	–	(85)	–	–	–	25,306
Cash and cash equivalents	4,332	–	–	–	–	–	4,332
	45,841	**-**	**(85)**	**-**	**-**	**-**	**45,756**
Current liabilities							
Trade and other payables	(17,868)	–	–	–	2,075	–	(15,793)
Loans and borrowings	(2,364)	–	–	–	–	–	(2,364)
Tax liabilities	(1,486)	–	32	–	–	–	(1,454)
Net current assets	**24,123**	**-**	**(53)**	**-**	**2,075**	**-**	**26,145**
Total assets less current liabilities	**53,175**	**1,075**	**3,603**	**442**	**2,075**	**(156)**	**60,214**
Non-current liabilities							
Trade and other payables falling due after more than 1 year	(1,507)	–	–	–	–	–	(1,507)
Retirement benefit obligations	–	–	(11,110)	–	–	–	(11,110)
Deferred tax liability	–	–	–	–	–	(44)	(44)
Net assets	**51,668**	**1,075**	**(7,507)**	**442**	**2,075**	**(200)**	**47,553**
Equity							
Called-up share capital	3,115	–	–	–	–	–	3,115
Share premium account	5,976	–	–	–	–	–	5,976
Retained earnings	2,473	1,075	(7,507)	442	2,075	(200)	(1,642)
Capital redemption reserve	40,104	–	–	–	–	–	40,104
Equity attributable to the shareholders of the parent	**51,668**	**1,075**	**(7,507)**	**442**	**2,075**	**(200)**	**47,553**

Consolidated cash flow statement

For the year ended 31 December 2004

		IFRS adjustments				
	UK GAAP £'000	Development costs £'000	Employee benefits £'000	Goodwill £'000	Other £'000	IFRS £'000
Cash flows from operating activities						
Operating profit	9,053	1,987	749	926	–	12,715
Amortisation of intangibles	1,117	–	–	(926)	–	191
Depreciation and other amortisation	2,660	142	–	–	–	2,802
Decrease in inventories	238	–	–	–	–	238
Increase in trade and other receivables	(1,076)	–	–	–	–	(1,076)
Increase in trade and other payables	1,209	–	(555)	–	–	654
Cash generated from operations	**13,201**	**2,129**	**194**	**–**	**–**	**15,524**
Net interest payable	**5**	**–**	**(194)**	**–**	**–**	**(189)**
Income tax expense	(3,583)	–	–	–	–	(3,583)
Operating cash flow	**9,623**	**2,129**	**–**	**–**	**–**	**11,752**
Cash flows from investing activities						
Capital expenditure and financial investment	(1,299)	–	–	–	–	(1,299)
Proceeds from sale of tangible fixed assets	13	–	–	–	–	13
Development costs	–	(2,129)	–	–	–	(2,129)
Net cash used in investing activities	**(1,286)**	**(2,129)**	**–**	**–**	**–**	**(3,415)**
Free cash flow	**8,337**	**–**	**–**	**–**	**–**	**8,337**
Cash flows from financing activities						
Proceeds from the issue of share capital	74	–	–	–	–	74
Shares redeemed	(267)	–	–	–	–	(267)
Dividends paid	(3,135)	–	–	–	–	(3,135)
Net cash used in financing activities	**(3,328)**	**–**	**–**	**–**	**–**	**(3,328)**
Net decrease in cash and cash equivalents	**5,009**	**–**	**–**	**–**	**–**	**5,009**
Cash and cash equivalents at the beginning of the year	1,968	–	–	–	–	1,968
Effect of exchange rates in cash	(209)	–	–	–	–	(209)
Cash and cash equivalents at the end of the year	**6,768**	**–**	**–**	**–**	**–**	**6,768**

Company balance sheet (prepared under UK GAAP)

At 31 December 2005

	Notes	2005 £'000	2004 (restated) £'000
Fixed assets			
Tangible assets	32	**130**	63
Investments	33	**9,947**	51,899
		10,077	51,962
Current assets			
Debtors	34	**5,135**	24,606
Cash at bank and in hand		**13,110**	6,946
		18,245	31,552
Creditors:			
Amounts falling due within one year			
Interest-bearing loans and borrowings	37	**(2,213)**	–
Other creditors	35	**(4,587)**	(2,500)
Net current assets		**11,445**	29,052
Total assets less current liabilities		**21,522**	81,014
Provisions for liabilities and charges		**–**	–
Net assets excluding pension fund asset/(liability)		**21,522**	81,014
Pension fund asset/(liability)	39	**154**	(639)
Net assets		**21,676**	80,375
Capital and reserves			
Called up share capital	37	**587**	2,849
Share premium account	38	**–**	6,049
Capital redemption reserve	38	**19**	40,372
Other reserves	38	**–**	23,018
Profit and loss account	38	**21,070**	8,087
Equity shareholders' funds – (2004: including £2,280,000 attributable to non-equity shareholders on an FRS4 basis)		**21,676**	80,375

Roy Burton
Group Chief Executive

C A Buckley
Group Finance Director

13 March 2006

Notes to the Company financial statements

29. Dialight plc company balance sheet
Accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 20 "Share-Based Payments";
- FRS 21 "Events after the balance sheet date";
- FRS 23 "The effect of changes in foreign exchange rates";
- The presentation requirements of FRS 25 "Financial instruments: presentation and disclosure";
- FRS 26 "Financial Instruments: measurement"; and
- FRS 28 "Corresponding amounts".

The recognition and measurement requirements of FRS 17 "Retirement benefits" have also been adopted, previously the transitional disclosures of that standard have been followed.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 "Corresponding amounts" has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985. The adoption of FRS 23 and FRS 26 has had no material effect.

FRS 20 has had no material impact in 2005 as there were no share options outstanding at 1 January 2005, the date of adoption of the standard, which were granted after 7 November 2002 and had not vested.

The adoption of FRS 21 increased the profit and loss account and net assets of the Company by £2,288,000 at 31 December 2004 being the final dividend payable to ordinary shareholders which had been declared but not approved at that date (see Note 40).

The corresponding amounts in these financial statements are, other than those covered by the exception permitted by FRS 25, restated in accordance with the new policies (see Note 40). FRS 25 permits the corresponding amounts not to be restated and the Company has adopted this approach. The financial instruments policy set out below provides further details of the 2005 and 2004 bases and of the change booked on 1 January 2005.

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

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

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

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

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges.

The Company has taken advantage of the transitional arrangements of FRS 25 not to restate corresponding amounts in accordance with the above policy. The adjustments necessary to implement this policy have been made as at 1 January 2005. Corresponding amounts for 2004 are presented and disclosed in accordance with the requirements of FRS 4 (as applicable in 2004). The main differences between the 2004 and 2005 bases of accounting are shown below.

Effect on the balance sheet at 1 January 2005	£'000
Shares classified as liabilities – falling due within 1 year	2,280

The nature of the main effects upon the balance sheet at 1 January 2005 and upon the 2005 profit and loss account, statement of total recognised gains and losses and cash flow statement are as follows:

- The B shares are treated as part of shareholders' funds in 2004 and as liabilities in 2005, increasing net debt and reducing reported share capital and net assets at the start of 2005.
- Finance payments in respect of these shares do not affect the profit for the financial year in 2004 but are charged in the profit and loss account as interest in 2005. This does not affect net assets. In respect of FRS 4 equity shares that are classified as liabilities, the finance payments, which would now be included in servicing of finance, in 2005 are included in dividends paid.

Notes to the Company financial statements continued

29. Dialight plc company balance sheet continued
Accounting policies continued
The 2004 disclosures follow FRS 4 as applicable. This includes the analysis of 2004 shareholders' funds into equity and non-equity components. FRS 4 used "equity" as a sub-set of shareholders' funds, whereas FRS 25 applies the term "equity" to issued financial instruments other than those, or those components, classified as liabilities.

The main effects on the primary statements in the comparative year, had FRS 25 been adopted, would have been similar to those stated above.

Under Section 230(4) of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account.

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

Office equipment	between 10% and 20%
Computer equipment	between 20% and 33.3%
Plant, machinery, fixtures and fittings	between 10% and 20%
Motor vehicles	between 25% and 33.3%

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

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

Cash
Cash, for the purpose of the cash flow statement, comprises cash in hand, deposits repayable on demand, less overdrafts payable on demand. As the ultimate holding company of the Dialight plc group, the Company has relied upon the exemption in Financial Reporting Standard 1 (Revised) and has not included a cash flow statement as part of its own financial statements.

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

Investments in subsidiary undertakings
Investments in subsidiary undertakings are stated at cost, less provisions for impairment in value.

Pension contributions
The Company operates both defined benefit and defined contribution plans. The assets of all the arrangements are held separately from the assets of the Company in independently administered funds. The amount charges against profits in respect of defined contribution arrangements are the contributions payable to those arrangements in the accounting period.

For the defined benefit arrangements the assets are measured at market values. The liabilities are measured on the Projected Unit method, discounting at the current rate of return of a high quality corporate bond of the appropriate term and currency to the liability, as required under FRS 17.

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

30. Staff costs
Staff costs during the year were:

	2005 £'000	2004 £'000
Wages and salaries	**1,377**	1,164
Social security costs	**174**	142
Pension costs	**210**	245
	1,761	1,551

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

	2005 Number	2004 Number
UK	**8**	9

Details for each Director of remuneration; pension entitlements and interests in share options are set out in the Report of the Remuneration Committee on pages 28 to 31.

31. Profit before tax
Profit before tax is stated after charging:

	2005 £'000	2004 £'000
Auditors' remuneration	**38**	26

32. Fixed assets

	Plant, equipment and vehicles £'000
Cost	
At 1 January 2005	484
Additions	128
Disposals	(18)
At 31 December 2005	**594**
Depreciation	
At 1 January 2005	(421)
Charge for the year	(54)
Disposals	11
At 31 December 2005	**(464)**
Net book value	
At 31 December 2005	**130**
At 31 December 2004	63

Notes to the Company financial statements continued

33. Investments

	£'000
Investments comprise:	
Investments in subsidiary undertakings:	
Cost	
At 1 January 2005	54,421
Subsidiaries sold	(39,050)
At 31 December 2005	15,371
Provisions:	
At 1 January 2005	(2,522)
Provided in the year	(2,902)
At 31 December 2005	(5,424)
Net book value at 31 December 2005	**9,947**
Net book value at 31 December 2004	51,899

Details of the principal subsidiary companies are as follows:

Name	Country of incorporation and operation
Dialight Corporation*	United States of America
Dialight Europe Limited	Great Britain
Dialight Garufo GmbH*	Germany
BLP Components Limited	Great Britain

The Group owns all of the equity of the above companies. The investment is held directly by the Company except for those companies where indicated by*.

All of the subsidiaries sold related to the Solartron business disposals.

34. Debtors

	2005 £'000	2004 (restated) £'000
Amounts owed by subsidiary undertakings	**4,061**	23,311
Other debtors	**715**	1,100
Corporation tax recoverable	**–**	168
Deferred tax asset (Note 36)	**359**	27
	5,135	24,606

35. Creditors

	2005 £'000	2004 (restated) £'000
Amounts falling due within one year		
Other taxes and social security costs	**28**	40
Amounts owed to subsidiary undertakings	**1,376**	1,686
Corporation tax	**1,946**	–
Dividends payable on B shares	**36**	43
Accruals and deferred income	**1,201**	731
	4,587	2,500

36. Deferred tax asset

	2005 £'000	2004 (restated) £'000
At 1 January	**27**	37
Prior year adjustment (see Note 40)	**274**	261
At 1 January restated	**301**	298
Profit and loss account	**(8)**	3
At 31 December (included in debtors – Note 34)	**293**	301
An analysis of deferred tax is as follows:		
Capital allowances	**25**	23
Short-term timing differences	**334**	4
Debtors (see Note 34)	**359**	27
Pension surplus/(deficit)	**(66)**	274
	293	301

37. Called up share capital

	2005 Number	2005 £'000	2004 Number	2004 £'000
Authorised				
Ordinary shares of 1.89p each	**38,624,400**	**730**	38,624,400	730
Non-equity B shares of 75p each	**3,395,829**	**2,547**	3,395,829	2,547
Issued and fully paid				
Ordinary shares of 1.89p each	**31,015,923**	**587**	30,102,090	569
Non-equity B shares of 75p each	**2,950,526**	**2,213**	3,039,521	2,280
		2,800		2,849
Shares classified as liabilities		**2,213**		–
Shares classified in shareholder funds		**587**		2,849
		2,800		2,849

The holders of B shares are not entitled to receive notification of any general meeting of the Company or to attend, speak or vote at any such general meeting unless the business of the meeting includes the consideration of a resolution for the winding up of the Company, in which case the holders of the B shares shall have the right to attend the general meeting and shall be entitled to speak and vote only on any such resolution.

B shares carry the right to a dividend paid at the rate of 70% of 6 month LIBOR, in arrears on a semi-annual basis.

The B shares may be redeemed at 6 monthly intervals on every 30 June and 31 December. Unless redeemed earlier, the Company will redeem the outstanding B shares on 31 December 2008.

The Company has the option to compulsorily redeem the outstanding B shares at any time.

	Ordinary shares		Redeemable "B" Preference shares		C shares	
Issued share capital	**2005**	2004	**2005**	2004	**2005**	2004
On issue at 1 January	**30,102,090**	30,072,090	**3,039,521**	3,395,829	**-**	–
Issued for cash	**913,833**	30,000	**-**	–	**-**	–
Shares redeemed	**-**	–	**(88,995)**	(356,308)	**-**	–
Shares created from reserves	**-**	–	**-**	–	**31,015,923**	–
Shares cancelled	**-**	–	–	–	**(31,015,923)**	–
Issued and fully paid at 31 December	**31,015,923**	**30,102,090**	**2,950,526**	**3,039,521**	**-**	**-**

37. Called up share capital continued

The executive share option schemes in operation through the year were:

	Roxboro No. 1 Executive Share Option Scheme		Roxboro No. 3 Executive Share Option Scheme	
	Shares	Pence per share	Shares	Pence per share
Options granted in	–	–	402,500	246
Previous years	5,000	233	203,833	251
	–	–	325,000	194
Options granted at 1 January 2005	5,000		931,333	
Options lapsed during year			(10,000)	246
Options exercised during year			(203833)	251
Options exercised during year			(385,000)	246
Options exercised during year	(5,000)	233	(325,000)	194
At 31 December 2005	**–**		**7,500**	
Exercise dates		Between 1 Nov 1996 and 14 Nov 2006		Between 21 Sep 2002 and 14 Sep 2011

In September 2005 the shareholders approved the Performance Share Plan. No awards have been made to date under the Plan details of which are included in the Report of the Remuneration Committee.

Further details are set out in Note 16.

38. Capital and reserves

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 January 2005	2,849	6,049	40,372	23,018	6,438	78,726
Prior year adjustment						
– Impact of FRS 17	–	–	–	–	(639)	(639)
– Adoption of FRS 21	–	–	–	–	2,288	2,288
Impact of FRS 25	(2,280)	–	–	–	–	(2,280)
At 1 January 2005 restated	569	6,049	40,372	23,018	8,087	78,095
Deficit for the year	–	–	–	–	(11,984)	(11,984)
Transfer to capital redemption reserve	–	–	67	–	(67)	–
New share issue	18	2,071	–	–	–	2,089
Capital reorganisation	31,137	(8,120)	(40,420)	(23,018)	40,421	–
Special dividend paid to shareholders	–	–	–	–	(19,850)	(19,850)
Capital redemption	(31,137)	–	–	–	4,463	(26,674)
At 31 December 2005	**587**	**–**	**19**	**–**	**21,070**	**21,676**

On 26 October 2005 the Company's entire share premium account and other reserves were capitalised to create 1 C share for each issued ordinary share. On 26 October 2005 31,015,923 C shares were issued having a nominal value of 100.39p per share.

On 27 October 2005 the authorised share capital of Dialight plc was by virtue of a special resolution and with the sanction of an order of the High Court of Justice dated 26 October 2005 reduced from £34,413,758 divided into 38,624,400 ordinary shares of 1.89p each, 3,395,829 B shares of 75p each and 31,015,923 C shares of 100.39p each to £3,276,923 divided into 38,624,400 ordinary shares of 1.89p each and 3,395,829 B shares of 75p each.

The effect of the capital reduction (described above) was a return to shareholders of 86p in cash in respect of the cancellation of each C share, giving a total cash return of £26,673,693.

In addition shareholders received a special dividend of 64p for each ordinary share held giving a total return to shareholders in November 2005 of 150p for each ordinary share held.

38. Capital and reserves continued

The deficit for the year was £11,984,000 (2004: restated profit £4,075,000).

	2005 £'000	2004 £'000
Profit and loss reserve excluding pension asset	**20,916**	8,726
Pension reserve	**154**	(639)
Profit and loss reserve	**21,070**	8,087

Shareholders' funds are analysed as follows:

	2004 £'000
Shareholders' funds	
Equity	78,095
Non-equity B shares	2,280
	80,375

Reconciliation in movement in shareholders' funds

	2005 £'000	2004 £'000
Balance at 1 January	**80,375**	78,327
Impact of adoption of – FRS 17	**–**	(609)
– FRS 21	**–**	2,075
– FRS 25	**(2,280)**	–
Restated balance at 1 January	**78,095**	79,793
Total recognised gains and losses	**(8,643)**	3,873
Dividends	**(3,341)**	(3,098)
Special dividend	**(19,850)**	–
New share capital subscribed	**2,089**	74
Redemption of B shares	**–**	(267)
Cancellation of C shares	**(26,674)**	–
Balance at 31 December	**21,676**	80,375

Dividends

After the balance sheet date the following dividends were proposed by the Directors, in accordance with FRS 21 the dividends have not been provided for at the balance sheet date. There are no tax consequences for the Company.

Final proposed dividend	2005 £'000	2004 £'000
3.0p per ordinary share (2004: 7.6p)	**937**	2,288

During the year the following dividends were paid:

	2005 £'000	2004 £'000
Interim – 3.4p per ordinary share (2004: 3.4p)	**1,053**	1,023
2004 final – 7.6p per ordinary share (2003: 6.9p)	**2,288**	2,075
	3,341	3,098

Notes to the Company financial statements continued

38. Capital and reserves continued

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

	2005 £'000	2004 £'000
Interim	**39**	43
Final	**36**	37
	75	80

39. Pensions

The Company operates both a defined benefit Executive Scheme and defined contribution plan. The assets of the schemes are held separately from those of the Company. The total pension cost for the Company was £729,000 (2004: £259,000 restated) of which £58,000 (2004: £64,000) is in respect of the defined contribution pension scheme.

The contributions to the schemes are determined with the advice of independent qualified actuaries on the basis of triennial valuations.

The latest actuarial valuation of the defined benefit scheme was at 5 April 2004:

	Executive Scheme
Market value of fund's assets	£2,175,000
Level of funding on an ongoing basis	79%
Valuation method	Defined accrued benefit method

Main actuarial assumptions:

Rate of return on investment	9.0% pa (pre-retirement) 8.0% pa (in retirement)
Annual rate of salary increases	6.0% pa
Annual rate of pension increases	3.5% pa
Annual rate of dividend growth	5.8%

Actuarial valuations of the Executive Scheme have been prepared by the schemes' actuaries as at 31 December 2005 and 2004 in accordance with FRS 17 in order to value liabilities and assets.

The principal financial assumptions used in the valuation of the liabilities of the scheme under FRS 17 are:

	2005	2004	2003
Inflation	**3.0%**	2.9%	2.75%
Salary increases	**3.5%**	3.5%	3.5%
Increase to pensions in payment	**3.0%**	2.9%	2.75%
Discount rate	**4.75%**	5.25%	5.3%

The assets in the scheme and the expected rates of return were:

	Expected long-term rate of return %			Fair value £'000		
	2005	2004	2003	**2005**	2004	2003
Equities	**6.5**	6.5	6.5	**399**	1,420	1,285
Bonds	**4.5**	5.0	5.3	**1,338**	1,229	901
Cash	**4.1**	4.5	4.0	**70**	68	24
Total				**1,807**	2,717	2,210

39. Pensions continued

	2005		2004		2003		2002	
	£'000	%	£'000	%	£'000	%	£'000	%
History of experience gains and losses as a percentage of the schemes' assets/liabilities at end of year								
Actual return less expected return on pension scheme	**284**	**10**	122	4	106	5	(718)	(42)
Experience loss arising on schemes' liabilities	**(84)**	**(2)**	61	2	39	1	12	–
Total actuarial loss included in the statement of total recognised gains and losses	**(11)**	**–**	(79)	(2)	(161)	(5)	(813)	(33)

The following amounts were measured in accordance with the requirements of FRS 17:

	At 31 December 2005 £'000	At 31 December 2004 £'000
Total fair value of schemes' assets	**1,807**	2,717
Present value of the schemes' liabilities	**(1,587)**	(3,630)
Surplus/(deficit) in the schemes	**220**	(913)
Related deferred tax	**(66)**	274
Net pension surplus/(liability)	**154**	(639)
Analysis of the movement in deficit in the scheme during the year:		
Deficit in the scheme at 1 January	**(913)**	(870)
Contributions paid	**1,804**	231
Current service cost (included in operating profit)	**(639)**	(167)
Other finance charge	**(32)**	(28)
Actuarial loss	**–**	(79)
Surplus/(deficit) in the scheme at 31 December	**220**	(913)

Other finance charge

The other finance charge is analysed as:

	2005 £'000	2004 £'000
Expected return of pension scheme assets	**163**	140
Interests on pension scheme liabilities	**(195)**	(168)
	(32)	(28)

Notes to the Company financial statements continued

40. Prior year adjustment
As set out in accounting policies (Note 29 to the accounts), the Company has adopted FRS 17 and FRS 25 in full in these financial statements. The full adoption this year of FRS 17 and FRS 25 has had the following impact on the accounts:

	2005 £'000	2004 £'000
Decrease in operating profit	**(406)**	(31)
Inclusion of pension finance cost	**(32)**	(28)
Decrease in tax on profit on ordinary activities	**131**	18
Increase in retained profit	**1,091**	1,649
(Decrease)/increase in deferred taxation debtor	**(66)**	274
Inclusion of pension assets/(liabilities)	**220**	(913)
Increase in net assets	**1,091**	1,649

The Company has also adopted FRS 21. The impact of this is that dividends on the ordinary shares are provided only when approved.

The impact of the prior year adjustment on the net assets as at 31 December 2004 represents the inclusion of the FRS 17 liability, net of deferred tax, of £639,000 and the exclusion of the final dividend to be paid to ordinary shareholders of £2,288,000. The impact of the prior year adjustment on the profit and loss account for the year ended 31 December 2004 represents the reversal of the SSAP 24 net pension charges of £95,000 and inclusion of the net pension charges and associated tax under FRS 17 of £136,000. The impact on net assets at 31 December 2005 and on the profit and loss account for the year then ended represents the difference between the actual position which would have been reported had SSAP 24 continued to be applied on the same basis as at 31 December 2004 and if the historical basis had continued in respect of dividends payable to ordinary shareholders.

41. Operating lease commitments
The Company is committed to the following annual payments under operating leases:

	2005 £'000	2004 £'000
Land and buildings which expire		
Between 2 and 5 years	**94**	–

42. The Company has taken advantage of the exemptions conferred by FRS 8 and has not disclosed transactions with related parties that are part of the Group or are investees of the Group.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held on Tuesday 9 May 2006 at 11.30 am at The City of London Club, 19 Old Broad Street, London EC2N 1DS for the following purposes:

1. To receive the Company's annual accounts for the financial year ended 31 December 2005, together with the Directors' report and the Auditors' report on those accounts. To receive the Directors' Remuneration Report for the financial year ended 31 December 2005.
2. To declare a final dividend of 3p per ordinary share.
3. To reappoint KPMG Audit Plc as auditors to hold office from the conclusion of this meeting until the conclusion of the next general meeting of the Company at which accounts are laid and to authorise the Directors to fix their remuneration.
4. To reappoint Harry Tee who retires by rotation in accordance with the Company's Articles of Association.
5. To reappoint Jeff Hewitt who retires by rotation in accordance with the Company's Articles of Association.
6. To appoint Roy Burton in accordance with the Company's Article of Association.
7. To appoint Cathryn Buckley in accordance with the Company's Articles of Association.
8. To pass the following resolution as a special resolution:
   "To authorise the Company generally and unconditionally to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 1.89p in the capital of the Company ("ordinary shares") provided that:
   (a) the maximum aggregate number of ordinary shares authorised to be purchased is 3,123,951 (representing approximately10% of the issued ordinary share capital);
   (b) the minimum price which may be paid for an ordinary share is 1.89p;
   (c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from The Daily Official List of the United Kingdom Listing Authority for the 5 business days immediately preceding the day on which the purchase is made;
   (d) this authority expires at the conclusion of the Annual General Meeting of the Company to be held in 2007 or within 15 months from the date of the passing of this resolution whichever is earlier; and
   (e) the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract."
9. To pass the following resolution as an ordinary resolution:
   "To renew the authority conferred upon the Directors under Article 4(B) of the Company's Articles of Association for the period expiring at the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2007 and 15 months after the date of the passing of this resolution and for that period the "Section 80 amount" is £139,567."
10. To pass the following resolution as a special resolution:
    "To renew the authority conferred upon the Directors under Article 4(C) of the Company's Articles of Association for the period expiring at the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2007 and 15 months after the date of the passing of this resolution and for that period the "Section 89 amount" is £29,521."
11. To pass the following as an ordinary resolution:
    "To approve the Directors' Remuneration Report for the year ended 31 December 2005."

By order of the Board

C A Buckley
Company Secretary

13 March 2006

Registered Office:

2B Vantage Park, Washingley Road
Huntingdon PE29 6SR

Notes

1. A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. The proxy need not be a member of the Company.
2. To be effective, the instrument appointing a proxy and (if required by the Directors) a power of attorney or other authority under which it is executed (or a copy of it notarially certified or certified some other way approved by the Directors) must be deposited at the Company's registrars, Lloyds TSB Registrar Services, The Causeway, Worthing, West Sussex BN99 6ZR not less than 48 hours before the time for holding the meeting. A form of proxy is enclosed with this notice. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting. An instrument of proxy not delivered in accordance with this Note is invalid.
3. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 11.30 am on Sunday 7 May 2006 shall be entitled to attend or vote at this Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after 11.30 am on Sunday 7 May 2006 shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.
4. Copies of the executive Directors' service contracts and the terms and conditions of appointment of non-executive directors are available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and public holidays excluded) and will also be available at the place of the Annual General Meeting for at least 15 minutes before and during the meeting.
5. The register of Directors' interests kept by the Company under Section 325 of the Companies Act 1985 will be produced at the commencement of the meeting and remain open and accessible during the continuance of the meeting to any person attending the meeting.
6. A copy of the Company's article of association as the Directors have the benefit of the indemnity provision in article 143 which constitutes a "qualifying third party indemnity provision" for the purposes of sections 309A to 309C of the Companies Act 1985 will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and public holidays excluded) and during and will be available for at least 15 minutes before and during the Annual General Meeting.

Unaudited pro forma consolidated income statement
For the year ended 31 December 2005 (For illustrative purposes only)

	Continuing operations £m
Revenue	56.1
Cost of sales	(41.4)
Gross profit	14.7
Distribution expenses	(4.5)
Administrative expenses	(5.2)
Operating profit	5.0
Net financing costs	0.4
Profit before tax	5.4
Income tax expense	(1.9)
Profit after tax	3.5
Basic earnings per share	11.1p

Notes:
1. The pro forma consolidated income statement is extracted from the consolidated profit and loss account shown on page 38 and adjusted for reduced corporate costs following the disposal of the Solartron businesses. The pro forma adjustment to reduce administrative costs by £1 million is based on the estimated reduction to corporate costs assuming the disposal of the Solartron businesses had occurred on 1 January 2005.
2. The tax rate used in the pro forma consolidated profit and loss account is 36% of profit before tax.

Five year summary
For the years ended 31 December

	Prepared under IFRS		Prepared under UK GAAP		
	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Turnover	**95.1**	118.9	136.8	156.0	174.9
Research and development expenditure	**4.2**	4.9	8.0	9.5	9.9
Operating profit before goodwill	**8.3**	12.7	8.3	8.6	16.3
Goodwill	**–**	–	(1.2)	(1.1)	(0.9)
Operating profit	**8.3**	12.7	7.1	7.5	15.4
Finance income/(charges)	**0.4**	(0.2)	(0.3)	(0.9)	(1.0)
Profit before gain on disposal of discontinued operations and taxation	**8.7**	12.5	22.3	6.6	14.4
Operating cash flow	**7.6**	15.5	10.6	13.0	19.8
Net cash/(borrowings)	**9.8**	6.8	2.0	(11.7)	(8.6)
Shareholders' funds	**28.9**	50.5	51.7	56.0	60.6

Statistical information	**Pence**	Pence	Pence	Pence	Pence
Earnings per share – Adjusted	**n/a**	n/a	12.6	9.1	17.3
Earnings per ordinary share – Basic	**92.2**	27.4	45.4	7.2	15.7
Dividends per share	**6.4**	11.0	10.0	10.0	10.0
Dividend cover (times)	**14.1**	2.5	6.5	0.7	1.6
Operating margin	**8.7%**	10.7%	6.0%	5.5%	9.3%
Turnover					
– Continuing operations	**56.1**	55.3			
– Discontinued operations	**39.0**	63.6			
	95.1	118.9			
Operating profit					
– Continuing operations	**3.9**	4.4			
– Discontinued operations	**4.4**	8.3			
	8.3	12.7			

Notes:
1. 2001 to 2003 reported numbers are prepared under UK GAAP. The nature of adjustments to restate these years under IFRS would be as discussed in Note 28.
2. 2004 and 2005 are reported under IFRS.

Directory of principal activities

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www.lumidrives.com

If you have sold or otherwise transferred all your Dialight shares you should pass this document and the Accompanying Form of Proxy to the person through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Designed and produced by Radley Yeldar (London)

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