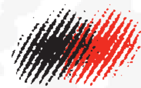
XP Power

Annual Report & Financial Statements

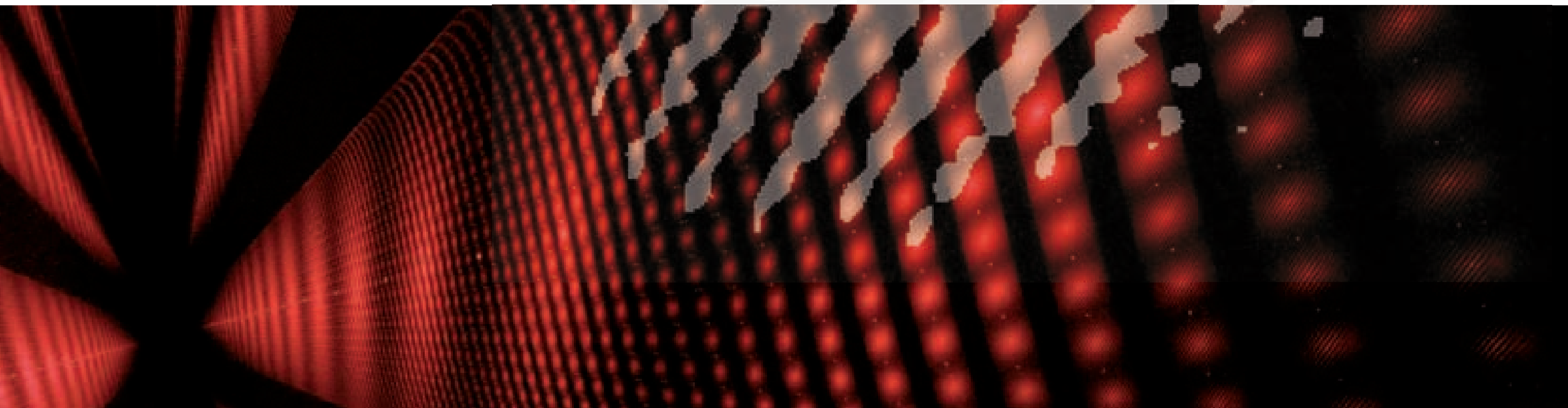
for the year ended 31 December 2009

Stock code: XPP



Outstanding Performance

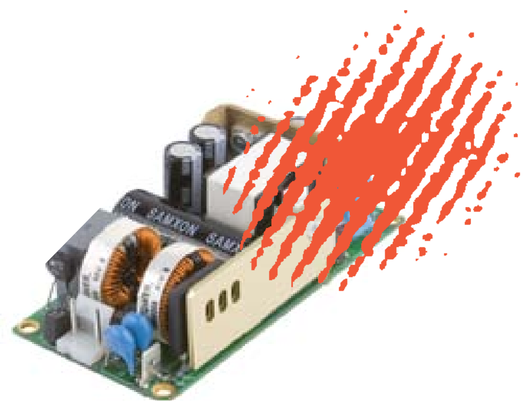
World Leading Critical Power Control Solutions



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

XP Power is a leading international provider of essential power control solutions. Power direct from the electricity 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.



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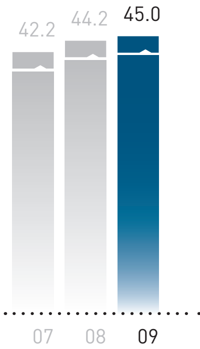
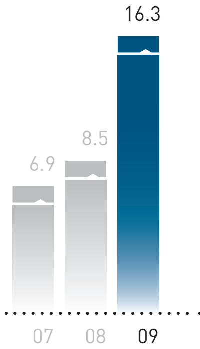
XP Highlights

OWN IP REVENUE
(£ MILLIONS)

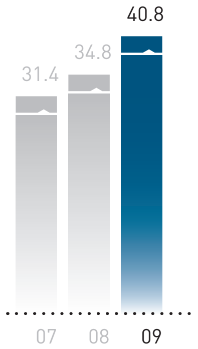
GROSS MARGINS
(%)



OPERATING CASH FLOW
(£ MILLIONS)



DILUTED ADJUSTED EARNINGS PER SHARE
(PENCE)



DIVIDENDS
(PENCE)

OWN IP REVENUE
UP 4%

GROSS MARGINS
UP 0.8
percentage points

OPERATING CASH FLOW
UP 92%

DILUTED ADJUSTED EARNING PER SHARE
UP 17%

DIVIDENDS
UP 5%

"Past investments in people and products have enabled record profits in the toughest market conditions."

Larry Tracey, Executive Chairman

Global Presence in a Growing Market

Growth Drivers

Efficiency
The requirement from customers and legislation for products to consume and waste less energy drives demand 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 products 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.

Global Presence

RESEARCH AND DEVELOPMENT

USA, UK and Singapore

2009 was a record year with thirty new families of power converters launched from our three design centres.

A Growing Market

The Global Power Converter Market

The worldwide market for XP Power's products is estimated to be greater than £1 billion and we expect it to grow by approximately 17% in the next four years.

Our position

The global power converter market remains highly fragmented. XP Power's global market share is approximately 6.5%. Across Europe and North America XP Power currently has around 10% of the market whilst across Asia it only has approximately 1% of the market. This illustrates the number of significant commercial opportunities open to XP Power.

Technology Driven Demand

Major blue chip customers demand power converters that are highly reliable and leading edge in terms of size and energy efficiency. Consistent investment in research and development has enabled XP Power to establish a strong pipeline of new products in response to market demand.

Blue Chip Customers

XP Power's continually evolving portfolio of market leading products combined with the establishment of a new low cost manufacturing capability has enabled the Group to penetrate new blue chip customers which should drive revenue growth in future years.

Competitive Advantage

XP Power supplies many major international OEMs; giving the Group a competitive advantage over both, its smaller competitors who do not have the scale and geographic reach to serve this type of global customer, and over its larger competitors who often lack the operational flexibility required to provide excellent service and speed.

EXPANDING INTERNATIONAL NETWORK

USA, Europe and Asia

XP Power's global sales network provides major customers with local face to face support and rapid response times.

Our Products

ECS100

LCL Series

CCM 250

All electronic equipment needs a power converter to be able to function — no electronic equipment can be powered directly from the mains. An electronic power converter is required to convert the power output from the mains 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 critical electronic hardware components.

An electronic power converter performs the following functions:

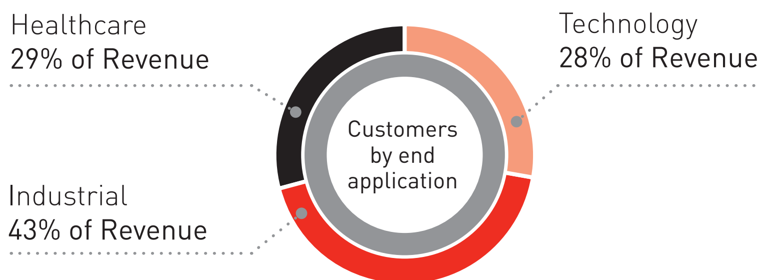
- Converts electrical power from one voltage to another voltage;
- Converts alternating current (AC) to direct current (DC) or vice versa. XP Power also provides products that will convert one DC voltage to an alternative DC voltage;
- Meets the safety critical requirement of shielding the user of any 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 increasingly demanding regulatory and legislative requirements.

XP Power's customers are constantly trying to differentiate their products from those of their competitors through enhanced performance and functionality. In turn, this dynamic creates demand for power converters that can satisfy a very wide range of technical requirements. Consequently, the XP Power research and development function has developed, and continues to improve, the broadest product portfolio in its industry. In addition to this, the majority of XP Power products are capable of being modified specifically to the customer's exact requirements. This extra design capability is a competitive advantage over the majority of XP Power's peer group.

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 minimum amount of heat is generated during the power conversion process and the power converter can be as small as possible. The industrial sector frequently requires ultra high reliability within harsh environmental conditions. Healthcare has special legislation concerning power conversion which relates to the stringent safety requirements of powering products which are in contact with the patient. XP Power's market leading research and development function and long term customer relationships mean that it is capable of successfully identifying and addressing its customers' specific needs promptly and efficiently.

XP Power has the broadest, most up-to-date portfolio of products in the industry.

Our target customers have very different requirements dependent on the diverse markets in which they operate:



Technology — ECS100

The technology sector often requires high power density and leading efficiency so that the minimum amount of heat is generated during the power conversion process and the power converter can be as small as possible. The ECS100 offers 100 Watts of power from an industry leading 2 × 4 inch footprint, an efficiency of 88% and meets the energy efficiency standards such as Energy Star, CEC, EISA and the European Code-of-Conduct for no-load power consumption of less than 0.5 Watts.

Industrial — LCL Series

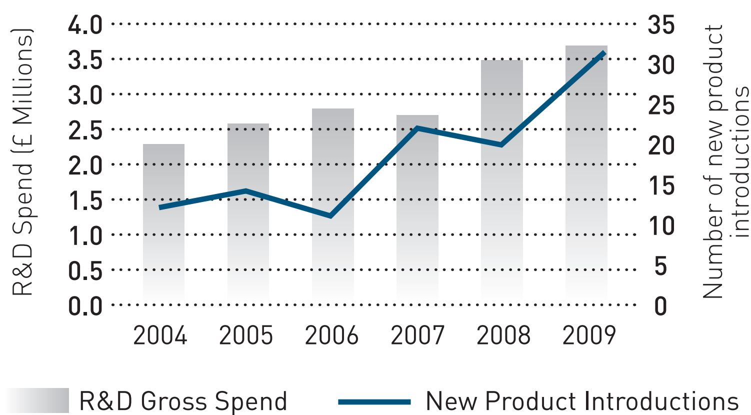
The industrial sector frequently requires ultra high reliability within harsh environmental conditions whilst keeping cost to a minimum. Suiting a wide variety of factory automation, process control and light industrial applications the LCL range comprises 150, 300 and 500 Watt models and provides an industry leading efficiency of 90%. All units incorporate comprehensive protection and control features and are fully approved to worldwide safety standards.

Healthcare — CCM250

Healthcare has special legislation concerning power conversion which relates to the stringent safety requirements of powering products which are in contact with the patient. In addition locating the equipment near to the patient precludes the use of noisy cooling fans. Achieving a class leading efficiency of 95%, thereby reducing heat generation within the equipment and removing the need for fans, this greatly increases reliability while reducing cost, audible noise, system complexity and size.

Research and Development Spend and New Product Introductions

2009 was a record year for new product introductions with thirty families of new products being launched during the year.



Our target blue chip customers demand the highest standard of quality and reliability. The power converters we design into their end applications are mission critical. Field failure of critical medical and expensive industrial equipment is not acceptable. Our manufacturing capabilities ensure XP provides its customers with the product reliability they demand.

New manufacturing facility

Our new state-of-the-art manufacturing facility located near Shanghai, China, opened during June 2009. It uses class leading manufacturing techniques and equipment. This process starts from rigorous supplier selection and incoming component inspection through to automatic testing of the final product. Throughout the manufacturing process we make use of the latest capital equipment to improve throughput and enhance the reliability of the product. This includes the latest automatic pick and place technology, computer controlled wave soldering, automatic optical inspection, in process testing, full product burn in and then finally full function automatic testing of the completed product.

A number of audits of our new facility have taken place since its opening by both existing and prospective blue chip customers. Without exception these audits have been successful and some have resulted in new business opportunities from new customer approvals. The feedback we have received from our customers has been extremely pleasing. One particular audit resulted in an invitation to become a strategic global supplier to a major healthcare company.

Control of the supply chain

It is important to many of our customers that we have complete control of our supply chain and, in particular, the components that are incorporated into our products. Outsourcing to subcontractors is simply not acceptable to the leading customers operating in the industrial and healthcare sectors. Their concerns are that components or processes are changed to reduce costs without their knowledge, affecting the reliability or safety of their critical end applications. The power converter is not only essential to the working of the end equipment — if it fails the equipment fails — it is also safety critical isolating the users of the equipment from the dangerous high voltage mains supply. For these reasons the leading blue chip customers have a strong preference to deal with true manufacturers in our industry rather than design houses that

The Manufacturing Team at the opening of the new 70,000 sq. ft. Kunshan facility

outsource these key processes. In 2005 we recognised that moving into manufacturing would increase our value proposition to these customers and allow us to capitalise on the portfolio of leading edge products we had developed and continue to develop. Our performance in 2009, particularly in the healthcare sector, is evidence that this strategy is starting to pay off.

Integration with Product Development

There are further benefits to being a manufacturer. Our manufacturing engineering team is able to provide detailed feedback regarding the manufacturability of a product during the product design stage. This not only allows the product to be lower cost but also gives the opportunity for reliability to be designed into the product. The result is higher reliability which customers are willing to pay a premium for and hence increased margins.

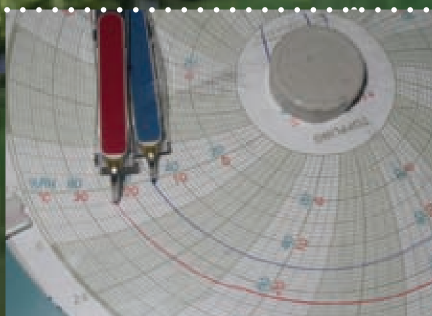
Capital investment

Wherever possible we make use of technology and capital equipment to improve our processes and efficiency. Whether this be computer controlled screens and operating instructions, advanced automated optical inspection equipment or state-of-the-art pick and place machines, the result is not only faster product throughput resulting in lower cost but even more importantly, as explained above, improved product reliability. The investments we have made in this area are already paying back as we increase our impressive list of blue chip customers. We invested over £1 million (US$2 million) in additional capital in our manufacturing operations despite the economic downturn. We expect to commit further amounts to manufacturing capital in 2010 in order to increase our capacity further to meet the demand for our own designed and manufactured products.

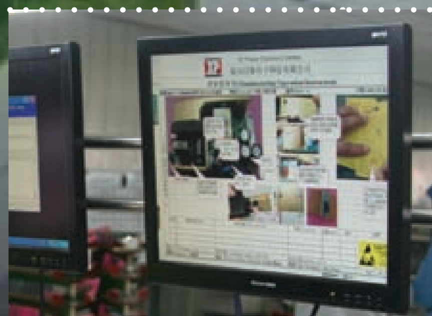
Vietnam

As reported in our 2008 Annual Report we have purchased a piece of land in Vietnam, this will be the site of our next manufacturing facility which we will bring on stream as required.

Automated Optical Inspection improving reliability



Humidity and temperature of component storage areas



Computer controlled operating instructions and displays allow fast line changes and rigorous document control

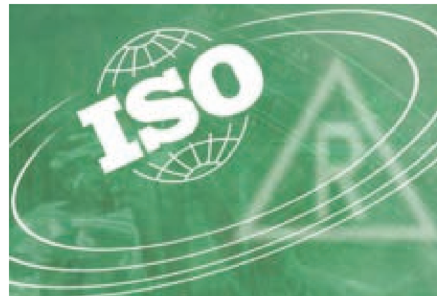
Automated pick and place technology

"In 2009, we decided to take our commitment to the environment to the highest level and established an environmental committee with the aim of making XP Power the leader in its industry on environmental issues."

XP Power has always placed great emphasis on minimising the impact its activities have on the environment. The Group's key sites have long maintained policies and practices to reduce energy and material consumption whilst also recycling wherever practicable. A number of our key sites have also gained the ISO 14001 Environmental Certification demonstrating our commitment to environmental responsibility.

These practices and initiatives not only resonate with our customers and employees; they also make enormous commercial sense.

In 2009, we decided to take our commitment to the environment to the highest level and established an environmental committee with the aim of making XP Power the leader in its industry on environmental issues. This will both ensure we fulfil our Corporate Social Responsibility obligations and present a major business opportunity in its own right as customers around the world look to improve their own environmental performance through the adoption of new, more efficient power conversion products.



A number of our key sites have gained ISO 14001 Environmental Certification

The Power Conversion Industry

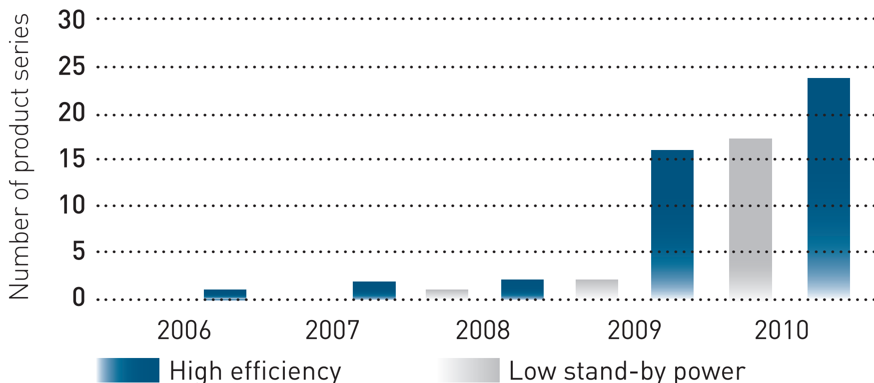
While we have initiatives to reduce energy consumption in our operations, recycle and utilise communication technologies to reduce the need for travel, XP Power itself plays an interesting and pivotal role in the energy chain. The power conversion products we design and manufacture are the "bridge" between the electricity utility companies and the consumer, converting the energy from the grid and providing it in a form that can be used by electronic equipment. XP Power is therefore uniquely positioned to make a real contribution to energy efficiency and emission reduction and is leading the power conversion industry in terms of product efficiency.

Historically, electronic power conversion has been a notoriously inefficient process. The original linear transformers still in use today in some sectors are only 50% efficient with half the energy they convert being wasted as heat. XP Power does not operate in this area, specialising instead in modern "switching" techniques, enabled by semiconductor technology, which allow power converters to be much smaller and more efficient. Modern power converters have typical efficiencies of 80%. While this is a major improvement over legacy products, XP Power is committed to developing technologies to reduce such wastage to a minimum.

XP Power and Efficient Energy Conversion

XP has consistently raised the bar in terms of power converter efficiency and, as the chart below illustrates, has increased the number of high efficiency and low stand-by power products in its ranges significantly in recent years. (Stand-by power is the energy consumed by the power converter when the equipment it powers is idle and not operating.)

We are proud, for example, that our CCM250 converter is the most efficient power supply of its type available on the market today, being capable of achieving an impressive 95%



"XP Power's laboratory in Singapore is accredited by the Californian Energy Commission to perform efficiency testing, allowing the Company to certify its own products. XP Power is also an Energy Star partner and can use agreed test methods to determine and certify products that are Energy Star compliant."

In 2010 we plan to launch 17 new product families with class leading efficiencies, many above 90%, and 24 new product families with low stand-by power.

efficiency. Moving from 80% efficiency to 95% has dramatic energy saving effects. At 95% efficiency the power converter is wasting 5 times less energy compared to a typical 80% efficient power converter. The aggregate energy saving is staggering when applied to the number of power converters we sell in a single year.

In 2010 we plan to launch 17 new product families with class leading efficiencies, many above 90%, and 24 new product families with low stand-by power.

The technology and components required to push the boundaries of energy efficiency are invariably more expensive but with greater legislative focus on, and public scrutiny of, this area we have evidence that our customers are increasingly willing to pay this premium. The pay back comes not only in a reduced environmental impact but also results in lower energy bills and superior product design and functionality. Since these new products can be made smaller and our customers have less issue in removing unwanted heat from their equipment, noisy and unreliable fans are often no longer required, for example.

Power converters also consume energy while they are in stand-by mode. There are currently around 1.5 billion external power supplies in the USA alone, accounting for 6% of the US national electricity bill. If left unchecked it is believed that this figure could quickly rise to 30%. In 1992 the US Environmental Protection Agency laid down voluntary guidelines relating to energy consumption of single output external power converters which became the Energy Star program. The California 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. XP Power aims to exceed rather than merely meet these standards and will continue to raise the efficiency bar.

Harmful substances

European legislation on the Reduction of Hazardous Substances (RoHS) came into effect in 2005. This legislation limited the levels of certain substances in products including lead. Although the legislation is applicable only to products sold in Europe XP Power took the decision that all of the products we designed and manufactured would be compliant. This was not only good for the environment but good for our business.

In summary, XP Power is on a mission to develop smaller products that waste less energy, consume less physical material and avoid hazardous substances.

Next steps

XP Power will become the leader in its industry in addressing the effect it has on the environment. We will achieve this by:

- Continuing to lead the field in the development of high efficiency power conversion technology; and
- Challenging and encouraging our staff, customers and suppliers to adopt practices that reduce the energy and resources consumed.

We are also aiming to gain Applicant Membership of the Electronic Industry Citizen Coalition (EICC) in 2010. This process will require us to meet and show commitment to the EICC Code of Conduct dealing with Environmental and Corporate Social Responsibility issues. This is the highest recognised standard for our industry and XP Power will exceed its requirements.

I am confident that these initiatives will not only benefit the environment but will help us grow our business and increase the value of our Group.

David Hempleman-Adams
Chairman
Environmental Committee

The AEB Series of desktop power supplies meets the Energy Star and California Energy Commission efficiency standards.

"I am pleased to report that XP Power's well-established strategy of moving up the value chain to develop and manufacture its own range of market leading products has enabled the Group to report record earnings per share for the year."

Larry Tracey, Executive Chairman, XP Power

Overview

As expected, the trading environment remained challenging throughout 2009 as a result of the severe deterioration in world economic conditions. Against this backdrop, I am pleased to report that XP Power's well-established strategy of moving up the value chain to develop and manufacture its own range of market leading products has enabled the Group to again report record earnings per share for the year. Our ongoing commitment to invest in new products was again rewarded as key customer programs won in prior years entered production phase and further growth in the proportion of our own XP branded products in the sales mix drove gross margins to record levels.

The successful commissioning of our second, larger, manufacturing facility and record levels of both new product investment and product launches, were essential to seed the ground for future growth as the business looks to build on this record performance in 2010.

This robust performance along with diligent control of our inventories enabled the Group to close the year with significantly reduced levels of debt, placing the Group in a strong position to capitalise on the signs of recovery we are now seeing in our market.

Financial

Total sales decreased by 3% to £67.3 million (2008: £69.3 million). However, sales of product based on XP Power's own intellectual property ("IP") increased by 4% to £55.9 million (2008: £53.9 million), an all time high. Sales based on XP Power's IP are now 83% of total sales, compared to 78% in 2008 and 73% in 2007 and this underlines the significant and consistent progress achieved, as six years ago own IP sales were less than 50% of the total. Ongoing improvement in the sales mix helped to drive a further improvement in gross margins to 45.0% (2008: 44.2%). Operating profit increased to £9.6 million (2008: £9.3 million after excluding £2.4 million of one-off non-cash foreign exchange gains). Diluted Adjusted Earnings Per Share increased by 17% to 40.8 pence per share (2008: 34.8 pence per share), a record for the Group.

Our net debt has reduced from £27.8 million in 2008 to £18.7 million at the end of 2009. Operating cash flow was up 92% to £16.3 million (2008: £8.5 million) representing 170% of operating income.

Strategic Progress

XP Power has been successfully repositioning itself since flotation in 2000, transitioning from a distributor of electronic components to a designer and manufacturer of best in class power converters based on its own intellectual property. The addition of a global sales function, and an in-house design capability that has developed the broadest, freshest product range in its industry, have enabled the Group to establish a leadership position in its market while simultaneously delivering a resilient financial performance in difficult economic conditions. The majority of sales are now from products based on XP Power's own intellectual property, which generate higher margins and gives XP Power the ability to deliver power converter solutions which reduce its customers' overall new product development costs.

In mid-2009 the Group achieved a key strategic objective when its second larger manufacturing facility in China began production, dramatically enhancing the Group's ability to secure preferred supplier status with larger customers. With the Chinese manufacturing facility now fully on stream, XP Power has the capability to significantly increase the proportion of its revenues which come from in-house

The successful commissioning of our second, larger, manufacturing facility and record levels of both new product investment and product launches, were essential to seed the ground for future growth as the business looks to build on this record performance in 2010.

manufactured products from the current level of circa 20%, which will drive both future sales growth, as we increase our penetration of key customer programmes, and a further increase in margins.

Dividend

In line with our progressive dividend policy, a final dividend of 12.0p per share (2008: 11.0p) is proposed, which when combined with the interim dividend of 10.0p, this gives a total dividend of 22.0p for the year (2008: 21.0p).

Sustainability

XP Power seeks to reduce its impact on the environment both of its own operations and, crucially, its products. In 2009, we formalised our environmental responsibility efforts by establishing the Environmental Committee, the members of which have been selected for their knowledge of and commitment to sustainability. Their report to shareholders is set out on pages 8 and 9.

Outlook

Throughout the past two years of economic turmoil, we have increased the level of investment in our products, our people and capital equipment. We start the new decade in a strong position in our industry, which now appears to be recovering rapidly. We will continue our drive to introduce industry leading new products which have both the smaller footprints and the lower levels of power consumption that our customers seek. XP Power's combination of a market leading product portfolio and low cost manufacturing capability should allow shareholders to benefit from above average earnings and dividend growth as the recovery takes hold.

Larry Tracey
Executive Chairman

"2009 was another record year for XP Power beating the previous records for own IP revenue, margins, earnings and cash flow set in 2008."

Duncan Penny, Chief Executive, XP Power

2009 was another record year for XP Power beating the previous records for own IP revenue, margins, earnings and cash flow set in 2008. This has been achieved as a result of our consistent strategy of moving up the value chain, powered by an increasingly strong pipeline of new leading-edge products. Notably, we achieved this in a period which is being widely referred to as the "Great Recession". At the same time we have been able to significantly reduce our inventories which combined with our cash generative business model enabled us to reduce our net debt to £18.7 million at the end of 2009 compared to £27.8 million at the end of 2008.

Our continued focus on the introduction of new products compensated for the profound weakness in industrial markets that characterised the period, as new customer programs, featuring products we had introduced in preceding years, entered the production phase. This was particularly the case in the healthcare sector, where we have placed great emphasis over the past few years. The results of new product introductions and our move into manufacturing are now paying off. Despite the economic downturn we maintained new product investment and new product introductions at record levels in the year, underpinning revenue growth for 2010 and future years.

As the tenth anniversary of our Stock Market listing as a reseller of electronic components approaches, we have successfully completed the transformation of XP Power into a technology led business with an independent manufacturing capability. This transformation of the business model means that the majority of sales are now generated by products based on our own IP, which generates significantly higher margins, and gives XP Power the capacity to design tailor-made power control solutions for specific customer orders. A record 83% of our revenues came from our own brand products in 2009 (2008: 78%).

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. Notwithstanding the current economic backdrop, the increasing importance of electronic components energy efficiency, for both environmental and economic reasons, the necessity for ever smaller products, the rate of technological change and the increasing proliferation of electronic equipment, all contribute to underpin the strength of medium term demand for XP Power's power conversion products.

The worldwide market for XP Power's products is estimated to be greater than £1 billion and we expect it to grow by approximately 17% in the next four years. Currently, XP Power's global market share is around 6.5%. Across Europe and North America, XP Power currently has around 10% of the market while across Asia it has only 1%. This illustrates the number of significant commercial opportunities open to XP Power, and the Board is confident that the Group'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, highly reliable products. Our consistent investment in research and development has established the broadest, freshest product pipeline in the industry. 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.

The SHP and MHP650 families of industrial and healthcare supplies, the first new products to be lauched by the Singapore R & D team in 2009.

Increasingly, the design and manufacturing process of major international OEMs takes place across different continents, with these blue chip companies demanding global support. Over the past few years, XP Power has established an international network of offices which offers this necessary customer support across technical sales, design engineering, logistics and operations.

This network gives XP Power a competitive advantage over both its smaller competitors, who do not have the scale and geographic reach to serve global customers, and its larger competitors who often lack the operational flexibility to provide excellent service and speed. We believe that this balance offers XP Power the opportunity to increase its market share, and is one of the main reasons for our success in winning the new contracts, which have in part mitigated the effects of the global downturn in 2009.

Expanding the international network

XP Power's mix of quick response capability and global reach is a major competitive advantage. Currently, XP Power has a network of 27 sales offices spread over North America, Europe and Asia, with a further 19 distributors, supporting its customers. The management is constantly reviewing ways in which they 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. Our 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 our customer's product development teams. The 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 with local face to face support and rapid response times. The central engineering services function has established XP Power as a value added partner, allowing it to comprehensively address the demands of its larger customers for complex solutions that can be efficiently integrated into their end equipment, in turn delivering significant savings in 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, providing some of the largest blue chip conglomerates in Europe with specialist technical expertise and value added services for market leading, complex power control solutions.

The Asian sales activities are run from Singapore, where we also manage a network of seven distributors, serving the region. In 2009, XP Power continued to widen its commercial interests in Asia to capitalise on two important commercial opportunities. First, it will allow XP Power to continue to enhance support to the Asian design centres of its major European and North American customers. Second, it will allow the Group to address demand from Asian companies for power control components which meet European and North American legislation. In the medium term we expect revenues derived from Asia to be an increasing proportion of XP Power's worldwide revenues.

Market leading technology

A consistent and substantial investment in research and development of new products has been the cornerstone of XP Power's growth strategy. This investment has established the broadest, most up-to-date portfolio of products in the power converter industry. 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.

Research and development spend grew to £3.7 million in 2009, its highest level ever, and a record thirty new product introductions were made in the year, resulting in a number of exciting new customer approvals. Of particular note is our CCM250 which at 95% efficiency is considered to be the most efficient power converter of its type available on the market today. This leading-edge product has already enabled us to win some significant business with major new customers.

XP Power opened a new design centre in Singapore during 2008, to work alongside the design centres in North America and the UK. Asia is an increasingly important growth market for XP Power and establishing a significant research function in this region has helped the Company capitalise on the evolving demands of this market. The Singapore design centre made a significant contribution in 2009, introducing two new product families.

The Group expects to maintain this progress with the release of a further 35 new product ranges in 2010, which should underpin revenues in future years.

Reliability and manufacturing capabilities

XP Power's products frequently power critical applications — not least in the healthcare sector — and reliability is a crucial issue for our customers. Our key customers demand the ultimate in terms of quality control to ensure reliability for the life of their equipment. In 2005, the Group recognised an opportunity to expand its value proposition to key target customers by moving into manufacturing at a time when many of its competitors were outsourcing their manufacturing. Having control of manufacturing activities not only allows us to strictly manage the production processes and components that go into our products, as demanded by our larger customers, but also gives us opportunities to reduce our product costs. Our performance in 2009, particularly in the healthcare sector, is evidence that this strategy is starting to pay off.

To implement this strategy XP Power established a Chinese manufacturing joint venture with Fortron Source in 2006, before taking 100% control in early 2008. Since taking over the facility, significant investment has been made in upgrading the equipment set and manufacturing capacity, and the operational management team has been strengthened. This culminated in the commissioning of a brand new state-of-the-art facility on the existing site at Kunshan in June 2009.

Production volumes at the facility increased rapidly in the last quarter of 2009. As well as helping to meet the increasing demand for higher margin products based on XP Power's own IP, 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 going forward. Our new manufacturing facility achieved a number of successful audit qualifications from both existing and prospective blue chip customers during the period. For more details relating to our class leading manufacturing please refer to pages 6 and 7.

Investing in customer support

In a competitive marketplace, excellent customer support and service is critical. XP Power has developed a network of relationship managers and sales engineers to manage long term customer relationships across three continents. It is not unusual for our sales engineers to be dealing with different elements of the customer's team across three continents, for just a single program. The Group has worked hard to build a sales culture that can successfully manage these complicated relationships and has developed sophisticated proprietary customer relationship management tools to effectively manage the sales process.

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

The management regards these tools and their method of utilisation as a significant source of competitive advantage over the Group's larger competitors.

Robust Business Model

XP Power's business model exhibits the following characteristics:

- Exposure to a broad cross section of end markets — Technology, Industrial and Healthcare but with no exposure to consumer electronics.
- A diverse customer base of over 6,000 active customers, with no one customer accounting for more than 3% of revenue.
- Powerful proprietary customer relationship management tools which allow the efficient management of our customer base and identification of pricing and product trends that enable the development of appropriate, innovative new products.
- Attractive margins and lower capital investment requirements when compared to other manufacturing industries, resulting in strong free cash flow and gross margins that are amongst the highest in the industry.
- Although design cycles are often long — typically an average period of 16 months from identifying a program to receiving the first production orders — once our power converters are approved for use in our customer's end equipment XP Power enjoys a revenue annuity for the lifetime of the customer's equipment, which is typically five to seven years.

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

Legislation

There is an increasing volume of legislation affecting the power converter industry, driven by a desire to eliminate hazardous chemicals from electronic products and by the need to reduce the amount of energy these products consume in use, to reduce or eliminate adverse environmental impacts. We are fully supportive of these legislative initiatives and in response believe we are leading the industry in developing more efficient power converters. As noted above, our recently launched CCM250 is considered to be the most efficient power converter of its type in the market which is an incredible 95% efficient.

Energy efficiency is becoming an increasingly important and topical issue. This is reflected in the operating standards to which power converters need to be designed to meet the new and ever expanding regulation and legislation.

Management believes that this increase in regulation is positive for XP Power, along with some of its larger peers, since many of the smaller players in the industry do not currently have the scale, resources or expertise to develop products which satisfy these tighter 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 enjoy over many of its competitors.

During 2009 the Board decided to increase the emphasis XP Power places on environmental issues with the goal of becoming the clear leader in its industry on environment and sustainability matters. An Environmental Committee has been established and its report is set out on pages 8 and 9 of this report.

Outlook

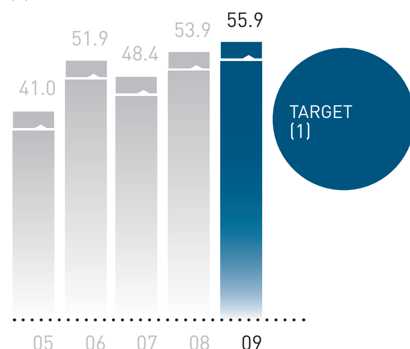
XP Power has entered the new financial year in excellent shape — the business has successfully ridden the economic storm of 2009 and delivered record margins and earnings for a second successive year. Profits generated by our industry leading product pipeline and new programs that came on stream in 2009, particularly in the healthcare sector, have meant that unlike many other companies we have not had to cut costs and headcount in our business to the detriment of its medium and long term prospects. In fact, we have been able to increase the level of investment in our products and people, and expand our manufacturing capabilities while closing the year with lower net debt than when we entered 2009.

We remain confident about the fundamental medium term growth drivers which underpin the markets in which we operate. The successful refocus of the business model on higher margin, own IP product sales and the development of a state-of-the-art independent manufacturing capacity have placed XP Power in a strong position to capitalise on its growth ambitions and prosper, even in the most difficult economic conditions.

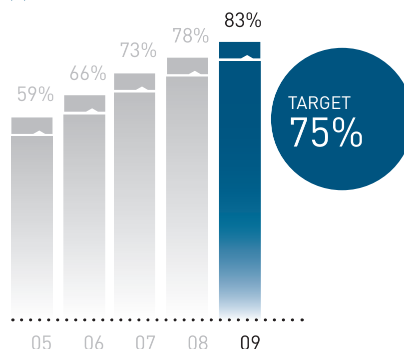
Duncan Penny
Chief Executive

Key Performance Indicators

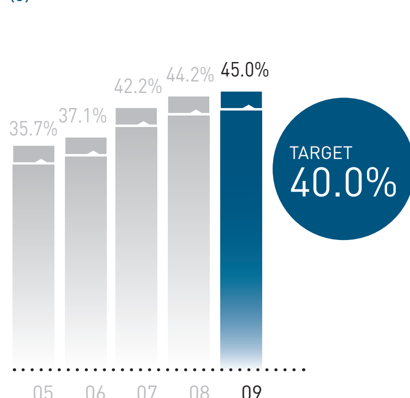
OWN BRAND REVENUE
(£MILLIONS)
(1)



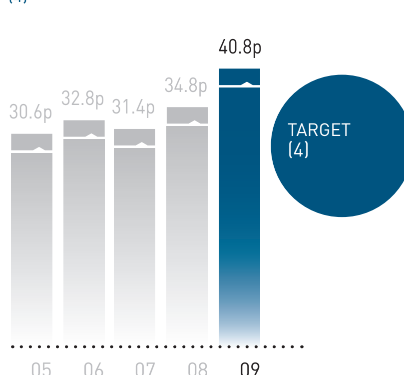
PROPORTION OF OWN BRAND REVENUE
(2)



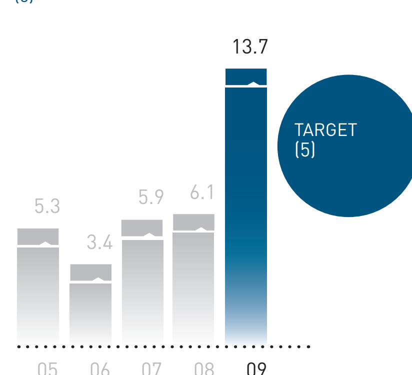
GROSS MARGIN
(3)



DILUTED ADJUSTED EARNINGS PER SHARE
(4)



FREE CASH FLOW
(£MILLIONS)
(5)



(1) **Own brand revenue = revenue derived from sale of XP products**
The Group does not have an absolute long term target for this metric. However, the Group targets to grow this metric by 20% per annum.

(2) **Proportion of own brand 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. We expect this figure to reach 90% over the course of time.

(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. We expect our gross margin to improve marginally from current levels.

(4) **Diluted adjusted earnings per share = earnings per share adjusted for amortisation of intangibles associated with acquisitions and exceptional charges or profits.**

Diluted earnings per share is per the consolidated financial statements.
Adjustments to the earnings per share are set out in Note 10.
There is no absolute long term target set for this metric but the Group targets to grow this metric by 20% per annum. The compound growth rate for this metric over the last four years has been 10%.

(5) **Free cash flow = Net cash flow from operating activities; less capitalised development costs; plus exceptional charges; less interest paid.**
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 Group 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. Our financial objectives are 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 Group's key performance indicators.

Like many other international businesses the Group 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 Group Operates

Fluctuations in foreign currency
The Group 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 Group where virtually all the revenues are denominated in US Dollars. The Group also sources the majority of its product in US Dollars. The Group therefore has an exposure to foreign currency fluctuations. This could lead to material adverse movements in reported earnings.

Competition
The power supply 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 Group, which may have a material effect on its business. At the lower end of the Group's target market the barriers to entry are low and there is, therefore, a risk that competition could quickly increase particularly from emerging low cost manufacturers in Asia.

Risks Specific to the Group

Dependence on key personnel
The future success of the Group is substantially dependent on the continued services and continuing contributions of its Directors, senior management 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 Group is dependent on retaining its key customers and suppliers. Should the Group lose a number of its key customers or a key supplier this could have a material impact on the Group's businesses financial condition and results of operations. However, for the year ended 31 December 2009, no one customer accounted for more than 2.5% of revenue.

Shortage, non-availability or technical fault with regard to key electronic components
The Group 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 Group'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 Group 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 Group, or by their competitors. In response to a changing competitive environment, the Group may elect from time to time to make certain pricing, service, marketing decisions or acquisitions that could have a short-term material adverse effect on the Group's revenues, results of operations and financial condition.

Management stretch
The management team is likely to be faced with increased challenges associated with any sustained macroeconomic recovery. With the financial markets uncertain, the management team must also be able to adapt to the changing conditions and implement corrective measures as they are needed. It could adversely affect the Group if the management team is not able successfully to cope with these challenges.

Information Technology Systems
The business of the Group 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 Group together with significant remedial costs.

Risks relating to taxation of the Group
The Group 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 currently 28.0% and a number of European jurisdictions where the rates vary between 25.5% and 38.7%. In addition, the Group has manufacturing activities in China and Hong Kong where the corporation tax rate are 24% and 17.5% respectively and sales companies in Singapore and Switzerland where the corporation tax rates are 17.0% and 20.0% respectively.

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

Further, the Group's tax position includes judgements 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.

"This year's financial performance in terms of profitability and increased operating cash flow has enabled us to increase the 2009 dividend by 5% to 22p per share."

Mickey Lynch, Finance Director, XP Power

Cash Flow

Our operating profit and diligent management of our working capital during 2009 allowed us to generate operating cash flow of £16.3 million during 2009 (2008: £8.5 million). We reduced our inventories from £17.5 million in 2008 to £10.7 million in 2009 and this, in conjunction with the cash produced from our operating profits allowed us to substantially reduce our net debt from £27.8 million in 2008 to £18.7 million in 2009. We also returned £4.0 million (2008: £4.0 million) to shareholders in the form of dividends. This was achieved in the most challenging of economic conditions.

Income and Expenditure Account

Although revenues decreased 3% to £67.3 million from £69.3 million in 2008 revenues from our own IP product increased by 4% to £55.9 million from £53.9 million in 2008 driving further increases in our gross margin. The reduction in revenues due to the economic recession affecting the industrial sector was significantly mitigated by the strengthening of the US Dollar versus Sterling. During 2009 the average US Dollar to Sterling exchange rate was 1.55 compared to 1.87 in 2008. If we experienced the same average exchange rates in 2009 as 2008 our revenues would have been reported £7.3 million lower. However, the affect on our profitability would be negative but a far lesser impact. Although a strong US Dollar increases our reported revenues when reported in Sterling it reduces our profits as we have marginally more US Dollar expenses than we have US Dollar revenues across the world. Consequently our reported revenues are quite sensitive to the exchange rates between the US Dollar and Sterling but the impact on our profitability is minimal.

Gross margins increased 0.8 percentage points to 45.0% in 2009 from 44.2% in 2008 due to a greater proportion of own IP sales. This is despite the strengthening of the US Dollar versus Sterling as noted above.

Operating expenses were £20.8 million in the year as compared with £22.2 million in 2008. In accordance with the requirements of IAS 38, during 2009 £1.5 million of product development expenditure was capitalised (2008: £1.0 million) and £0.3 million was amortised (2008: £0.4 million). Gross expenditure on product development was £3.7 million or 5.5% of revenue compared to £3.5 million, or 5.0% of revenue in 2008, and £2.7 million, or 4.1% of revenue, in 2007. This demonstrates our commitment to continue with our product portfolio expansion even in the face of difficult economic conditions.

During 2008 we 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. Once these intercompany balances were eliminated the historic foreign exchange gain on these balances was released through the income statement in accordance with IAS 21, "The Effects of Changes in Foreign Exchanges Rates". The amount concerned was US$4.7 million or £2.4 million. There is no movement of cash related to this item. This item only affected the 2008 financials and did not recur in 2009.

The amount concerned was eliminated in computing the diluted adjusted earnings per share for 2008.

Financial Control and Reporting

One of the many challenges for international organisations 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 ensure that we provide timely information to our shareholders.

Derivatives and Other Financial Instruments

The Group'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 Group uses forward currency contracts to convert Sterling and Euro long positions to cover the US Dollar short positions in its parent company. The Group had £11.8 million of forward currency contracts outstanding at 31 December 2009 (2008: £16.4 million).

Financing Costs

In September 2009 the Group renewed its £10 million annual working capital facility, which is priced at LIBOR plus a fixed margin of 2.5%. In January 2009 the Group converted its term debt facility of £16 million and its £5 million multicurrency revolving debt facility into a new term loan of US$36 million. The new term loan is repayable over three years with US$6 million due in 2010 and US$30 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.

During the period the Company entered into an interest rate swap in respect of 85% of the value of the US$36 million term debt which fixes the floating LIBOR rate at 1.99%. The interest rate on US$31 million of the term debt is therefore fixed at 3.99%.

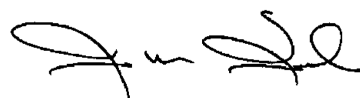
Dividends

Our dividend policy is to pay dividends to our shareholders when legally and commercially able to do so. This year's financial performance in terms of profitability and increased operating cash flow has enabled us to increase the 2009 dividend (including final proposed) by 5% to 22p per share.

Substantial Interests

Other than the Directors' interests (see Directors' Remuneration Report), at 31 December 2009 the Company was aware of the following interests in 3% or more of the issued ordinary share capital of the Company:

	Number of shares	%
Aberdeen Asset Managers	1,798,924	9.35%
Gartmore Investment Management	1,030,476	5.36%
Brewin Dolphin	848,861	4.41%
Fidelity Investment Management	828,520	4.31%
Cazenove Fund Management	619,672	3.22%
Cavendish Asset Management	612,423	3.18%



J. Mickey Lynch
Finance Director

The Board of Directors

01

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01
Larry Tracey
Executive Chairman (age 62)
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% 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 Group, 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.

02
James Peters
Deputy Chairman (age 51)
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 Group and was responsible for the overall management of the Group's European businesses. On 3 February 2003, James was appointed as Deputy Chairman.

03
Duncan Penny
Chief Executive (age 47)
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 47)
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 57)
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.

07

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Andy Sng
General Manager, Asia (age 39)
Andy joined the Group 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 61)
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 67)
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 52)
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 and then Chairman. He is now the Chairman of Global Resins Limited. Both companies are involved in the formulation and manufacture of resin systems for the 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.

He is Chairman of the Environmental Committee.

Directors

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

In accordance with the Company's Articles of Association Larry Tracey, James Peters, and Duncan Penny retire and, being eligible, offer themselves for re-election at the Annual General Meeting.

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.

Dividends

An interim dividend of 10.0p per share was paid on 6 October 2009 (2008: 10.0p). We are proposing a final dividend of 12.0p per share (2008: 11.0p) which would be payable to members on the register on 19 March 2010 and will be paid on 1 April 2010. This would make the total dividend for the year 22.0p (2008: 21.0p).

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

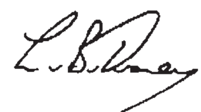
- The balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2009 before their submission to the Board of Directors, as well as the independent auditor's report on the balance sheet of the Company and the consolidated financial statements 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
22 February 2010

Duncan Penny
Chief Executive

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.

Statement of Compliance with the Code of Best Practice

Throughout the year ended 31 December 2009 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 is in accordance with the Internal Control guidance for Directors on the Combined Code.

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.

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. The finance group do conduct regular peer to peer balance sheet reviews the results of which are reported to the Finance Director and Chief Executive.

Board Meetings

There were 4 Board Meetings during the year. The attendees were as follows:

Date	Attendees
20 February 2009	All
20 May 2009	All
31 July 2009	All
18 November 2009	All

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 2009, the attendees were as follows:

Date	Attendees
19 February 2009	All
30 July 2009	John Dyson
26 October 2009	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 20 February 2009 to appoint David Hempleman-Adams to the Committee.

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 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.

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 2009 were John Dyson, Michael Hafferty and David Hempleman-Adams (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 23). The Committee makes recommendations to the Board. No Director plays a part in any discussion regarding his own remuneration.

The Remuneration Committee met once during the year on 20 February 2009 to appoint David Hempleman-Adams to the Committee. All members of the Committee were present at that meeting.

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	20 February 2009	1 January 2005
Mike Laver	20 February 2009	1 January 2007
Mickey Lynch	20 February 2009	1 January 2007
Duncan Penny	20 February 2009	1 January 2006
James Peters	20 February 2009	1 January 2005
Andy Sng	20 February 2009	1 January 2008

Due to the economic conditions in 2009 the Executive Directors voluntarily took a 15% reduction to their base salaries except for James Peters who took a 38% reduction. 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 receives a housing allowance relating to his relocation to Singapore and Andy Sng receives a housing allowance relating to his relocation to Shanghai.

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. The profit sharing scheme was not operated in respect of 2009.

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.

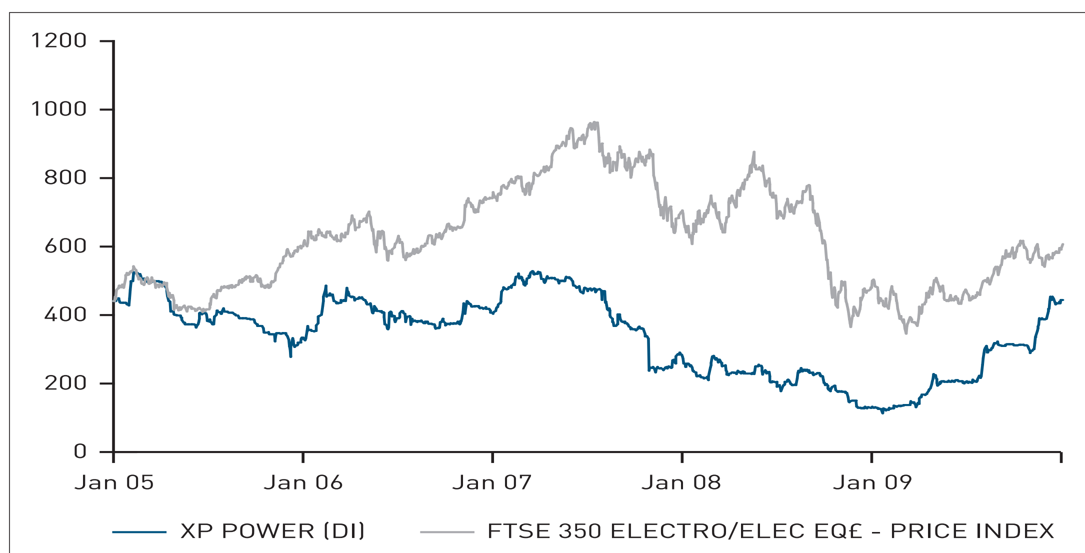
Pension arrangements

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, however as a result of the poor economic conditions the matching contribution was suspended for 2009.

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 (approximately £22,000).

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

£	**2009**	2008
Basic salaries	**742,520**	770,230
Benefits in kind	**128,122**	130,306
Profit share	**—**	—
Money purchase pension contributions	**18,959**	21,301
Non-Executive Director fees	**66,390**	48,008
Total remuneration	**955,991**	969,845

Directors' emoluments

Name of Director	Salary and fees	Pension	Benefits	Profit share	2009 Total	2008 Total
£						
Executive						
Larry Tracey	146,218	5,079	6,716	—	158,013	150,773
James Peters	106,827	5,079	3,406	—	115,312	151,815
Duncan Penny	177,760	5,333	77,746	—	260,839	265,228
Mike Laver	125,845	—	6,295	—	132,140	129,976
Mickey Lynch	101,223	—	8,033	—	109,256	106,737
Andy Sng	84,647	3,468	25,926	—	114,041	117,308
Non-Executive						
John Dyson	22,130	—	—	—	22,130	18,576
Michael Hafferty	22,130	—	—	—	22,130	18,860
David Hempleman-Adams	22,130	—	—	—	22,130	10,572

Directors' interests in ordinary shares of XP Power Limited

	As at 31 December 2009	As at 1 January 2009
Executive		
Larry Tracey (a)	2,668,000	2,562,000
Mike Laver (b)	194,500	194,500
Mickey Lynch (c)	81,000	75,000
Duncan Penny (d)	480,000	460,000
James Peters	2,899,779	2,899,779
Andy Sng	—	—
Non-executive		
John Dyson	15,000	15,000
Michael Hafferty	—	—
David Hempleman-Adams (e)	27,050	18,850

(a) Larry Tracey's spouse purchased 80,000 shares at a price of 255p on 3 August 2009, 10,000 at a price of 295p on 3 November 2009 and 10,000 at a price of 370p on 17 November 2009 and inherited a further 6,000 shares during 2009.

(b) Mike Laver participated in the deferred payment share scheme and as at 31 December 2009, 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's spouse purchased 6,000 shares at a price of 372p on 20 November 2009. Mickey Lynch participated in the deferred payment share scheme and as at 31 December 2009, 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 10,000 shares at a price of 194p on 24 April 2009 and purchased 10,000 shares at a price of 197p on 28 April 2009. Duncan Penny participated in the deferred payment share scheme and as at 31 December 2009, the outstanding balance is £345,000.

(e) David Hempleman-Adams purchased 8,200 shares at a price of 299p on 9 November 2009.

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

Executive	Date of grant	Exercise price	As at 31 December 2009 Number of shares	As at 1 January 2009 Number of shares
Mike Laver (a)	24 August 2001	342.5p	24,000	24,000
	21 August 2002	175.0p	25,000	25,000
Mickey Lynch (b)	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 closing mid market prices of the shares of XP Power Limited during 2009 were 455.0p and 115.8p per share respectively. The mid-market price on 31 December 2009 closed at 445.0p per share.

Approval
This report was approved by the Board of Directors on 22 February 2010 and signed on its behalf by:

John Dyson
Remuneration Committee Chairman

Statement by Directors

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 31 to 75 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 2009 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
22 February 2010

Duncan Penny
Chief Executive

We have audited the accompanying financial statements of XP Power Limited (the "Company") and its subsidiaries (the "Group") set out on pages 31 to 75, which comprise the balance sheets of the Company and of the Group as at 31 December 2009, and the consolidated statement of comprehensive income, 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.

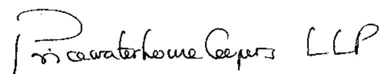
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 2009 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
22 February 2010

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December 2009

£ Millions	Note	2009	2008
Revenue	4	67.3	69.3
Cost of sales		(37.0)	(38.7)
Gross profit		30.3	30.6
Expenses			
Distribution and marketing		(17.4)	(18.5)
Administrative		(0.8)	(0.8)
Research and development		(2.6)	(2.9)
Other operating income		0.1	0.9
Operating profit		9.6	9.3
Non-cash foreign exchange gain	7	—	2.4
Finance income	6	—	0.2
Finance cost	6	(1.2)	(1.7)
Profit before tax		8.4	10.2
Income tax expense	8	(0.8)	(1.2)
Net profit		7.6	9.0
Other comprehensive income:			
Fair value (losses)/gains on cash flow hedges	25	(1.2)	1.0
Exchange differences on translation of foreign operations	25	1.1	(6.0)
Tax on items taken directly to equity	25	0.2	(0.1)
Other comprehensive income, net of tax		0.1	(5.1)
Total comprehensive income		7.7	3.9
Profit attributable to:			
Equity holders of the Company	25	7.4	8.8
Minority interests	25	0.2	0.2
		7.6	9.0
Total comprehensive income attributable to:			
Equity holders of the Company		7.5	3.7
Minority interests		0.2	0.2
		7.7	3.9
Earnings per share			
Attributable to equity holders of the Company (pence per share)			
— Basic	10	39.4	46.5
— Diluted	10	39.3	46.4

Consolidated Balance Sheet

For the financial year ended 31 December 2009

£ Millions	Note	2009	2008
ASSETS			
Current Assets			
Cash and cash equivalents	16	4.0	3.4
Derivative financial instruments	23	—	0.8
Trade receivables	18	11.0	12.1
Other current assets	19	1.2	1.8
Inventories	17	10.7	17.5
Total current assets		26.9	35.6
Non-current assets			
Interest in associates	15	0.1	0.1
Property, plant and equipment	13	7.1	6.7
Goodwill	11	31.0	29.9
Intangible assets	12	4.5	3.6
ESOP loans to employees	27	2.6	2.7
Derivative financial instruments	23	—	0.2
Deferred income tax assets	24	0.3	0.1
Total non-current assets		45.6	43.3
Total assets		72.5	78.9
LIABILITIES			
Current liabilities			
Trade and other payables	20	9.1	12.3
Current income tax liabilities	8	2.5	3.1
Derivative financial instruments	23	0.3	—
Bank loans and overdraft	22	3.9	7.3
Total current liabilities		15.8	22.7
Non-current liabilities			
Borrowings	22	18.8	23.9
Deferred income tax liabilities	24	1.8	1.4
Provision for deferred contingent consideration	21	3.6	1.9
Total non-current liabilities		24.2	27.2
Total liabilities		40.0	49.9
NET ASSETS		32.5	29.0
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	25	27.2	27.2
Merger reserve	25	0.2	0.2
Treasury shares	25	(0.9)	(0.8)
Hedging reserve	25	(0.2)	1.0
Translation reserve	25	(7.4)	(8.5)
Retained earnings	25	13.3	9.7
		32.2	28.8
Minority interests	25	0.3	0.2
TOTAL EQUITY		32.5	29.0

Consolidated Statement of Changes in Equity

For the financial year ended 31 December 2009

£ Millions	Share capital	Treasury shares	Merger reserve	Hedging reserve	Translative reserve	Retained earnings	Total attributable to equity holders of the company	Minoritty interests	Total equity
Balance at 1 January 2008	27.2	(0.3)	0.2	—	(2.5)	5.0	29.6	0.2	29.8
Purchase of treasury shares	—	(0.5)	—	—	—	—	(0.5)	—	(0.5)
Dividends paid	—	—	—	—	—	(4.0)	(4.0)	(0.2)	(4.2)
Total comprehensive income for the year	—	—	—	1.0	(6.0)	8.7	3.7	0.2	3.9
Balance at 31 December 2008	**27.2**	**(0.8)**	**0.2**	**1.0**	**(8.5)**	**9.7**	**28.8**	**0.2**	**29.0**
Purchase of treasury shares	—	(0.1)	—	—	—	—	(0.1)	—	(0.1)
Dividends paid	—	—	—	—	—	(4.0)	(4.0)	(0.1)	(4.1)
Total comprehensive income for the year	—	—	—	(1.2)	1.1	7.6	7.5	0.2	7.7
Balance at 31 December 2009	**27.2**	**(0.9)**	**0.2**	**(0.2)**	**(7.4)**	**13.3**	**32.2**	**0.3**	**32.5**

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2009

£ Millions	2009	2008
Cash flows from operating activities		
Profit after tax	7.6	9.0
Adjustments for		
— Income tax expense	0.8	1.2
— Amortisation and depreciation	1.6	1.6
— Finance cost	1.2	1.5
Change in the working capital, net effects from acquisition of subsidiary		
— Inventories	6.9	(6.6)
— Trade and other receivables	1.8	(0.5)
— Trade and other payables	(3.1)	3.3
Income tax paid	(0.5)	(1.0)
Net cash provided by operating activities	16.3	8.5
Cash flows from investing activities		
Acquisition of a subsidiary, net of cash acquired	—	(1.0)
Purchases and construction of property, plant and equipment	(1.7)	(3.6)
Research and development expenditure	(1.5)	(1.0)
Proceeds from disposal of plant and equipment	—	0.1
ESOP loans repaid	0.1	—
Interest received	—	0.1
Net cash used in investing activities	(3.1)	(5.4)
Cash flows from financing activities		
(Repayment of)/proceeds from borrowings	(1.3)	3.6
Purchase of treasury shares by ESOP	—	(0.2)
Interest paid	(1.1)	(1.6)
Dividends paid to equity holders of the Company	(4.0)	(4.0)
Dividends paid to minority shareholders	(0.1)	(0.2)
Net cash provided by financing activities	(6.5)	(2.4)
Effects of currency translation	0.9	(4.6)
Net increase/(decrease) in cash and cash equivalents	7.6	(3.9)
Cash and cash equivalents at beginning of financial year	(3.9)	0.9
Effects of currency translation on cash and cash equivalents	0.2	(0.9)
Cash and cash equivalents at end of financial year	3.9	(3.9)

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 except as disclosed in the accounting policies below. 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 2009, 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 revised standards and interpretations that are relevant to the Group:

- IAS 1 (revised), "Presentation of financial statements" (effective from 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. All non-owner changes in equity are shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has chosen to adopt the former alternative. Where comparative information is restated or reclassified, a restated balance sheet is required to be presented as at the beginning comparative period. There is no restatement of the balance sheet as at 1 January 2008 in the current financial year.

- IFRS 7 (Amendment), "Financial Instruments – Disclosures" (effective 1 January 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

- IFRS 8, "Operating segments" (effective from 1 January 2009) replaces IAS 14 and requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The number of reportable segments as well as the manner in which the segments are reported remains the same manner as it is consistent with the internal reporting provided to the Executive Board of Directors.

- IFRS 2 (Amendment), "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. Currently, the Group operates an employee share option scheme and the scheme consists mainly of service and performance conditions.

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

2.1 Basis of preparation (continued)

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

- 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 remeasured 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.

- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

- IAS 38 (Amendment), 'Intangible Assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the Group and Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The Amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. It is not expected to have a material impact on the Group or Company's financial statements.

- IFRS 5 (Amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Group and Company will apply IFRS 5 (Amendment) from 1 January 2010. It is not expected to have a material impact on the Group or Company's financial statements.

- IAS 1 (Amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group and Company will apply IAS 1 (Amendment) from 1 January 2010. It is not expected to have a material impact on the Group or Company's financial statements.

- IFRS 2 (Amendments), "Group cash-settled and share-based payment transactions". In addition to incorporating IFRIS 8, "Scope of IFRS 2", and IFRIC 11, "IFRS 2 — Group and treasury share transactions", the amendments expand on the guidance in IFRIC 11 to address the classification of Group arrangements that were not covered by that interpretation. It is not expected to have material impact on the Group's financial statements.

- IFRS 9, "Financial Instruments" (effective from 1 January 2013). Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

  All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be profit or loss, as long as they represent a return on investment. The Group and Company will apply IFRS 9 from 1 January 2013. It is not expected to have a material impact on the Group or Company's financial statements.

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 recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Non-monetary items measured at fair value in foreign currencies are translated using exchange rates at the date when the fair values are determined. Currency translation differences on these items are included in the fair value reserve.

(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 and the average rate is not considered a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates in which case income and expenses are translated using the exchange rates of the dates of the transactions. 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 sale 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.

2.4 Group accounting (continued)

(a) Subsidiaries (continued)

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.

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 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.

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.

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.

2.5 Property, plant and equipment (continued)

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 less cost to sell 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 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 on goodwill is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary 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. Amortisation commences one year after the products are launched. 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% plus a risk premium where applicable 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 (net of accumulated depreciation) 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 except for those costs that are directly attributable to the construction or development of properties. Borrowing costs on general borrowings which finance the construction or development of properties are capitalised using an average financing rate.

2.9 Financial assets

(a) Classification

The Group classifies its financial assets depending on the nature of the asset and 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.

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 significant 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.

(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 other comprehensive income. 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 23. Movements on the hedging reserve in shareholders' equity are shown in Note 25. 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.

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.

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.

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. The vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. 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 and associated companies

Investments in subsidiaries and associated companies are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries 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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers whose members are responsible for allocating resources and assessing performance of the operating segments.

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 £1.5 million (2008: £1.0 million) of development costs were capitalised bringing the total amount of development cost capitalised as intangible assets as of 31 December 2009 to £4.4 million (2008: £3.2 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 2009 was £31.0 million (2008: £29.9 million) with no impairment adjustment required for 2009.

Management assessed that there are no realistic foreseeable changes that will result in impairment loss on the goodwill allocated to the North America and Europe operating segment.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

(c) Estimation of future deferred contingent consideration payments

As of the 31 December 2009 balance sheet date the Group has recorded estimated future payments related to the acquisition of the final of 30.3% of Powersolve Electronics Limited. When discounted to present value the total of these payments are estimated at £3.6 million and that amount is reflected on the balance sheet as of the 2009 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.

If Powersolve's future earnings increase or decrease by 10% year on year for January 2010 to January 2012, the deferred consideration will be affected by £0.4 million. There will be no impact to net profit or total equity as changes in estimates of the deferred consideration are adjusted against goodwill.

(d) Deferred income tax

The Group has an unrecognised deferred tax asset of £2.6 million (2008: £3.4 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

Management has determined the operating segments based on the reports reviewed by the Chief Operating Decision Makers that are used to make strategic decisions. The Chief Operating Decision Makers are the Executive Board of Directors whom will review the operating results and forecasts to make decisions about resources to be allocated to the segments and assess its performance.

The Executive Board of Directors consider and manage the business on a geographic basis. Management manages and monitors the business based on the three primary geographic areas: Asia, Europe, and North America. All geographic locations market the same class of products to their respective customer base.

The Executive Board of Directors assesses the performance of the operating segments based on net sales and operating income. Net sales for geographic segments are based on the location of the design win rather than where the end sale is made. The operating income for each segment includes net sales to third parties, related cost of sales, and operating expenses directly attributable to the segment. Costs excluded from segment operating income include various corporate expenses such as research and development, corporate administration expenses, stock-based compensation expense, income taxes; various non-operating charges, and other separately managed general and administrative costs. Unallocated costs represent corporate expenses.

Segment assets consist primarily of property, plant and equipment, goodwill, intangible assets, inventories, receivables, cash and cash equivalents and exclude tax assets.

Segment liabilities comprise operating liabilities and exclude tax liabilities.

Capital expenditure comprises additions to property, plant and equipment.

4. **Segmental reporting** (continued)

The segment information is as follows:

£ Millions	2009	2008
Revenue		
Europe	31.9	32.2
North America	30.8	33.7
Asia	4.6	3.4
Total Revenue	67.3	69.3
Reconciliation of segment results to profit before tax:		
Europe	7.9	6.1
North America	7.1	7.2
Asia	(0.2)	0.4
Segment result	14.8	13.7
Research and development cost	(2.6)	(2.9)
Finance income and cost	(1.2)	(1.5)
Other corporate operating cost and associates	(2.6)	0.9
Profit before tax	8.4	10.2
Tax	(0.8)	(1.2)
Net Profit	7.6	9.0

The Group's three business segments operate in the following countries:

£ Millions	2009	2008
United States	30.1	33.6
United Kingdom	17.5	17.7
Singapore	4.5	3.4
Germany	5.4	5.3
Switzerland	3.1	3.6
Other countries	6.7	5.7
Total Revenue	67.3	69.3

4. Segmental reporting (continued)

	Year to 31 December 2009				Year to 31 December 2008			
£ Millions	Europe	North America	Asia	Total	Europe	North America	Asia	Total
Other Information								
Capital additions	0.1	0.1	1.5	1.7	0.4	0.1	3.1	3.6
Depreciation	0.4	0.2	0.4	1.0	0.4	0.2	0.4	1.0
Intangible assets additions	—	1.1	0.4	1.5	—	1.0	—	1.0
Amortisation	0.3	0.3	—	0.6	0.2	0.4	—	0.6
Balance sheet								
Goodwill	10.9	19.4	0.7	31.0	9.6	19.6	0.7	29.9
Other non-current assets	4.7	4.7	4.9	14.3	5.4	3.7	4.2	13.3
Inventories	1.1	4.6	5.0	10.7	0.7	9.0	7.8	17.5
Trade receivables	5.7	4.6	0.7	11.0	5.7	5.7	0.7	12.1
Other current assets	0.4	0.2	0.6	1.2	0.9	0.2	1.5	2.6
Cash	2.3	0.4	1.3	4.0	1.6	1.5	0.3	3.4
Segment assets	25.1	33.9	13.2	72.2	23.9	39.7	15.2	78.8
Unallocated deferred tax	—	—	—	0.3	—	—	—	0.1
Consolidated total assets				72.5				78.9
Trade and other payables	(2.0)	(1.5)	(5.6)	(9.1)	(2.3)	(3.7)	(6.3)	(12.3)
Other current liabilities	—	(0.3)	—	(0.3)	—	—	—	—
Deferred contingent consideration	(3.6)	—	—	(3.6)	(1.9)	—	—	(1.9)
Segment liabilities	(5.6)	(1.8)	(5.6)	(13.0)	(4.2)	(3.7)	(6.3)	(14.2)
Unallocated corporate liabilities				(22.7)				(31.2)
Unallocated deferred and current tax				(4.3)				(4.5)
Consolidated total liabilities				(40.0)				(49.9)

Analysis by customer

The revenue by class of customer was as follows:

	Year to 31 December 2009				Year to 31 December 2008			
£ Millions	Europe	North America	Asia	Total	Europe	North America	Asia	Total
Technology	8.7	8.9	1.2	18.8	8.6	9.1	0.4	18.1
Industrial	15.4	10.2	3.1	28.7	18.6	14.7	2.8	36.1
Healthcare	7.8	11.7	0.3	19.8	5.0	9.9	0.2	15.1
Total	31.9	30.8	4.6	67.3	32.2	33.7	3.4	69.3

5. Information regarding employees (including Directors)

£ Millions	2009	2008
Employee costs during the year:		
Wages and salaries	12.0	11.6
Social security	1.8	1.5
Pension	0.3	0.2
Total	14.1	13.3

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

6. Finance income and cost

£ Millions	2009	2008
Interest expense on bank loans and overdrafts	0.9	1.5
Interest expense on interest rate swap agreement	0.2	0.1
Interest income	—	(0.2)
Unwinding of discount on deferred consideration (note 21)	0.1	0.1
Total	1.2	1.5

7. Expenses by nature

£ Millions	2009	2008
Profit for the year is after charging:		
Amortisation of intangible assets	0.6	0.6
Depreciation of property, plant and equipment	1.0	1.0
Staff costs (note 5)	14.1	13.3
Foreign exchange gain transferred from reserve†	—	(2.4)
Foreign exchange (gains)/losses	0.1	(0.7)
Cost of inventories recognised as an expense*	37.0	38.7
Charge for doubtful debts	(0.1)	0.2
Fees paid to auditors:		
Audit	0.3	0.2
Other services — tax	0.1	0.1
Rent/lease expense	1.1	1.2
Finance income and cost	1.2	1.5
Other charges	3.5	5.4
Total	58.9	59.1

* This includes write-downs of inventories of £0.8 million (2008: £0.7 million).

† During 2008 we 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. Once these intercompany balances were eliminated the historic foreign exchange gain on these balances was released through the income statement in accordance with IAS 21, "The Effects of Changes in Foreign Exchanges Rates". The amount concerned was US$4.7 million or £2.4 million. There is no movement of cash related to this item. This item only affected the 2008 financials and did not recur in 2009.

The amount concerned was eliminated in computing the diluted adjusted earnings per share for 2008.

8. Income taxes

£ Millions	2009	2008
Singapore corporation tax		
— current year	0.5	0.6
— adjustment in respect of prior year	—	0.1
Overseas corporation tax		
— current year	1.1	0.7
— adjustment in respect of prior year	(1.2)	(0.4)
Total current tax	0.4	1.0
Deferred tax	0.4	0.2
Tax charge for the year	0.8	1.2

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	2009	2008
Profit before tax	8.4	10.2
Tax on profit on ordinary activities at standard Singapore tax rate of 17% (2008: 18%)	1.4	1.9
Tax incentives	(0.3)	(0.5)
Higher rates of overseas corporation tax	0.9	0.9
Non-deductible expenditure	—	0.1
Exceptional foreign exchange gain not taxable	—	(0.9)
Adjustment in respect of prior year	(1.2)	(0.3)
Tax charge for the year	0.8	1.2

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.

Movement in current income tax liabilities:

£ Millions	2009	2008
At 1 January 2009	(3.1)	(2.4)
Currency translation differences	0.2	(0.7)
Income tax paid	0.5	1.0
Income tax expense — current year	(1.6)	(1.3)
— prior year	1.2	0.3
Adjustment in respect of prior year	0.3	—
At 31 December 2009	(2.5)	(3.1)

9. Dividends

Amounts recognised as distributions to equity holders in the period:

	2009			2008		
	Pence per share		£ Millions	Pence per share		£ Millions
Prior year final dividend paid	11.0	*	2.1	11.0		2.1
Interim paid	10.0	^	1.9	10.0	*	1.9
Total	21.0		4.0	21.0		4.0

* Dividends in respect of 2008 (21.0p)
^ Dividends in respect of 2009 (22.0p)

The proposed final dividend for 2009 is subject to approval by shareholders at the Annual General Meeting scheduled for 29 March 2010 and has not been included as a liability in these financial statements. It is proposed that the final dividend be paid on 1 April 2010 to members on the register as at 19 March 2010.

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:

	2009 £ Millions	2008 £ Millions
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity shareholders of the parent)	7.4	8.8
Amortisation of intangibles associated with acquisitions	0.3	0.2
Non-cash foreign exchange gain	—	(2.4)
Earnings for adjusted earnings per share	7.7	6.6
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	18,788	18,916
Effect of potentially dilutive share options (thousands)	64	59
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	18,852	18,975
Earnings per share from operations		
Basic	39.4p	46.5p
Diluted	39.3p	46.4p
Diluted adjusted	40.8p	34.8p

The minority shareholders are entitled to their share of any dividend declared. The dividend payable to minority shareholders in 2009 was £0.3 million (2008: £0.2 million).

11. Goodwill

£ Millions	2009	2008
Cost		
At 1 January	29.9	29.6
Provision for deferred contingent consideration (Note 21)	1.6	(0.5)
Recognised on acquisition of subsidiary	—	0.4
Foreign currency translation	(0.5)	0.4
At 31 December	31.0	29.9
Accumulated impairment loss		
At 31 December	—	—
Carrying Amount		
At 31 December	31.0	29.9

Goodwill arises on the consolidation of subsidiary undertakings.

A change in deferred contingent consideration of £1.6 million was due to an increase in the forecasted earning 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 2009 performance were revised upward.

For the purpose of impairment testing, goodwill has been allocated to the operating segments identified in Note 4.

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 2009 and for 2008, the rate was 12.3%).

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. Management forecast year on year increase in sales and overheads of 5% and 3% respectively. The carrying amount of goodwill as at 31 December 2009 was £31.0 million (2008: £29.9 million) with no impairment adjustment required for 2009.

12. Intangible assets

£ Millions	Development costs	Trade marks	Non-contractual customer relationships	Total
Cost				
At 1 January 2008	2.9	1.0	0.3	4.2
Additions	1.0	—	—	1.0
At 1 January 2009	3.9	1.0	0.3	5.2
Additions	1.5	—	—	1.5
At 31 December 2009	**5.4**	**1.0**	**0.3**	**6.7**
Amortisation				
At 1 January 2008	0.3	0.5	0.2	1.0
Charge for the year	0.4	0.1	0.1	0.6
At 1 January 2009	0.7	0.6	0.3	1.6
Charge for the year	0.3	0.3	—	0.6
At 31 December 2009	**1.0**	**0.9**	**0.3**	**2.2**
Carrying Amount				
At 31 December 2009	**4.4**	**0.1**	**—**	**4.5**
At 31 December 2008	3.2	0.4	—	3.6

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 products are ready for sale.

The separately identifiable intangible assets acquired with the Powersolve business have an expected useful life of five years and amortisation of £0.3 million (2008: £0.2 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 improve-ments	Property under develop-ment	Total
Cost								
At 1 January 2008	—	1.2	—	4.9	0.5	1.1	—	7.7
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
At 1 January 2009	**0.2**	**1.4**	**1.5**	**6.9**	**0.5**	**1.3**	**0.8**	**12.6**
Additions	—	—	—	0.5	—	0.1	1.1	1.7
Disposals	—	—	—	(0.1)	—	(0.3)	—	(0.4)
Transfer	—	1.5	—	0.3	—	—	(1.8)	—
Foreign currency translation	—	—	(0.1)	(0.3)	—	—	—	(0.4)
At 31 December 2009	**0.2**	**2.9**	**1.4**	**7.3**	**0.5**	**1.1**	**0.1**	**13.5**
Depreciation								
At 1 January 2008	—	0.1	—	3.3	0.3	0.6	—	4.3
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
At 1 January 2009	**—**	**0.1**	**—**	**4.6**	**0.3**	**0.9**	**—**	**5.9**
Charge for the year	—	—	—	0.7	0.1	0.2	—	1.0
Disposals	—	—	—	(0.1)	—	(0.3)	—	(0.4)
Foreign currency translation	—	—	—	(0.1)	—	—	—	(0.1)
At 31 December 2009	**—**	**0.1**	**—**	**5.1**	**0.4**	**0.8**	**—**	**6.4**
Carrying Amount								
At 31 December 2009	**0.2**	**2.8**	**1.4**	**2.2**	**0.1**	**0.3**	**0.1**	**7.1**
At 31 December 2008	0.2	1.3	1.5	2.3	0.2	0.4	0.8	6.7

The Group has entered into agreements to lease buildings and land ranging from 99 years to 999 years. These long leasehold land and buildings are stated at cost less accumulated amortisation and accumulated impairment losses.

Depreciation 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 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.

14. Subsidiaries

Details of principal subsidiaries at 31 December 2009, all of which are consolidated are as follows:

Name of Subsidiary	Place of incorporation ownership (or registration) and operation	Proportion of Ownership 2009 (%)	Proportion of Ownership 2008 (%)	Auditor of subsidiaries
XP Power AG	Switzerland	98	97	Karpf Treuhand & Revisions AG
XP Power LLC	USA	100	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
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 Power (HK) Limited	HK	100	100	KPMG
XP Power Singapore Holdings Pte Ltd	Singapore	100	100	PricewaterhouseCoopers LLP

* Proportion of voting power held is 70%.

15. Interest in associate

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

£ Millions	2009	2008
Beginning of financial year	0.1	0.1
End of financial year	0.1	0.1

Aggregate amounts relating to associate:

£ Millions	2009	2008
Total assets	0.1	0.1
Total liabilities	—	—
Total	0.1	0.1
Income	0.1	0.1
Expenses	(0.1)	(0.1)
Net profit	—	—

16. Cash and cash equivalents

£ Millions	2009	2008
Cash at bank and on hand	4.0	3.4
Total	4.0	3.4

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

£ Millions	2009	2008
Cash at bank and on hand (as above)	4.0	3.4
Less: Bank overdrafts (Note 22)	(0.1)	(7.3)
Cash and cash equivalents per consolidated cash flow statement	3.9	(3.9)

The maximum exposure to credit risk is the carrying amount of cash at bank and on hand as disclosed above.

Reconciliation to free cash flow

£ Millions	2009	2008
Net cash inflow from operating activities	16.3	8.5
Research and development expenditure	(1.5)	(1.0)
Net interest expense	(1.1)	(1.4)
Free cash flow	13.7	6.1

17. Inventories

£ Millions	2009	2008
Goods for resale	8.8	15.5
Work-in-progress	1.9	2.0
Total	10.7	17.5

The cost of inventories recognised as an expense and included in "cost of sales" amounts to £37.0 million (2008: £38.7 million).

18. Trade receivables

£ Millions	2009	2008
Trade receivables	11.0	12.1
Total	11.0	12.1

The average credit period given on sales of goods is 60 days (2008: 61 days). No interest is charged on the outstanding receivable balance.

The carrying amounts of trade receivables approximate their fair values.

19. Other current assets

£ Millions	2009	2008
Other receivables and prepayments	1.2	1.8
Total	1.2	1.8

20. Current liabilities

£ Millions	2009	2008
Trade and other payables	9.1	12.3
Current income tax liabilities	2.5	3.1
Bank loans and overdrafts (note 22)	3.9	7.3
Total	15.5	22.7

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 carrying amounts of trade and other payables approximates their fair values.

21. Provision for deferred contingent consideration

£ Millions	2009	2008
At 1 January	1.9	2.3
Movement in provision during the year	1.6	(0.5)
Adjustment for unwinding of discount rate	0.1	0.1
At 31 December	3.6	1.9

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, with a corresponding adjustment to goodwill. 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.

22. Borrowings, bank loans and overdrafts

The borrowings are repayable as follows:

£ Millions	2009	2008
On demand or within one year	3.9	7.3
In the second year	18.8	3.2
In the third year	—	20.7
In the fourth year	—	—
	22.7	31.2
Less: Amounts due for settlement within 12 months (shown under current liabilities)	(3.9)	(7.3)
Total repayable after 12 months	18.8	23.9

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

December 2009	GBP	USD	SEK	TOTAL
£ Millions				
Bank overdrafts	—	0.1	—	0.1
Bank loans	—	22.6	—	22.6
Total	—	22.7	—	22.7

December 2008	GBP	USD	SEK	TOTAL
£ Millions				
Bank overdrafts	4.6	3.0	(0.3)	7.3
Bank loans	(4.5)	28.4	—	23.9
Total	0.1	31.4	(0.3)	31.2

22. Borrowings, bank loans and overdrafts (continued)

The average interest rates paid were as follows:	2009	2008
Bank overdrafts	3.0%	7.6%
Bank loans	3.6%	5.1%

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

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 2009, the Group had an overdraft of £0.1 million (2008: £7.3 million). The overdraft interest rate is 2.5% above LIBOR.

2. 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 (£3.8 million) due in 2010 and US$30.0 million (£18.8 million) due in 2011 and is priced at LIBOR plus a fixed margin of 2.0%.

3. At 31 December 2009, the bank loan of US$36.0 million (£22.6 million) represents the new term loan, while at 31 December 2008, the bank loan of £23.9 million represents the amount drawn down under the revolving credit facility and the senior debt facility with Halifax Bank of Scotland.

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

5. Management assessed all loan convenants have been compiled with as of 31 December 2009.

23. Derivative financial instruments

a. Forward foreign exchange contracts

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 2009, the total notional amount of outstanding currency forward contracts that the Group has committed is £11.8 million (2008: £14.2 million). These contracts are to hedge against exchange movements on future sales and qualify for hedge accounting.

December 2009	Contract notional amount	Fair value asset
£ Millions		
Forward foreign exchange contracts	11.8	*—
Current portion	9.4	*—
Non-current portion	2.4	—
Total	11.8	*—

*These are balances less than £0.1 million.

December 2008	Contract notional amount	Fair value asset
£ Millions		
Forward foreign exchange contracts	14.2	1.0
Current portion	11.1	0.8
Non-current portion	3.1	0.2
Total	14.2	1.0

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23. Derivative financial instruments (continued)

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 total notional amount and fair value asset of the forward contracts is as follows:

£ Millions	2009	2008
Contract notional amount	—	2.2
Fair value asset of the contracts	—	—

b. Interest rate swap

On 17 March 2009, the Group entered into an interest rate swap agreement to swap its variable US$ LIBOR interest rate on US$30.6 million (£19.2 million) for a fixed rate of interest of 1.99% plus applicable margin to manage exposure to interest rate movements. Fair value gains and losses on the interest rate swap are recognised in the hedging reserve.

£ Millions	2009	2008
Interest rate swap contract	19.2	—
Fair value liability of the contract	(0.3)	—

24. 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	Total
At 1 January 2008	0.3	(0.3)	0.2	(1.0)	(0.2)	(1.0)
Charge to income	—	(0.1)	—	(0.2)	0.1	(0.2)
Charge to equity	—	—	(0.1)	—	—	(0.1)
At 1 January 2009	0.3	(0.4)	0.1	(1.2)	(0.1)	(1.3)
Charge to income	—	(0.2)	—	(0.3)	0.1	(0.4)
Charge to equity	—	—	0.2	—	—	0.2
Total	**0.3**	**(0.6)**	**0.3**	**(1.5)**	**—**	**(1.5)**

£ Millions	2009	2008
Deferred tax liabilities	(1.8)	(1.4)
Deferred tax assets	0.3	0.1
	(1.5)	(1.3)

The Group has an unrecognised deferred tax asset of £2.6 million (2008: £3.4 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.

25. Share capital and reserves

Called up share capital

£ Millions	2009	2008
Allotted and fully paid 19,242,296 ordinary shares (2008: 19,242,296)	27.2	27.2

Merger reserve

£ Millions	2009	2008
Balance at 31 December	0.2	0.2

Treasury shares

£ Millions	2009	2008
Balance at 1 January	(0.8)	(0.3)
Purchase of shares	(0.1)	(0.5)
Balance at 31 December	(0.9)	(0.8)

As at 31 December 2009, the Group's Employee Share Ownership Plan (ESOP) held 455,152 (2008: 446,952) shares carrying a value of £879,992 (2008: £810,881) 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.

Hedging reserve

£ Millions	2009	2008
Balance at 1 January	1.0	—
Fair value (losses)/gains	(1.2)	1.0
Balance at 31 December	(0.2)	1.0

Translation reserve

£ Millions	2009	2008
Balance at 1 January	(8.5)	(2.5)
Exchange differences on translation of foreign operations	1.1	(6.0)
Balance at 31 December	(7.4)	(8.5)

Retained earnings

£ Millions	2009	2008
Balance at 1 January	9.7	5.0
Tax on items taken directly to equity	0.2	(0.1)
Profit for the year	7.4	8.8
Dividends paid	(4.0)	(4.0)
Balance at 31 December	13.3	9.7

25. Share capital and reserves (continued)

Minority interests

The minority shareholders are entitled to their share of any dividend declared. Interim dividend of £0.1 million was paid to Powersolve minority shareholders and another £0.3 million final dividend is expected. The balance payable for 2009 was £0.3 million (2008: £0.2 million).

26. 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	2009	2008
Within one year	1.2	1.5
In the second to fifth years inclusive	1.9	1.5
After five years	0.4	0.5
Total	3.5	3.5

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 meters area of land in Vietnam for a consideration of £0.3 million (US$0.5 million). As at 31 December 2009, the Group has paid £0.2 million (US$0.3 million) and the remaining of £0.1 million (US$0.2 million) shall be paid within 12 months from the balance sheet date.

27. ESOP loan to employees

£ Millions	2009	2008
ESOP loan to employees	2.6	2.7
Total	2.6	2.7

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.

28. 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 £0.3 million (2008: £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 2009, all contributions for the year had been made.

In the USA the Group operates a defined contribution "401K Plan". The Group can contribute an amount matching the employees' contribution up to a maximum of 2% of the employees' total earnings. Due to the poor economic conditions no Group "matching" contribution was made in 2009 (2008: £0.1 million).

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 (2008: £0.01 million).

29. 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 2009 and 2008.

As at 31 December 2009, the Company's Employee Share Ownership Plan has provided interest rate free loans totalling £1,006,375 (2008: £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 27.

The remuneration of the Directors 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 25 to 28.

	2009 £	2008 £
Short-term employee benefits	937,032	948,544
Post employment benefits	18,959	21,301
Total Directors' remuneration	955,991	969,845

30. 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	Grant Date	Expiry Date
27,500	£1.15	22 December 2000	22 December 2010
4,000	£1.15	21 August 2001*	21 August 2011
64,000	£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
36,200	£1.15	24 August 2002*	24 August 2012
121,250	£1.75	24 August 2002*	24 August 2012
23,750	£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 2006*	28 September 2016
157,000	£5.073	26 April 2007*	26 April 2017
572,700			

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

30. Share-based payments (continued)

	2009 Number of share options	2009 Weighted average exercise price (pence)	2008 Number of share options	2008 Weighted average exercise price (pence)
Outstanding at beginning of the year	601,500	323	629,500	323
Forfeited during the year	(12,000)	479	(18,000)	406
Exercised during the year	(16,800)	184	(10,000)	139
Outstanding at the end of the year	572,700	324	601,500	323
Exercisable at the end of the year	482,200	293	445,500	311

The weighted average share price at the date of exercise for the share options exercised during the period was 350p. The options outstanding at 31 December 2009 had a weighted average exercise price of 324p, and a weighted average remaining contractual life of four 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 £2.86 and a weighted average exercise price of £4.72, standard deviation of expected share returns of 0.0223, the option life shown above and annual risk free interest rate of 3.6%. 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.

31. 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.

a) 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 22, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 25.

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.

b) 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 purchases transactions.

In addition the Group is exposed to translation risk when the results of its various operations are translated from their local functional currencies 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.

31. Financial risk management (continued)

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

£ Millions	GBP	EUR	USD	Others	TOTAL
At 31 December 2009					
Financial assets					
Cash and cash equivalents	2.1	0.6	1.0	0.3	4.0
Trade receivables	1.9	1.6	7.1	0.4	11.0
Other financial assets	3.2	(0.1)	0.6	0.1	3.8
Sub-total	**7.2**	**2.1**	**8.7**	**0.8**	**18.8**
Financial liabilities					
Borrowings	—	—	(22.7)	—	(22.7)
Trade and other payables	(1.4)	(0.4)	(6.0)	(1.3)	(9.1)
Other financial liabilities	(4.1)	—	(2.0)	—	(6.1)
Sub-total	**(5.5)**	**(0.4)**	**(30.7)**	**(1.3)**	**(37.9)**
Net financial liabilities	1.7	1.7	(22.0)	(0.5)	(19.1)
Less: Financial (liabilities)/assets denominated in the respective entities' functional currencies	1.7	1.7	(23.6)	0.3	(19.9)
Currency exposure	**—**	**—**	**1.6**	**(0.8)**	**0.8**

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

31. Financial risk management (continued)

b) Currency risk (continued)

If the US Dollar and Euro change against Sterling by 10% (2008: 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	2009 Profit after tax	2008 Profit after tax
Group		
EUR against GBP		
— strengthened	—	—
— weakened	—	—
USD against GBP		
— strengthened	0.2	(0.1)
— weakened	(0.2)	0.1

c) Interest risk

On 17 March 2009, the Group entered into an interest rate swap agreement to swap its variable US$ LIBOR interest rate on US$30.6 million (£19.2 million) for a fixed rate of interest of 1.99% plus applicable margin to manage exposure to interest rate movements.

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% (2008: 0.5%) with all other variables including tax rate being held constant, the profit after tax will be lower/higher by £39,000 (2008: £128,000) as a result of higher/lower interest expense on these borrowings.

d) 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	2009	2008
By geographical areas		
Europe	5.7	5.7
US	4.6	5.7
Asia	0.7	0.7
	11.0	12.1

£ Millions	2009	2008
By type of customers		
Non-related parties	11.0	12.1
	11.0	12.1

31. Financial risk management (continued)

d) Credit risk (continued)

The age analysis of trade receivables past due and/or impaired is as follows:

£ Millions	2009	2008
Past due 0 – 2 months	3.2	3.9
Past due 3 – 4 months	0.1	0.3
Past due over 4 months	0.2	0.2
	3.5	4.4

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

£ Millions	2009	2008
Gross amount	0.4	0.4
Less: Allowance for impairment	(0.3)	(0.4)
	0.1	—
Beginning of financial year	(0.4)	(0.2)
Allowance reversed/(made)	0.1	(0.2)
End of the financial year	(0.3)	(0.4)

e) Liquidity Risk

The table below analyses the maturity profile of the Group'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 2009					
Trade and other payables	9.1	—	—	—	9.1
Derivative financial instruments	0.3	—	—	—	0.3
Other financial liabilities	—	—	3.6	—	3.6
Borrowings	3.9	18.8	—	—	22.7
Total	**13.3**	**18.8**	**3.6**	**—**	**35.7**

£ 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	—	—	1.9	—	1.9
Borrowings	7.3	3.2	20.7	—	31.2
Total	**19.6**	**3.2**	**22.6**	**—**	**45.4**

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

31. Financial risk management (continued)

f) Fair value measurements

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
(ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (is as prices) or indirectly (ie derived from prices) (Level 2); and
(iii) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the assets and liabilities measured at fair value at 31 December 2009.

Group	Level 1	Level 2	Level 3	Total
£ Millions				
Assets				
Derivatives used for hedging	—	—	—	—
Liabilities				
Derivatives used for hedging	—	0.3	—	0.3

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date. These derivative financial instruments are included in Level 2.

32. Other information

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of XP Power Limited on 22 February 2010.

Company Balance Sheet

For the financial year ended 31 December 2009

£'000	Note	2009	2008
ASSETS			
Current Assets			
Cash and cash equivalents	4	1,195	52
Trade and other receivables	5	10,566	10,593
Other current assets	6	283	891
Derivative financial instrument	7	41	590
Inventories	8	2,930	5,662
Total current assets		15,015	17,788
Non-current assets			
Investments in subsidiaries	3	29,786	29,786
Property, plant and equipment	9	2,144	2,321
Intangible assets	10	402	—
Deferred income tax assets	11	—	9
Total non-current assets		32,332	32,116
Total assets		47,347	49,904
LIABILITIES			
Current liabilities			
Trade and other payables	12	11,750	14,238
Current income tax liabilities	14	474	727
Bank overdraft	15	—	1,848
Total current liabilities		12,224	16,813
Non-current liabilities			
Borrowings	13	2,220	—
Deferred income tax liabilities	11	84	—
Total non-current liabilities		2,304	—
Total liabilities		14,528	16,813
NET ASSETS		32,819	33,091
EQUITY			
Share capital	16	29,786	29,786
Hedging reserve	16	41	550
Translation reserve	16	349	337
Retained earnings	16	2,643	2,418
TOTAL EQUITY		32,819	33,091

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	2009	2008
Cost at carrying value		
At 1 January	29,786	29,786
Additions	—	—
At 31 December	29,786	29,786

Name of Subsidiary	Place of incorporation Ownership (or registration) and operation	Proportion of Ownership % 2009	Proportion of Ownership % 2008	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	2009	2008
Cash at bank	1,195	52
Total	1,195	52

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

	GBP £'000	USD £'000	EUR £'000	JPY £'000	SGD £'000	SEK £'000	DKK £'000	TOTAL £'000
At 31 December 2009								
Cash at bank	534	308	294	—	6	17	36	1,195

	GBP £'000	USD £'000	EUR £'000	JPY £'000	SGD £'000	SEK £'000	DKK £'000	TOTAL £'000
At 31 December 2008								
Cash at bank	1	47	—	1	3	—	—	52

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

5. Trade and other receivables

£'000	2009	2008
Trade receivables	678	631
Amount receivable from Group companies	9,888	9,962
Total	10,566	10,593

The average credit period taken on sales of goods is 35 days (2008: 36 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	2009	2008
Deposit	55	46
Other receivables and prepayments	228	845
Total	283	891

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

7. Derivative financial instruments

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

As at 31 December 2009, the fair value asset of the currency forward contracts recognised under a hedging reserve is £41,000 (2008: £550,000) (note 16).

December 2009

£'000	Contract notional amount	Fair value asset
Current portion	9,406	19
Non-current portion	2,411	22
Total	11,817	41

December 2008

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

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

7. Derivative financial instruments (continued)

The total notional amount and fair value asset of the forward contracts is as follows:

£'000	2009	2008
Contract notional amount	—	2,229
Fair value asset/(liability) of the contracts	—	40

8. Inventories

£'000	2009	2008
Goods for resale	2,930	5,662

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
Cost						
At 1 January 2008	—	—	180	8	76	264
Additions	189	1,533	389	—	64	2,175
Disposals	—	—	(3)	—	—	(3)
Foreign currency translation	—	—	54	2	23	79
At 1 January 2009	189	1,533	620	10	163	2,515
Additions	—	(45)	106	—	116	177
Disposals	—	—	(1)	—	—	(1)
Foreign currency translation	(6)	(52)	(21)	—	(6)	(85)
At 31 December 2009	**183**	**1,436**	**704**	**10**	**273**	**2,606**
Depreciation						
At 1 January 2008	—	—	22	—	18	40
Charge for the year	—	8	93	2	40	143
Disposals	—	—	(1)	—	—	(1)
Foreign currency translation	—	—	6	—	6	12
At 1 January 2009	—	8	120	2	64	194
Charge for the year	—	42	144	2	86	274
Disposals	—	—	(1)	—	—	(1)
Foreign currency translation	—	—	(4)	1	(2)	(5)
At 31 December 2009	**—**	**50**	**259**	**5**	**148**	**462**
Carrying Amount						
At 31 December 2009	**183**	**1,386**	**445**	**5**	**125**	**2,144**
At 31 December 2008	189	1,525	500	8	99	2,321

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

10. Intangible assets

£'000	2009	2008
Cost		
Balance at 1 January	—	—
Additions	402	—
Balance at 31 December	402	—
Amortisation		
Balance at 1 January	—	—
Additions	—	—
Balance at 31 December	—	—

11. Taxation

£'000	2009	2008
Deferred tax assets	—	9
Deferred tax liabilities	(84)	—
Total	(84)	9

As at 31 December 2009, the Company had unutilised tax losses and capital allowances of approximately £ Nil (2008: £ Nil).

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.

12. Current liabilities

£'000	2009	2008
Trade payables	3,242	3,879
Amount payable to Group companies	7,898	9,190
Other creditors	610	1,169
Total	11,750	14,238

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.

The Company borrows from subsidiaries at an interest rate of 1.5% above LIBOR. The borrowing is repayable upon demand.

13. Non-current liabilities

£'000	2009	2008
Amount payable to Group companies	2,220	—
Total	2,220	—

The Company borrows from subsidiaries at an interest rate of 1.5% above LIBOR and repayable by 2012.

14. Current income tax liabilities

£'000	2009	2008
Current year tax expense	474	727
Total	474	727

15. Bank overdraft

£'000	2009	2008
Bank overdraft	—	1,848
Total	—	1,848

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

	GBP £'000	USD £'000	TOTAL £'000
At 31 December 2009			
Bank overdraft	—	—	—
At 31 December 2008			
Bank overdraft	(32)	1,880	1,848

16. Share capital and reserves

Share capital

£'000	2009	2008
Allotted and fully paid 19,242,296 ordinary shares	29,786	29,786

Retained earnings

£'000	2009	2008
Balance at 1 January	2,418	441
Dividends paid	(3,929)	(3,970)
Profit for the year	4,154	5,947
Balance at 31 December	2,643	2,418

Translation reserve

£'000	2009	2008
Balance at 1 January	337	4
Exchange differences on translation	12	333
Balance at 31 December	349	337

16. Share capital and reserves (continued)

Hedging reserve

£'000	2009	2008
Balance at 1 January	550	—
Fair value (losses)/gains	(509)	550
Balance at 31 December	41	550

17. Financial risk management

The Company'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 Company seeks to minimise adverse effects from the unpredictability of financial markets on the Company's financial performance.

a) Capital risk

The Company manages its capital to ensure that it 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 Company consists of debt, which includes the borrowings disclosed in note 13, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 16.

b) Currency risk

The Company operates in Asia, Europe and North America and its activities expose it to transactional risks resulting from changes in foreign currency exchange rates. The Company monitors and manages these transactional foreign exchange risks relating to the operations of the Company through internal reports analysing major currency exposures. Where possible the Company 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 Company manages the overall currency exposure mainly through currency forwards. The Company's risk management policy is to hedge a portion of highly probable forecast sales transactions.

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

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

At 31 December 2009 £'000	GBP	EUR	USD	Others	Total
Financial Assets					
Cash and cash equivalents	534	294	308	59	1,195
Trade and other receivables	2,061	1,951	5,892	662	10,566
Other financial assets	237	(152)	140	58	283
Sub-total	**2,832**	**2,093**	**6,340**	**779**	**12,044**
Financial Liabilities					
Borrowings	—	—	(2,220)	—	(2,220)
Trade and other payables	(7,752)	(193)	(2,991)	(814)	(11,750)
Other financial liabilities	—	—	(474)	—	(474)
Sub-total	**(7,752)**	**(193)**	**(5,685)**	**(814)**	**(14,444)**
Net financial (liabilities)/assets	**(4,920)**	**1,900**	**655**	**(35)**	**(2,400)**
Less: Financial (liabilities)/assets denominated in the respective entities' functional currencies	—	—	655	—	655
Currency exposure	**(4,920)**	**1,900**	**—**	**(35)**	**(3,055)**

17. Financial risk management (continued)
b) Currency risk (continued)

At 31 December 2008 £'000	GBP	EUR	USD	Others	Total
Financial Assets					
Cash and cash equivalents	1	—	47	4	52
Trade and other receivables	3,609	2,412	3,989	583	10,593
Other financial assets	335	299	250	7	891
Sub-total	**3,945**	**2,711**	**4,286**	**594**	**11,536**
Financial Liabilities					
Borrowings	32	—	(1,880)	—	(1,848)
Trade and other payables	(7,699)	(751)	(5,009)	(779)	(14,238)
Other financial liabilities	—	—	(727)	—	(727)
Sub-total	**(7,667)**	**(751)**	**(7,616)**	**(779)**	**(16,813)**
Net financial (liabilities)/assets	(3,722)	1,960	(3,330)	(185)	(5,277)
Less: Financial (liabilities)/assets denominated in the respective entities' functional currencies	—	—	(3,330)	—	(3,330)
Currency exposure	**(3,722)**	**1,960**	**—**	**(185)**	**(1,947)**

c) Interest risk

The Company borrows from subsidiaries at an interest rate of 1.5% above LIBOR.

d) Credit risk

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

The Company is not exposed to significant credit risk as majority of the sales are made to the subsidiaries.

The Company 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.

e) Liquidity risk

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

17. Financial risk management (continued)
e) Liquidity risk (continued)

£'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2009					
Trade and other payables	11,750	—	—	—	11,750
Borrowings	—	—	2,220	—	2,220
Total	11,750	—	2,220	—	13,970

£'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2008					
Trade and other payables	14,238	—	—	—	14,238
Borrowings	1,848	—	—	—	1,848
Total	**16,086**	**—**	**—**	**—**	**16,086**

The Company manages the liquidity risk by maintaining sufficient cash and bank facilities to enable it to meet its normal operating commitments.

f) Fair value measurements

Effective 1 January 2009, the Company adopted the amendment to FRS 107 which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
(ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (is as prices) or indirectly (i.e. derived from prices) (Level 2); and
(iii) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the assets and liabilities measured at fair value at 31 December 2009.

Company	Level 1	Level 2	Level 3	Total
£'000				
Assets				
Derivatives used for hedging	—	41	—	41

	2009 £ Millions	2008 £ Millions	2007 £ Millions	2006 £ Millions Restated	2005 £ Millions
Results					
Revenue	67.3	69.3	66.3	78.7	69.5
Profit from operations	9.6	9.3	6.7	9.3	8.4
Profit before tax	8.4	10.2	5.0	8.0	7.6
Assets employed					
Non-current assets	45.6	43.3	39.7	39.2	33.6
Current assets	26.9	35.6	27.3	30.0	30.1
Current liabilities	(15.8)	(22.7)	(13.2)	(21.5)	(32.0)
Non-current liabilities	(24.2)	(27.2)	(24.0)	(18.3)	(4.5)
Net assets	32.5	29.0	29.8	29.4	27.2
Financed by					
Equity	32.2	28.8	29.6	29.4	27.2
Minority interests	0.3	0.2	0.2	-	-
	32.5	29.0	29.8	29.4	27.2
Key statistics (pence)					
Earnings per share	39.4	46.5	17.9	27.9	30.7
Diluted earnings per share	39.3	46.4	17.8	27.5	30.1
Diluted adjusted earnings per share	40.8	34.8	31.4	32.8	30.6
Share price in the year (pence)					
High	455.0	285.0	528.4	486.5	526.0
Low	115.8	121.0	235.3	327.0	279.0

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