

Financial Director's review

Despite a very difficult trading year all three divisions made a positive contribution to operating profit. The operating profit before interest and goodwill amortisation was £8.6m (2001: £16.3m). Interest charges decreased to £0.9m (2001: £1m) with interest cover before goodwill amortisation remaining strong at 9.7 times (2001: 16.7 times).

Amortisation of intangible assets in the year increased to £1.1m (2001: £0.9m) due to the acquisitions noted below. Profit before taxation decreased to £6.6m (2001: £14.4m).

Taxation

The Group's underlying rate of tax before non-deductible goodwill amortisation was 32.5% (2001: 35.9%*). The reduced rate arises principally from the current year's earnings from the Group's US operations being lower than last year.

The Group's effective tax rate was 37.9% (2001: 38.3%*), the table below provides an overall reconciliation between the UK taxation rate and the Group's actual tax rate for 2002.

	2002 %	2001* %
UK taxation rate	30.0	30.0
Overseas higher tax rate	1.7	2.1
Unutilised overseas losses	3.3	1.0
Goodwill amortisation	4.9	2.0
Other items including adjustments in respect of prior years	(2.0)	3.2
Group tax rate	37.9	38.3

Dividend

The proposed final dividend of 6.9p (2001: 6.9p) will provide shareholders with a total of 10.0p for the full year (2001: 10.0p). Dividends are 72% covered by profits for the year. The Board is confident in recommending that the dividend be maintained at last year's level given the Group's strong balance sheet and cash flow.

Earnings per share

Basic earnings per share were 7.2p (2001: 15.7p*).

Adjusted earnings per share which excludes the impact of the amortisation of intangible assets amounted to 9.1p (2001: 17.3p*).

(see note 8 to the accounts)

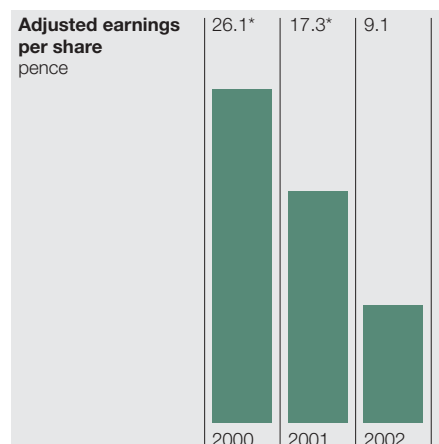
Pensions

The Group has continued to account for retirement benefits in accordance SSAP 24. The Group operates six defined benefits schemes; three closed schemes in the UK and three schemes in the US, two of which are also closed to new members.

Each scheme in the UK has different actuarial valuation dates. However in recognition of the volatility and poor performance of worldwide stock markets, the Group has had annual interim valuations carried out. These valuations which showed a reduction in the funding levels of the schemes, led the Group to recognise the need to increase the contribution levels, increasing the charge in the profit and loss account and higher cash contributions. During the year the Group charged £1.81m (2001: £1.33m) to the profit and loss account in relation to the defined benefit schemes.



*Prior years figures have been restated to reflect the adoption of FRS 19 – Deferred Tax.



In addition the Group operates a number of defined contribution schemes, for which the charge to the profit and loss account amounted to £1.62m (2001: £1.88m).

The Accounting Standard FRS 17 has been recently introduced, which although not required to be fully implemented until 2005 at the earliest, has a phased approach with regards to disclosures which the Group has complied with. If the Group had fully adopted FRS 17 in 2002 then the profit and loss charge in respect of defined benefits schemes would have been reduced to £0.8m. In addition, the net deficit arising on FRS 17 applied principles, which is effectively a snap shot of the assets at the year end date, would have led to the Group's net assets being reduced by £8.1m on the Group's Defined Benefit Schemes. (See note 25 to the accounts).

The impact on the Company's distributable reserves would have been to reduce them by £0.5m

Cash flow

The Group has generated net cash inflows from trading operations of £13.0m (2001: £19.8m), being 152% (2001: 121%) of operating profit (before interest and goodwill). The Group remains committed to strong management of working capital and to continuing to improve the trade working capital to sales ratio.

Capital expenditure during the year was £2.4m (2001: £6.2m) with a further £4.8m being paid for the acquisition of Garufo GmbH and on intellectual property for a new product line.

Borrowings, net of cash in hand, were £11.7m at the year end, leaving balance sheet gearing of 21% (2001: £8.6m and 14%).

Acquisitions

On 28 February 2002, the Group acquired the entire issued share capital of Garufo GmbH for a cash consideration of £4.3m. The fair value of the net assets of Garufo was £1.2m and the goodwill arising on the acquisition is approximately £3.1m. The goodwill is being amortised over 20 years.

Garufo GmbH reported a post acquisition loss of £0.3m on sales of £2.7m. The operating loss includes goodwill amortisation of £0.1m and reflects the costs associated with the investment in the newly acquired company as part of the development of the Dialight business in Europe.

During the year the Group also acquired the know how and intellectual property for the manufacture and sale of traffic signals for the UK market for a consideration of £0.6m which has been capitalised as an intangible asset and is being amortised over three years.

Treasury policy

The Group has a central treasury function that provides a service to the corporate centre and 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

	2002	2001
US dollar – average rate	1.503	1.440
US dollar – year end rate	1.610	1.455
Euro – average rate	1.591	1.609
Euro – year end rate	1.534	1.635

Currency transaction exposure

As with the majority of international companies, the Group's UK and overseas businesses purchase and sell products in their 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 fluctuation.

Funding and deposits

The Group utilises short and medium term facilities to finance its operations. The Group borrows in selected currencies at both fixed and floating rates of interest. Fixed rates of interest are 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.

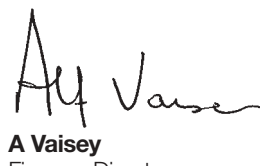
Accounting standards

The accounts have been prepared using the same accounting policies as last year with the exception of FRS 19 "Deferred Tax" as noted below.

FRS 19 "Deferred Tax"

The Group has adopted FRS 19 for the first time which has resulted in a deferred tax asset being recognised on the Group balance sheet which would not have been considered appropriate under the previous accounting standard.

The adoption gave rise to an additional group tax charge of £159,000 (2001: £331,000) and an increase to net assets of £744,000 (2001: £943,000). The results for the prior year have been restated in accordance with FRS 19. The adoption of FRS 19 has no impact on tax cash flow.


A Vaisey
Finance Director

