

## Finance Director's review

"DIVIDENDS UP 10% ON LAST YEAR  
TO 11.0p PER SHARE"

### FULL YEAR DIVIDENDS (ADVICE)

2004	11.0
2003	10.0
2002	10.0

### Summary of financial results

Group sales for the continuing businesses fell by £3.3m to £118.9m however this decrease relates to exchange rate movements arising from the translation of sales reported from our overseas operations, principally Dollar and Euro denominated which amounted to £6.3m. If sales were translated on a constant currency basis sales for the continuing businesses would have increased by 2.4% to £125.1m with both Dialight and Solartron reporting higher sales.

Group profit before interest, tax, exceptional items and goodwill amortisation was £10.2m (2003: £8.3m) an increase of 22.9% over last year. 2003 included a contribution from discontinued businesses of £2.8m and after excluding this profit the continuing businesses achieved an 87% improvement in profitability. Profits on a constant currency basis would have been increased by a further £0.7m.

### Summary of results by operating division

Group turnover and operating profit before goodwill amortisation from continuing operations are set out below:

	Turnover		Operating	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Dialight	55,268	57,916	5,879	1,071
Solartron	63,584	64,257	6,711	6,596
Central	-	-	(2,420)	(2,230)
	118,852	122,173	10,170	5,437

### Dialight

Dialight's turnover in 2004 was £55.3m compared with £57.9m in 2003 – a reduction of 4.6%. Exchange rate movements principally in the dollar decreased turnover by £5.4m. Assuming a constant exchange rate turnover for the division would have increased by 4.7%.

Dialight's operating profit in 2004 at £5.9m was significantly improved over 2003. Assuming constant exchange rates the operating profit would have been a further £0.7m higher than reported. The improvement in the operating profit is attributable principally to the elimination of duplicated costs last year and the costs incurred in transferring a large proportion of production to lower cost operations in Mexico, together with the cost savings from a successful programme of supplier selection.

BLP Components improved its performance with a positive contribution of profit to the group.

In 2003 the division absorbed cash to facilitate the relocation of operations to Mexico. This year with the strong operational improvements Dialight has reduced the amount of working capital being carried and this, together with the improved profits helped the division to generate cash.



### Solartron

Turnover for 2004 was £63.6m which was slightly lower than reported last year (2003: £64.3m). The net effects of movement in the Dollar and Euro on the translation of sales and operating profit reported by overseas subsidiaries was a £0.9m decrease and £23,000 increase respectively. The division improved its operating margin to 10.6% from 10.3% in 2003 despite the impact of the weakening Dollar on sales revenue.

The division has been consistently strong in cash generation and 2004 was no exception.

### Central costs

Costs have increased due to the Group executive bonus amounting to £337,000 together with redundancy costs incurred in the first half amounting to £78,000.

### Goodwill amortisation

Amortisation of intangible assets decreased to £1.1m (2003: £1.2m) following the elimination of the goodwill relating to Weston which was sold in 2003.

### Dividend

The proposed final dividend of 7.6p (2003: 6.9p) will provide shareholders with a total of 11.0p for the full year (2003: 10.0p). This dividend represents an increase of 10% over last year. Dividends are 1.7 times covered by profits for the year.

### Earnings per share

Basic earnings per share were 18.3p (2003: 45.4p). The earnings per share for 2003 included the earnings related to profit on the disposal of Weston. Adjusted earnings per share, which excludes the impact of the amortisation of intangible assets and the profit on sale of Weston in 2003, amounted to 22.0p (2003: 12.6p), an increase of 75%. Details of the calculations are given in note 8 to the accounts.

### Taxation

The tax rate, pre-exceptional profit and goodwill amortisation, for the year was 34.0% (2003: 30.8%). The Group's tax rate 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. The other major impact is the charge for goodwill for which there is no tax relief.

The Group's effective tax rate was 38.2% (2003: 11.7%) the table below provides an overall reconciliation between UK taxation rates and the Group's actual tax rate.

	2004 %	2003 %
UK taxation rate	30.0	30.0
Overseas higher tax rate	2.1	1.9
Unutilised overseas losses	3.7	4.4
Goodwill amortisation	3.2	4.9
Profit on sale of Weston (non-taxable element)	-	(24.6)
Other Items including adjustments in respect of prior years	(0.8)	(4.9)
	38.2	11.7

### Pensions

FRS17 "Retirement Benefits" was issued in November 2000 to replace SSAP 24 by 2005. Although it is not required to be fully implemented until 2005 there is a phased approach with regards to disclosures which the Group has complied with. If the Group had fully adopted FRS17 in 2004 then the profit and loss charge in respect of defined benefits schemes would have reflected a charge of £0.9m, a reduction of £0.5m from the actual 2004 SSAP 24 based charge. In addition, the net deficit arising on FRS17 applied principals, 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 £7.9m (2003: £7.5m).

ADJUSTED EARNINGS PER SHARE (PENCE)		CASH FLOW AS PERCENTAGE OF OPERATING PROFIT (%)		CASH FLOW FROM TRADING OPERATIONS (£m)	
2004	22.0	2004	130	2004	13.2
2003	12.6	2003	128	2003	10.6
2002	9.1	2002	152	2002	13.0

The impact on the Company's distributable reserves would have been a reduction of £0.6m (2003: £0.6m).

#### Cash flow

The Group has generated net cash in flows from trading operations of £13.2m (2003: £10.6m), being 130% (2003: 128%) of operating profit (before interest and goodwill).

Capital expenditure during the year was £1.3m (2003: £1.7m).

An analysis of free cash flow (operating cash flow before acquisitions and transactions with shareholders) is set out in the table below:

Cash flow Analysis	2004 £m	2003 £m
Cash inflow from operating activities	13.2	10.6
Net Interest paid	-	(0.3)
Capital expenditure	(1.3)	(1.6)
Tax paid	(3.6)	(1.9)
Free cash flow	8.3	6.8

As at 31 December 2004 the Group had net cash in hand of £6.8m (2003: £2.0m).

#### 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	2004	2003
US dollar – average rate	1.833	1.634
US dollar – year end rate	1.92	1.79
Euro – average rate	1.474	1.446
Euro – year end rate	1.413	1.419

#### 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 has two principal bankers with a combined facility of £15m. At the year end the Group has unutilised facilities of £15m. 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.

#### Accounting policies

The accounts have been prepared using the same accounting policies as last year.

#### Adoption of International Financial Reporting Standards (IFRS)

All European Union listed groups are required to adopt IFRS for the preparation of their financial statements from 2005. This means that the Group will prepare its first financial statements under IFRS for the year ended 31 December 2005 and will restate the results for the 2004. The 2005 interim statements will show the impact of the adoption of IFRS.

The Group has assessed the impact of the adoption of IFRS and summaries have been presented to the audit committee on a regular basis.

Based on the assessments we believe areas affecting the Group's net profit and shareholder's funds will be in the following areas:

#### Post employment benefits

The Group has reported the transitional arrangements under FRS17 in note 25 to the accounts. Under IAS 19 accounting for pension costs is similar to FRS17 and the impact on the profit and loss account and the movement through the statement of total recognised gains and losses will closely follow that set out under FRS17.

#### Intangible fixed assets

Under UK GAAP the Group amortises goodwill on a straight line basis over 20 years. Under IFRS3 goodwill will no longer be amortised but will be subject to an annual review for permanent impairment. Any impairment will be charged through the profit and loss account.

IAS 38 requires the mandatory capitalisation of development costs if certain criteria are met.

#### Financial instruments

IAS 39 requires that all financial instruments in place to manage the exposure to foreign exchange risk are recognised at fair value with changes to the fair value recognised through the profit and loss account.

Under IAS 39 there is the option to adopt hedge accounting if certain effectiveness criteria are met. If adopted this has the effect of accounting for the fair value movements through reserves until the related asset/liability is recognised.

#### Proposed dividends

Dividends are recorded in the period they are approved.

#### Preference shares

The preference shares outstanding as at 31 December 2004 will be reclassified as debt.

#### Shares 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. There is no adjustment for the share options in issue as they were granted by November 2002.