

Consolidated Profit and Loss Account

Year ended 31 December 2004

£ Millions	Note	2004	2003 (Restated refer to page 26)
Turnover	2	66.8	59.4
Cost of sales		(43.1)	(39.5)
Gross profit		23.7	19.9
Selling and distribution costs		(11.8)	(11.4)
Administrative expenses			
Research and development		(2.3)	(1.9)
Goodwill amortisation		(1.4)	(1.5)
Other administration expenses		(2.9)	(2.9)
Total administrative expenses		(6.6)	(6.3)
Other operating income		–	0.2
Group operating profit		5.3	2.4
Share of associates' operating profit		0.4	0.3
Total operating profit		5.7	2.7
Interest payable and similar charges	4	(0.6)	(0.6)
Profit on ordinary activities before taxation	5	5.1	2.1
Tax on profit on ordinary activities	6	(1.8)	(0.9)
Profit on ordinary activities after taxation		3.3	1.2
Minority interest		–	(0.2)
Profit attributable to XP Power plc shareholders		3.3	1.0
Dividends payable	7	(2.6)	(2.5)
Retained profit/(loss) for the period		0.7	(1.5)
Basic earnings per share	8	16.9p	5.0p
Basic earnings per share adjusted for goodwill amortisation	8	24.1p	12.5p
Diluted earnings per share	8	16.4p	4.9p
Diluted earnings per share adjusted for goodwill amortisation	8	23.6p	12.4p

All activities derive from continuing operations.

The turnover and results of the acquired operations have not been shown because they are not considered material.

Statement of Total Recognised Gains and Losses

Year ended 31 December 2004

£ Millions	2004	2003 (Restated)
Profit attributable to XP shareholders	3.3	1.0
Currency translation difference on foreign currency net investments	(0.2)	(1.2)
Total recognised gains relating to the year	3.1	(0.2)

The parent Company, XP Power Plc has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985, its profit after tax for the financial year dealt with in the accounts of XP Power plc is £6.8 million (2003: £2.9 million).

Combined Reconciliation of Movement in Shareholders' Funds and Statement of Movement on Reserves

Year ended 31 December 2004

Group £ Millions	Called up share capital	Share premium account	Merger reserve	Own shares	Profit and loss account	2004 Total	2003 Total (Restated)
At the beginning of the year	0.2	27.0	0.2	–	(1.1)	26.3	29.1
Purchase of own shares	–	–	–	(3.5)	–	(3.5)	(0.5)
Sale of own shares	–	–	–	0.1	(0.1)	–	–
– as previously reported	–	–	–	–	–	–	–
– prior year adjustment	–	–	–	–	–	–	0.4
As restated	–	–	–	–	–	–	0.4
Profit for the year	–	–	–	–	3.3	3.3	–
– as previously reported	–	–	–	–	–	–	1.4
– prior year adjustment	–	–	–	–	–	–	(0.4)
As restated	–	–	–	–	–	–	1.0
Dividends	–	–	–	–	(2.6)	(2.6)	(2.5)
Currency translation difference	–	–	–	–	(0.2)	(0.2)	(1.2)
At the end of the year	0.2	27.0	0.2	(3.4)	(0.7)	23.3	26.3

Company £ Millions	Called up share capital	Share premium account	Merger reserve	Own shares	Profit and loss account	2004 Total	2003 Total
At the beginning of the year	0.2	27.0	–	–	0.1	27.3	27.4
Purchase of own shares	–	–	–	(3.5)	–	(3.5)	(0.5)
Sale of own shares	–	–	–	0.1	(0.1)	–	–
Profit for the year	–	–	–	–	6.8	6.8	2.9
Dividends	–	–	–	–	(2.6)	(2.6)	(2.5)
At the end of the year	0.2	27.0	–	(3.4)	4.2	28.0	27.3

Note on prior year adjustment

The treatment of ESOP shares has changed following the adoption of Urgent Issues Task Force (UITF) Abstract 38 Accounting for ESOP trusts. ESOP shares which are now dealt with as a deduction from shareholders' funds. As a result of this change in accounting policy the comparatives have been restated. The carrying value of own shares as previously stated in investments at 31 December 2003 was £nil, therefore there has been no impact of the restatement of the numbers presented in the balance sheet. However the numbers presented in the profit and loss account have been restated as shown above. There was no impact on the results for the current year.

During the year, the Company repurchased 910,000 of its own shares at an average price of 377.2 pence per share. These shares are being held in treasury and will be used to fund the Company's existing employee share option schemes or for other appropriate purposes such as small acquisitions. At 31 December 2004, 21,250 of these shares had been sold.

In 2003 the Company bought back 470,000 shares at an average cost of 108.5 pence per share. These shares were cancelled.

Balance Sheets

31 December 2004

£ Millions	Note	Group		Company	
		2004	2003 (Restated refer to page 26)	2004	2003
Fixed assets					
Intangible assets	9	21.7	22.4	–	–
Tangible assets	10	2.5	2.9	–	–
Investments	11	1.8	1.1	25.8	25.8
Total fixed assets		26.0	26.4	25.8	25.8
Current assets					
Stocks	13	7.5	6.6	–	–
Debtors	14	13.2	11.5	10.1	9.6
Cash at bank and in hand		2.7	4.5	–	–
Total current assets		23.4	22.6	10.1	9.6
Creditors: amounts falling due within one year	16	(18.0)	(12.0)	(1.6)	(1.7)
Net current assets		5.4	10.6	8.5	7.9
Total assets less current liabilities		31.4	37.0	34.3	33.7
Creditors: amounts falling due after more than one year	17	(8.1)	(10.6)	(6.3)	(6.4)
Net assets		23.3	26.4	28.0	27.3
Capital and reserves					
Called up share capital	18	0.2	0.2	0.2	0.2
Share premium account		27.0	27.0	27.0	27.0
Merger reserve		0.2	0.2	–	–
Profit and loss account		(0.7)	(1.1)	4.2	0.1
Own shares	12	(3.4)	–	(3.4)	–
Total equity shareholders' funds		23.3	26.3	28.0	27.3
Minority interest		–	0.1	–	–
Total capital and reserves		23.3	26.4	28.0	27.3

These financial statements were approved by the Board of Directors on 18 March 2005.

Signed on behalf of the Board of Directors



Larry Tracey – Executive Chairman



Duncan Penny – Chief Executive

Consolidated Cash Flow Statement

Year ended 31 December 2004

£ Millions	Note	2004	2003
Net cash flow from operating activities	19	4.9	5.3
Dividends received from associates		0.2	–
Returns on investments and servicing of finance			
Interest paid		(0.6)	(0.6)
Dividends paid to minority shareholders		(0.1)	–
Net cash outflow from returns on investments and the servicing of finance		(0.7)	(0.6)
Tax paid			
Corporation tax paid		(0.8)	(0.1)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(0.3)	(0.4)
Sale of tangible fixed assets		0.1	0.1
Net cash outflow from capital expenditure and financial investment		(0.2)	(0.3)
Free cash flow		3.4	4.3
Acquisitions and disposals	23		
Purchase of subsidiary undertaking		(0.8)	–
Net cash acquired with subsidiary undertaking		0.2	–
Loan to majority shareholder of Associated undertaking		(0.5)	–
Net cash outflow from acquisitions and disposals		(1.1)	–
Equity dividends paid		(2.5)	(2.5)
Cash (outflow)/inflow before financing		(0.2)	1.8
Financing			
Share buy back		(3.5)	(0.5)
Sale of shares		0.1	–
Net cash outflow from financing		(3.4)	(0.5)
(Decrease)/increase in cash		(3.6)	1.3

Notes to the Accounts

Year ended 31 December 2004

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. The acquisitions of XP PLC and Forx, Inc are accounted for using the merger method of accounting and all other subsidiaries using the acquisition method of accounting in accordance with Financial Reporting Standard 6, 'Acquisitions and Mergers'.

Intangible fixed assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life up to a maximum of 20 years. The directors regard 20 years as a reasonable maximum for the estimated useful life of goodwill. Provision is made for any impairment.

Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated lives of the assets. The rates of depreciation are as follows:

Plant and machinery	–	25 - 33%
Motor vehicles	–	25%
Office equipment	–	25 - 33%
Leasehold improvements	–	10% or over the life of the lease if shorter
Long leasehold land and buildings	–	Term of the lease

Investments

Investments held as fixed assets are stated at cost less provision for impairment.

Associates

In the Group financial statements investments in associates are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of associates' profits less losses while the Group's share of the net assets of the associates is shown in the consolidated balance sheet. Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investment in associates.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents material and appropriate overheads based on normal levels of activity.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Notes to the Accounts (Continued)

Year ended 31 December 2004

1. Accounting policies *continued*

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be reduced.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is recognised in respect of retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in the future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Research and development

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred.

Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual instalments over the period of the leases.

Pension costs

The Group operates defined contribution pension schemes for its employees. Contributions are charged to the profit and loss account as they become payable.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

The results of overseas operations are translated into sterling at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of opening net assets and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are reported in the statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

Turnover

Turnover represents amounts receivable for goods provided in the normal course of business net of trade discounts, VAT and other sales related taxes. Turnover is recognised on the dispatch of goods.

Year ended 31 December 2004

2. Segmental reporting

Turnover is attributable to the supply of electronic power supply solutions and takes place as set out below:

£ Millions	2004	2003
Turnover		
Europe	27.3	23.0
USA	39.5	36.4
Total turnover	66.8	59.4
Profit on ordinary activities before taxation		
Europe	4.0	2.9
USA	2.3	0.8
Interest, corporate operating costs and associates	(1.2)	(1.2)
Profit on ordinary activities before taxation	5.1	2.5
Operating net assets		
Europe	10.3	9.3
USA	24.6	25.0
Total net assets	34.9	34.3

Operating net assets are defined as net assets adjusted for net borrowings and the proposed dividend.

Net assets	23.3	26.4
Net debt	10.1	6.5
Proposed dividend	1.5	1.4
Total operating net assets	34.9	34.3

3. Information regarding employees (including directors)

£ Millions	2004	2003
Employee costs during the year:		
Wages and salaries	10.3	9.4
Social security	1.1	1.2
Pensions	0.1	0.1
Total	11.5	10.7

For further information on directors' emoluments, refer to the Directors Remuneration Report.

	Number	Number
Average number of persons employed:		
Sales	107	104
Administration	76	79
Manufacturing	49	14
Engineering	59	37
Total	291	234

4. Interest payable and similar charges

£ Millions	2004	2003
Bank loans and overdraft	0.6	0.6

Notes to the Accounts (Continued)

Year ended 31 December 2004

5. Profit on ordinary activities before taxation

£ Millions	2004	2003
Profit on ordinary activities before taxation is after charging:		
Amortisation of goodwill	1.4	1.5
Depreciation	0.6	0.7
Research and development costs	2.3	1.9
Rentals under operating leases		
Other	1.0	1.0
Fees paid to auditors:		
Audit services - Statutory audit	0.1	0.1
Other services - Tax	0.1	0.1
	<u>1.8</u>	<u>0.9</u>

The audit fee for the Group is borne by the Company.

6. Tax on profit on ordinary activities

£ Millions	2004	2003
United Kingdom corporation tax – current year	0.5	1.0
Double tax relief	–	(0.6)
Overseas corporation tax – current year	1.2	0.5
Share of associate tax charge	0.1	–
Total current tax	<u>1.8</u>	<u>0.9</u>

The differences between the total current tax shown above and the amount calculated by applying the standard rate of United Kingdom corporation tax to the profit before tax is as follows.

£ Millions	2004	2003
Profit on ordinary activities before tax	<u>5.1</u>	<u>2.1</u>
Tax on profit on ordinary activities at standard United Kingdom tax rate of 30% (2003: 30%)	1.6	0.6
Goodwill amortisation not deductible for tax purposes	0.3	0.3
Non-deductible expenditure	(0.2)	–
Timing differences	0.1	–
Current tax charge for the period	<u>1.8</u>	<u>0.9</u>

Subject to the mix of the Group's profits in the various territories in which it operates, the Group is not currently aware of any factors, other than the above, which may have a material impact on the future tax charges.

No deferred tax is 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.

7. Dividends

	Pence per share	2004 £ millions	Pence per share	2003 £ millions
Interim paid	6.0p	1.1	5.0p	1.0
Final Proposed	8.0p	1.5	7.0p	1.5
Total	<u>14.0p</u>	<u>2.6</u>	<u>12.0p</u>	<u>2.5</u>

The interim dividend was waived on 656,251 shares (2003: 623,851 shares). All the shares on which dividends were waived were held in the Group's ESOP.

Year ended 31 December 2004

8. Earnings per share

	Year to 31 December 2004		Year to 31 December 2003	
	£ millions	EPS	£ millions (Restated)	EPS
Earnings for the financial period for basic earnings per share	3.3	16.9p	1.0	5.0p
Amortisation of goodwill	1.4	7.2p	1.5	7.5p
Earnings for adjusted earnings per share	4.7	24.1p	2.5	12.5p
Weighted average number of shares (thousands) – basic	19,510		20,046	
Impact of share options	411	(0.5p)	55	(0.1p)
Weighted average number of shares (thousands) – diluted	19,921	23.6p	20,101	12.4p

The weighted average number of shares excludes 656,251 ESOP shares (2003: 781,737) and 495,769 (2003: nil) treasury shares.

Supplementary earnings per share are presented to exclude the effect of goodwill amortisation as the Board regards this as more meaningful.

9. Intangible fixed assets

£ Millions	Goodwill
Cost	
At 1 January 2004	26.9
Additions	0.7
At 31 December 2004	26.9
Accumulated amortisation	
At 1 January 2004	4.5
Charge for the year	1.4
At 31 December 2004	5.9
Net book value	
At 31 December 2004	21.7
At 31 December 2003	22.4

Goodwill arises on the consolidation of subsidiary undertakings. Goodwill is amortised over a maximum of 20 years which the directors consider is a reasonable estimate of its economic life.

The addition to goodwill of £0.7 million comprises £0.4 million on the acquisition of XP Electronics Limited (see note 23) plus £0.3 million relating to the acquisition of the remaining 75% of the shares in MPI-XP Power AG which the Group is expected to purchase in 2006. See note 23.

Notes to the Accounts (Continued)

Year ended 31 December 2004

10. Tangible fixed assets

£ Millions	Plant and machinery	Motor vehicles	Office equipment	Long leasehold land & buildings	Total
Cost					
At 1 January 2004	2.5	0.5	1.6	1.7	6.3
Additions	0.1	0.1	0.1	–	0.3
Disposals	(0.2)	(0.2)	(0.1)	–	(0.5)
At 31 December 2004	2.4	0.4	1.6	1.7	6.1
Depreciation					
At 1 January 2004	1.6	0.2	1.3	0.3	3.4
Charge	0.3	0.1	0.1	0.1	0.6
Disposals	(0.1)	(0.2)	(0.1)	–	(0.4)
At 31 December 2004	1.7	0.2	1.3	0.4	3.6
Net book value					
At 31 December 2004	0.7	0.2	0.3	1.3	2.5
At 1 January 2004	0.9	0.3	0.3	1.4	2.9

At 31 December 2004 the Company had no material outstanding capital commitments (2003: £nil).

11. Investments held as fixed assets

Group

Associated Undertakings

£ Millions	Goodwill	Share of Net Assets	Loan	Total
At 1 January 2004	0.4	0.7	–	1.1
Transfer to Subsidiary	(0.2)	–	–	(0.2)
Loan to majority shareholder of Associate	–	–	0.5	0.5
Profits retained for the year	–	0.4	–	0.4
At 31 December 2004	0.2	1.1	0.5	1.8

A loan of £0.5 million has been made to the majority shareholder of Powersolve Electronics Limited during the year which is repayable in full in 2007 on the exercise of the option to acquire the remaining 60% of the shares, see note 23. The latest available audited financial statements for Powersolve Electronics Limited are for the year ended 31 December 2003. These accounts show share capital and reserves of £597,000 and a profit after taxation of £452,000.

The Group's share of Powersolve Electronics Limited based on the 2004 unaudited management accounts is Turnover £1,735,000 (2003: £1,485,000). Profit Before Tax £394,000 (2003: £265,000). The Group's share of Fixed Assets, Current Assets and Current Liabilities are £48,000 (2003: £30,000), £871,000 (2003: £700,000) and £213,000 (2003: £211,000) respectively.

Company

Cost and Net Book Value

£ Millions	Shares in Subsidiary Undertakings
At 1 January 2004	25.8
At 31 December 2004	25.8

Year ended 31 December 2004

11. Investments held as fixed assets *continued*

Principal subsidiary companies:

Name	Activity	Country of incorporation	% Ownership
Forx, Inc**	Holding Company	USA	100%
MPI-XP Power AC*	Provision of power supplies	Switzerland	100%
XP Electronics Ltd	Provision of power supplies	UK	100%
XP-ForeSight, Inc	Provision of power supplies	USA	100%
XPiQ, Inc.	Provision of power supplies	USA	100%
XP PLC**	Provision of power supplies	UK	100%
XP Power ApS	Provision of power supplies	Denmark	100%
XP Power BV	Provision of power supplies	Holland	100%
XP Power GmbH	Provision of power supplies	Germany	100%
XP Power Holdings Ltd	Holding Company	UK	100%
XP Power Norway AS	Provision of power supplies	Norway	100%
XP Power SA	Provision of power supplies	France	100%
XP Power Sweden AB	Provision of power supplies	Sweden	100%

* See Note 23. ** Held directly by XP Power plc.

12. Own shares

As at 31 December 2004, the Group's Employee Share Ownership Plan (ESOP) held 656,251 (2003: 774,851) shares at a value of £3,431 (2003: £4,398).

On 14 June 2004 the Trust sold 50,000 shares to Mickey Lynch at the market value of 367.5 pence per share. During the year the Trust sold another 55,000 shares to other employees at market prices of between 267.5 pence and 460 pence per share. The consideration for these shares is deferred until they are disposed of. A further 13,600 shares were sold in order to fund options exercised during the year.

180,100 of these shares were under option at 31 December 2004 (2003: 281,000). The shares are deployed at the discretion of the Trustees for the benefit of the employees. Costs of administering the Trust are charged to the profit and loss account and the dividends are waived.

Own shares also includes 888,750 treasury shares, (2003: nil).

13. Stocks

£ Millions	2004	2003
Goods for resale	<u>7.5</u>	<u>6.6</u>

14. Debtors

£ Millions	Group		Company	
	2004	2003	2004	2003
Trade debtors	10.9	9.6	–	–
Amounts due from group undertakings	–	–	9.3	9.5
Deferred tax	0.1	0.1	–	–
Prepayments and other debtors	2.2	1.8	0.8	0.1
Total	<u>13.2</u>	<u>11.5</u>	<u>10.1</u>	<u>9.6</u>

The movement on the deferred tax asset is summarised as follows.

	Group 2004	Group 2003
Deferred tax asset at 1 January 2004	0.1	0.1
Deferred tax asset at 1 January 2004	0.1	0.1
Charge for the period	–	–
Deferred tax asset at 31 December 2004	<u>0.1</u>	<u>0.1</u>

A deferred tax asset has been recognised as it is considered more likely than not that it will be recovered.

Notes to the Accounts (Continued)

Year ended 31 December 2004

15. Bank loans and overdrafts

On 12 December 2003 the Group renewed its multi-currency revolving credit facility with Bank of Scotland. The new facility is £10 million and is committed for three years at an interest rate of 1.5% above LIBOR and is provided for the purpose of financing acquisitions. At 31 December 2004 £8.1 million had been drawn down under this facility (2003: £8.4 million). In addition to this the Group has a £10 million working capital facility which is repayable on demand, and also bears interest at a rate of 1.5% above LIBOR. Both facilities are secured on the assets of the Group.

16. Creditors: amounts falling due within one year

£ Millions	Group		Company	
	2004	2003	2004	2003
Bank loans and overdrafts	4.7	2.6	0.1	0.1
Trade creditors	5.3	5.5	–	–
Accruals and deferred income	1.6	0.8	–	0.2
Corporation tax	2.2	1.4	–	–
Other taxation	0.2	0.3	–	–
Deferred consideration	2.5	–	–	–
Proposed dividend	1.5	1.4	1.5	1.4
Total	18.0	12.0	1.6	1.7

The deferred consideration relates to the expectation that the remaining 75% of the shares in MPI-XP Power AG will be purchased in 2005 for an expected cash consideration of 5.5 million Swiss Francs (£2.5 million). See Note 23.

17. Creditors: amounts falling due after more than one year

£ Millions	Group		Company	
	2004	2003	2004	2003
Bank loans and overdrafts	8.1	8.4	6.3	6.4
Deferred consideration	–	2.2	–	–
Total	8.1	10.6	6.3	6.4

The bank loan at 31 December 2004 represents the amount drawn down under the multi-currency revolving credit facility from Bank of Scotland. As stated in Note 15, the credit facility is committed and therefore not repayable until 12 December 2006.

18. Called up share capital

£ Thousands	2004	2003
Authorised 35,000,000 ordinary shares of 1p each	350	350
Allotted and fully paid 20,704,621 ordinary shares of 1p each (2003: 20,667,118)	207	206

During the year 37,503 shares were issued at a price of £2.86 (2003: nil). During 2003 470,000 shares were bought back at an average price of 108.5p per share and were cancelled.

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:

- 101,100 shares at £1.15, exercisable from 22 December 2002 and expiring on 22 December 2010.
- 35,000 shares at £1.15, exercisable from 21 August 2003 and expiring on 21 August 2011.
- 128,750 shares at £3.425, vesting in four equal annual instalments from 21 August 2001. They expire on 21 August 2011.
- 85,750 shares at £3.20, vesting in four equal annual instalments from 31 January 2002. They expire on 31 January 2012.
- 105,000 shares at £2.925, vesting in four equal annual instalments from 1 May 2002. They expire on 1 May 2012.
- 44,000 shares at £1.15, exercisable from 24 August 2004 and expiring on 24 August 2012.
- 421,850 shares at £1.75, vesting in four equal annual instalments from 24 August 2002. They expire on 24 August 2012.
- 45,000 shares at £2.675, vesting in four equal annual instalments from 2 February 2004. They expire on 2 February 2014.

Year ended 31 December 2004

19. Notes to the cashflow statement

i. Reconciliation of operating profit to net cash inflow from operating activities:

£ Millions	2004	2003
Operating profit	5.3	2.4
Depreciation and amortisation	2.0	2.2
(Increase)/decrease in stocks	(0.7)	1.1
(Increase) in debtors	(1.5)	(0.7)
Increase in creditors	0.5	0.9
Foreign currency differences	(0.7)	(0.6)
Net cash inflow from operating activities	4.9	5.3

ii. Reconciliation of net cashflow to movement in net debt:

£ Millions	2004	2003
(Decrease)/increase in cash in the period	(3.6)	1.3
Cash acquired with subsidiaries	0.2	-
Change in net cash	(3.6)	1.3
Net debt at 1 January	(6.5)	(7.8)
Net debt at 31 December	(10.1)	(6.5)

iii. Analysis of change in net debt:

£ Millions	At 1 January 2004	Cash flows	At 31 December 2004
Cash	4.5	(1.8)	2.7
Overdraft	(2.6)	(2.1)	(4.7)
Total	1.9	(3.9)	(2.0)
Debt after more than one year	(8.4)	0.3	(8.1)
Total	(6.5)	(3.6)	(10.1)

20. Operating leases and other commitments

At 31 December 2004 the Company was committed to making the following annual payments in respect of operating leases:

£ Millions	Land and buildings
Leases which expire:	
Within one to two years	0.2
Within two to five years	0.7
After more than five years	0.1
Total	1.0

21. Pensions

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

Notes to the Accounts (Continued)

Year ended 31 December 2004

22. Related party transactions

The Company has bought goods to the value of £517,000 (2003: £1,758,000) from, and sold goods to the value of £nil (2003: £25,000) to associated undertakings.

The amount payable to associates at 31 December 2004 is £92,000 (2003: £262,000) and the amount receivable is £nil (2003: £nil). All transactions are conducted on an arm's length basis.

The Group has loaned £20,000 to one of its associates, XP Engineering Services, (2003: £20,000). The loan has been made on an arm's length basis and interest is charged at LIBOR plus 3%. The loan was outstanding at 31 December 2004.

Steve Robinson purchased a motor vehicle from the Group for £14,000. The transaction was conducted at fair market value.

XPiQ, Inc. rents office space at a market rate of \$180,000 per annum (2003: \$180,000 per annum) from the S & S Realty Trust of which Rich Sakakeeny is a 50% owner.

A loan of £0.5 million has been made to the majority shareholder of Powersolve Electronics Limited, (see Note 23).

23. Acquisitions

On 26 February 2004 the Group acquired the remaining 80% of the issued share capital of XP Electronics Limited.

The net assets acquired are summarised below. There is no difference between the book and fair value of the assets acquired.

£ Millions	XP Electronics Ltd
Stock	0.2
Debtors	0.2
Cash	0.2
Creditors and accruals	(0.1)
Net assets acquired	0.5
Fair value of net assets acquired	0.5
Goodwill	0.4
Purchase consideration	0.9
Satisfied by;	
Cash consideration	0.8
Shares	0.1
Total	0.9

XP Electronics' profit for the year ended 31 December 2003 was £17,000 and for the period to 26 February 2004 was a loss of £49,000.

It is expected that the consideration due on the remaining 75% of MPI-XP Power AG will be paid in December 2005. The final consideration is based on the earnings of MPI-XP Power AG and is estimated to be in the region of 5.5 million Swiss Francs (£2.5 million). The liability for this deferred consideration has been recognised in these financial statements. At 31 December 2003 the consideration was estimated to be 4.9 million Swiss Francs (£2.2 million).

The group has options to acquire the remaining 60% of the shares of Powersolve Electronics Limited between 2007 and 2012. The current best estimate of the consideration payable is £4.6 million. A loan of £0.5 million has been made to the majority shareholder during the year which is repayable in full in 2007 on the exercise date of the first option.

Year ended 31 December 2004

24. Financial instruments

The Group's policies regarding derivatives and financial instruments are set out in the Financial Review on page 12 and the accounting policies on page 29. The Group does not trade in financial instruments. As permitted by FRS 13, short term debtors and creditors have been omitted from all disclosures other than foreign currency debtors and creditors which at 31 December 2004 were insignificant. There were no material gains or losses recognised or carried forward at the year end.

The only financial assets and liabilities that the Group had at 31 December 2004 (other than short term debtors and creditors) were cash at bank and in hand and bank overdrafts and the revolving credit facility which are subject to floating rates (LIBOR plus 1.5%). Further details of these financial assets and liabilities are shown in notes 13, 14, 15, 16 and 17.

There is no significant difference between the book value and the fair value of the Group's financial assets and liabilities.

The main functional currencies of the Group are the US Dollar, Sterling and Euro. The following analysis of net monetary assets and liabilities shows the Group's currency exposures at 31 December 2004. The amounts shown represent the transactional exposures that give rise to net currency gains or losses which are recognised in the profit and loss account. All such exposures arise in companies with sterling as their functional currency. There are inter-company loans between the UK and its European subsidiaries totalling £155,000 which are denominated in Euro (2003: £1,140,000) and inter-company loans between the UK and its US subsidiaries totalling £1,793,000 (2003: £1,362,000) the translation differences on which do not go through the profit and loss account.

£ Thousands	Net foreign currency monetary asset/(liability)	
	2004	2003
Norwegian Krone	264	359
Euro	781	(9)
Japanese Yen	(29)	(104)
Swedish Krone	53	397
Danish Krone	25	(54)
US Dollars	(673)	(251)
Total	421	446

Five Year Financial Summary

£ Millions	2004	2003	2002	2001	2000
	£	£	£	£	£
Profit and loss					
Turnover					
Europe	27.3	23.0	21.3	21.1	20.8
United States	39.5	36.4	42.7	65.4	85.1
Total Turnover	66.8	59.4	64.0	86.5	105.9
Gross Margin (gross profit)	23.7	19.9	20.4	25.4	29.7
Gross Margin %	35.5%	33.5%	31.9%	29.4%	28.0%
Selling & Admin Expenses	(14.7)	(14.1)	(16.2)	(19.7)	(17.2)
R&D	(2.3)	(1.9)	(1.7)	(0.4)	-
Goodwill Amortisation	(1.4)	(1.5)	(1.5)	(1.2)	(0.9)
Share of Associates Operating Profit	0.4	0.3	0.1	0.1	-
Total Operating expenses	(18.0)	(17.2)	(19.3)	(21.2)	(18.1)
Total Operating Profit	5.7	2.7	1.1	4.2	11.6
Operating Profit Margin %	8.5%	4.5%	1.7%	4.9%	11.0%
Balance Sheet					
Fixed assets	26.0	26.4	27.6	25.0	20.4
Current assets	23.4	22.6	22.9	24.0	36.6
Total assets	49.4	49.0	50.5	49.0	57.0
Current Liabilities	(18.0)	(12.0)	(12.6)	(13.0)	(24.2)
Long Term Liabilities	(8.1)	(10.6)	(8.2)	(3.4)	-
Net assets	23.3	26.4	29.7	32.6	32.8
Return on Capital Employed*	24.5%	10.2%	3.7%	12.9%	35.4%
Cash Flow					
Free Cash Flow**	3.4	4.3	6.6	2.3	1.6
Acquisitions	(1.3)	-	(5.7)	(7.1)	(25.4)
Purchase of Freehold Properties	-	-	-	(0.9)	-
Share buy back	(3.4)	(0.5)	-	-	-
New Shares Issued	-	-	-	-	27.0
New Loans	-	-	-	-	11.8
Loans Repaid	-	-	-	-	(13.2)
Cash acquired	0.2	-	-	-	-
Proceeds from ESOP Shares	-	-	-	-	1.2
Equity dividends paid	(2.5)	(2.5)	(2.5)	(2.5)	(1.0)
Decrease/(increase) in net debt	(3.6)	1.3	(1.6)	(8.2)	2.0
Net Debt	(10.1)	(6.5)	(7.8)	(6.2)	2.0
Shareholder Information					
Basic earnings per share	16.9p	5.0p	0.0p	13.6p	37.3p
Diluted earnings per share	16.4p	4.9p	0.0p	13.5p	37.3p
Diluted earnings per share (adjusted for goodwill)	23.6p	12.4p	7.3p	19.3p	40.5p
Dividend per share	14p	12p	12p	12p	12p
Share price - high	466p	250p	352.5p	1032p	1160p
Share price - low	218p	73.5p	82.5p	240p	550p

* Operating Profit/Net Assets

** Cash flow before acquisition and disposals, purchase of freehold properties, dividend payments and financing.

Advisors

Year ended 31 December 2004

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