

## Annual Report & Financial Statements

for the year ended 31 December **2008**



# our mission

Inspiring our people to  
**be The Experts in Power**  
delivering genuine value  
to our customers

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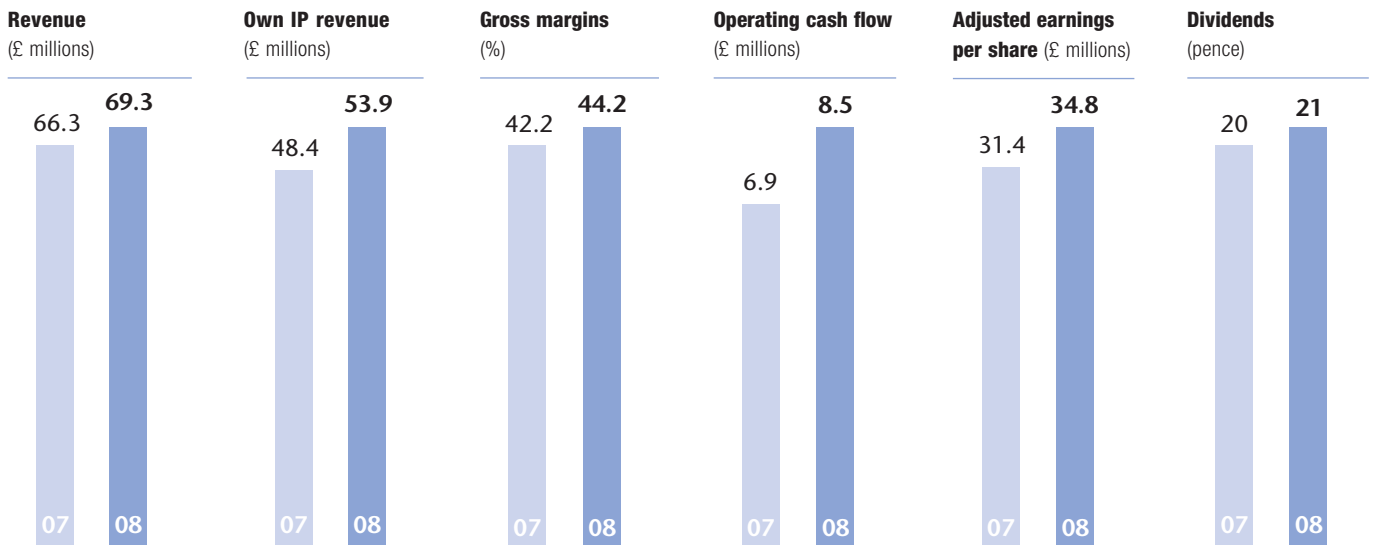
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# Financial and Operational Highlights

XP Power is one of the world's leading developers and manufacturers of mission critical power control solutions to the electronics industry. Power direct from the grid is unsuitable for the equipment which it supplies. XP Power designs and manufactures power converters which convert power into the right form for our individual customer's needs, allowing their electronic equipment to function. XP Power supplies the healthcare, industrial and technology industries with this mission critical equipment. Significant, long term investment into research and development means that XP Power's products frequently offer significantly improved functionality and efficiency.



Revenue **up 5%**

Dividend **up 5%\***

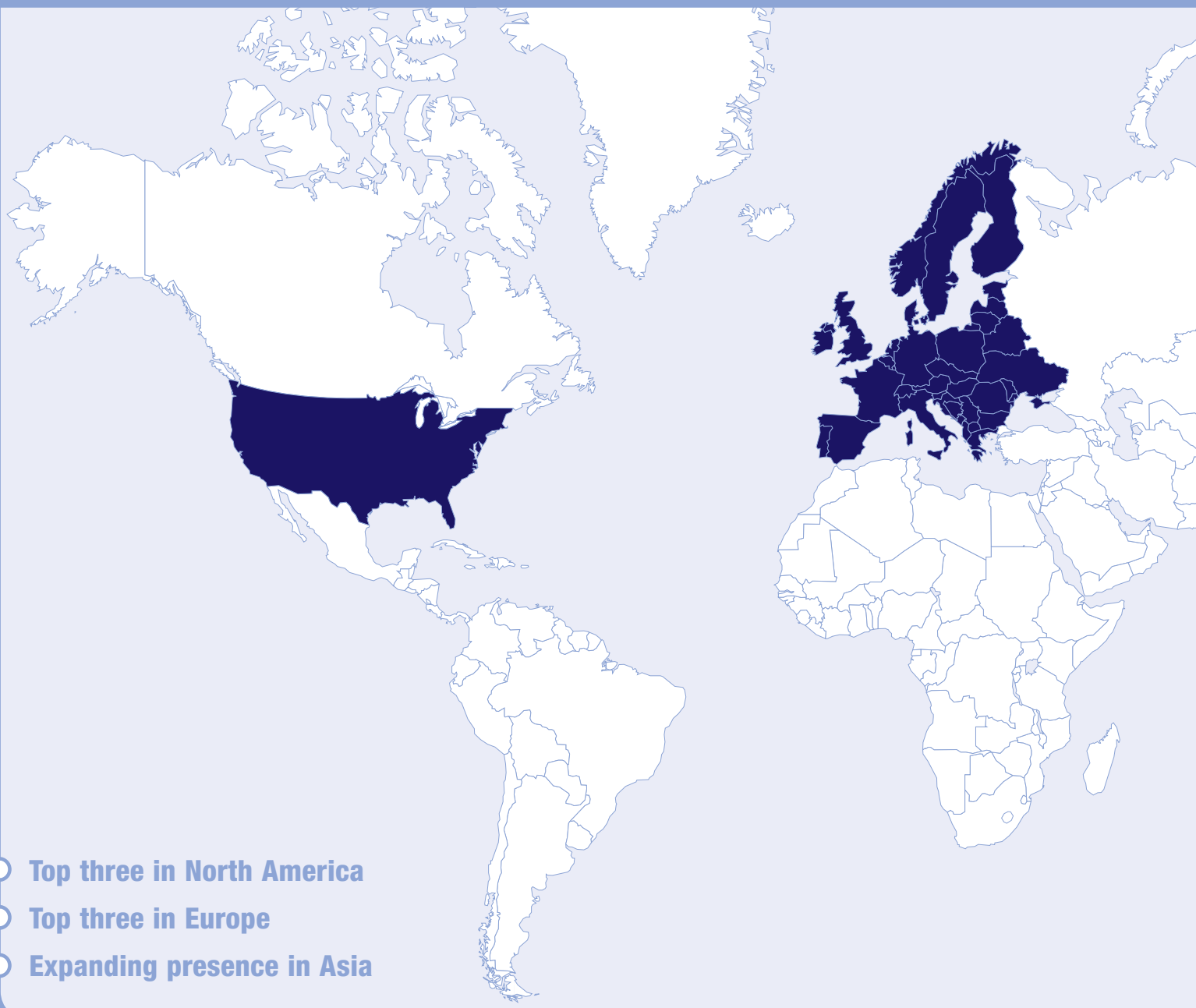
Own IP revenue **up 11%**

Adjusted earnings per share **up 11%**

Gross margins **up 2% points**

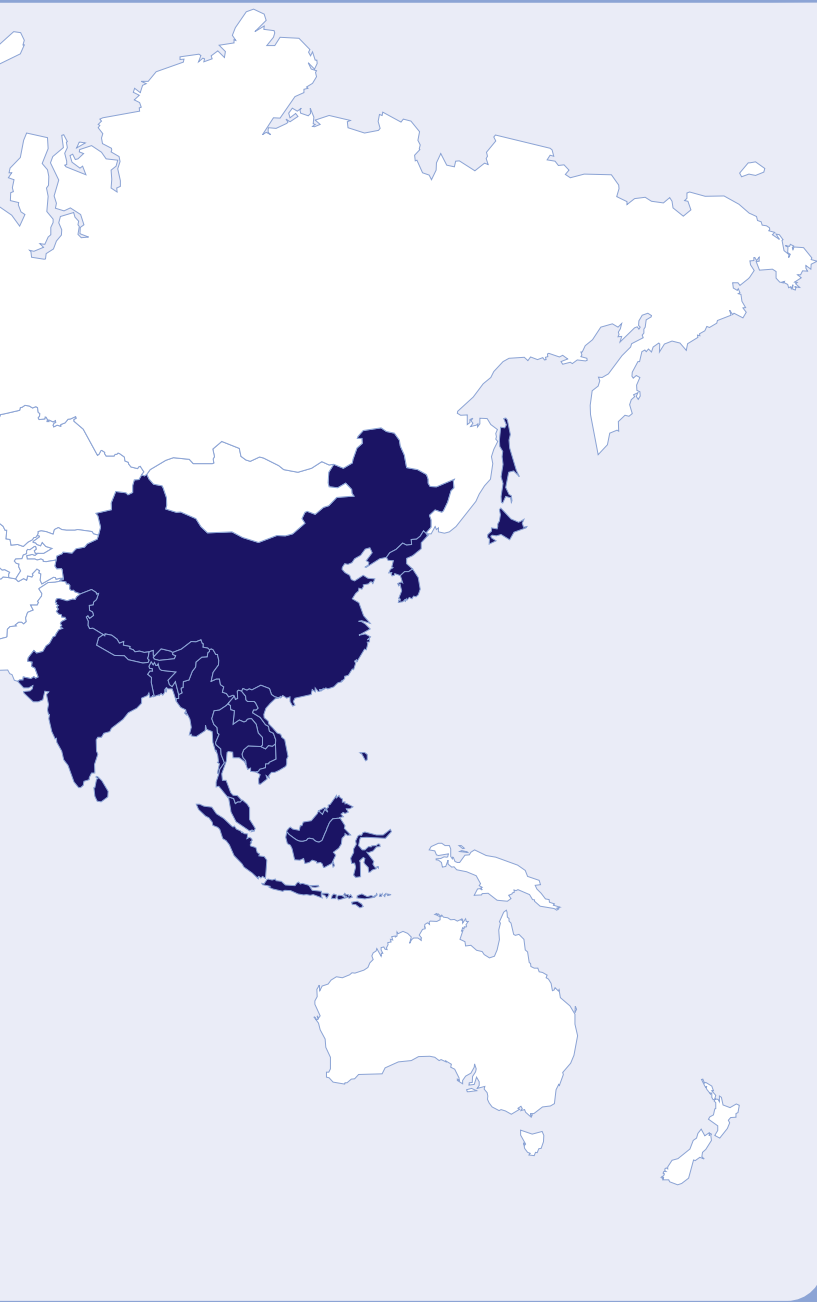
Record statutory earnings per share (2007: 17.8p) **46.4p**

Operating cash flow **up 23%**



- Top three in North America
- Top three in Europe
- Expanding presence in Asia

# market leader in power control



## Global Blue Chip Customers

# 73%

S&P 500 Industrial Equipment Manufacturers

# 94%

S&P 500 Healthcare Equipment Manufacturers

# 69%

S&P 500 Technology Equipment Manufacturers

## Growing Market

Industry forecasts growth of circa 17% over next 4 years from circa US\$1,989m in 2008 to US\$2,320m by 2012

## Growth Drivers:

### Efficiency

The requirement from customers and legislation for products to consume and waste less energy drives the requirement for more efficient power converters

### Innovation

Customers competitive needs to launch new products offering increased productivity and functionality whilst reducing harmful environmental impacts

### New Products

The diverse product requirements of XP's target market provide opportunities to enter new niches

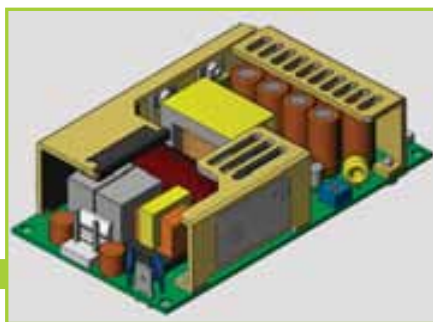
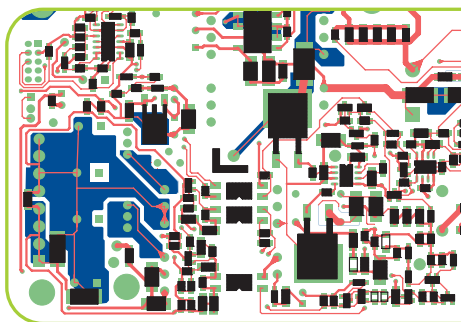
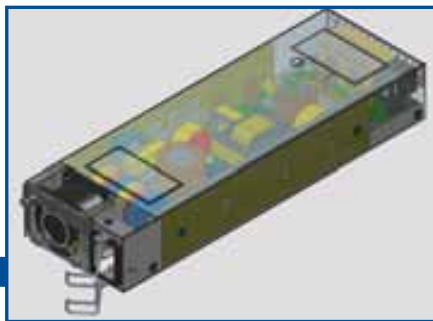
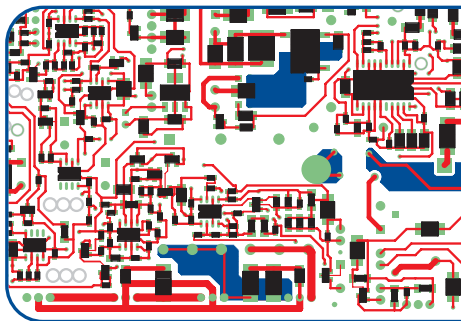
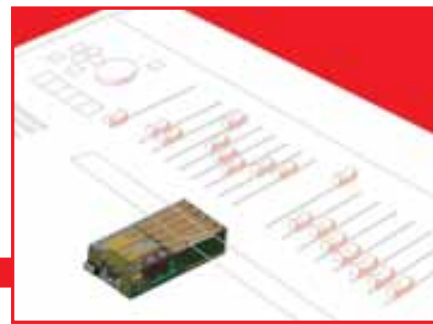
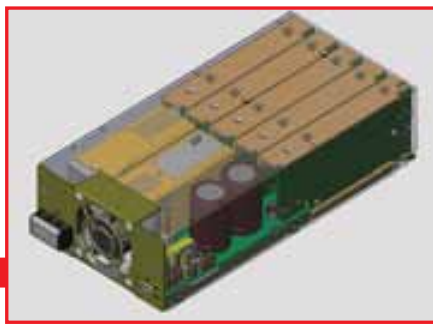
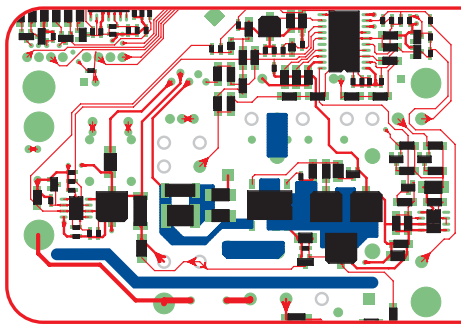
### Penetration

The blue chip customer base provides good opportunities to win new programs from their multiple engineering teams

### Healthcare

Global population increasing and continuing to age coupled with increased legislation and the deployment of more healthcare devices in the home

# The Group's Products



Our target customers have very diverse products with diverse power requirements. XP Power currently has a portfolio of over 70 product families that can be combined in a near infinite number of configurations, enabling us to fulfil these requirements quickly, efficiently and cost effectively.

## Our products

All electronic equipment needs a power converter to be able to function – no electronic equipment can be powered directly from the wall socket. An electronic power converter is required to convert the power output from the wall socket to the usable power which allows the equipment to work. XP Power is one of the world's leading developers and manufacturers of these power converters.

An electronic power converter performs the following functions:

- Converts electrical power from one voltage to another voltage;
- Converts alternating current (AC) to direct current (DC) or vice versa. XP Power also provides products that will convert one DC voltage to an alternative DC voltage;
- Meets the safety critical requirement of shielding the user of any piece of equipment from the dangerous mains supply;

- Filters the electrical noise and the spikes and dips in power from the mains supply so it does not produce undesirable effects in the customer's equipment;
- Prevents electrical noise from being transferred into the mains supply by the customer's equipment; and
- Meets the increasingly demanding regulatory and legislative requirements.

Our customers are constantly trying to differentiate their products from those of their competitors. This dynamic frequently leads to different requirements for the power converters which we supply for our customers. Consequently, the XP Power research and development function has developed, and continues to improve, an extremely broad product portfolio. In addition to this the majority of XP Power products are capable of being modified specifically to our customers' exact requirements. This extra design capacity is a competitive advantage over the majority of our peer group.

# Examples of Customer Applications



## Technology

mixing desk

**26%** of revenue



## Industrial

air traffic control

**52%** of revenue



## Healthcare

heart rate monitor

**22%** of revenue

A broad, and continually evolving, product portfolio is critical because different market sectors require different features in their power converters. The technology sector will often require high power density and leading efficiency so that the minimal amount of heat is generated during the power conversion process and the power converter is as small as possible. The industrial sector frequently requires ultra high reliability within harsh environmental conditions. Healthcare has special legislation relating to power conversion relating to the stringent safety requirements of powering products which are in contact with the patient. Our market leading research and development function and long term customer relationships means that XP Power is capable of successfully identifying and addressing its customers' specific needs promptly and efficiently.

### Product examples

#### Technology – CCM250

The CCM250 is an extremely high density ultra efficient converter. Although it is approved for use in both healthcare and technology equipment, it is of particular interest to customers who are concerned about excessive heat in their equipment and have limited space available for the power converter. The ultra high efficiency means the power conversion process is performed with minimal heat production.

#### Industrial – ECL25

The ECL25 is the smallest 25 watt AC-DC power converter available in the world. It is available in three different mechanical formats according to the requirements of the customers concerned. These comprise two types of printed circuit board formats where the converter can be directly attached to the customer's printed circuit board or chassis and a fully encapsulated format. The fully encapsulated format is necessary for customers whose equipment

is designed to work in very harsh environments with fluctuating temperatures, dust and moisture.

#### Healthcare – ECM140

The healthcare market is an attractive market for XP Power. The customers in this space have stringent requirements and place great value on suppliers who understand the very specific power requirements in this market and can provide excellent technical support. The legislation is complex and continually evolving. XP Power has the broadest healthcare product offering in the power converter industry. Its specialism in this area enables XP Power to add great value to its customers' development programs when it comes to power considerations within their equipment. One example is the ECM140 family of power converters. They have full medical approvals and have been very well received by our blue chip medical customers generating a number of recent significant wins.

# Case Study - Healthcare

**Peter Blyth**, Industry Director – Healthcare



ECM140



There has been a shift at XP Power over the past few years, with far more focus given to developing products with our customers in anticipation of their future requirements. This is now a key component of XP Power's strategy.

To ensure that we are best able to identify our customers' future demands, we have developed dedicated, specialist sector teams whose objective is to build long term relationships with the different industry product development engineers in their particular sector, be it healthcare, technology or industrial.

I am responsible for the healthcare industry specialist sector team. In this position I work closely with our relationship managers on specific customer projects. This enables me to gain valuable insight into what the customer is currently developing and therefore be able to understand what products they will need in the future. The standards and regulations for the power control component industry are becoming increasingly demanding, particularly in the healthcare sector, which is another driver for product innovation.

Once a trend in the healthcare sector is identified, which shows a commercially viable demand for a new power converter product, my team generates a tailored product marketing specification. These product marketing specifications are put together to specifically address the particular trend we have identified. We always look to specify the products to find as wide appeal as possible in order to generate higher sales and therefore lower costs. This particularly benefits our blue chip customers in the healthcare sector who will often have lower sales volumes than customers in other sectors. After feedback is gained from an internal product creation team a detailed product specification is generated.

The executive management will then decide which of XP Power's three global design teams will develop the particular product in question. This decision is based on the nature of the product that needs developing compared to the particular expertise of the different design teams.

Often our customers also require some form of modification to the standard power converters we offer. With this in mind, the capability to modify various aspects of the standard product is incorporated into the design from the outset. Doing this instead of a complete custom solution reduces the risk to the customer and reduces the time to market, thereby lowering the overall cost for the customer. The healthcare sector, as you would expect, is particularly risk adverse so this approach of using standard products as building blocks is particularly attractive.



# Chairman's Statement

**Larry Tracey**, Executive Chairman, XP Power



## Overview

It has been a good year for XP Power. With regard to sales, the target to increase the percentage of sales based on XP Power's IP is being implemented successfully with these sales now accounting for 78% of total sales. Demand from our blue chip customer base was buoyant and this demand was driven by the quality of our market leading product portfolio – a direct result of the investment the Company has made in research and development.

The global economic outlook is uncertain. However, the operational developments and improvements implemented by management, for example with regard to XP Power's manufacturing capacity and the continued investment in research and development, mean that the business has a competitive advantage when looking to capitalise on the commercial opportunities already identified. Looking ahead at the medium term, management are convinced that the structural demand for XP Power's products mean that the business has a promising future.

## Financial

Total sales increased by 5% to £69.3 million (2007: £66.3 million). Of this, XP Power's own IP sales increased 11% to £53.9 million (2007: £48.4 million). Sales based on XP Power's IP are now 78% of total sales, compared to 73% in 2007. This is significant and consistent progress as five years ago own IP sales were less than 50% of our sales. Ongoing improvement in the sales mix helped to drive gross margins to 44.2% (2007: 42.2%). Operating profit was £9.3 million (2007: £9.1 million after excluding £2.4 million of reorganisation costs to move the parent Company to Singapore). Adjusted Earnings Per Share increased 11% to 34.8 pence (2007: 31.4 pence). Statutory Earnings Per Share of 46.4 pence (2007: 17.8 pence) was the highest ever.

Operating cash flow was up 23% to £8.5 million (2007: £6.9 million) representing 91% of operating income.

## Strategic Progress

2008 has been an important year for XP Power. The management has completed the transformation of the Company from a reseller of electronic components into a leading developer and manufacturer of mission critical, power control solutions.

Significant strides were taken towards improving the manufacturing capacity of XP Power, which will improve XP Power's capacity to design tailor made solutions for specific customer orders. The management completed the purchase of the 50% of the joint venture manufacturing facility early in the year and built a new factory on the same site adjacent to the existing facility. This new factory will quadruple XP Power's manufacturing capacity when it becomes operational in Spring 2009. Further investment has been made purchasing land close to Ho Chi Min City (Saigon) in Vietnam. Management will seek planning consent to build a facility which should enable the Company to triple the expected output from the new China factory. XP Power's manufacturing facilities continue to receive audit approvals from our target blue chip customers.

The management is anticipating an increase in the product pipeline through 2009, following the ongoing investment made in research and development. This increased production pipeline will increase the competitiveness of the product portfolio, consolidating XP Power's technological leadership.

These investments are under-pinned by the annuity value of design wins with our blue chip target customers. The typical product life is in excess of five years.

## Dividend

A final dividend of 11.0p per share (2007: 11.0p) is proposed together with the interim dividend of 10.0p, this gives a dividend of 21.0p for the year (2007: 20.0p).

## People

We welcome the many new employees who have joined us in 2008, particularly the new Design Team in Singapore and the additional manufacturing personnel in Kunshan, China. We thank our many long serving employees for their dedication and expertise which enables us to provide a valuable service to our customers. Special thanks to the management team and sales people who have exited the distribution business and built a more valuable own IP company whilst maintaining earnings and dividends.

## Outlook

Although management is very positive about the medium term outlook for its end markets, the current economic turmoil makes the short term outlook a little more uncertain. The management does expect some adverse impact upon its customers.

However, the historic and continued investment which the Company has made in research and development is paying dividends, with a strong pipeline of market leading new products scheduled to be released through 2009. This will improve XP Power's competitive position during what is expected to be a challenging twelve months, and will contribute toward increasing sales in 2009.

As a global business, in recent years reporting in pounds sterling has had a negative impact on our revenues, particularly against the US Dollar. In contrast, the recent weakening of the pound sterling should go some way to mitigate the potential effects of the global downturn. We believe the strength of the tail winds in our business are at least as strong as the current economic headwinds.

A handwritten signature in black ink, appearing to read 'L. Tracey', written over a white background.

**Larry Tracey**  
Executive Chairman

**Duncan Penny**, Chief Executive, XP Power



2008 has been an important year in the development of XP Power. Originally listing in 2000 as a reseller of electronic components, the management have successfully completed the transformation of XP Power into a technology led business with an independent manufacturing capability. The transformation of the business model means that the majority of sales are now generated by products based on own IP, which generates higher margins, and gives XP Power the capacity to design tailor made power control solutions for specific customers.

This transition is a major milestone in the Company's development, the benefits of which have been illustrated by a number of design wins from new and significant blue chip customers.

## Markets

XP Power supplies power control solutions to original equipment manufacturers (OEMs) who themselves supply the healthcare, technology and industrial markets with high value products.

Acknowledging that the global economic outlook is very uncertain, the management have identified fundamental medium term growth drivers for the electronics industry. The increasing importance of energy efficiency of electronic components, for environmental and economical reasons, the necessity for smaller and smaller products, the rate of technological change and the increasing usage of electronics all illustrate the medium term demand for XP Power's market leading products. Historically, the market for XP Power's products has approximately doubled every ten years. The management is confident that there will be a similar trend of growth over the next ten years.

The market for 2008 is estimated to be worth circa \$2 billion. Industry experts forecast that the market is expected to grow by approximately 17% over the next four years and be worth circa \$2.3 billion by 2012 (Source: Micro-tech consultants). Currently, XP Power's global market share is circa 6.5%. Across Europe and North America, XP Power currently has circa 10% of the market share while across Asia it has circa 1% of the market. This illustrates the number of significant commercial opportunities open to XP Power, and the Board is confident that the Company's competitive advantages over many of its peers will allow it to capitalise on these opportunities.

Our major blue chip customers continue to demand market leading, in terms of size and energy efficiency, highly reliable products. Our consistent investment in research and development has established a strong pipeline of products, some of which were introduced this year in response to market demand. This continually evolving portfolio of market leading products combined with the establishment of a manufacturing capacity has enabled us to penetrate a number of new customers which will drive our revenues in future years.

XP Power supplies many major international OEMs. Increasingly, the design and manufacturing processes of these OEMs takes place across different continents. Consequently, these blue chip companies demand global support. Over the past few years, management have established an international network of offices which offers this support across technical sales, design engineering, logistics, operational and customer support.

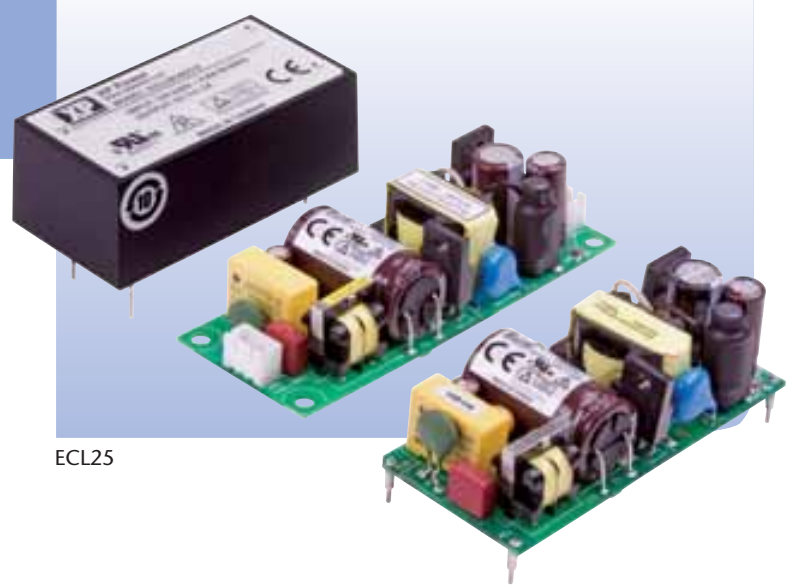
XP Power has a competitive advantage over its smaller competitors who do not have the scale and geographic reach to serve this type of global customer or its larger competitors who often lack the operational flexibility to provide excellent service and speed. The management believe that this balance offers XP Power the opportunity to increase its market share in 2009, and is one of the main reasons for the success in winning new contracts in 2008, which will turn into revenues in future years.

## Expanding the international network

XP Power has a network of 27 sales offices spread over North America, Europe and Asia, with a further 19 distributors, in order to support its customers. The management are constantly reviewing ways in which it can increase this network of offices to help the business capitalise on growth opportunities in each of its geographies.

XP Power has the largest, most technically trained sales force in the industry. The detailed in-house training programme demands that its sales force pass numerous technology and customer service modules. This means that the sales force are value add partners to its customer's product development teams. Management believes that this gives the business a competitive edge compared to many within its peer group.

The North American network consists of 17 sales offices and an extensive engineering services function, based in Northern California. This network allows XP Power to provide all its major customers local face to face support and extremely quick response times. The extensive engineering services function is located in Northern California. This engineering services function places XP Power as a value add partner, allowing



ECL25

it to comprehensively address the demands from its larger customers for complex solutions to be efficiently integrated into their end equipment. In turn, this service saves XP Power's customers cost, time to market and engineering resource.

In Europe, the XP Power network consists of nine sales offices and a further nine distributor offices, providing the same level of customer support as in North America. In addition XP Power has engineering services centres in Germany and the UK. These centres provide some of the largest blue chip conglomerates in Europe value add services for market leading complex power control solutions.

The Asian sales activities are run from Singapore, which also manages a network of seven distributors, which serve the region. The management expanded its distribution network in Asia during the year; notably in India and Korea, which show promise.

In 2008, XP Power continued to widen its commercial interests in China by establishing a local direct sales force. This offers XP Power two important commercial opportunities. Firstly, it will allow XP Power to continue to closely support its major European and North American customers who have set up design centres in China. Secondly, it will allow XP Power to address

the demand from Chinese companies who need power control components which meet European and North American legislation so that they can sell their products into these markets. Good growth is expected in Asia during 2009, albeit from a relatively small base. Management expects revenues derived from Asia to be an increasing proportion of XP Power's worldwide revenues.



**2008 has been an important year in the development of XP Power. Originally listing in 2000 as a reseller of electronic components, the management have successfully completed the transformation of XP Power into a technology led business with an independent manufacturing capability. The transformation of the business model means that the majority of sales are now generated by products based on its own IP, which generates higher margins, and gives XP Power the capacity to design tailor made power control solutions for specific customers.**





## Market leading technology

XP Power has consistently invested significantly in its research and development of new products. This investment has established a competitive portfolio of products and a pipeline of market leading products. XP Power has a collaborative relationship with many of its customers and in some cases the design process is started directly in response to a future customer requirement.

XP Power's commitment to research and development was illustrated by the opening of a new design centre in Singapore, to work alongside the design centres in North America and the UK. Asia is an important growth market for XP Power and establishing a significant research function in this region will help the company capitalise on the evolving demands of the market in this region.

Through 2008, XP Power maintained its market leading position releasing 20 new product ranges. The launch of these product ranges resulted in a number of exciting new customer approvals. In these cases, the XP Power power converter

has been approved by the customer to be used in their forthcoming production programs. Of particular note are the ECM140 which is approved for use in healthcare and industrial applications and CLC175 which is focused towards the technology market. These products have already enabled us to win some significant business with major new customers. This illustrates the importance of a strong product pipeline, something which XP Power has invested in significantly over the past few years.

Another example of our cutting edge technology is the launch of the ECL25, the latest addition to the ECL range. The ECL25 is currently the smallest 25 Watt power supply in the world. Customers can choose between three different formats according to the nature of their application.

We are also experiencing good growth in our DC-DC business. DC-DC converters are used to change one direct current (DC) voltage, often provided as "bulk power" into the customer's system, to another DC voltage to drive a particular electronic component in that customer's system.

## Establishing a manufacturing capacity

One of the management's principle objectives was to establish an independent manufacturing capacity in response to demands from its increasing number of blue chip customers. This capability means that XP Power is now a value-add partner in the supply chain of its customers because it can design and manufacture power control components to a particular customer demand. Having control of the manufacturing activities not only allows us to strictly control the manufacturing processes as demanded by our larger customers but also gives us opportunities to reduce our product costs.

In 2006, XP Power started a Chinese manufacturing joint venture with Fortron Source. On 1 January 2008, XP Power purchased the remaining 50% of the joint venture for US\$2.5 million in cash, and took control of the facility. Subsequently, the management has increased the variety of products manufactured in this factory during the first half of the year, including the ECM140 and CLC175 noted above.

Since taking over the facility, significant investment has been made in upgrading the equipment and manufacturing capacity, and the operational management team has been strengthened. Following these initiatives, the facility is now producing twice the end revenue it achieved in 2007 and recently broke all records with shipments in excess of 60,000 units in one month.

XP Power is seeing increasing demand for higher margin products based on its own IP. Subsequently, the management took the decision to further increase the manufacturing capacity of this facility. In June 2008 construction of a new 70,000 square foot building was started (picture page 11). This building is on the existing site and, once completed, will increase the available manufacturing space by a factor of four. Significant investment is being made to ensure that this factory has the cutting edge infrastructure and hardware technology to further strengthen the XP Power proposition to the major OEMs. Furthermore, XP Power has purchased land close to Ho Chi Min City in Vietnam. The Company will apply for planning consent to build a factory whose capacity, upon completion, will be three times the capacity of the extended Chinese factory.



The move into manufacturing has enabled XP Power to become an approved vendor to a number of new blue chip customers, which will help drive revenue growth. The manufacturing facility achieved a number of successful audit qualifications from blue chip customers during the period.

### Supply Chain Operations

Two years ago, management decided to put in place a supply chain resource in Asia. A number of low cost, high quality Asian component suppliers were identified and this resource is now having a quantifiable and positive benefit to reducing the product acquisition costs. We are using these suppliers in many of our new product designs.

The supply chain success, in conjunction with the improvements, enhancements and expansion of the manufacturing facility, allows XP Power to reduce the cost of its products and improve lead times. This will support XP Power's strong reputation across its chosen markets, and allow it to capitalise on other commercial opportunities identified by management. This, in turn, will increase

XP Power's competitive position in a number of promising markets, and take market share in some of the markets where it already has an established presence.

The initiatives implemented by the management to reduce its cost of production will be supplemented by a number of macro factors. The inflationary pressures caused by the rapidly increasing commodity costs completely reversed in the later part of 2008, due to the macro economic back drop. The appreciation of the Chinese currency appears to have halted and may also reverse. The management expect this to lead to further cost reductions in the industry.

### Investing in customer support

In a competitive market place, excellent customer support and service is critical. XP Power has developed a network of relationship managers and sales engineers to support its customers, many of which are major international conglomerates. This network successfully manages long-term customer relationships across three continents. As noted above, it is not

unusual for XP Power's sales engineers to be dealing with different elements of the customer's team across three continents, for just a single program. The management have worked hard at building a sales culture to successfully manage these complicated relationships. The Company has developed its own customer relationship management tools to effectively manage the sales process in these circumstances.

These tools allow the Company to track the progress of every customer program from its identification, quotation, sampling, approval and, finally, its successful move into production. This allows the Company to coordinate between different customer sites and share important information, thereby providing excellent customer service, as well as being an excellent tool to manage a large sales force which is geographically dispersed.

The management regards these tools and how they are utilised as a competitive advantage over its larger competitors.



## Strong Business Model

We have a strong business model

- The Company is exposed to a number of end markets – Technology, Industrial and Healthcare.
- The customer base is fragmented, with no one customer accounting for more than 2.5% of revenue. We have over 6,000 direct active customers.
- The internally developed in house customer relationship management tools allow efficient management and identification of pricing and product trends which enable development of appropriate leading new products.
- Strong margins and lower capital investment requirements compared to other manufacturing industries results in strong free cash flow. XP Power's gross margins are amongst the highest in the industry.

- Although design cycles are often slow – typically an average period of 16 months from identifying a program to receiving the first production order – once XP Power's power converters are approved for use in the customer's end equipment a revenue annuity for the lifetime of the customer's equipment starts, which is typically five years.

It is this business model that ultimately allows the Company to grow and change while at the same time maintaining strong profitability and cash flow to fund returns to its shareholders.

## The Environment and Legislation

There is an increasing volume of legislation affecting the power converter industry, driven by eliminating hazardous chemicals from electronic products and by the need to reduce the amount of energy products consume.

Energy efficiency is becoming an increasingly important and topical issue. This is reflected in the operating standards to which the power converters need to be designed to meet and the ever expanding amount of regulation and legislation. For example, in the USA there are currently around 1.5 billion external power converters like those used with a laptop PC. Many of these external power converters are left permanently plugged into the mains supply and are consuming energy even when the equipment they power is switched off. External power converters alone account for 6% of the national US electric bill and it is estimated that left unchecked this could rise 30% by 2010.

In 1992 the US Environmental Protection Agency laid down some voluntary guidelines relating to energy consumption of single output external power converters which became the Energy Star program. Subsequently the Californian Energy Commission declared these requirements would be mandatory from 1 July 2006. The US Congress has enacted further legislation

setting out mandatory requirements for power converters which came into effect on 1 July 2008. The European Union has also produced a Directive relating to energy efficiency of power converters and similar initiatives are being put in place by legislative bodies throughout the world. It is anticipated that the operational requirements for power converter efficiency and power consumption will continue to become more stringent over time.

The management believe that this increase in regulation is positive for XP Power, along with some of its larger peers, because many of the smaller companies in the industry do not currently have the scale, resources or expertise to develop products which adhere to the improving standards. The significant investment in research and development made over the past few years means that XP Power already has many products which adhere to the most demanding of these operational standards and regulations. Further investment will continue to be made to preserve the technological edge which XP Power's products have over many of their competitors.



CLC175

### Outlook

The management have been working hard over the years to successfully diversify the balance of revenues, both by market and geography. The progress in this area means the business is better positioned to survive the difficult economic outlook than it has been in the past.

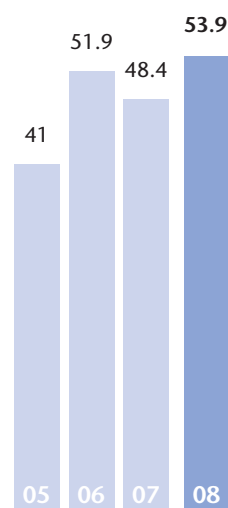
However, the management is conscious to acknowledge that the prospect of a global recession makes the short term outlook uncertain. It expects competition for business to be fierce although is confident that the improved XP Power proposition will ensure that it is successful in this tougher environment.

The management is confident about the fundamental medium term growth drivers which underpin the markets in which it operates. The business model has been successfully refocused on higher margin, own IP product sales and the development of an independent manufacturing capacity. This means that XP Power is very well placed to capitalise on these medium term growth opportunities, particularly when compared to a number of its peer group.

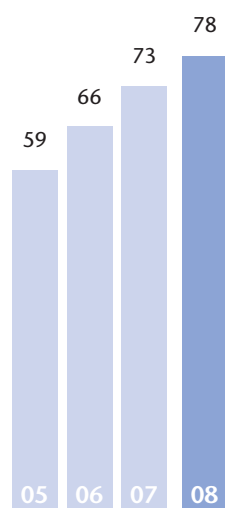
**Duncan Penny**  
Chief Executive

# Key Performance Indicators

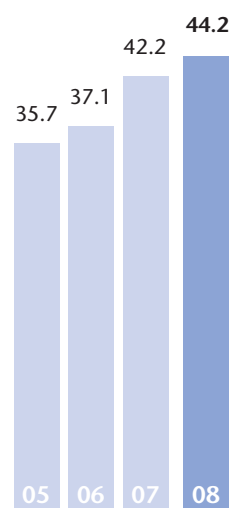
## Own IP Revenue (£ millions)<sup>(1)</sup>



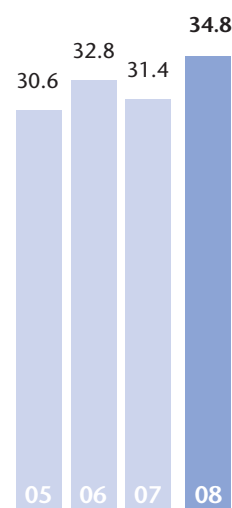
## Proportion of Own IP Revenue (%)<sup>(2)</sup>



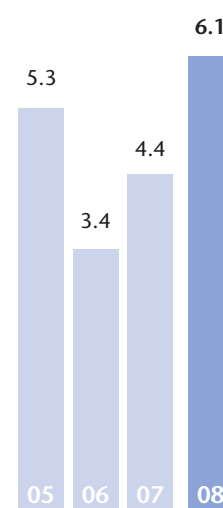
## Gross Margin (%)<sup>(3)</sup>



## Adjusted Earnings Per Share (pence)<sup>(4)</sup>



## Free Cash Flow (£ millions)<sup>(5)</sup>



**(1) Own IP revenue = revenue derived from sale of XP products**

The Company does not have an absolute long term target for this metric. However, the Company targets to grow this metric by 20% per annum.

**(2) Proportion of own IP revenue = revenue from sale of XP products as a percentage of total revenue**

Revenue per the consolidated income statement in the financial statements.  
The target was set in 2002 to achieve 75% by the end of 2007.

**(3) Gross margin = Gross profit as a percentage of revenue**

Gross profit and revenue both per the consolidated income statement in the financial statements. The target was set in 2002 to achieve 40% by the end of 2007.

**(4) Adjusted earnings per share = earnings per share adjusted for amortisation of intangibles associated with acquisitions, exceptional charges or profits, and diluted for the effect of the outstanding share options**

Diluted earnings per share is per the consolidated financial statements.  
Adjustments to the earnings per share are set out in Note 10 to the consolidated financial statements.  
There is no absolute long term target set for this metric but the Company targets to grow this metric by 20% per annum..

**(5) Free cash flow = Net cash flow from operating activities plus dividends from associates; less capitalised development costs; plus exceptional charges; less interest paid (see Note 17 to the consolidated financial statements).**

All figures are derived from the consolidated financial statements as set out in the consolidated cash flow statement.  
There is no long term target set for this metric but the Company considers it is important that the business model produces positive free cash flow.

We met our internal targets for three of our five performance indicators as set out above. Each of our financial objectives is discussed in the Chief Executive's Review. Whilst other performance measures are discussed in this Annual Report, it is the above five measures that the Directors use as the Company's key performance indicators.

Like many other international businesses the Company is exposed to a number of risks which might have a material effect on its financial performance. The Board has overall responsibility for the management of risk and sets aside time at its meetings to identify and address risks.

## Risks Specific to the Industry in which the Company Operates

### *Fluctuations in foreign currency*

The Company deals in many currencies for both its purchases and sales including US Dollars, Euro and its reporting currency Pounds Sterling. In particular, North America represents an important geographic market for the Company where virtually all the revenues are denominated in US Dollars. The Company also sources the majority of its product in US Dollars. The Company therefore has an exposure to foreign currency fluctuations. This could lead to material adverse movements in reported earnings.

### *Competition*

The power converter market is diverse and competitive in Europe, North America and Asia. The Directors believe that the development of new technologies could give rise to significant new competition to the Company, which may have a material effect on its business. At the lower end of the Company's target market the barriers to entry are low and there is, therefore, a risk that competition could quickly increase.

## Risks Specific to the Company

### *Dependence on key personnel*

The future success of the Company is substantially dependent on the continued services and continuing contributions of its Directors and other key personnel. The loss of the services of any of their respective executive officers or other key employees could have a material adverse effect on their businesses.

### *Loss of key customers/suppliers*

The Company is dependent on retaining its key customers and suppliers. Should the Company lose a number of its key customers or a key supplier this could have a material impact on the Company's business financial condition and results of operations. However, for the year ended 31 December 2008, no one customer accounted for more than 2.5% of revenue.

### *Shortage, non-availability or technical fault with regard to key electronic components*

The Company is reliant on the supply, availability and reliability of key electronic components. If there is a shortage, non availability or technical fault with any of the key electronic components this may impair the Company's ability to operate its business efficiently and lead to potential disruption to its operations and revenues.

### *Fluctuations of revenues, expenses and operating results*

The revenues, expenses and operating results of the Company could vary significantly from period to period as a result of a variety of factors, some of which are outside its control. These factors include general economic conditions, adverse movements in interest rates, conditions specific to the market, seasonal trends in revenues, capital expenditure and other costs, the introduction of new products or services by the Company, or by their competitors. In response to a changing competitive environment, the Company may elect from time to time to make certain pricing, service, marketing decisions or acquisitions that could have a material adverse effect on the Company's revenues, results of operations and financial condition.

### *Management stretch*

The management team is likely to be faced with increased challenges associated with the current macroeconomic situation. With the financial markets uncertain the management team must be able to adapt to the changing conditions and implement corrective measures as they are needed. It could adversely affect the Company if the management team is not able successfully to cope with this new challenge.

### *Information Technology Systems*

The business of the Company relies to a significant extent on IT systems used in the daily operations of its operating subsidiaries. Any failure or impairment of those systems or any inability to transfer data onto any new systems introduced could cause a loss of business and/or damage to the reputation of the Company together with significant remedial costs.

### *Risks relating to taxation of the Company*

The Company is exposed to corporation tax payable in many jurisdictions including the USA where the effective rate can be as high as 40.0%, the UK where the corporation tax rate is 28.0% and a number of European jurisdictions where the rates vary between 25.5% and 38.7%. In addition, the Company has manufacturing activities in Hong Kong where the corporation tax rate is 17.5% and sales companies in Singapore and Switzerland where the corporation tax rates are 18.0% and 20.0% respectively.

The effective tax rate of the Company is affected by where its profits fall geographically. The Company effective tax rate could therefore fluctuate over time. This could have an impact on earnings and potentially its share price.

Further, the Company's tax position includes judgments about past and future events and relies on estimates and assumptions. Although we believe that the estimates and assumptions supporting our positions are reasonable and are supported by external advice, our ultimate liability in connection with these matters will depend upon the assessments raised and the result of any negotiations with the relevant tax authorities. If the actual taxes and penalties imposed exceed the amounts we have accrued, it could adversely affect our financial position, results and cash flows.

## Cash Flow

Our operating profit allowed us to generate operating cash flow of £8.5 million during 2008 (2007: £6.9 million) and we returned £4.0 million (2007: £3.6 million) to shareholders in the form of dividends.

## Income and Expenditure Account

Revenues increased 5% to £69.3 million from £66.3 million in 2007. The majority of the revenue increase is a result of the strengthening of the US Dollar versus Sterling. During 2008 the average US Dollar to Sterling exchange rate increased from 2.00 US Dollars to Sterling in 2007 to 1.87 US Dollars to Sterling in 2008 resulting in a £2.3 million increase in US Dollar sales when translated into Sterling.

Gross margins increased 2 percentage points to 44.2% in 2008 from 42.2% in 2007 due to a greater proportion of own IP sales. Own IP product revenues were £53.9 million or 78% of total revenue in 2008 versus £48.4 million or 73% of total revenue in 2007.

Operating expenses were £22.2 million in the year as compared with £19.0 million in 2007. In accordance with the requirements of IAS 38, during 2008 £1.0 million of product development expenditure was capitalised (2007: £1.0 million) and £0.4 million was amortised (2007: £0.1 million). Gross expenditure on product development was £3.5 million, or 5% of revenue, compared to £2.7 million, or 4% of revenue, in 2007. As with the revenue, the change in the US Dollar to Sterling exchange rate resulted in an increase in our US Dollar operating expenses of £0.8 million when converted to Sterling.

At the end of 2007 in order to better manage foreign exchange exposures and reduce borrowing costs the Company reorganised the structure of its debt in terms of the borrowing companies and currencies that were drawn down under its banking facilities. During the period we further reviewed our internal financing arrangements between Group companies and decided to simplify our intercompany balances and merge one of our USA companies into another. The result of this internal reorganisation was that a number of long term intercompany balances were eliminated. Historically the revaluation of these balances was taken directly to a translation reserve in accordance with the prevailing accounting standards. These intercompany balances have now been eliminated and the historic foreign exchange gain on these balances has been released through the income statement in accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates". The amount concerned was US\$4.7 million or £2.4 million. There is no movement of cash related to this item.

## Financial Control and Reporting

One of the many challenges when combining and acquiring companies is providing accurate, relevant, and timely financial reporting both externally to the market and our shareholders and internally to manage the business. We consider that we have efficient processes and systems in place to allow us to monitor the business on a continual basis by the review of monthly accounts at monthly management meetings, and to ensure that we provide timely information to our shareholders.



### Derivatives and Other Financial Instruments

The Company's financial instruments consist of cash, money market deposits, overdrafts, and various other items such as trade receivables and trade payables that arise directly from its business operations.

The Company uses forward currency contracts to convert Sterling and Euro long positions to cover the US Dollar short positions in its parent company. The Company had £16.4 million of forward currency contracts outstanding at 31 December 2008 (See Note 24).

### Financing Costs

In September 2008 the Company renewed its £10 million annual working capital facility, which is priced at LIBOR plus a fixed margin of 2.5%. In January 2009 the Company converted its term debt facility of £16 million and its £5 million multicurrency revolving debt facility into a new term loan of US\$36.0 million. The new term loan is repayable over three years with US\$6.0 million due in 2010 and US\$30.0 million in 2011 and is priced at LIBOR plus a fixed margin of 2.0%. Both of these debt facilities are with Halifax Bank of Scotland.

In October 2008 as a result of the significant interest rate reductions the Company ended the Interest Rate Swap entered into in February 2008 at a cost of £0.1 million.

### Dividends

Our dividend policy is to pay dividends to our shareholders when legally and commercially able to do so. This year's increased operating cash flow has enabled us to increase the 2008 dividend (including final proposed) by 5% to 21p per share.

### Substantial Interests

Other than the Directors' interests (see Directors' Remuneration Report), at 31 December 2008 the Company was aware of the following interests in three per cent or more of the issued ordinary share capital of the Company:

Substantial Interests	Number of shares	%
Aberdeen Asset Managers	2,079,948	10.81
Lion Trust Asset Management	1,408,033	7.32
Brewin Dolphin	773,969	4.02
Credit Suisse Asset Management	688,171	3.58
Halifax Share Dealing	660,038	3.43
Gartmore Investment Management	625,000	3.25
Cavendish Asset Management	624,527	3.25
Cazenove Fund Management	612,472	3.18

**J. Mickey Lynch**  
Finance Director

# The Board of Directors



01

**Larry Tracey**  
**Executive Chairman** (age 61)

Larry co-founded Powerline plc ("Powerline") in 1979, where he focused on the strategic direction of the business. In March 1984, he was responsible for the flotation of Powerline on the Unlisted Securities Market of the London Stock Exchange and earnings grew 220 per cent in its three years as a quoted company. Larry headed Powerline's expansion into Germany and the US. Powerline was acquired by Chloride plc in September 1987.

In May 1990, Larry joined the Board of XP as an Executive Director. In April 2000, he was appointed as Chief Executive Officer of the Company, and in April 2002 he was appointed as Executive Chairman. On 3 February 2003 he stepped down from the role of Chief Executive and continued in the role of Executive Chairman.



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**James Peters**  
**Deputy Chairman** (age 50)

James has over 25 years experience in the power supply industry and trained with Marconi Space and Defence Systems, prior to joining Coutant Lambda, one of the UK's major power supply companies, as an internal sales engineer. He joined Powerline shortly after its formation in 1980 and was involved in all aspects of the business.

In November 1988, he founded XP. In April 2000, he was appointed as European Managing Director of the Company and was responsible for the overall management of the Company's European businesses. On 3 February 2003, James was appointed as Deputy Chairman.



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**Duncan Penny**  
**Chief Executive** (age 46)

Between October 1998 and March 2000, Duncan was the controller for the European, Middle Eastern and African regions for Dell Computer Corporation, prior to which he spent eight years working for LSI Logic Corporation where he held senior financial positions in both Europe and Silicon Valley. From 1985 to 1990, Duncan spent five years at Coopers & Lybrand in general practice and corporate finance.

He joined XP in April 2000 as Group Finance Director. On 3 February 2003, he was appointed as Chief Executive.

04

**Mike Laver**  
**President, North America** (age 46)

Mike has 19 years experience in the power supply industry. After completing his degree in Electrical Engineering at UC Santa Barbara, Mike held sales and technical positions with Power Systems Distributors, Compumech and Delta Lu Research. He joined ForeSight Electronics in 1991 and carried out various senior roles.

Mike is currently responsible for the US sales and value added engineering organisations. He joined the Board on 20 August 2002.

05

**Mickey Lynch**  
**Finance Director** (age 56)

Mickey joined the Group in April 2001 as Vice President of Finance for XP's North America operations and since February 2003 he has headed the finance team for the Group.

Prior to joining XP, Mickey spent 10 years at Atari Games Corporation the last five of which were in the role of Chief Financial Officer. Prior to that, he spent 12 years with ITT Corporation, holding various financial controllership roles. In June 2004 he was appointed Finance Director.

06

**Andy Sng**  
**General Manager, Asia** (age 38)

Andy joined the Company in July 2005 as General Manager for Asia to start and head up our Shanghai operations. He joined the Board in April 2007.

Prior to joining XP, Andy has worked in the power supply industry for eight years in various technical and commercial roles with companies such as Silicon Systems (Singapore) and Advanced Micro Devices (Singapore).

07

**John Dyson**  
**Senior Non-Executive Director** (age 60)

John was appointed Chief Executive of Pace Micro Technology plc in May 2003, prior to which he had been Finance Director since November 1997. John retired from Pace Micro Technology plc during 2006 and has co-founded a new business called Telehealth Solutions Ltd which has developed communications technology to remotely monitor medical devices. Before Pace, he held senior positions in both Silicon Valley and Europe for LSI Logic Corporation from June 1990 to November 1997. From September 1988 to June 1990 John was co-founder and Managing Director of Modacom Limited, prior to which he was Finance Director of Norbain Electronics plc (1986 -1988) and Case Group plc from 1977 to 1986.

He joined the Board of XP in June 2000. He is the senior non-executive director and chairman of the Audit and Remuneration Committees.

08

**Michael Hafferty**  
**Non-Executive Director** (age 66)

On 24 April 2007 Michael Hafferty was appointed as a non-executive director of XP. Michael has been the founder and CEO of several technology companies, including Tricom, Vegastream and Arkstream. He was a director of Case Communications plc and played a significant role in its IPO on the London Stock Exchange and as its Sales and Marketing Director built a worldwide sales and services organisation. Michael is the founder of the consulting company Arkbridge Pte Limited based in Singapore and as a result of that position was appointed Vice President, Asia Pac for the international software company iTRACS Corporation.

09

**David Hempleman-Adams**  
**Non-Executive Director** (age 51)

David joined the Board on 16 June 2008 and has a record of achievement in both business and exploration. David joined Robnorganic Systems in 1984 as sales and marketing Director, becoming CEO then Chairman. He is now the Chairman of Global Resins Limited. Both companies involved in the formulation and manufacture of resin systems for the light electrical market. He has been in this market for 24 years. He also serves as a non-executive director of Verridan Plc a company offering consultancy related to training and recruiting. In addition David is a founder and director of Hempleman Investment Company Limited which owns and manages business land and premises, also a director of Cold Climates which offers Adventure Experiences.

David is also involved in charity work notably as a Trustee of the Duke of Edinburgh Award Scheme and Mitchemp Trust.

For the financial year ended 31 December 2008

The directors of the Company in office at the date of this report are as follows:

Larry Tracey  
James Peters  
Duncan Penny  
Mickey Lynch  
Michael Laver  
Andy Sng  
John Dyson  
Michael Hafferty  
David Hempleman-Adams  
(appointed 16 June 2008)

In accordance with the Company's Articles of Association, Mickey Lynch, Michael Laver, Andy Sng, and David Hempleman-Adams retire and, being eligible, offer themselves for re-election at the Annual General Meeting.

## Arrangements to enable Directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than as disclosed in the Director's Remuneration Report on pages 23 to 26 of this Annual Report.

## Directors' Interests in Shares or Share Options

The present membership of the Board and the interests of the Directors in the shares of XP Power Limited are set out in the Directors' Remuneration Report.

## Directors' contractual benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except as disclosed in the accompanying financial statements, in the Directors' Remuneration Report and in this report.

## Dividends

An interim dividend of 10.0p per share was paid on 2 October 2008 (2007: 9.0p). We are proposing a final dividend of 11.0p per share (2007: 11.0p) which would be payable to members on the register on 20 March 2009 and will be paid on 3 April 2009. This would make the total dividend for the year 21.0p (2007: 20.0p).

## Audit Committee

The members of the Audit Committee at the end of the financial year were as follows:

John Dyson (Chairman)  
Michael Hafferty  
David Hempleman-Adams

All members of the Audit Committee were non-executive directors.

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act. In performing those functions, the Committee reviewed:

- The audit plan of the Company's independent auditor and its report on the weakness of internal accounting controls arising from the statutory audit;
- The assistance given by the Company's management to the independent auditor; and
- The balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2008 before their submission to the Board of Directors, as well as the independent auditor's report on the balance sheet of the Company and the consolidated financial statements of the Group.

The Audit Committee has recommended to the Board that the independent auditor, PricewaterhouseCoopers LLP, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company.

## Independent Auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors



Larry Tracey  
Executive Chairman



Duncan Penny  
Chief Executive

23 February 2009

Under the Singapore Companies Act, Chapter 50, the Company is not required to follow the Singapore Corporate Governance Code. The Company has voluntarily agreed to the principles of corporate governance contained in the Combined Code on Corporate Governance which is appended to the Listing Rules of the Financial Services Authority of the United Kingdom.

## Statement of Compliance with the Code of Best Practice

Throughout the year ended 31 December 2008 the Company has been in compliance with the Code provisions set out in Section 1 of the July 2003 FRC Combined Code on Corporate Governance except for the following matters:

- Larry Tracey and James Peters, Executive Directors, are members of the Remuneration Committee and the Nominations Committee, in contravention with A4.1 and B2.1 of the Combined Code. They are the two main shareholders and consider that any decisions they make will be aligned to the interests of the shareholders.
- There has been no formal evaluation of the performance of the Board, its Committees and the Directors during the year, as required by the Combined Code (A6.1).

Notwithstanding the above departures from the Combined Code, the directors consider that the current structure and function of the Board is appropriate for the present size and composition of the Group.

The Board is responsible for the proper management of the Group and for its system of corporate governance. It receives information on at least a monthly basis to enable it to review trading performance, forecasts and strategy. The following matters are specifically reserved for its decision:

- changes to the structure, size and composition of the Board
- consideration of the independence of Non-Executive Directors
- review of management structure and senior management responsibilities

- with the assistance of the Remuneration Committee, approval of remuneration policies across the Group
- approval of strategic plans, profit plans and budgets and any material changes to them
- oversight of the Group's operations, ensuring competent and prudent management, sound planning, an adequate system of internal control and adequate accounting and other records
- final approval of annual accounts and accounting policies
- approval of the dividend policy
- approval of the acquisition or disposal of subsidiaries and major investments and capital projects
- delegation of the Board's powers and authorities including the division of responsibilities between the Chairman, Chief Executive and the other Executive Directors.

The Board acknowledges that it is responsible for the Group's internal control and for reviewing its effectiveness.

The Group's internal controls are designed to manage rather than eliminate the risk of failure to meet business objectives, and can only provide reasonable not absolute assurance against material misstatement or loss.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group was in place during the entire financial year and has remained in place up to the approval date of the annual report and accounts. That process is regularly reviewed by the Board and Audit Committee and in accordance with the Internal Control guidance for directors on the Combined Code produced by the Turnbull working party.

The Board keeps its risk control procedures under constant review and deals with areas of improvement which come to its attention.

As might be expected in a Group of this size, a key control procedure is the day to day supervision of the business by the executive directors supported by managers within the Group companies.

# Corporate Governance Report

For the financial year ended 31 December 2008

The Board has considered the need for an internal audit function, but has decided that, because of the size of the Group and the systems and controls in place, it is not appropriate at present. The Board reviews this on a regular basis.

## Board Meetings

There were 7 Board Meetings during the year. The attendees were as follows:

Date	David Hempleman-Adams (*)	John Dyson	Michael Hafferty	Mike Laver	Mickey Lynch	Duncan Penny	James Peters	Andy Sng	Larry Tracey
5 February 2008	–	–	1	1	1	1	–	1	–
22 February 2008	–	1	1	1	1	1	1	1	–
3 March 2008	–	–	1	1	1	1	1	1	1
13 June 2008	–	–	–	–	–	1	–	1	–
16 June 2008	–	–	1	1	1	1	1	1	1
8 August 2008	1	1	1	1	1	–	1	1	1
19 November 2008	1	1	1	1	1	1	1	1	1
<b>Total</b>	<b>2</b>	<b>3</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>5</b>	<b>7</b>	<b>4</b>

(\*) Appointed 16 June 2008

## Audit Committee

The Audit Committee consists of the non-executive directors John Dyson (chairman), Michael Hafferty and David Hempleman-Adams. The Audit Committee met three times during 2008, the attendees were as follows:

Date	Attendees
20 February 2008	All except David Hempleman-Adams
7 August 2008	All
19 November 2008	All

The Committee is responsible for, amongst other things, ensuring that the financial performance of the Group is properly reported and monitored focusing particularly on compliance with legal requirements, accounting standards, and the requirements of the UK Listing Authority. The Committee also meets with the auditors and reviews the reports from the auditors without executive board members present.

As part of its remit, the Audit Committee also keeps under review the nature and extent of audit and non-audit services provided to the Group by the auditors. During the year the Committee formalised its policy and approved a set of procedures in relation to the appointment of external auditors to undertake audit and non-audit work. Under this policy:

- the award of audit-related services to the auditors in excess of £50,000 must first be approved by the Chairman of the Audit Committee, who in his decision to approve will take into account the aggregate of audit-related revenue already earned by the Group Auditor in that year. Audit related services include formalities relating to borrowing, shareholder and other circulars, regulatory reports, work relating to disposals and acquisitions, tax assurance work and advice on accounting policies;
- the award of tax consulting services to the auditors in excess of £100,000 must first be approved by the Chairman of the Audit Committee;
- the award of other non-audit related services to the auditors in excess of £20,000 must first be approved by the Chairman of the Audit Committee;
- and the auditors will be required to make a formal report to the Audit Committee annually on the safeguards that are in place to maintain their independence and the internal safeguards in place to ensure their objectivity.

## Nomination Committee

The Nomination Committee consists of Larry Tracey, James Peters and the non-executive directors. It is chaired by Larry Tracey and it reviews and considers the appointment of new directors. Any

appointment of a new director is voted on by the whole Board. The Nomination Committee met once during the year on 5 May 2008. During the year, the Nomination Committee oversaw the appointment of David Hempleman-Adams, as an additional Non-Executive Director.

## Relations with Shareholders

The Group engages in two-way communication with both its institutional and private investors and responds quickly to all queries received. The Group uses its website [www.xppower.com](http://www.xppower.com) to give private investors access to the same information that institutional investors receive. Interested parties are able to register for the Group's email alert service on this website to receive timely announcements and other information published from time to time. The Annual General Meeting is also an opportunity to communicate with shareholders where Directors are available for questions.

## Going Concern

The directors, after making enquiries, are of the view, as at the time of approving the accounts, that there is a reasonable expectation that it will have adequate resources to continue operating for the foreseeable future and therefore the going concern basis has been adopted in preparing these accounts.

# Directors' Remuneration Report

For the financial year ended 31 December 2008

## Introduction

This report meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration.

The members of the Remuneration Committee during 2008 were John Dyson, and Michael Hafferty (Non-Executive Directors), James Peters and Larry Tracey. The committee is chaired by John Dyson.

The Group considers it appropriate that Larry Tracey and James Peters are members of the Remuneration Committee as they are both major shareholders and would therefore act in the interests of shareholders as a whole even though this is recognised as a breach of the UK Combined Code on Corporate Governance (see page 21). The Committee makes recommendations to the Board. No Director plays a part in any discussion regarding his own remuneration.

There were 2 Remuneration Committee Meetings during the year, the attendees being as follows:

Date	Attendees
21 February 2008	All
5 May 2008	All

## Remuneration Policy for the Executive Directors

Executive remuneration packages are prudently designed to attract, motivate and retain Directors of the high calibre needed to maintain the Group's position and to reward them for enhancing value to shareholders. The performance measurement of the Executive Directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Committee.

The Committee consider the experience and value the individual directors contribute to the Group in assessing their level of pay.

There are five main elements of the remuneration package for Executive Directors and senior management:

- basic annual salary;
- benefits-in-kind;
- annual profit share payments;
- share incentives; and
- pension arrangements.

The Company's policy is that a proportion of the remuneration of the Executive Directors should be performance-related. As described below, Executive Directors may earn annual profit shares together with the benefits of participation in share option schemes.

## Basic salary

An Executive Director's basic salary is generally reviewed by the Committee each year and when an individual changes position or responsibility. Basic salaries for Executive Directors have been reviewed as follows:

Executive	Date of last review	Effective date of last increase
Larry Tracey	21 February 2008	1 January 2005
Mike Laver	21 February 2008	1 January 2007
Mickey Lynch	21 February 2008	1 January 2007
Duncan Penny	21 February 2008	1 February 2007
James Peters	21 February 2008	1 January 2005
Andy Sng	21 February 2008	1 January 2008

Executive Directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

## Benefits-in-kind

The Executive Directors receive certain benefits-in-kind, principally life assurance and private medical insurance. In addition Duncan Penny received a housing allowance relating to his relocation to Singapore and Andy Sng received a housing allowance relating to his relocation to Shanghai.

# Directors' Remuneration Report

For the financial year ended 31 December 2008

## Annual bonus payments

The Committee establishes the profit thresholds that must be met for each financial year before a cash bonus is to be paid. The Committee believes that any incentive compensation awarded should be tied to the interests of the Company's shareholders and that the principal measure of those interests is growth in operating profit. Account is also taken of the relative success of the different parts of the business for which the Executive Directors are responsible. The profit share that an Executive Director can be paid is uncapped.

## Share options

The Group operates a number of share incentive schemes. The IFX Power plc Share Option Plan as approved by the shareholders in April 2001 allows the Company to grant options over up to 2,113,711 shares representing 10% of the issued share capital at the time the Plan was set up with or without performance conditions. Due to the Scheme of Arrangement, the IFX Power plc Share Option Plan has been continued by XP Power Limited under the same conditions. No options under this scheme have been awarded to Executive Directors during the year.

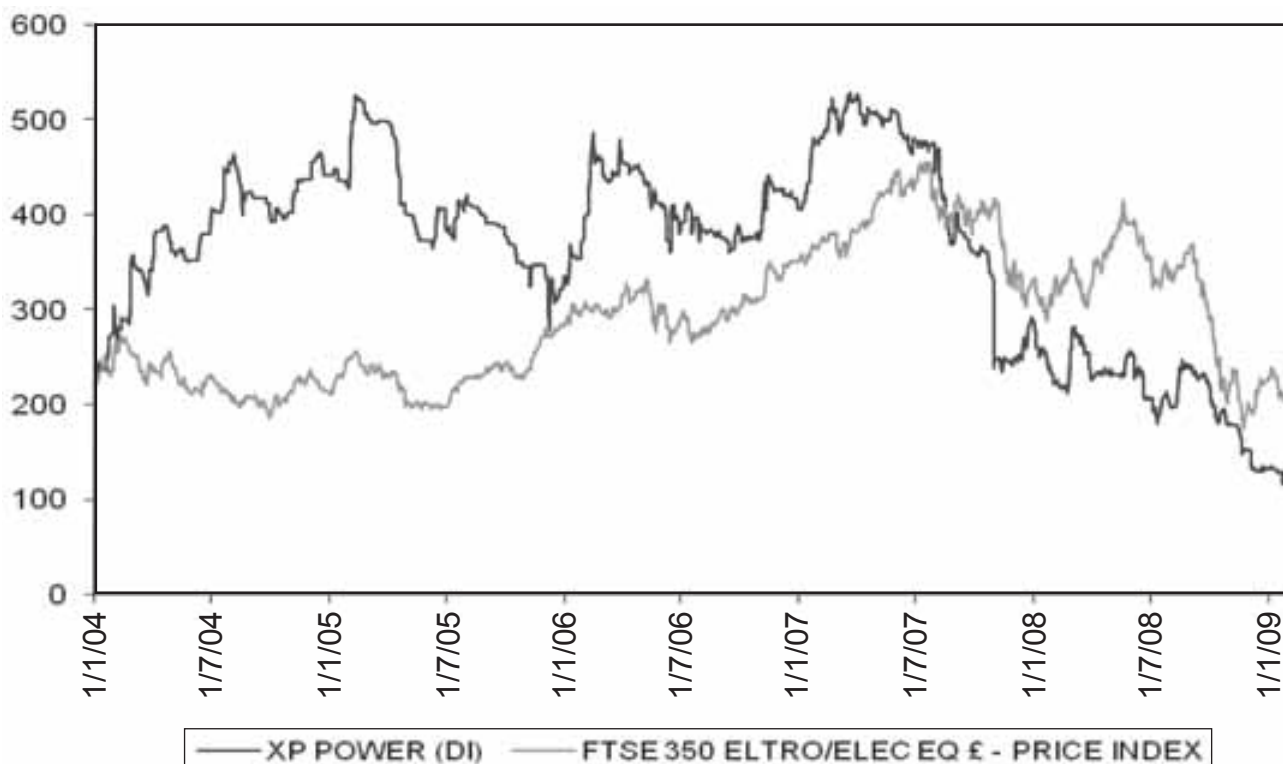
## Pension arrangements

In the USA, the Group operates a defined contribution "401K Plan". The Group matches the director's contribution to this plan up to a maximum of 2% of salary.

The Group does not operate a pension scheme for the Singapore based directors but does make a payment to them of 3% of base salary in order for them to invest in a pension plan of their choosing.

## Performance graph

The following graph shows the Company's performance, compared with the performance of the FTSE 350 Electronic and Electrical Equipment Price Index.



Source: Datastream

## Directors' contracts

The Executive Directors' contracts run for an indefinite period, with the Company being able to terminate the contracts without cause giving 12-months notice. When a Director is terminated without cause, the Director is entitled to a termination payment of 12 months of basic pay.

## Non-Executive Directors

Non-Executive Directors' contracts run for an initial 12 month period, renewable each year. They are not entitled to any termination payments. Non-Executive Directors are not entitled to share options or pensions.

All Non-Executive Directors have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association. Under the terms and conditions of appointment of Non-Executive Directors, the annual fee paid to each Non-Executive Director is currently S\$50,000 (£22,000).

## Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2008 £	2007 £
Basic salaries	770,230	648,946
Benefits in kind	130,306	84,231
Profit share	–	16,902
Fees to related parties	–	15,000
Money purchase pension contributions	21,301	17,137
Non-executive fees	48,008	33,917
Relocation payments	–	1,000,000
<b>Total remuneration</b>	<b>969,845</b>	<b>1,816,133</b>

## Directors' emoluments

Name of Director	Salary and fees £	Pension £	Benefits £	Profit share £	2008 Total £	2007 Total £
<b>Executive</b>						
Larry Tracey	141,256	4,238	5,279	–	150,773	395,641
James Peters	144,308	4,329	3,178	–	151,815	381,455
Duncan Penny	178,226	5,347	81,655	–	265,228	701,078
Mike Laver	122,798	2,456	4,722	–	129,976	133,144
Mickey Lynch	98,772	1,975	5,990	–	106,737	99,351
Andy Sng	84,870	2,956	29,482	–	117,308	71,548
<b>Non-Executive</b>						
Roger Bartlett (i)	–	–	–	–	–	3,750
John Dyson	18,576	–	–	–	18,576	15,083
Paul Dolan (ii)	–	–	–	–	–	3,750
Michael Hafferty	18,860	–	–	–	18,860	11,333
David Hempleman-Adams (iii)	10,572	–	–	–	10,572	–

(i) Resigned 24 April 2007.

(ii) Appointed 19 March 2006; resigned 24 April 2007.

(iii) Appointed 16 June 2008.

# Directors' Remuneration Report

For the financial year ended 31 December 2008

## Directors' interests in ordinary shares of XP Power Limited

	As at 31 December 2008	As at 1 January 2008
<b>Executive</b>		
Larry Tracey (a)	2,587,000	2,791,779
Mike Laver (b)	194,500	184,500
Mickey Lynch (c)	75,000	75,000
Duncan Penny (d)	460,000	400,000
James Peters	2,899,779	2,899,779
Andy Sng	–	–
<b>Non-executive</b>		
John Dyson	15,000	15,000
Michael Hafferty	–	–
David Hempleman-Adams (Appointed 16 June 2008)	18,850	–

(a) Larry Tracey purchased 300,000 shares at a price of 265p on 27 February 2008 and purchased 25,000 at a price of 233p on 1 April 2008. Larry Tracey transferred 529,779 shares to his family members on 1 April 2008.

(b) Mike Laver purchased 10,000 shares at a price of 256p on 26 February 2008. Mike Laver participated in the deferred payment share scheme and as at 31 December 2008, the outstanding balance of the deferred payment share scheme is £350,813. The shares cannot be sold until four years from the date of acquisition.

(c) Mickey Lynch participated in the deferred payment share scheme and as at 31 December 2008, the outstanding balance of the deferred payment share scheme is £310,562. The shares cannot be sold until four years from the date of acquisition.

(d) Duncan Penny purchased 50,000 shares at a price of 276p on 28 February 2008 and purchased another 5,000 shares each on 17 and 23 October 2008 at a price of 190p. Duncan Penny participated in the deferred payment share scheme and as at 31 December 2008, the outstanding balance is £366,000.

In addition to the directors' interests in the ordinary shares of the Company, the following directors have interests in share options:

			As at 31 December 2008 Number of shares	As at 1 January 2008 Number of shares
<b>Executive</b>	<b>Date of grant</b>	<b>Exercise price</b>		
Mike Laver	24 August 2001	342.5p	24,000	24,000
	21 August 2002	175.0p	25,000	25,000
Mickey Lynch	24 August 2001	342.5p	15,000	15,000
	21 August 2002	175.0p	10,000	10,000
Duncan Penny	24 August 2001	342.5p	25,000	25,000
Andy Sng	21 April 2005	411.0p	20,000	20,000
	26 April 2007	507.2p	30,000	30,000

Options become exercisable over 4 years in equal annual instalments from the date of grant. All options expire 10 years after the date of grant.

The highest and lowest mid market prices of the shares of XP Power Limited during 2008 were 285.0p and 121.0p per share respectively.

The mid-market price on 31 December 2008 closed at 132.0p per share.

## Approval

This report was approved by the Board of Directors on 23 February 2009 and signed on its behalf by:



Remuneration Committee Chairman

# Statement by Directors

For the financial year ended 31 December **2008**

In the opinion of the directors,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 29 to 70 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the directors



**Larry Tracey**  
Executive Chairman



**Duncan Penny**  
Chief Executive

# Independent Auditor's Report

We have audited the accompanying financial statements of XP Power Limited (the "Company") and its subsidiaries (the "Group") set out on pages 29 to 70, which comprise the balance sheets of the Company and of the Group as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act (Cap. 50) (the "Act") and International Financial Reporting Standards. This responsibility includes:

- (a) Devising and maintaining a system of internal accounting control sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets;
- (b) Selecting and applying appropriate accounting policies; and
- (c) Making accounting estimates that are reasonable in the circumstances.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

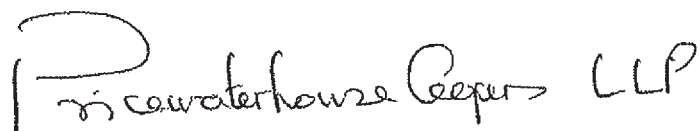
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group are properly drawn up in accordance with the provisions of the Act and International Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and the results, changes in equity and cash flows of the Group for the financial year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditor, have been properly kept in accordance with the provisions of the Act.



## PricewaterhouseCoopers LLP

Public Accountants and Certified Public Accountants

Singapore

# Consolidated Income Statement

For the financial year ended 31 December 2008

£ millions	Note	2008	2007
Revenue	4	69.3	66.3
Cost of sales		(38.7)	(38.3)
<b>Gross profit</b>		<b>30.6</b>	<b>28.0</b>
Expenses			
Distribution and marketing		(18.5)	(16.4)
Administrative		(0.8)	(0.8)
Research and development		(2.9)	(1.8)
Reorganisation cost		–	(2.4)
Other operating income		0.9	0.1
Operating profit		9.3	6.7
Non-cash foreign exchange gain		2.4	–
Finance cost	6	(1.5)	(1.7)
Profit before tax		10.2	5.0
Income tax expense	8	(1.2)	(1.4)
<b>Total profit</b>		<b>9.0</b>	<b>3.6</b>
<b>Attributable to:</b>			
Equity holders of the Company	26	8.8	3.4
Minority interests	26	0.2	0.2
<b>Total profit</b>		<b>9.0</b>	<b>3.6</b>
<b>Earnings per share</b>			
<b>attributable to equity holders of the Company (pence per share)</b>			
– Basic	10	46.5	17.9
– Diluted	10	46.4	17.8

# Consolidated Balance Sheet

For the financial year ended 31 December 2008

£ millions	Note	2008	2007
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	17	3.4	3.6
Derivative financial instruments	24	1.0	-
Trade and other receivables	19	12.1	11.4
Other current assets	20	1.8	1.8
Inventories	18	17.5	10.5
<b>Total current assets</b>		<b>35.8</b>	<b>27.3</b>
<b>Non-current assets</b>			
Interest in associates	16	0.1	0.1
Property, plant and equipment	13	6.7	3.4
Goodwill	11	29.9	29.6
Intangible assets	12	3.6	3.2
ESOP loans to employees	28	2.7	3.0
Deferred income tax assets	25	0.1	0.4
<b>Total non-current assets</b>		<b>43.1</b>	<b>39.7</b>
<b>Total assets</b>		<b>78.9</b>	<b>67.0</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	21	12.3	8.0
Current income tax liabilities	8	3.1	2.4
Bank loans and overdraft	23	7.3	2.7
Provisions for other liabilities and charges	21	-	0.1
<b>Total current liabilities</b>		<b>22.7</b>	<b>13.2</b>
<b>Non-current liabilities</b>			
Borrowings	23	23.9	20.3
Deferred income tax liabilities	25	1.4	1.4
Provision for deferred contingent consideration	22	1.9	2.3
<b>Total non-current liabilities</b>		<b>27.2</b>	<b>24.0</b>
<b>Total liabilities</b>		<b>49.9</b>	<b>37.2</b>
<b>NET ASSETS</b>		<b>29.0</b>	<b>29.8</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	26	27.2	27.2
Merger reserve	26	0.2	0.2
Treasury shares	26	(0.8)	(0.3)
Hedging reserve	26	1.0	-
Translation reserve	26	(8.5)	(2.5)
Retained earnings	26	9.7	5.0
		<b>28.8</b>	<b>29.6</b>
<b>Minority interests</b>	26	<b>0.2</b>	<b>0.2</b>
<b>TOTAL EQUITY</b>		<b>29.0</b>	<b>29.8</b>

# Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2008

£ Millions	Share capital	Share premium account	Treasury shares	Merger reserve	Hedging reserve	Translation reserve	Retained earnings	Total attributable to equity holders of the company	Minority interests	Total equity
Balance at 1 January 2007	0.2	27.0	(6.3)	0.2	–	(2.3)	10.6	29.4	–	29.4
Exchange differences on translation of foreign operations	–	–	–	–	–	(0.2)	–	(0.2)	–	(0.2)
Loss on treasury shares	–	–	–	–	–	–	(0.3)	(0.3)	–	(0.3)
Tax on items taken directly to equity	–	–	–	–	–	–	0.1	0.1	–	0.1
<b>Net income recognised directly in equity</b>	–	–	–	–	–	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.4)</b>	–	<b>(0.4)</b>
Profit for the year	–	–	–	–	–	–	3.4	3.4	0.2	3.6
<b>Total recognised income</b>	–	–	–	–	–	<b>(0.2)</b>	<b>3.2</b>	<b>3.0</b>	<b>0.2</b>	<b>3.2</b>
Transfer of share premium on Scheme of Arrangement	27.0	(27.0)	–	–	–	–	–	–	–	–
Cancellation of treasury shares	–	–	5.2	–	–	–	(5.2)	–	–	–
Sale of treasury shares	–	–	0.8	–	–	–	–	0.8	–	0.8
Dividends paid	–	–	–	–	–	–	(3.6)	(3.6)	–	(3.6)
<b>Balance at 31 December 2007</b>	<b>27.2</b>	<b>–</b>	<b>(0.3)</b>	<b>0.2</b>	<b>–</b>	<b>(2.5)</b>	<b>5.0</b>	<b>29.6</b>	<b>0.2</b>	<b>29.8</b>
Exchange differences on translation of foreign operations	–	–	–	–	–	(6.0)	–	(6.0)	–	(6.0)
Tax on items taken directly to equity	–	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Fair value gain on cash flow hedges	–	–	–	–	1.0	–	–	1.0	–	1.0
<b>Net income recognised directly in equity</b>	–	–	–	–	<b>1.0</b>	<b>(6.0)</b>	<b>(0.1)</b>	<b>(5.1)</b>	–	<b>(5.1)</b>
Profit for the year	–	–	–	–	–	–	8.8	8.8	0.2	9.0
<b>Total recognised income</b>	–	–	–	–	<b>1.0</b>	<b>(6.0)</b>	<b>8.7</b>	<b>3.7</b>	<b>0.2</b>	<b>3.9</b>
Dividends paid	–	–	–	–	–	–	(4.0)	(4.0)	(0.2)	(4.2)
Purchase of treasury shares	–	–	(0.5)	–	–	–	–	(0.5)	–	(0.5)
<b>Balance at 31 December 2008</b>	<b>27.2</b>	<b>–</b>	<b>(0.8)</b>	<b>0.2</b>	<b>1.0</b>	<b>(8.5)</b>	<b>9.7</b>	<b>28.8</b>	<b>0.2</b>	<b>29.0</b>

# Consolidated Cash Flow Statement

For the financial year ended 31 December 2008

£ millions	2008	2007
<b>Cash flows from operating activities</b>		
Total profit	9.0	3.6
Adjustments for		
– Income tax expense	1.2	1.4
– Amortisation and depreciation	1.6	1.1
– Finance cost	1.5	1.7
– Loss on fair valuation of derivative financial instruments	–	0.1
Change in the working capital, net effects from acquisition of subsidiary		
– Inventories	(6.6)	0.6
– Trade and other receivables	(0.5)	1.8
– Trade and other payables	3.3	(2.5)
– Provisions for liabilities and other charges	–	0.5
– Income tax paid	(1.0)	(1.4)
<b>Net cash provided by operating activities</b>	<b>8.5</b>	<b>6.9</b>
<b>Cash flows from investing activities</b>		
Acquisition of a subsidiary, net of cash acquired	(1.0)	(0.4)
Purchases and construction of property, plant and equipment	(3.6)	(0.9)
Purchases of intangible assets (R&D)	(1.0)	(1.0)
Proceeds from disposal of plant and equipment	0.1	–
ESOP loan issued	–	(0.4)
Interest received	0.1	–
Payment of deferred consideration	–	(1.4)
<b>Net cash used in investing activities</b>	<b>(5.4)</b>	<b>(4.1)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	3.6	5.9
Proceeds from sale of treasury shares	–	0.5
Purchase of treasury shares by ESOP	(0.2)	–
Interest paid	(1.6)	(1.5)
Dividends paid to equity holders of the Company	(4.0)	(3.6)
Dividends paid to minority shareholders	(0.2)	–
<b>Net cash provided by financing activities</b>	<b>(2.4)</b>	<b>1.3</b>
<b>Effects of currency translation</b>	<b>(4.6)</b>	<b>–</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(3.9)</b>	<b>4.1</b>
Cash and cash equivalents at beginning of financial year	0.9	(3.4)
Effects of currency translation on cash and cash equivalents	(0.9)	0.2
<b>Cash and cash equivalents at end of financial year</b>	<b>(3.9)</b>	<b>0.9</b>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2008

## 1. General Information

XP Power Limited (the "Company") is listed on the London Stock Exchange and incorporated and domiciled in Singapore. The address of its registered office is 401 Commonwealth Drive, Lobby B, #02-02, Haw Par Technocentre, Singapore 149598.

The nature of the Group's operations and its principal activities are set out in the Markets and Products sections of the Annual Report on pages 2 to 5.

These financial statements are presented in Pounds Sterling.

## 2. Basis of accounting policies

### 2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

On 1 January 2008, the Group adopted the new or amended standards and interpretations that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective standards and interpretations.

The following are the new or amended standards and interpretations that are relevant to the Group:

IFRIC 11, IFRS 2                      Group and Treasury Share Transactions

The adoption of the above IFRS interpretation did not result in any substantial changes to the Group's accounting policies or any significant impact on these financial statements.

The Group has not applied early adoption of any new or amended standards or interpretations.

### 2.2 Currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Pounds Sterling, which is different from the Company's functional currency. The Company's functional currency is the United States Dollar.

The financial statements are being presented in Pounds Sterling, as the majority of the Company's shareholders are based in the UK and the Company is listed on the London Stock Exchange. It is the currency that the directors of the Group use when controlling and monitoring the performance and financial position of the Group.

#### (b) Foreign currency transactions and balances

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2008

## 2.2 Currency translation (cont'd)

### (c) Group companies

The assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred into the Group's translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the date of the balance sheet. The Group has elected to treat goodwill and fair value adjustments arising on the acquisitions before the date of transition to IFRS as Pound Sterling denominated assets and liabilities converted using the exchange rates at the dates of acquisition.

## 2.3 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, Value Added Tax/Goods and Services Tax and other sales related taxes, and after eliminating sales within the Group.

- (a) Sales of goods are recognised when a Group entity has shipped the goods to locations specified by its customers in accordance with the sales contract and the collectability of the related receivable is reasonably assured.
- (b) Interest income is recognised using the effective interest method.

## 2.4 Group accounting

### (a) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between Group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests are that part of net results of operations and of net assets of a subsidiary attributable to the interests, which are not owned directly, or indirectly by the Group. They are measured at the minorities' share of fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the minorities' share of losses in a subsidiary exceeds its interests in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minorities are attributed to the equity holders of the Company, unless the minorities have a binding obligation to, and are able to, make good the losses. When that subsidiary subsequently reports profits, the profits applicable to the minority interests are attributed to the equity holders of the Company until the minorities' share of losses previously absorbed by the equity holders of the Company are fully recovered.

The results of subsidiaries acquired or disposed of in the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate.

### (b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recognised in the income statement.

## 2.4 Group accounting (cont'd)

### (b) *Transactions with minority interests (cont'd)*

Purchases from minority interests result in goodwill, being the difference between any consideration paid and the Group's incremental share of the carrying value of identifiable net assets of the subsidiary.

### (c) *Associated companies*

Associated companies are entities over which the Group has significant influence, but not control, generally accompanied by a shareholding giving rise to between and including 20% and 50% of the voting rights. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting. Investments in associated companies in the consolidated balance sheet include goodwill (net of any accumulated impairment losses) identified on acquisition.

Investments in associated companies are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

In applying the equity method of accounting, the Group's share of its associated companies' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in equity directly. These post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies.

Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

### (d) *Joint ventures*

The Group's joint ventures are entities over which the Group has contractual arrangements to jointly share the control over the economic activity of the entities with one or more parties. The Group's interest in joint ventures is accounted for in the consolidated financial statements using proportionate consolidation.

Proportionate consolidation involves combining the Group's share of the joint venture's income and expenses, assets and liabilities and cash flows of the jointly controlled entities on a line-by-line basis with similar items in the Group's financial statements.

When the Group sells assets to a joint venture, the Group recognises only the portion of unrealised gains or losses on the sale of assets that is attributable to the interest of the other ventures. The Group recognises the full amount of any loss when the sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

When the Group purchases assets from a joint venture, it does not recognise its share of the profits of the joint ventures arising from the Group's purchase of assets until it resells the assets to an independently party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

The Group has changed accounting policies of joint ventures where necessary to ensure consistency with the accounting policies adopted.

## 2.5 Property, plant and equipment

Items of property, plant and equipment, including land and buildings, are stated at cost less accumulated depreciation and any recognised impairment losses.

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2008

## 2.5 Property, plant and equipment (cont'd)

Freehold land and property under development are not depreciated. Depreciation on other items of property, plant and equipment is charged so as to write off the cost or valuation of the assets over their estimated useful lives, using the straight-line method, on the following bases:

Plant and equipment	–	10 – 33%
Motor vehicles	–	20 – 25%
Building improvements	–	10% or over the life of the lease if shorter
Buildings	–	2 – 5%
Leasehold land	–	2% or over the life of the lease if shorter

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in the income statement when the changes arise.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expense is recognised in the income statement when incurred.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset, and is recognised in the income statement.

## 2.6 Intangible assets

### (a) Goodwill on acquisitions

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating-units ("CGU") expected to benefit from synergies arising from the business combination. An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. Recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use. The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### (b) Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

- An asset is created that can be separately identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives, which vary between 4 and 7 years depending on the exact nature of the project undertaken. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

## 2.7 Impairment of non-financial assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate of 12.3% (2007: 9.9%) that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of the impairment loss is recognised as income immediately.

## 2.8 Borrowing costs

All borrowing costs are recognised in profit or loss using the effective interest method.

## 2.9 Financial assets

### (a) Classification

The Group classifies its financial assets depending on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group's financial assets comprise loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the balance sheet date, which are presented as non-current assets. Loans and receivables are presented as "trade and other receivables" and "cash and cash equivalents" on the balance sheet.

### (b) Recognition/derecognition

Purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in the income statement.

### (c) Measurement

Loans and receivables are initially recognised at fair value plus transaction costs and subsequently at amortised cost using the effective interest method.

### (d) Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a loan or receivable is impaired and recognises an allowance for impairment when such evidence exists. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account, which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in the income statement.

The allowance for impairment loss account is reduced through the income statement in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2008

## 2.10 Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

## 2.11 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in the income statement as finance expense. Changes in the estimated timing or amount of the expenditure or discount rate are recognised in the income statement when the changes arise.

## 2.12 Borrowings

Interest-bearing bank loans and overdrafts are recorded at their fair value (net of direct issue costs), normally the proceeds received. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

## 2.13 Leases

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in the income statement on a straight-line basis over the period of the lease.

## 2.14 Derivative financial instruments and hedging activities

A derivative financial instrument is initially recognised at its fair value on the date the contract is entered into and is subsequently carried at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group documents at the inception of the transaction the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, on whether the derivatives designated as hedging instruments are highly effective in offsetting changes in fair value or cash flows of the hedged items.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group periodically uses foreign exchange forward contracts to hedge the foreign currency exposures and interest rate swaps to hedge floating interest rate exposures.

### *Cash flow hedge*

#### *(i) Interest rate swaps*

The Group has entered into interest rate swaps that are cash flow hedges for the Group's exposure to interest rate risk on its borrowings. These contracts entitle the Group to receive interest at floating rates on notional principal amounts and oblige the Group to pay interest at fixed rates on the same notional principal amounts, thus allowing the Group to raise borrowings at floating rates and swap them into fixed rates.

The fair value changes on the effective portion of interest rate swaps designated as cash flow hedges are recognised in the hedging reserve and transferred to the income statement when the interest expense on the borrowings is recognised in the income statement.

## 2.14 Derivative financial instruments and hedging activities (cont'd)

### (ii) Currency forwards

The Group has entered into currency forwards that qualify as cash flow hedges against highly probable forecasted transactions in foreign currencies. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gains and losses that were previously recognised in equity are transferred to the income statement immediately.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any these derivative instruments are recognised immediately in the income statement.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 24. Movements on the hedging reserve in shareholders' equity are shown in Note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining expected life/or maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

## 2.15 Fair value estimation of financial assets and liabilities

The fair values of currency forwards are determined using actively quoted forward exchange rates. The fair values of interest rate swaps are calculated as the present value of estimated future cash flows discounted at actively quoted interest rates.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

## 2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs.

Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution and reductions for estimated irrecoverable amounts.

## 2.17 Income taxes

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable 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 deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2008

## 2.17 Income taxes (cont'd)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, 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.

## 2.18 Cash and cash equivalents

For the purpose of presentation in the consolidated cash flow statement, cash and cash equivalents include cash on hand, deposits with financial institutions and bank overdrafts. Bank overdrafts are presented as current liabilities on the balance sheet.

## 2.19 Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. At each balance sheet date, the Group revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in the income statement, with a corresponding adjustment to the share option reserve over the remaining vesting period.

When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in the share option reserve are credited to share capital account, when new ordinary shares are issued, or to the "treasury shares" account, when treasury shares are re-issued to employees.

## 2.20 Retirement benefit costs

The Group operates several defined contribution plans. Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. The Group has no further payment obligations once the contributions have been paid.

## 2.21 Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for leave as a result of services rendered by employees up to the balance sheet date.

## 2.22 Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

When any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the consideration paid including any directly attributable incremental cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to the employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the retained earnings of the Company.

### 2.23 Dividends to Company's shareholders

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

### 2.24 Investments in subsidiaries, joint ventures and associated companies

Investments in subsidiaries, joint ventures and associated companies are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries, joint ventures and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in the income statement.

### 2.25 Segment reporting

A business segment is a distinguishable component of the Group engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of the Group engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

### 2.26 Research costs

Research costs are recognised as an expense when incurred.

## 3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, as described in note 2, management has made the following judgements and estimations that have the most significant effect on the amounts recognised in the financial statements.

#### (a) Recoverability of Capitalised R&D

During the year £1.0 million (2007: £1.0 million) of development costs were capitalised bringing the total amount of development cost capitalised as intangible assets as of 31 December 2008 to £3.2 million (2007: £2.6 million), net of amortisation. Management has reviewed the balances by project, compared the carrying amount to expected future revenues and profits and is satisfied that no impairment exists and that the costs capitalised will be fully recovered as the products are launched to market. New product projects are monitored regularly and should the technical or market feasibility of a new product be in question, the project would be cancelled and capitalised costs to date removed from the balance sheet and charged to the income statement.

#### (b) Impairment of Goodwill

The Group tests annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the goodwill is determined from value in use calculations. The key assumptions and estimates for the value in use calculations are those regarding the discount rates, growth rates and expected changes to sales and overheads during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units.

The Group prepares cash flow forecasts derived from the most recent financial results and takes into account industry growth forecasts for the next five years and extrapolates cash flows for the following five years assuming no growth from that date. The carrying amount of goodwill as at 31 December 2008 was £29.9 million (2007: £29.6 million) with no impairment adjustment required for 2008.

If management's estimated revenues decrease between 10% to 15% it will trigger an impairment adjustment and the carrying amounts of goodwill will be lowered.

#### (c) Estimation of future deferred contingent consideration payments

As of the 31 December 2008 balance sheet date the Group has recorded estimated future payments related to the acquisition of the remaining of 30.3% of Powersolve. When discounted to present value the total of these payments are estimated at £1.9 million and that amount is reflected on the balance sheet as of the 2008 year end. Since the final payments will be dependent on the actual future financial performance of the business an estimate is required to approximate future business conditions.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2008

## 3. Critical accounting judgements and key sources of estimation uncertainty (cont'd)

### (c) Estimation of future deferred contingent consideration payments (cont'd)

If Powersolve's earning increase or decrease by 10%, the deferred consideration will be affected by £0.2 million.

### (d) Deferred income tax

The Group has an unrecognised deferred tax asset of £3.4 million (2007: £2.2 million). The eventual recognition of this asset is dependent of the assessment of the relevant subsidiaries tax position by the taxation authority in that jurisdiction. The tax asset will be brought to account on final acceptance of tax returns filed in the relevant jurisdiction.

## 4. Segmental reporting

For management purposes, the Group is organised on a geographic basis by location of where the sales originated. This is the basis on which the Group reports its primary segment information. The Group's products are essentially a single class of business; however, from a sales and marketing perspective, the Group's sales activities are organised by class of customer. The same geographic assets deliver the same class of products to the different class of customer. The sales information by class of customer has been provided to assist the user of the accounts; however, since the assets are not separated by class of business further information on net assets and capital additions by class of customers has not been provided.

### Geographical segment

The geographical segmentation is as follows:

£ Millions	2008	2007
Revenue		
Europe	32.2	30.6
North America	33.7	33.0
Asia	3.4	2.7
<b>Total Revenue</b>	<b>69.3</b>	<b>66.3</b>
<b>Segment result</b>		
Europe	6.1	4.7
North America	7.2	5.4
Asia	0.4	1.1
Interest, corporate operating costs and associates	(3.5)	(6.2)
<b>Segment result</b>	<b>10.2</b>	<b>5.0</b>
Tax	(1.2)	(1.4)
<b>Total profit</b>	<b>9.0</b>	<b>3.6</b>

#### 4. Segmental reporting (cont'd)

£ Millions	Year to 31 December 2008				Year to 31 December 2007			
	Europe	North America	Asia	Total	Europe	North America	Asia	Total
<b>Other Information</b>								
Capital additions	0.4	0.1	3.1	3.6	0.4	0.2	0.3	0.9
Depreciation	0.4	0.2	0.4	1.0	0.4	0.3	–	0.7
Intangible assets additions	–	1.0	–	1.0	–	1.0	–	1.0
Amortisation	0.2	0.4	–	0.6	0.3	0.1	–	0.4
<b>Balance sheet</b>								
Goodwill	9.6	19.6	0.7	29.9	9.3	19.6	0.7	29.6
Other non-current assets	5.4	3.7	4.0	13.1	6.0	3.5	0.2	9.7
Inventories	0.7	9.0	7.8	17.5	1.6	5.2	3.7	10.5
Trade and other receivables	5.7	5.7	0.7	12.1	5.3	5.4	0.7	11.4
Other current assets	0.9	0.2	1.7	2.8	0.4	0.2	1.2	1.8
Cash	1.6	1.5	0.3	3.4	2.4	0.8	0.4	3.6
<b>Segment assets</b>	<b>23.9</b>	<b>39.7</b>	<b>15.2</b>	<b>78.8</b>	<b>25.0</b>	<b>34.7</b>	<b>6.9</b>	<b>66.6</b>
Unallocated deferred tax	–	–	–	0.1	–	–	–	0.4
<b>Consolidated total assets</b>				<b>78.9</b>				<b>67.0</b>
Trade and other payables	(2.3)	(3.7)	(6.3)	(12.3)	(2.7)	(2.7)	(2.6)	(8.0)
Deferred contingent consideration	(1.9)	–	–	(1.9)	(2.3)	–	–	(2.3)
<b>Segment liabilities</b>	<b>(4.2)</b>	<b>(3.7)</b>	<b>(6.3)</b>	<b>(14.2)</b>	<b>(5.0)</b>	<b>(2.7)</b>	<b>(2.6)</b>	<b>(10.3)</b>
Unallocated corporate liabilities				(31.2)				(23.1)
Unallocated deferred and current tax				(4.5)				(3.8)
<b>Consolidated total liabilities</b>				<b>(49.9)</b>				<b>(37.2)</b>

#### Analysis by customer

The revenue by class of customer was as follows:

£ Millions	Year to 31 December 2008				Year to 31 December 2007			
	Europe	North America	Asia	Total	Europe	North America	Asia	Total
Technology	8.6	9.1	0.4	18.1	7.4	9.8	0.2	17.4
Industrial	18.6	14.7	2.8	36.1	18.1	14.1	2.5	34.7
Healthcare	5.0	9.9	0.2	15.1	5.1	9.1	–	14.2
<b>Total</b>	<b>32.2</b>	<b>33.7</b>	<b>3.4</b>	<b>69.3</b>	<b>30.6</b>	<b>33.0</b>	<b>2.7</b>	<b>66.3</b>

Our industry segmentation has been changed from that presented historically to align with the segmentation used in the Standard and Poors 500 Index.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2008

## 5. Information regarding employees (including Directors)

£ Millions	2008	2007
<b>Employee costs during the year:</b>		
Wages and salaries	11.6	10.9
Social security	1.5	0.9
Pension	0.2	0.5
Restructuring costs	–	1.0
Share option costs	–	0.1
<b>Total</b>	<b>13.3</b>	<b>13.4</b>

For further information regarding Directors' remuneration, refer to the Directors' Remuneration Report.

## 6. Finance costs

£ Millions	2008	2007
Interest expense on bank loans and overdrafts	1.5	1.5
Interest expense on interest rate swap agreement	0.1	–
Interest Income	(0.2)	–
Unwinding of discount on deferred consideration (note 22)	0.1	0.2
<b>Total</b>	<b>1.5</b>	<b>1.7</b>

An interest rate swap agreement was terminated on 31 October 2008 resulted in £0.1 million of interest expense.

## 7. Expenses by nature

£ Millions	2008	2007
<b>Profit for the year is after charging:</b>		
Cost related to research and development activities	0.7	1.8
Amortisation of intangible assets	0.6	0.4
Depreciation of property, plant and equipment	1.0	0.7
Staff costs (note 5)	13.3	13.4
Foreign exchange gain transferred from reserve	(2.4)	–
Foreign exchange (gains)/losses	(0.7)	(0.1)
Losses/(gains) on forward contracts	–	0.1
Cost of inventories recognised as an expense*	38.7	38.3
Charge for doubtful debts	0.2	0.2
Fees paid to auditors:		
Audit	0.2	0.2
Other services – tax	0.1	0.5
Rent/lease expense	1.2	0.7
Finance cost	1.5	1.7
Other charges	4.7	3.5
<b>Total</b>	<b>59.1</b>	<b>61.4</b>

\* This includes write-downs of inventories of £0.7 million (2007: £0.2 million) and £1.0 million gain on currency forward contracts taken out to protect the cost of sales from currency movements (2007: Nil).

## 8. Income taxes

£ Millions	2008	2007 Restated
Singapore corporation tax – current year	0.6	0.1
– adjustment in respect of prior year	0.1	–
Overseas corporation tax – current year	0.7	1.8
– adjustment in respect of prior year	(0.4)	(0.6)
<b>Total current tax</b>	<b>1.0</b>	<b>1.3</b>
Deferred tax	0.2	0.1
<b>Tax charge for the year</b>	<b>1.2</b>	<b>1.4</b>

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The differences between the total tax shown above and the amount calculated by applying the standard rate of Singapore corporate tax to the profit before tax are as follows:

£ Millions	2008	2007 Restated
<b>Profit before tax</b>	<b>10.2</b>	<b>5.0</b>
Tax on profit on ordinary activities at standard Singapore tax rate of 18% (2007: 18%)	1.9	1.0
Tax incentives	(0.5)	–
Higher rates of overseas corporation tax	0.9	0.9
Non-deductible expenditure	0.1	0.4
Exceptional foreign exchange gain not taxable	(0.9)	–
Foreign exchange loss	–	(0.6)
Tax on USA dividend to UK	–	0.3
Adjustment in respect of prior year	(0.3)	(0.6)
<b>Tax charge for the year</b>	<b>1.2</b>	<b>1.4</b>

No deferred tax has been recognised on the unremitted earnings of overseas subsidiaries. As these earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

We have presented the 2007 restatement as the Group has chosen to use the standard rate of Singapore corporate tax as it is a better presentation of the Group's tax exposure and charges.

Movement in current income tax liabilities:

£ Millions	2008	2007
<b>At 1 January 2008</b>	<b>(2.4)</b>	<b>(2.4)</b>
Currency translation differences	(0.7)	(0.1)
Income tax paid	1.0	1.4
Income tax expense – current year	(1.3)	(1.9)
– prior year	0.3	0.6
<b>At 31 December 2008</b>	<b>(3.1)</b>	<b>(2.4)</b>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2008

## 9. Dividends

Amounts recognised as distributions to equity holders in the period

	2008		2007	
	Pence per share	£ Millions	Pence per share	£ Millions
Prior year final dividend paid	11.0	*	10.0	1.9
Interim paid	10.0	^	9.0	1.7
<b>Total</b>	<b>21.0</b>	<b>4.0</b>	<b>19.0</b>	<b>3.6</b>

\* Dividends in respect of 2007 (20.0p)

^ Dividends in respect of 2008 (21.0p)

The proposed final dividend for 2008 is subject to approval by shareholders at the Annual General Meeting scheduled for 23 March 2009 and has not been included as a liability in these financial statements. It is proposed that the final dividend be paid on 3 April 2009 to members on the register as at 20 March 2009.

## 10. Earnings per share

The calculations of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent are based on the following data:

	2008 £ Millions	2007 £ Millions
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity shareholders of the parent)	8.8	3.4
Amortisation of intangibles associated with acquisitions	0.2	0.3
Non-cash foreign exchange gain	(2.4)	–
Reorganisation cost	–	2.4
Tax effect of restructuring	–	(0.1)
<b>Earnings for adjusted earnings per share</b>	<b>6.6</b>	<b>6.0</b>

### Number of shares

Weighted average number of shares for the purposes of basic earnings per share (thousands)	18,916	18,946
Effect of potentially dilutive share options (thousands)	59	184
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	18,975	19,130

### Earnings per share from operations

<b>Basic</b>	<b>46.5p</b>	17.9p
<b>Diluted</b>	<b>46.4p</b>	17.8p
<b>Diluted adjusted</b>	<b>34.8p</b>	31.4p

The minority shareholders are entitled to their share of any dividend declared. The dividend payable to minority shareholders in 2008 was £0.2 million (2007: £0.2 million).

## 11. Goodwill

### £ Millions

Cost and net book value	
At 1 January 2007	30.1
Change in deferred contingent consideration	(0.4)
Foreign currency translation	(0.1)
<b>At 1 January 2008</b>	<b>29.6</b>
Change in deferred contingent consideration	(0.4)
Recognised on acquisition of subsidiary	0.4
Foreign currency translation	0.3
<b>At 31 December 2008</b>	<b>29.9</b>
<b>Carrying Amount</b>	
<b>At 31 December 2008</b>	<b>29.9</b>
At 31 December 2007	29.6

Goodwill arises on the consolidation of subsidiary undertakings.

The reduction of £0.4 million was due to a revaluation of the deferred contingent consideration related to the Powersolve acquisition. The final amount due in 2012 is related to the prior three year's earnings the estimates for which, based on 2008 performance, were revised downward.

The cash generating units are defined based on the countries of operations.

The recoverable amount of the goodwill is determined from value in use calculations. The key assumptions and estimates for the value in use calculations are those regarding the discount rates, growth rates and expected changes to sales and overheads during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units (a rate of 12.3% was used for 2008 and for 2007, the rate was 9.9%).

The Group prepares cash flow forecasts derived from the most recent financial results and takes into account industry growth forecasts for the next four years and extrapolates cash flows for the following four years assuming no growth from that date. The carrying amount of goodwill as at 31 December 2008 was £29.9 million (2007: £29.6 million) with no impairment adjustment required for 2008.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2008

## 12. Intangible assets

£ Millions	Development costs	Trade marks	Non-contractual customer relationships	Total
<b>Cost</b>				
At 1 January 2007	1.9	1.0	0.3	3.2
Additions	1.0	–	–	1.0
<b>At 1 January 2008</b>	<b>2.9</b>	<b>1.0</b>	<b>0.3</b>	<b>4.2</b>
Additions	1.0	–	–	1.0
<b>At 31 December 2008</b>	<b>3.9</b>	<b>1.0</b>	<b>0.3</b>	<b>5.2</b>
<b>Amortisation</b>				
At 1 January 2007	0.2	0.3	0.1	0.6
Charge for the year	0.1	0.2	0.1	0.4
<b>At 1 January 2008</b>	<b>0.3</b>	<b>0.5</b>	<b>0.2</b>	<b>1.0</b>
Charge for the year	0.4	0.1	0.1	0.6
<b>At 31 December 2008</b>	<b>0.7</b>	<b>0.6</b>	<b>0.3</b>	<b>1.6</b>
<b>Carrying Amount</b>				
<b>At 31 December 2008</b>	<b>3.2</b>	<b>0.4</b>	<b>–</b>	<b>3.6</b>
At 31 December 2007	2.6	0.5	0.1	3.2

The amortisation period for development costs incurred on the Group's products varies between four and seven years according to the expected useful life of the products being developed.

Amortisation commences when the asset is available for use.

The separately identifiable intangible assets acquired with the Powersolve business have an expected useful life of five years and amortisation of £0.2 million (2007: £0.3 million) has been incurred during the period.

### 13. Property, plant and equipment

£ Millions	Freehold land	Leasehold land and buildings	Buildings	Plant and equipment	Motor vehicles	Building improvements	Property under development	Total
<b>Cost</b>								
At 1 January 2007	–	1.2	–	4.5	0.5	0.8	–	7.0
Additions	–	–	–	0.7	0.1	0.1	–	0.9
Disposals	–	–	–	(0.1)	(0.1)	–	–	(0.2)
Foreign currency translation	–	–	–	(0.2)	–	0.2	–	–
<b>At 1 January 2008</b>	<b>–</b>	<b>1.2</b>	<b>–</b>	<b>4.9</b>	<b>0.5</b>	<b>1.1</b>	<b>–</b>	<b>7.7</b>
Acquisition of subsidiary	–	0.1	–	0.3	–	–	–	0.4
Additions	0.2	–	1.5	0.9	0.1	0.1	0.8	3.6
Disposals	–	–	–	(0.4)	(0.1)	–	–	(0.5)
Foreign currency translation	–	0.1	–	1.2	–	0.1	–	1.4
<b>At 31 December 2008</b>	<b>0.2</b>	<b>1.4</b>	<b>1.5</b>	<b>6.9</b>	<b>0.5</b>	<b>1.3</b>	<b>0.8</b>	<b>12.6</b>
<b>Depreciation</b>								
At 1 January 2007	–	0.1	–	2.8	0.3	0.6	–	3.8
Charge for the year	–	–	–	0.5	0.1	0.1	–	0.7
Disposals	–	–	–	–	–	–	–	–
Foreign currency translation	–	–	–	–	(0.1)	(0.1)	–	(0.2)
<b>At 1 January 2008</b>	<b>–</b>	<b>0.1</b>	<b>–</b>	<b>3.3</b>	<b>0.3</b>	<b>0.6</b>	<b>–</b>	<b>4.3</b>
Acquisition of subsidiary	–	–	–	0.1	–	–	–	0.1
Charge for the year	–	–	–	0.7	0.1	0.2	–	1.0
Disposals	–	–	–	(0.3)	(0.1)	–	–	(0.4)
Foreign currency translation	–	–	–	0.8	–	0.1	–	0.9
<b>At 31 December 2008</b>	<b>–</b>	<b>0.1</b>	<b>–</b>	<b>4.6</b>	<b>0.3</b>	<b>0.9</b>	<b>–</b>	<b>5.9</b>
<b>Carrying Amount</b>								
<b>At 31 December 2008</b>	<b>0.2</b>	<b>1.3</b>	<b>1.5</b>	<b>2.3</b>	<b>0.2</b>	<b>0.4</b>	<b>0.8</b>	<b>6.7</b>
At 31 December 2007	–	1.1	–	1.6	0.2	0.5	–	3.4

The Group has entered into agreements to lease buildings ranging from 99 years to 999 years. Items of the long leasehold buildings are stated at cost less accumulated amortisation.

Amortisation is charged so as to write off the cost of the long leasehold items over their estimated useful lives.

The residual values, estimated useful lives and amortisation method of long leasehold buildings lives and amortisation method of long leasehold buildings are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in the income statement when the changes arise.

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2008

## 14. Subsidiaries

Details of principal subsidiaries at 31 December 2008, all of which are consolidated are as follows:

Name of Subsidiary	Place of incorporation ownership (or registration) and operation	Proportion of Ownership 2008 (%)	Proportion of Ownership 2007 (%)	Auditor of subsidiaries
XP Power AG	Switzerland	97	97	Karpf Treuhand & Revisions AG
XP Power, Inc (California)	USA	100	100	Exempted to be audited by local statutory law
XP Power, Inc (Massachusetts)^	USA	–	100	Exempted to be audited by local statutory law
XP PLC	UK	100	100	PricewaterhouseCoopers LLP
XP Power ApS	Denmark	100	100	Deloitte
XP Power GmbH	Germany	100	100	Exempted to be audited by local statutory law
XP Power Norway AS	Norway	100	100	Inter Revisjon Oslo AS
XP Power SA	France	100	100	Deloitte
XP Power Sweden AB	Sweden	100	100	Deloitte
Powersolve Electronics Limited*	UK	100	100	PricewaterhouseCoopers LLP
XP Power (Shanghai) Co Ltd	China	100	100	Shanghai JunFu PCZ/Jiahua CPA
Mieltec XP Power Srl	Italy	80	80	Exempted to be audited by local statutory law
XP Power (S) Pte Limited	Singapore	100	100	PricewaterhouseCoopers LLP
XP Energy Systems Limited	UK	100	100	PricewaterhouseCoopers LLP
XP Power (HK) Limited	HK	100	50	KPMG
XP Power Singapore Holdings Pte Ltd	Singapore	100	100	PricewaterhouseCoopers LLP

^Merged with XP Power Inc (California) with effect from 30 June 2008.

\*Proportion of voting power held is 70%.

## 15. Interest in joint ventures

In 2007, the Group had a 50% shareholding in Fortron XP Power (Hong Kong) Limited, a company incorporated in Hong Kong. On 1 January 2008 the Group acquired the remaining 50% of the issued share capital of Fortron XP Power (Hong Kong) Limited for a consideration of US\$2.5 million in cash. Therefore with effect from 1 January 2008 XP had full control of the manufacturing facility in Kunshan and operations office in Hong Kong (Note 17). On acquisition, the company's name was changed to XP Power (Hong Kong) Limited.

## 16. Interest in associates

The Group has a 20% stake in Safety Power, a company incorporated in the United Kingdom.

£ Millions	2008	2007
Beginning of financial year	0.1	0.1
<b>End of financial year</b>	<b>0.1</b>	<b>0.1</b>
Aggregate amounts relating to associates:		
£ Millions	2008	2007
Total assets	0.1	0.1
Total liabilities	–	–
<b>Total</b>	<b>0.1</b>	<b>0.1</b>
Income	0.1	0.1
Expenses	(0.1)	(0.1)
<b>Net profit</b>	<b>–</b>	<b>–</b>

## 17. Cash and cash equivalents

£ Millions	2008	2007
Cash at bank and on hand	3.4	3.6
<b>Total</b>	<b>3.4</b>	<b>3.6</b>

For the purpose of presenting the consolidated cash flow statement, the consolidated cash and cash equivalents comprise the following:

£ Millions	2008	2007
Cash and bank balances (as above)	3.4	3.6
Less: Bank overdrafts (note 23)	(7.3)	(2.7)
<b>Cash and cash equivalents per consolidated cash flow statement</b>	<b>(3.9)</b>	<b>0.9</b>

### Acquisition of subsidiary

On 1 January 2008 the Group acquired the remaining 50% of the issued share capital of XP Power (Hong Kong) Limited for a consideration of US\$2.5 million in cash.

The aggregate effects of the acquisition of subsidiary on the cash flows of the Group:

£ Millions	At fair value	Carrying amounts in a acquiree's books
<b>Identifiable assets and liabilities</b>		
Property, plant and equipment	0.6	0.6
Land	0.2	0.1
Inventories	0.6	0.6
Trade receivables	0.6	0.6
Cash and cash equivalents	0.2	0.2
Trade and other payables	(0.6)	(0.6)
Intangible - goodwill	–	0.1
<b>Total net assets</b>	<b>1.6</b>	<b>1.6</b>
At 50%	0.8	
Goodwill arising on acquisition	0.4	
<b>Total consideration, satisfied by cash</b>	<b>(1.2)</b>	
Less: Cash and cash equivalents in subsidiary acquired	0.2	
<b>Net cash outflow on acquisition</b>	<b>(1.0)</b>	

### Reconciliation to free cash flow

£ Millions	2008	2007
Net cash inflow from operating activities	8.5	6.9
Development expenses capitalised	(1.0)	(1.0)
Net interest expense	(1.4)	(1.5)
<b>Free cash flow</b>	<b>6.1</b>	<b>4.4</b>

## 18. Inventories

£ Millions	2008	2007
Goods for resale	15.5	10.2
Work-in-progress	2.0	0.3
<b>Total</b>	<b>17.5</b>	<b>10.5</b>

The cost of inventories recognised as an expense and included in "cost of sales" amounts to £38.7million (2007: £38.3 million).

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2008

## 19. Trade and other receivables

£ Millions	2008	2007
Trade receivables	12.1	11.4
<b>Total</b>	<b>12.1</b>	<b>11.4</b>

The average credit period taken on sales of goods is 61 days (2007: 63 days). No interest is charged on the outstanding receivable balance. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £0.2 million (2007: £0.2 million). This allowance has been determined by reference to past default experience.

The Directors consider that the carrying amounts of trade and other receivables approximate their fair value.

## 20. Other current assets

£ Millions	2008	2007
Prepayments	1.8	1.8
<b>Total</b>	<b>1.8</b>	<b>1.8</b>

## 21. Current liabilities

£ Millions	2008	2007
Trade and other payables	12.3	8.0
Current income tax liabilities	3.1	2.4
Bank loans and overdrafts (note 23)	7.3	2.7
Provisions for other liabilities and charges	–	0.1
<b>Total</b>	<b>22.7</b>	<b>13.2</b>

The bank loans and overdrafts are secured on the assets of the Group.

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade and other payables approximates their fair value.

## 22. Provisions for deferred contingent consideration

£ Millions	2008	2007
<b>At 1 January 2008</b>	<b>2.3</b>	<b>3.9</b>
Movement in provision during the year	(0.5)	(0.4)
Payment	–	(1.4)
Adjustment for unwinding of discount rate	0.1	0.2
<b>At 31 December 2008</b>	<b>1.9</b>	<b>2.3</b>
<b>Deferred contingent consideration</b>	<b>1.9</b>	<b>2.3</b>

The Group owns 69.7% of the shares of Powersolve Electronics Limited ("Powersolve") and is committed to purchase the remaining 30.3% of the shares in January 2012. The commitment to purchase the remaining ownership has been accounted for as deferred consideration and is calculated based on the expected future payment which will be based on a predefined multiple of the earnings of 2009, 2010 and 2011.

The future payment is discounted to the present value, with the discount amortised to interest expense each period as the payment draws nearer. At each reporting period, the anticipated future payment is recalculated and an adjustment made accordingly. As a result of the purchase commitment and the amount of control XP Power Limited exerts over Powersolve, the Powersolve results are fully consolidated in the Group with a minority interest charge made in the amount of dividends that will be payable for that year to the minority shareholders.

### 23. Borrowings, bank loans and overdrafts

The borrowings are repayable as follows:

£ Millions	2008	2007
On demand or within one year	7.3	2.7
In the second year	3.2	5.1
In the third year	20.7	4.2
In the fourth year	–	11.0
	<b>31.2</b>	<b>23.0</b>
Less: Amounts due for settlement within 12 months (shown under current liabilities)	(7.3)	(2.7)
<b>Total repayable after 12 months</b>	<b>23.9</b>	<b>20.3</b>

The carrying amounts of the Group's borrowings are denominated in the following currencies:

December 2008 £ Millions	GBP	USD	EUR	NOK	JPY	CHF	SGD	SEK	TOTAL
Bank overdrafts	4.6	3.0	–	–	–	–	–	(0.3)	7.3
Bank loans	(4.5)	28.4	–	–	–	–	–	–	23.9
<b>Total</b>	<b>0.1</b>	<b>31.4</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(0.3)</b>	<b>31.2</b>

December 2007 £ Millions	GBP	USD	EUR	NOK	JPY	CHF	SGD	SEK	TOTAL
Bank overdrafts	(1.6)	3.7	0.1	(0.1)	0.7	0.1	0.1	(0.3)	2.7
Bank loans	–	18.4	–	–	–	0.9	1.0	–	20.3
<b>Total</b>	<b>(1.6)</b>	<b>22.1</b>	<b>0.1</b>	<b>(0.1)</b>	<b>0.7</b>	<b>1.0</b>	<b>1.1</b>	<b>(0.3)</b>	<b>23.0</b>

The average interest rates paid were as follows:

	2008	2007
Bank overdrafts	7.6%	5.4%
Bank loans	5.1%	6.8%

The fair value of the Group's loans and overdrafts are the same as their book value.

The positive overdraft balances are considered an offset against our net liability to our bank. They form part of the same working capital facility with Halifax Bank of Scotland.

The other principal features of the Group's borrowings are as follows:

1. Bank overdrafts are repayable on demand. The bank overdrafts are secured on the assets of the Group. At 31 December 2008, the Group had an overdraft of £7.3 million (2007: £2.7 million). In September 2008 the Group renewed its annual working capital facility of £10.0 million. The overdraft interest rate is 2.5% above LIBOR.
2. At 31 December 2008, the bank loan is £23.9 million (2007: £20.3 million) represents the amount drawn down under the revolving credit facility and the senior debt facility with Halifax Bank of Scotland.
3. In January 2009, the Group converted its term debt facility of £16.0 million and its £5.0 million multicurrency revolving debt facility into a new term loan of US\$36.0 million. The term loan is repayable over 3 years with US\$6.0 million (£4.1 million) due in 2010 and US\$30.0 million (£20.7 million) due in 2011 and is priced at LIBOR plus a fixed margin of 2.0%.
4. The Group has pledged all assets as collateral to secure banking facilities granted to the Group.

# Notes to the Consolidated Financial Statements

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## 24. Derivative financial instruments

The Group utilised currency derivatives to hedge highly probable forecast transactions. The instruments purchased were denominated in the currencies of the Group's principal markets.

In 2008, the total notional amount of outstanding currency forward contracts that the Group has committed is £14.2 million (2007: Nil). These contracts are to hedge against exchange movements on future cost of sales and qualify for hedge accounting.

As at 31 December 2008, the fair value asset of the currency forward contracts recognised under a hedging reserve is £1.0 million (note 26).

£ Millions	Contract notional amount	Fair value asset
Current portion	11.1	0.8
Non-current portion	3.1	0.2
<b>Total</b>	<b>14.2</b>	<b>1.0</b>

Certain currency forward contracts were taken up to protect against exchange movements on future purchases of goods. These contracts did not qualify for hedge accounting.

The fair value asset of the forward contracts at 31 December 2008 was £40,000 (2007: £0.1 million) and the total notional amount of the contracts as at year-end was:

£ Millions	2008	2007
Forward foreign exchange contracts	2.2	0.9

## 25. Deferred income taxes

The following are the major deferred tax assets and (liabilities) recognised by the Group and movements thereon during the current and prior reporting period.

£ Millions	Accelerated tax depreciation	Goodwill amortisation	Share based payment	Capitalised development costs	Other intangible assets	Other timing differences	Total
At 1 January 2007	0.2	(0.4)	0.3	(0.7)	(0.3)	0.1	(0.8)
Charge to income	0.1	0.1	–	0.3	0.1	(0.1)	(0.1)
Charge to equity	–	–	(0.1)	–	–	–	(0.1)
<b>At 1 January 2008</b>	<b>0.3</b>	<b>(0.3)</b>	<b>0.2</b>	<b>(1.0)</b>	<b>(0.2)</b>	<b>–</b>	<b>(1.0)</b>
Charge to equity	–	–	(0.1)	–	–	–	(0.1)
Charge to income	–	(0.1)	–	(0.2)	0.1	–	(0.2)
<b>Total</b>	<b>0.3</b>	<b>(0.4)</b>	<b>0.1</b>	<b>(1.2)</b>	<b>(0.1)</b>	<b>–</b>	<b>(1.3)</b>

£ Millions	2008	2007
Deferred tax liabilities	(1.4)	(1.4)
Deferred tax assets	0.1	0.4
	<b>(1.3)</b>	<b>(1.0)</b>

The Group has an unrecognised deferred tax asset of £3.4 million (2007: £2.2 million). The eventual recognition of this asset is dependent of the assessment of the relevant subsidiaries tax position by the taxation authority in that jurisdiction. The tax asset will be brought to account on final acceptance of tax returns filed in the relevant jurisdiction.

## 26. Share capital and reserves

### Called up share capital

£ Millions	2008	2007
Allotted and fully paid 19,242,296 ordinary shares (2007: 19,242,296)	27.2	27.2

### Merger reserve

£ Millions	2008	2007
Balance at 31 December	0.2	0.2

### Treasury shares

£ Millions	2008	2007
Balance at 1 January	(0.3)	(6.3)
Cancellation	–	5.2
Purchase of shares	(0.5)	–
Sale of shares	–	0.8
<b>Balance at 31 December</b>	<b>(0.8)</b>	<b>(0.3)</b>

As at 31 December 2008, the Group's Employee Share Ownership Plan (ESOP) held 446,952 (2007: 219,331) shares carrying a value of £810,881 (2007: £327,134) owned by the Trust. During the year, there are no recognised gains and losses for the repayment of loans by the employees and no movement relating to new issuance of shares (2007: £0.5 million).

### Hedging reserve

£ Millions	2008	2007
Balance at 31 December	1.0	–

### Translation reserve

£ Millions	2008	2007
Balance at 1 January	(2.5)	(2.3)
Exchange differences on translation of foreign operations	(6.0)	(0.2)
<b>Balance at 31 December</b>	<b>(8.5)</b>	<b>(2.5)</b>

### Retained earnings

£ Millions	2008	2007
Balance at 1 January	5.0	10.6
Tax on items taken directly to equity	(0.1)	0.1
Loss on treasury shares	–	(0.3)
Profit for the year	8.8	3.4
Cancellation of treasury shares	–	(5.2)
Dividends paid	(4.0)	(3.6)
<b>Balance at 31 December</b>	<b>9.7</b>	<b>5.0</b>

The minority shareholders are entitled to their share of any dividend declared. The dividend payable to Powersolve minority shareholders in 2008 was £0.2 million (2007: £0.2 million).

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## 27. Operating leases and other commitments

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-operating leases which fall due as follows:

£ Millions	2008	2007
Within one year	1.5	1.1
In the second to fifth years inclusive	1.5	1.5
After five years	0.5	0.2
<b>Total</b>	<b>3.5</b>	<b>2.8</b>

Operating lease payments represent rentals payable by the Group for certain of its office properties and warehouses.

On 26 November 2008 the Group entered into an In-Principle agreement to purchase a 13,000 square metres piece of land in Vietnam for a consideration of £0.3 million (US\$0.5 million). £0.1 million (US\$0.1 million) has been paid on 5 December 2008 and the remaining of £0.2 million (US\$0.4 million) shall be made payable within 12 months from the date of signing of the In-Principle Agreement.

## 28. ESOP loan to employees

£ Millions	2008	2007
ESOP loan to employees	2.7	3.0
<b>Total</b>	<b>2.7</b>	<b>3.0</b>

The Group offers interest rate free loans to employees to purchase company shares under the deferred payment scheme. Under this scheme payment is deferred until the shares are sold. The shares cannot be sold until four years from the date of acquisition. However, the loan becomes interest bearing after 10 years. The Group does not classify a portion of this loan under current assets as the Company cannot predict when the employees will repay their loans.

## 29. Pensions

The Group operates a defined contribution pension scheme for its employees in the United Kingdom. Contributions are charged to the profit and loss account as they become payable.

The total cost charged to income of £0.2 million (2007: £0.2 million) represents contributions payable to these schemes by the Group at a rate of 3% of salary of all members. As at 31 December 2008, all contributions for the year had been made.

In the USA the Group operates a defined contribution "401K Plan". The Group contributes an amount matching the employees' contribution up to a maximum of 2% of the employees' total earnings. The total cost charged to income of £0.1 million (2007: £0.1 million) represents the Group's "matching" contribution which will be paid in 2009.

In Singapore, the Group contributes to the Central Provident Fund, which is a defined contribution plan regulated and managed by the Singapore government. The Group's contribution to this defined contribution plan is charged to the profit and loss account in the period to which the contributions relate and the total cost charged to income was £0.01 million (2007: £0.01 million).

### 30. Related party transactions

The ultimate controlling party of the Group is XP Power Limited.

Transactions between the Company and its subsidiaries, which are related parties of the Company have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

There was no amount payable to associates at 31 December 2008 and 2007.

As at 31 December 2008, the Company's Employee Share Ownership Plan has provided interest rate free loans totalling £1,027,376 (2007: £1,027,376) to 3 Directors for the deferred payment share scheme. The detailed information is provided for in the Directors' Remuneration Report on page 26.

The remuneration of the Directors, who are the key management personnel of the Group is set out below for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of the individual Directors is provided in the Directors' Remuneration Report on pages 23 to 26.

	2008	2007
	£	£
Short-term employee benefits	948,544	1,798,996
Post employment benefits	21,301	17,137
<b>Total directors' remuneration</b>	<b>969,845</b>	<b>1,816,133</b>

### 31. Share based payments

Options have been granted under the Company's Unapproved and Approved Share Option Schemes. The numbers outstanding, subscription prices and exercise periods are as follows:

Number of shares	Exercise Price	Exercisable from	Expiry Date
30,000	£1.15	22 December 2000	22 December 2010
4,000	£1.15	21 August 2001*	21 August 2011
66,000	£3.425	21 August 2001*	21 August 2011
19,000	£3.20	31 January 2002*	31 January 2012
45,000	£2.925	1 May 2002*	1 May 2012
39,000	£1.15	24 August 2002*	24 August 2012
127,750	£1.75	24 August 2002*	24 August 2012
28,750	£2.675	2 February 2004*	2 February 2014
2,500	£4.50	15 February 2005*	15 February 2015
20,000	£4.11	21 April 2005*	21 April 2015
4,500	£3.20	14 December 2005*	14 December 2015
48,000	£3.90	28 September 2007*	28 September 2016
167,000	£5.073	26 April 2007*	26 April 2017
<b>601,500</b>			

\*Approved option schemes, vesting in four equal annual instalments from the exercisable date.

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## 31. Share based payments (cont'd)

	2008		2007	
	Number of share options	Weighted average exercise price (pence)	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of the year	629,500	323	646,500	236
Granted during the year	–		182,000	504
Forfeited during the year	(18,000)	406	(4,500)	397
Exercised during the year	(10,000)	139	(194,500)	202
<b>Outstanding at the end of the year</b>	<b>601,500</b>	<b>323</b>	<b>629,500</b>	<b>323</b>
Exercisable at the end of the year	445,500	311	395,813	233

The weighted average share price at the date of exercise for the share options exercised during the period was 245p. The options outstanding at 31 December 2008 had a weighted average exercise price of 323p, and a weighted average remaining contractual life of six years.

In accordance with IFRS 2, Share-based Payment, the Group has taken a charge of £0.1 million in 2007 to recognise the issuance of all employee share based options. The fair value of options was determined using the Black Scholes Model. The significant inputs into the model were share price of £1.32 and a weighted average exercise price of £4.85, standard deviation of expected share returns of 0.0215, the option life shown above and annual risk free interest rate of 1.54%. The volatility measured as the standard deviation of expected share price returns was based on statistical analysis of share prices over the last 5 years.

## 32. Financial risk management

The Group's activities expose it to capital risk, currency risk (including both transactional and translational currency risk), interest rate risk, credit risk and liquidity risk. The Group seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance.

### Capital risk

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 23, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 26.

The Board reviews the capital structure of the business and considers the cost of capital and risks associated with each class of capital. The Group aims to balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

### Currency risk

The Group operates in Asia, Europe and North America and its activities expose it to transactional risks resulting from changes in foreign currency exchange rates. The Group monitors and manages these transactional foreign exchange risks relating to the operations of the Group through internal reports analysing major currency exposures. Where possible the Group seeks to offset exposures by matching monetary asset and liability exposures in like currencies against each other often using its bank facilities to square off or reduce exposures. To manage the currency risk, the Group manages the overall currency exposure mainly through currency forwards. The Group's risk management policy is to hedge a portion of highly probable forecast sales transactions.

In addition the Group is exposed to translation risk when the results of its various operations are converted from their local functional currency to Sterling, the Group's reporting currency. In particular a significant proportion of the Group's revenues and earnings are derived in US Dollars. The Group is therefore exposed to risk when these US Dollar revenue streams are translated into Sterling for Group reporting purposes. The Group regards this as a fundamental consequence of operating in markets which are dominated by US Dollar transactions. The Group does not hedge this translational risk as there is no underlying mismatch of foreign currencies as the translation is merely performed for reporting the Group's results in Sterling.

## 32. Financial risk management (cont'd)

### Currency risk (cont'd)

In 2008, we further reviewed our internal financing arrangements between group companies and decided to simplify our intercompany balances and merge one of our USA companies into another. The result of this internal reorganisation was that a number of long term intercompany balances were eliminated. Historically the revaluation of these balances was taken directly to a translation reserve in accordance with the prevailing accounting standards. Now these intercompany balances have been eliminated and the historic foreign exchange gain on these balances has been released through the income statement in accordance with IAS 21, "The Effects of Changes in Foreign Exchanges Rates". The amount concerned was £2.4 million. There is no movement of cash related to this item.

The Group's currency exposure based on the information provided to key management is as follows:

£ Millions	GBP	EUR	USD	OTHERS	TOTAL
<b>At 31 December 2008</b>					
<b>Financial assets</b>					
Cash and cash equivalents	0.7	0.5	1.9	0.3	3.4
Trade and other receivables	2.3	1.8	7.8	0.2	12.1
Other financial assets	3.3	0.5	0.5	0.2	4.5
<b>Sub-total</b>	<b>6.3</b>	<b>2.8</b>	<b>10.2</b>	<b>0.7</b>	<b>20.0</b>
<b>Financial liabilities</b>					
Borrowings	(0.1)	–	(31.4)	0.3	(31.2)
Trade and other payables	(1.9)	(1.2)	(8.0)	(1.2)	(12.3)
Other financial liabilities	(1.7)	–	(3.3)	–	(5.0)
<b>Sub-total</b>	<b>(3.7)</b>	<b>(1.2)</b>	<b>(42.7)</b>	<b>(0.9)</b>	<b>(48.5)</b>
<b>Net financial liabilities</b>	<b>2.6</b>	<b>1.6</b>	<b>(32.5)</b>	<b>(0.2)</b>	<b>(28.5)</b>
Less: Financial (liabilities)/assets denominated in the respective entities' functional currencies	2.6	1.7	(31.1)	(0.3)	(27.1)
<b>Currency exposure</b>	<b>–</b>	<b>(0.1)</b>	<b>(1.4)</b>	<b>0.1</b>	<b>(1.4)</b>

£ Millions	GBP	EUR	USD	OTHERS	TOTAL
<b>At 31 December 2007</b>					
<b>Financial assets</b>					
Cash and cash equivalents	1.0	0.5	1.2	0.9	3.6
Trade and other receivables	3.6	1.0	6.5	0.3	11.4
Other financial assets	3.5	0.1	1.0	0.2	4.8
<b>Sub-total</b>	<b>8.1</b>	<b>1.6</b>	<b>8.7</b>	<b>1.4</b>	<b>19.8</b>
<b>Financial liabilities</b>					
Borrowings	0.7	(0.1)	(21.2)	(2.4)	(23.0)
Trade and other payables	(2.4)	(0.5)	(4.1)	(1.0)	(8.0)
Other financial liabilities	(2.4)	–	(2.3)	–	(4.7)
<b>Sub-total</b>	<b>(4.1)</b>	<b>(0.6)</b>	<b>(27.6)</b>	<b>(3.4)</b>	<b>(35.7)</b>
<b>Net financial liabilities</b>	<b>4.0</b>	<b>1.0</b>	<b>(18.9)</b>	<b>(2.0)</b>	<b>(15.9)</b>
Less: Financial (liabilities)/assets denominated in the respective entities' functional currencies	3.9	0.9	(19.4)	0.5	(14.1)
<b>Currency exposure</b>	<b>0.1</b>	<b>0.1</b>	<b>0.5</b>	<b>(2.5)</b>	<b>(1.8)</b>

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2008

## 32. Financial risk management (cont'd)

### Currency risk (cont'd)

The Company's currency exposure based on the information provided to key management is as follows:

#### At 31 December 2008

£ Millions	GBP	EUR	USD	OTHERS	Total
<b>Financial assets</b>					
Cash and cash equivalents	–	–	–	–	–
Trade and other receivables	3.6	2.4	4.0	0.6	10.6
Other financial assets	0.3	0.3	0.3	–	0.9
<b>Subtotal</b>	<b>3.9</b>	<b>2.7</b>	<b>4.3</b>	<b>0.6</b>	<b>11.5</b>
<b>Financial liabilities</b>					
Borrowings	–	–	(1.9)	–	(1.9)
Trade and other payables	(7.7)	(0.7)	(5.0)	(0.8)	(14.2)
Other financial liabilities	–	–	(0.8)	–	(0.8)
<b>Subtotal</b>	<b>(7.7)</b>	<b>(0.7)</b>	<b>(7.7)</b>	<b>(0.8)</b>	<b>(16.9)</b>
<b>Net financial (liabilities)/assets</b>	<b>(3.8)</b>	<b>2.0</b>	<b>(3.4)</b>	<b>(0.2)</b>	<b>(5.4)</b>
Less: Financial (liabilities)/assets denominated in the respective entities' functional currencies	–	–	(3.4)	–	(3.4)
<b>Currency exposure</b>	<b>(3.8)</b>	<b>2.0</b>	<b>–</b>	<b>(0.2)</b>	<b>(2.0)</b>

#### At 31 December 2007

£ Millions	GBP	EUR	USD	OTHERS	Total
<b>Financial assets</b>					
Cash and cash equivalents	–	–	0.3	0.1	0.4
Trade and other receivables	3.3	1.9	0.8	0.6	6.6
Other financial assets	0.2	–	0.5	0.1	0.8
<b>Subtotal</b>	<b>3.5</b>	<b>1.9</b>	<b>1.6</b>	<b>0.8</b>	<b>7.8</b>
<b>Financial liabilities</b>					
Borrowings	–	–	(1.5)	–	(1.5)
Trade and other payables	(4.5)	(0.5)	(4.5)	(0.4)	(9.9)
<b>Subtotal</b>	<b>(4.5)</b>	<b>(0.5)</b>	<b>(6.0)</b>	<b>(0.4)</b>	<b>(11.4)</b>
<b>Net financial (liabilities)/assets</b>	<b>(1.0)</b>	<b>1.4</b>	<b>(4.4)</b>	<b>0.4</b>	<b>(3.6)</b>
Less: Financial (liabilities)/assets denominated in the respective entities' functional currencies	–	–	(4.4)	–	(4.4)
<b>Currency exposure</b>	<b>(1.0)</b>	<b>1.4</b>	<b>–</b>	<b>0.4</b>	<b>0.8</b>

If the US Dollar and Euro change against Sterling by 10% (2007: 10%) with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position will be as follows:

£ Millions	2008 Profit after tax	2007 Profit after tax
<b>Group</b>		
EUR against GBP		
– strengthened	–	–
– weakened	–	–
USD against GBP		
– strengthened	(0.1)	0.1
– weakened	0.1	(0.1)

## 32. Financial risk management (cont'd)

### Interest risk

On 6 February 2008 the Group entered into a three year interest rate swap agreement to swap its variable US\$ LIBOR interest rate on US\$31.9 million for a fixed rate of interest of 3.23%. In October 2008 as a result of significant interest rate reductions the Group ended the interest rate swap at a cost of £0.1 million.

The remainder of the Group's borrowings are at variable interest rates and are denominated in a number of currencies including Euros, Sterling, Swiss Francs and US Dollars. If the average interest rates on these borrowings increased/decreased by 0.5% (2007: 0.5%) with all other variables including tax rate being held constant, the profit after tax will be lower/higher by £128,000 (2007: £70,000) as a result of higher/lower interest expense on these borrowings.

### Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Group. For trade receivables the Group adopts a policy of only dealing with customers of appropriate credit history or rating. For other financial assets, the Group adopts the policy of only dealing with high credit quality counterparties.

The Group's business is highly fragmented reducing the credit exposure to any one customer. At the balance sheet date no trade receivable represented more than 5% of the total trade receivable balance.

The Group does not hold any collateral and the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments on the balance sheet.

The credit risk for trade receivables by geographic area is as follows:

£ Millions	2008	2007
By geographical areas		
Europe	5.7	5.3
US	5.7	5.4
Asia	0.7	0.7
	12.1	11.4

£ Millions	2008	2007
By type of customers		
Non-related parties	12.1	11.4
	12.1	11.4

The age analysis of trade receivables past due but not impaired is as follows:

£ Millions	2008	2007
Past due 0 - 2 months	3.9	4.2
Past due 3 - 4 months	0.3	0.4
Past due over 4 months	0.2	0.1
	4.4	4.7

# Notes to the Consolidated Financial Statements

For the financial year ended 31 December 2008

## 32. Financial risk management (cont'd)

### Credit risk (cont'd)

The carrying amount of trade receivables individually determined to be impaired and the movement in the related allowance for impairment are as follows:

£ Millions	2008	2007
Gross amount	0.4	0.3
Less: Allowance for impairment	(0.4)	(0.2)
	–	0.1
Beginning of financial year	(0.2)	(0.3)
Allowance made	(0.2)	–
Allowance utilised	–	0.1
End of the financial year	(0.4)	(0.2)

### Liquidity Risk

The table below analyses the maturity profile of the Group and Company's financial liabilities at the balance sheet date based on contractual undiscounted cash flows.

£ Millions	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Group					
At 31 December 2008					
Trade and other payables	12.3	–	–	–	12.3
Other financial liabilities	5.0	–	–	–	5.0
Borrowings	7.3	3.2	20.7	–	31.2
<b>Total</b>	<b>24.6</b>	<b>3.2</b>	<b>20.7</b>	<b>–</b>	<b>48.5</b>

£ Millions	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Group					
At 31 December 2007					
Trade and other payables	8.0	–	–	–	8.0
Other financial liabilities	4.7	–	–	–	4.7
Borrowings	2.7	5.1	15.2	–	23.0
<b>Total</b>	<b>15.4</b>	<b>5.1</b>	<b>15.2</b>	<b>–</b>	<b>35.7</b>

The Group and Company manage the liquidity risk by maintaining sufficient cash and bank facilities to enable them to meet their normal operating commitments.

### 33. New or revised accounting standards and interpretations

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group and Company have not early adopted them:

IAS 1, "Presentation of Financial Statements" (effective from 1 January 2009). The revised standard requires:

- All changes in equity arising from transactions with owners in their capacity as owners to be presented separately from components of comprehensive income;
- Components of comprehensive income not to be included in statement of changes in equity;
- Items of income and expenses and components of other comprehensive income to be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate statement of profit and loss followed by a statement of comprehensive income);
- Presentation of restated balance sheet as at the beginning of the comparative period when entities make restatements or reclassifications of comparative information.

The revisions also include changes in the titles of some of the financial statements primary statements. The Group will apply the revised standard from 1 January 2009 and provide comparative information that conforms to the requirements of the revised standard. The key impact of the application of the revised standard is the presentation of an additional primary statement, that is, the statement of comprehensive income.

IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will likely to remain in the same manner as it is consistent with the internal reporting provided to the Board. As the financial report contains both the Group consolidated and parent Company financial statements prepared under IFRS, the Company will not be required to present segment information.

IFRS 3 (Revised in 2008), 'Business Combinations' (effective for business combinations occurring on or after annual reporting periods beginning on or after 1 July 2009). The revised standard introduces significant changes to the accounting of business combinations, affecting the income statement, both at the acquisition date and post acquisition, and requires greater use of fair values. The Group will apply IFRS 3 (Revised) from 1 January 2010.

IAS 27 (Revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010. Currently, the Group record the effects of such transactions in goodwill and gain/loss in the income statement for acquisitions and disposals of non-controlling interests respectively.

IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 28 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

For the financial year ended 31 December 2008

### 33. New or revised accounting standards and interpretations (cont'd)

Amendment to IFRS 2 "Share-based Payment" (effective for annual periods beginning on or after 1 January 2009). This amendment clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions and are to be included in the grant date fair value of the share-based payment transactions. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. i.e., acceleration of the expense based on grant date fair value. The Group will apply the amended IFRS 2 from 1 January 2009. Currently, the Group operates an employee share option scheme and the scheme consists mainly of service and performance conditions. As such, the amended standard is not expected to have any significant impact to the Group.

IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The amendment is part of the IASB's annual improvements project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply IAS 23 (Amended) from 1 January 2009 but is currently not applicable to the Group or Company as there are no qualifying assets.

IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. An investment in associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the IAS 28 (Amendment) to impairment tests related to investments in subsidiaries and any related impairment losses from 1 January 2009.

IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. It is not expected to have a material impact on the Group's financial statements.

IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

- The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
- The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
- The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
- IAS 37, 'Provisions, contingent liabilities and contingent assets, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

The Group will apply the IAS 19 (Amendment) from 1 January 2009.

### 33. New or revised accounting standards and interpretations (cont'd)

IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

- This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
- The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition.
- The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, 'Operating segments', which requires disclosure for segments to be based on information reported to the chief operating decision-maker. Currently, for segment reporting purposes, each subsidiary designates contracts with Group treasury as fair value or cash flow hedges so that the hedges are reported in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision-maker. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision-maker), but the Group will not formally document and test this relationship.
- When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the Group's accounts and have therefore not been analysed in detail.

### 34. Other information

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of XP Power Limited on 23 February 2009.

# Company Balance Sheet

For the financial year ended 31 December 2008

£'000	NOTE	2008	2007
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	52	444
Trade and other receivables	5	10,593	6,604
Other current assets	6	891	814
Derivative financial instrument	7	590	–
Inventories	8	5,662	3,714
<b>Total current assets</b>		<b>17,788</b>	<b>11,576</b>
<b>Non-current assets</b>			
Investments in subsidiaries	3	29,786	29,786
Property, plant and equipment	9	2,321	224
Deferred income tax assets	10	9	22
<b>Total non-current assets</b>		<b>32,116</b>	<b>30,032</b>
<b>Total assets</b>		<b>49,904</b>	<b>41,608</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	14,238	9,877
Current income tax liabilities	13	727	–
Bank overdraft	14	1,848	–
<b>Total current liabilities</b>		<b>16,813</b>	<b>9,877</b>
<b>Non-current liabilities</b>			
Borrowings	12	–	1,500
<b>Total non-current liabilities</b>		<b>–</b>	<b>1,500</b>
<b>Total liabilities</b>		<b>16,813</b>	<b>11,377</b>
<b>NET ASSETS</b>		<b>33,091</b>	<b>30,231</b>
<b>EQUITY</b>			
Share capital	15	29,786	29,786
Hedging reserve	15	550	–
Translation reserve	15	337	4
Retained earnings	15	2,418	441
<b>TOTAL EQUITY</b>		<b>33,091</b>	<b>30,231</b>

# Notes to the Company Balance Sheet

For the financial year ended 31 December 2008

## 1. General Information

XP Power Limited (the "Company") is listed on the London Stock Exchange and incorporated and domiciled in Singapore. The address of its registered office is 401 Commonwealth Drive, Lobby B, #02-02, Haw Par Technocentre, Singapore 149598.

The nature of the Company's operations and its principal activities are manufacturer, providing power supply solutions and investment holding company.

## 2. Basis of accounting policies

The principal accounting policies are set out in Note 2 under the Group Consolidated Financial Statements.

## 3. Investment in Subsidiaries

£'000	2008	2007
<b>Cost at carrying value</b>		
At 1 January	29,786	–
Additions	–	29,786
<b>At 31 December</b>	<b>29,786</b>	<b>29,786</b>

Name of Subsidiary	Place of incorporation Ownership (or registration) and operation	Proportion of voting power held 2008	Proportion of Ownership % 2007	Auditor of subsidiaries
XP Power Plc	UK	100	100	PricewaterhouseCoopers LLP
XP Power Singapore Holdings Pte Ltd	Singapore	100	100	PricewaterhouseCoopers LLP

## 4. Cash and cash equivalents

£'000	2008	2007
Cash at bank	52	444
<b>Total</b>	<b>52</b>	<b>444</b>

The Company's cash at bank is denominated into the following currencies:

	GBP £'000	USD £'000	EUR £'000	JPY £'000	SGD £'000	TOTAL £'000
<b>At 31 December 2008</b>						
Cash at bank	1	47	–	1	3	52

	GBP £'000	USD £'000	EUR £'000	JPY £'000	SGD £'000	TOTAL £'000
<b>At 31 December 2007</b>						
Cash at bank	25	340	47	10	22	444

The Group has pledged all assets as collateral to secure banking facilities granted to the Group.

# Notes to the Company Balance Sheet

For the financial year ended 31 December 2008

## 5. Trade and other receivables

£'000	2008	2007
Trade receivables	631	736
Amount receivable from Group companies	9,962	5,868
<b>Total</b>	<b>10,593</b>	<b>6,604</b>

The average credit period taken on sales of goods is 36 days (2007: 29 days). No interest is charged on the outstanding receivable balance.

The Directors consider that the carrying amount of trade and other receivables approximate their fair value.

The Group has pledged all assets as collateral to secure banking facilities granted to the Group.

## 6. Other current assets

£'000	2008	2007
Deposit	46	67
Other receivables	845	747
<b>Total</b>	<b>891</b>	<b>814</b>

The Group has pledged all assets as collateral to secure banking facilities granted to the Group.

## 7. Derivative financial instruments

In 2008, the total notional amount of outstanding currency forward contracts that the Company has committed is £11.8 million (2007: Nil). These contracts are to hedge against exchange movements on future cost of sales and qualify for hedge accounting.

As at 31 December 2008, the fair value asset of the currency forward contracts recognised under a hedging reserve is £0.6 million (note 15).

£'000	Contract notional amount	Fair value asset
Current portion	8,695	342
Non-current portion	3,094	208
<b>Total</b>	<b>11,789</b>	<b>550</b>

The fair value asset of the forward contracts at 31 December 2008 was £40,000 and the total notional amount of the contracts at year-end was:

£'000	2008	2007
Forward foreign exchange contracts	2,229	–

## 8. Inventories

£'000	2008	2007
Goods for resale	5,662	3,714

The Group has pledged all assets as collateral to secure banking facilities granted to the Group.

## 9. Property, plant and equipment

£'000	Freehold land	Building	Plant and equipment	Motor vehicles	Building Improvements	Total
<b>Cost</b>						
At 1 January 2007	–	–	–	–	–	–
Additions	–	–	180	8	76	264
<b>At 1 January 2008</b>	–	–	180	8	76	264
Additions	189	1,533	389	–	64	2,175
Disposals	–	–	(3)	–	–	(3)
Foreign currency translation	–	–	54	2	23	79
<b>At 31 December 2008</b>	<b>189</b>	<b>1,533</b>	<b>620</b>	<b>10</b>	<b>163</b>	<b>2,515</b>
<b>Depreciation</b>						
At 1 January 2007	–	–	–	–	–	–
Charge for the year	–	–	22	–	18	40
<b>At 1 January 2008</b>	–	–	22	–	18	40
Charge for the year	–	8	93	2	40	143
Disposals	–	–	(1)	–	–	(1)
Foreign currency translation	–	–	6	–	6	12
<b>At 31 December 2008</b>	–	<b>8</b>	<b>120</b>	<b>2</b>	<b>64</b>	<b>194</b>
<b>Carrying Amount</b>						
<b>At 31 December 2008</b>	<b>189</b>	<b>1,525</b>	<b>500</b>	<b>8</b>	<b>99</b>	<b>2,321</b>
At 31 December 2007	–	–	158	8	58	224

The Group has pledged all assets as collateral to secure banking facilities granted to the Group.

## 10. Taxation

£'000	2008	2007
Deferred tax asset	9	22
<b>Total</b>	<b>9</b>	<b>22</b>

As at 31 December 2008, the Company had unutilised tax losses and capital allowances of approximately £Nil (2007: £230,406).

These are available for offset against future taxable profits, subject to agreement of the tax authorities and compliance with the relevant provisions of the Singapore tax legislation.

## 11. Current liabilities

£'000	2008	2007
Trade payables	3,879	1,575
Amount payable to Group companies	9,190	7,244
Other creditors	1,169	1,058
<b>Total</b>	<b>14,238</b>	<b>9,877</b>

Trade payables and other creditors principally comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amount of trade and other payables approximates their fair value.

# Notes to the Company Balance Sheet

For the financial year ended 31 December 2008

## 12. Non-current liabilities

£'000	2008	2007
Amount payable to Group companies	–	1,500
<b>Total</b>	<b>–</b>	<b>1,500</b>

The Company borrows from subsidiaries at an interest rate of 1.5% above LIBOR and repayable by 2011.

## 13. Current income tax liabilities

£'000	2008	2007
Current year tax expense	727	–
<b>Total</b>	<b>727</b>	<b>–</b>

## 14. Bank overdraft

£'000	2008	2007
Bank overdraft	1,848	–
<b>Total</b>	<b>1,848</b>	<b>–</b>

The Company's bank overdraft is denominated into the following currencies:

	GBP £'000	USD £'000	TOTAL £'000
<b>At 31 December 2008</b>			
Bank overdraft	(32)	1,880	1,848

## 15. Share capital and reserves

### Share capital

£'000	2008	2007
Allotted and fully paid 19,242,296 ordinary shares	29,786	29,786

### Retained earnings

£'000	2008	2007
Balance at 1 January	441	–
Dividends paid	(3,970)	(1,712)
Profit for the year	5,947	2,153
<b>Balance at 31 December</b>	<b>2,418</b>	<b>441</b>

### Translation reserve

£'000	2008	2007
Balance at 1 January	4	–
Exchange differences on translation	333	4
<b>Balance at 31 December</b>	<b>337</b>	<b>4</b>

### Hedging reserve

£'000	2008	2007
<b>Balance at 31 December</b>	<b>550</b>	<b>–</b>

# Five Year Review

For the financial year ended 31 December **2008**

	2008 £ Millions	2007 £ Millions	2006 £ Millions Restated	2005 £ Millions	2004 £ Millions Restated
<b>Results</b>					
Revenue	69.3	66.3	78.7	69.5	66.8
<b>Profit from operations</b>	<b>9.3</b>	<b>6.7</b>	<b>9.3</b>	<b>8.4</b>	<b>6.5</b>
<b>Profit before tax</b>	<b>10.2</b>	<b>5.0</b>	<b>8.0</b>	<b>7.6</b>	<b>5.9</b>
<b>Assets employed</b>					
Non-current assets	43.1	39.7	39.2	33.6	27.9
Current assets	35.8	27.3	30.0	30.1	23.3
Current liabilities	(22.7)	(13.2)	(21.5)	(32.0)	(16.8)
Non-current liabilities	(27.2)	(24.0)	(18.3)	(4.5)	(8.5)
<b>Net assets</b>	<b>29.0</b>	<b>29.8</b>	<b>29.4</b>	<b>27.2</b>	<b>25.9</b>
<b>Financed by</b>					
Equity	28.8	29.6	29.4	27.2	25.9
Minority interests	0.2	0.2	–	–	–
	<b>29.0</b>	<b>29.8</b>	<b>29.4</b>	<b>27.2</b>	<b>25.9</b>
<b>Key statistics</b>					
Earnings per share	46.5	17.9	27.9	30.7	20.5
Diluted earnings per share	46.4	17.8	27.5	30.1	20.1
<b>Share price in the year</b>					
High	285.0p	528.4p	486.5p	526.0p	466.0p
Low	121.0p	235.3p	327.0p	279.0p	218.0p

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## Company Secretary

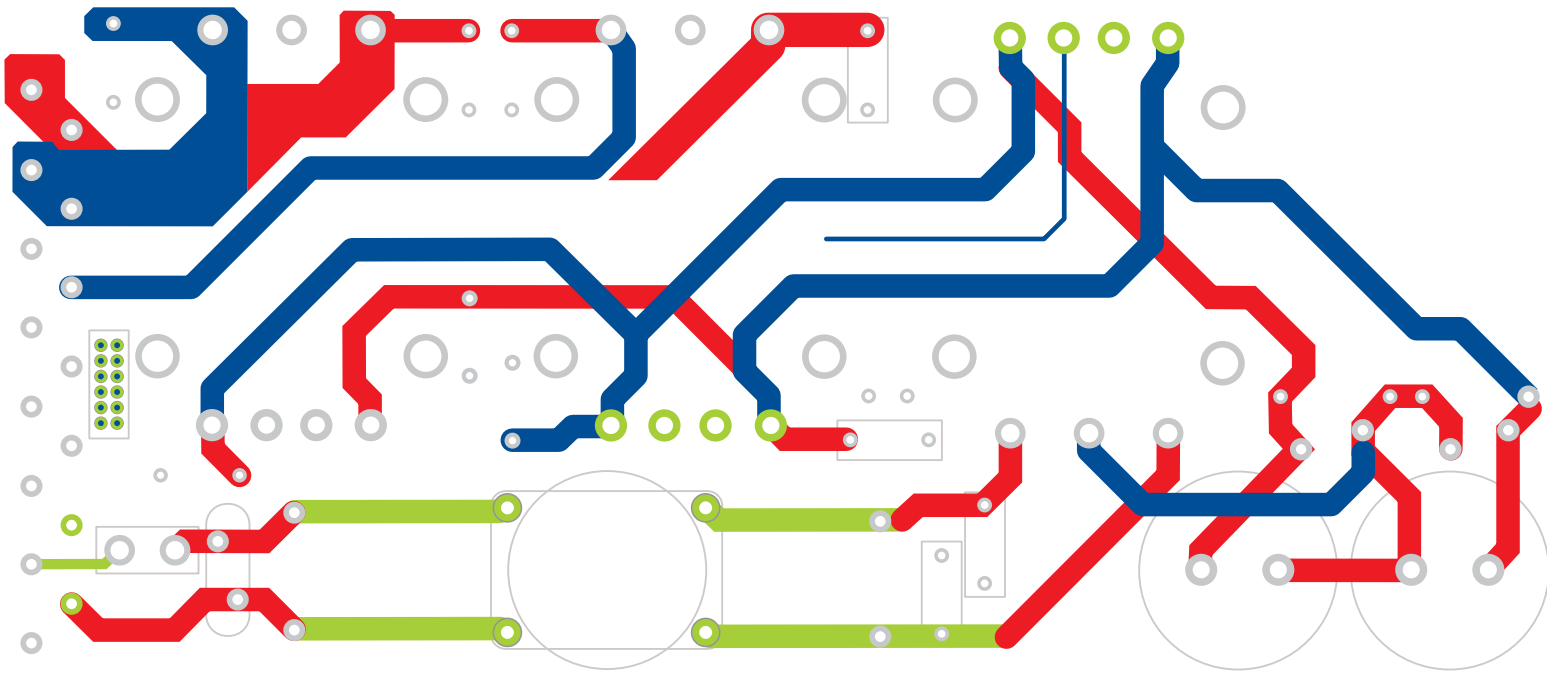
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