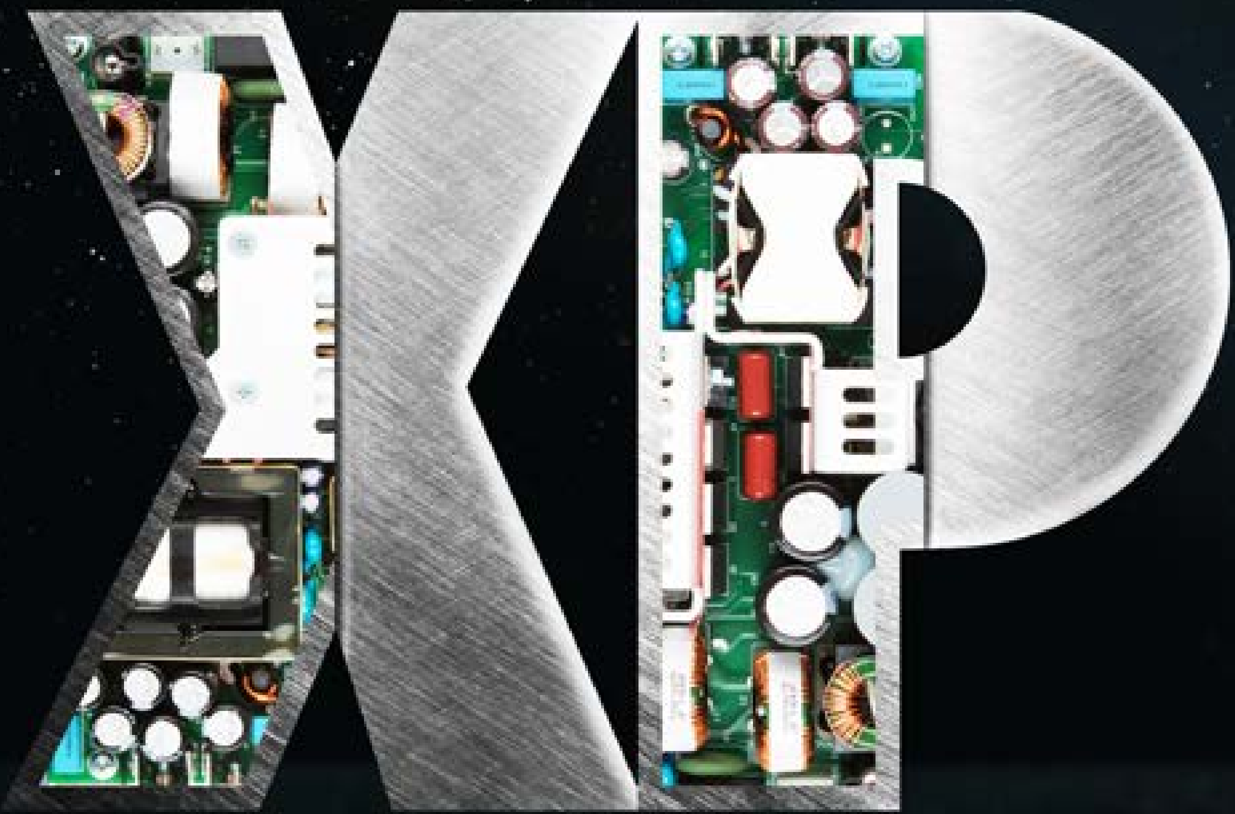
XP Power

ANNUAL REPORT & ACCOUNTS

for the year ended
31 December 2019



POWERING THE WORLD'S CRITICAL SYSTEMS

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TO THE MEMBERS OF XP POWER LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Our Opinion

In our opinion, the accompanying consolidated financial statements of XP Power Limited (the "Company") and its subsidiary corporations (the "Group") and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and International Financial Reporting Standards ("IFRS") as adopted by the European Union, so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

What we have audited

The financial statements of the Company and the Group comprise:

- the consolidated statement of comprehensive income of the Group for the year ended 31 December 2019;
- the consolidated balance sheet of the Group as at 31 December 2019;
- the balance sheet of the Company as at 31 December 2019;
- the consolidated statement of changes in equity of the Group for the year then ended;
- the consolidated statement of cash flows of the Group for the year then ended; and
- the notes to the financial statements, including a summary of significant policies.

The basis for our opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the What are we responsible for section of our report.

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

Independence

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority's Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Our audit approach – overview

MATERIALITY

The overall materiality which we have used to plan our work for the Group amounted to £1.44 million, which represented 6.0% of profit before taxation. The overall materiality applied to the audit of the Company balance sheet amounted to £0.85 million.

AUDIT SCOPE

We performed an audit of the complete financial information and of significant financial statement line items for significant reporting units which included operations based in North America, Europe and Asia. This accounted for approximately 91% of Group revenues and 95% of Group assets.

KEY AUDIT MATTERS

We identified the following key audit matters:

- Goodwill; and
- Capitalised product development

How we determined materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £0.35 million to £1.43 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

Based on our professional judgement, we determined that the benchmark of profit before taxation is appropriate as it reflects the Group's growth and investment plans. We believe this is a key measure used by shareholders in assessing the performance of the Group.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £144,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

How we tailored the audit scope

The Group operates across North America, Europe and Asia. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the local operations by us, as the Group engagement team, or component auditors from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those local operations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. In the current year, the Group engagement team visited the Group's operations in North America.

We designed our audit of the Group by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where management made subjective judgements, for example in respect of significant accounting estimates, that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the management that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

What are the key audit matters

Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period. Key audit matters include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and the directing of the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matters	How did our audit address these
Goodwill *Refer to page 84 (Report from the Chair of the Audit Committee), page 129 (Critical accounting judgements and key sources of estimation uncertainty – Impairment of Goodwill) and page 136 (Note 11 – Goodwill).* The Group has goodwill of £53.2 million at 31 December 2019 contained within three cash-generating units ("CGUs") defined by its geographical split – North America, Europe and Asia. We focused on this area due to the relative size of the carrying amount of goodwill, which represented 23% of total assets, and because management's assessment of the 'value-in-use' of the Group's CGUs involves significant judgements and assumptions about the future results of the business and the discount rates applied to future cash flow forecasts. Key judgements and assumptions about the future results of the business include: revenue and profit growth rates, expected changes to overhead costs as well as risks specific to the three CGUs.	We evaluated the suitability and appropriateness of the impairment model as prepared by management and noted no significant exceptions. We assessed the reasonableness of the inputs used to derive the discount rates. We also focused on understanding and challenging management's plans for future growth for each of the three CGUs. Forecasted growth in revenue and profits are driven by constant innovation in the development of new product families as well as the broadening of the customer base in the three CGUs. We benchmarked key market-related assumptions in management's forecasts such as revenue and profit growth rates and changes in the overhead costs with relevant economic, industry indicators and historical trends for revenue growth and considered that such targets as set by management were achievable. Sensitivity analyses were also performed on the discount rates and growth rates. We agreed with management that no impairment was required.
Capitalised product development *Refer to page 84 (Report from the Chair of the Audit Committee), page 129 (Critical accounting judgements and key sources of estimation uncertainty – Recoverability and useful lives of Capitalised development costs) and page 137 (Note 12 – Intangible assets).* Part of the Group's strategy is to invest in research and development to create new products. As at 31 December 2019, the carrying value of product development costs capitalised as an intangible asset is £23.4 million, of which £8.0 million was capitalised in the current financial year. We focused on the appropriateness of capitalisation of product development costs due to the relative size of the carrying amount of this intangible asset, which represented 10% of total assets, and because significant judgement is involved in determining whether the criteria to capitalise such product development costs, as set out in IAS 38 *Intangible Assets*, have been fulfilled and that the capitalised amounts are recoverable. We also identified the useful lives of the capitalised product development costs as an area involving significant judgement. The carrying value of the capitalised product development costs is heavily dependent on the useful lives of the developed products. Management determined the useful lives of the developed products based on the expected life cycle of these products, taking into consideration expected customer demand and technological innovation.	We assessed the appropriateness of capitalisation of product development costs by ensuring compliance with the criteria to capitalise product development costs as set out in IAS 38, and challenged management through discussions and qualitative reviews of the products' feasibility. We also tested the accuracy and allocation of capitalised material costs and labour costs. Management was able to support the capitalisation of product development costs. For selected samples of developed products, we reviewed the actual sales during the year along with projected sales to ensure that the capitalised development costs are supported by demand and are recoverable. For selected samples of products in development, we reviewed the project business case, forecasted demand, and other supporting analysis to support the recoverability of these products. In the assessment of the useful lives of the capitalised product development costs, we performed a benchmarking exercise to compare the useful lives of the capitalised product development costs against other companies within the same industry. The useful lives as determined by management are in line with that of the industry and consistent with our understanding of the life cycle of the products.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

Going concern

Under the UK Listing Rules ("Listing Rules") we are required to review the Directors' statement, set out on page 105, in relation to going concern. We have nothing to report having performed our review.

The Directors' assessment of the prospects of the Group

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group, set out on page 47. Our review was substantially less in scope than an audit and only consisted of making enquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Corporate governance statement

Under the Listing Rules, we are required to review the part of the Corporate Governance Statement relating to Provisions 6 and 24 to 29 of the UK Corporate Governance Code. We have nothing to report having performed our review.

Other information

Management is responsible for the other information. The other information comprises the "Overview" section set out on pages 1 to 9, "Strategic Report" section set out on pages 10 to 63, "Governance" section set out on pages 64 to 105, and the "Financials" section on page 168 of the Annual Report. Other information, as defined in this section, does not include matters that we are required to review and report on under the Listing Rules, as described above.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

What are Management and Directors responsible for

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and IFRS as adopted by the European Union, and for devising and maintaining a system of internal accounting controls 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 financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Directors are responsible for overseeing the Group's financial reporting process.

THE DIRECTORS ARE RESPONSIBLE FOR OVERSEEING THE GROUP'S FINANCIAL REPORTING PROCESS.

What are we responsible for

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, 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 auditors, have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Greg Unsworth.

PRICEWATERHOUSECOOPERS LLP
Public Accountants and Chartered Accountants
Singapore

3 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

£ Millions	Note	2019	2018
Revenue	4	**199.9**	195.1
Cost of sales	7	**(109.8)**	(102.8)
Gross profit		**90.1**	92.3
Expenses			
Distribution and marketing	7	**(43.2)**	(38.7)
Administrative	7	**(7.2)**	(2.9)
Research and development	7	**(13.0)**	(11.4)
Operating profit		**26.7**	39.3
Finance charge	6	**(2.7)**	(1.7)
Profit before tax		**24.0**	37.6
Income tax expense	8	**(3.2)**	(7.2)
Profit after tax		**20.8**	30.4
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		**(0.1)**	0.3
Exchange differences on translation of foreign operations		**(4.2)**	4.4
		(4.3)	4.7
Items that will not be reclassified subsequently to profit or loss:			
Currency translation differences arising from consolidation		**(0.1)**	0.2
Other comprehensive (loss)/income for the year, net of tax		**(4.4)**	4.9
Total comprehensive income for the year		**16.4**	35.3
Profit attributable to:			
Equity holders of the Company		**20.5**	30.2
Non-controlling interests		**0.3**	0.2
		20.8	30.4
Total comprehensive income attributable to:			
Equity holders of the Company		**16.2**	34.9
Non-controlling interests		**0.2**	0.4
		16.4	35.3
Earnings per share attributable to equity holders of the Company (pence per share)			
Basic earnings per share	10	**107.0**	157.8
Diluted earnings per share	10	**105.0**	154.9

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2019

£ Millions	Note	2019	2018
ASSETS			
Current assets			
Corporate tax recoverable		**2.0**	0.8
Cash and cash equivalents	16	**11.2**	11.5
Inventories	17	**44.1**	56.5
Trade receivables	18	**34.8**	33.0
Other current assets	19	**3.3**	3.3
Derivative financial instruments	23	**0.6**	*
Total current assets		**96.0**	105.1
Non-current assets			
Goodwill	11	**53.2**	54.1
Intangible assets	12	**46.4**	43.6
Property, plant and equipment	13	**29.3**	30.7
Right-of-use assets	14	**6.6**	–
Deferred income tax assets	24	**1.8**	0.6
ESOP loan to employees		**0.1**	0.2
Total non-current assets		**137.4**	129.2
Total assets		**233.4**	234.3
LIABILITIES			
Current liabilities			
Current income tax liabilities		**3.1**	4.2
Trade and other payables	20	**25.2**	22.4
Derivative financial instruments	23	**–**	0.2
Lease liabilities	22	**1.6**	–
Accrued consideration	21	**0.5**	–
Total current liabilities		**30.4**	26.8
Non-current liabilities			
Accrued consideration	21	**1.2**	1.4
Borrowings	22	**52.5**	63.5
Deferred income tax liabilities	24	**5.5**	4.7
Provisions		**0.1**	0.5
Lease liabilities	22	**4.8**	–
Total non-current liabilities		**64.1**	70.1
Total liabilities		**94.5**	96.9
NET ASSETS		**138.9**	137.4
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	25	**27.2**	27.2
Merger reserve	25	**0.2**	0.2
Share option reserve	25	**3.9**	2.1
Treasury shares reserve	25	**(0.5)**	(1.0)
Hedging reserve	25	**–**	0.1
Translation reserve	25	**(0.2)**	4.0
Other reserve	25	**(0.8)**	(0.8)
Retained earnings	25	**108.4**	104.6
		138.2	136.4
Non-controlling interests		**0.7**	1.0
TOTAL EQUITY		**138.9**	137.4

* Balance is less than £100,000.

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

		Attributable to equity holders of the Company										
£ Millions	Note	Share capital	Share option reserve	Treasury shares reserve	Merger reserve	Hedging reserve	Translation reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2018		27.2	2.2	(1.8)	0.2	(0.2)	(0.4)	(0.8)	90.0	116.4	0.9	117.3
Sale of treasury shares		–	–	0.8	–	–	–	–	(0.3)	0.5	–	0.5
Employee share option plan expenses		–	0.8	–	–	–	–	–	–	0.8	–	0.8
Tax on employee share option plan expenses		–	(0.9)	–	–	–	–	–	–	(0.9)	–	(0.9)
Dividends paid	9	–	–	–	–	–	–	–	(15.3)	(15.3)	(0.3)	(15.6)
Exchange difference arising from translation of financial statements of foreign operations		–	–	–	–	–	4.4	–	–	4.4	0.2	4.6
Net change in cash flow hedges		–	–	–	–	0.3	–	–	–	0.3	–	0.3
Profit for the year		–	–	–	–	–	–	–	30.2	30.2	0.2	30.4
Total comprehensive income for the year		–	–	–	–	0.3	4.4	–	30.2	34.9	0.4	35.3
Balance at 31 December 2018		27.2	2.1	(1.0)	0.2	0.1	4.0	(0.8)	104.6	136.4	1.0	137.4
Sale of treasury shares		–	–	0.5	–	–	–	–	*	0.5	–	0.5
Employee share option plan expenses		–	0.7	–	–	–	–	–	–	0.7	–	0.7
Tax on employee share option plan expenses		–	1.1	–	–	–	–	–	–	1.1	–	1.1
Dividends paid	9	–	*	–	–	–	–	–	(16.7)	(16.7)	(0.5)	(17.2)
Exchange difference arising from translation of financial statements of foreign operations		–	*	–	–	–	(4.2)	–	*	(4.2)	(0.1)	(4.3)
Net change in cash flow hedges		–	–	–	–	(0.1)	–	–	–	(0.1)	–	(0.1)
Profit for the year		–	–	–	–	–	–	–	20.5	20.5	0.3	20.8
Total comprehensive income for the year		–	*	–	–	(0.1)	(4.2)	–	20.5	16.2	0.2	16.4
Balance at 31 December 2019		**27.2**	**3.9**	**(0.5)**	**0.2**	**–**	**(0.2)**	**(0.8)**	**108.4**	**138.2**	**0.7**	**138.9**

* Balances are less than £100,000.

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

£ Millions	Note	2019	2018
Cash flows from operating activities			
Profit after tax		**20.8**	30.4
Adjustments for:			
- Income tax expense	8	**3.2**	7.2
- Amortisation and depreciation	7	**12.7**	9.1
- Finance charge	6	**2.7**	1.7
- Share option expense	5	**0.7**	0.8
- Fair value (gain)/loss of derivative financial instruments		**(0.9)**	0.5
- Unrealised currency translation loss		**0.9**	2.7
Change in working capital, net of effects from acquisitions:			
- Inventories		**10.3**	(16.4)
- Trade and other receivables		**(3.7)**	(5.6)
- Trade and other payables		**4.5**	(0.1)
- Provision for liabilities and other charges		**(0.5)**	0.5
Cash generated from operations		**50.7**	30.8
Income tax paid, net of refund		**(4.5)**	(4.1)
Net cash provided by operating activities		**46.2**	26.7
Cash flows from investing activities			
Acquisition of a business, net of cash acquired		**–**	(35.5)
Purchases and construction of property, plant and equipment	13	**(4.7)**	(7.9)
Additions of development costs	12	**(8.0)**	(6.2)
Additions of intangible software and software under development	12	**(3.6)**	(0.9)
Proceeds from disposal of property, plant and equipment		*****	0.1
Proceeds from repayment of ESOP loans		*****	0.1
Net cash used in investing activities		**(16.3)**	(50.3)
Cash flows from financing activities			
Proceeds from borrowings		**–**	39.4
Repayment of borrowings		**(8.8)**	(3.4)
Principal payment of lease liabilities		**(1.5)**	–
Sale of treasury shares		**0.5**	0.5
Interest paid		**(2.7)**	(1.5)
Dividend paid to equity holders of the Company	9	**(16.7)**	(15.3)
Dividend paid to non-controlling interests		**(0.5)**	(0.3)
Net cash (used)/provided by financing activities		**(29.7)**	19.4
Net increase/(decrease) in cash and cash equivalents		**0.2**	(4.2)
Cash and cash equivalents at beginning of financial year		**11.5**	15.0
Effects of currency translation on cash and cash equivalents		**(0.5)**	0.7
Cash and cash equivalents at end of financial year	16	**11.2**	11.5

*Balances are less than £100,000.

The accompanying notes form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 XP Power Limited and its subsidiaries' operations and its principal activities are set out in the Markets and Products sections of the Annual Report on pages 12 to 15.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of XP Power Limited and its subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (IFRS as adopted by the EU).

The consolidated financial statements have been prepared on the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS and International Financial Reporting Interpretations Committee ("IFRIC") requires management to make judgements, estimates and assumptions that affect the application of these accounting 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 forms 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 consolidated financial statements, are disclosed in Note 3.

a. Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

b. Changes in accounting policy and disclosures

i. *New and amended standards adopted by the Group*

On 1 January 2019, the Group adopted the new or amended IFRS and IFRIC that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective IFRS and IFRIC.

The adoption of these new or amended IFRS did not result in substantial changes to the Group's accounting policies and had no material effect on the amounts reported for the current or previous financial years except for the adoption of IFRS 16 *Leases*:

Adoption of IFRS 16 *Leases*

WHEN THE GROUP IS THE LESSEE

Prior to the adoption of IFRS 16, non-cancellable operating lease payments were not recognised as liabilities in the balances sheet. These payments were recognised as rental expenses over the lease term on a straight-line basis.

The Group's accounting policy on leases after the adoption of IFRS 16 is as disclosed in Note 2.15.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

b. Changes in accounting policy and disclosures (continued)

i. *New and amended standards adopted by the Group (continued)*

On initial application of IFRS 16, the Group has elected to apply the following practical expedients:

i. For all contracts entered into before 1 January 2019 and that were previously identified as leases under IAS 17 *Leases* and IFRIC 4 *Determining whether an Agreement contains a Lease*, the Group has not reassessed if such contracts contain leases under IFRS 16; and

ii. On a lease-by-lease basis, the Group has:

   a. applied a single discount rate to a portfolio of leases with reasonably similar characteristics;

   b. accounted for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

   c. excluded initial direct costs in measurement of the right-of-use ("ROU") asset at the date of initial application; and

   d. used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

There were no onerous contracts as at 1 January 2019.

For leases previously classified as operating leases on 1 January 2019, the Group has applied the following transition provisions:

i. On a lease-by-lease basis, the Group chose to measure ROU assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet immediately before the date of transition.

ii. Recognised its lease liabilities by discounting the remaining lease payments as at 1 January 2019 using the incremental borrowing rate for each individual lease or, if applicable, the incremental borrowing rate for each portfolio of leases with reasonably similar characteristic.

The effects on adoption of IFRS 16 on the Group's financial statements as at 1 January 2019 are as follows:

	Increase/(decrease) £ Millions
Property, plant and equipment	**(0.6)**
Right-of-use assets	**7.0**
Lease liabilities	**6.4**

An explanation of the differences between the operating lease commitments previously disclosed in the Group's financial statements as at 31 December 2018 and the lease liabilities recognised in the balance sheet as at 1 January 2019 are as follows:

	£ Millions
Operating lease commitment disclosed as at 31 December 2018	**7.8**
Less: Short-term leases	**(0.2)**
Less: Low-value leases	**(0.2)**
Less: Discounting effect using weighted average incremental borrowing rate of 5.3%	**(1.1)**
Add: Extension options which are reasonably certain to be exercised	**0.1**
Lease liabilities recognised as at 1 January 2019	**6.4**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

b. Changes in accounting policy and disclosures (continued)

ii. *New standards and interpretations issued not yet adopted*

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standard in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments of IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.

iii. Change in accounting estimates

Prior to 2019, the Group tested the product line for impairment based on previous and future demand forecast. With the migration to S4Hana in 2019, the Group is now able to capture the shelf life expiration date of stock items for finished goods. Shelf lives are added to the product according to the product hierarchies to compute the provision whereas the previous policy is based on previous and future demand forecast. The effect of the change in estimate is a £0.7 million reduction in the provision recognised.

2.2 Foreign 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 consolidated 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 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.

During the year, the Company conducted a detailed review on the application of its accounting policy and identified that the accounting policy for foreign currency translation of balances was not correctly applied to investment in subsidiaries balances in the XP Power Limited company balance sheet. Accordingly, the 31 December 2017 and 31 December 2018 XP Power Limited company comparatives have been restated, increasing investment in subsidiaries by £14.5 million and £17.2 million at 1 January 2018 and 31 December 2018 respectively. The XP Power Limited company balance sheet on page 154, Note 34: Investment in subsidiaries on page 156 and Note 47: Share capital and reserves on page 161 have been restated. Please refer to Note 49 for the effect of restatement.

b. Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 statement of comprehensive income, except when deferred in other currency translation reserve as qualifying cash flow 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 other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Foreign currency translation (continued)

c. Translation of Group entities' financial statements

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date;

ii. 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 at the dates of the transactions;

iii. exchange differences arising, if any, are recognised in other comprehensive income and accumulated in the currency translation reserve. These currency translation differences are reclassified to profit or loss on disposal or partial disposal of the entity giving rise to such reserve; and

iv. 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

a. Sales of goods

The Group manufactures and sells a range of power products. Sales are recognised when control of the products has transferred to its customer, being when the products are delivered to the buyer, the buyer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the buyer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the buyer, and either the buyer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Power products are sometimes sold with volume discounts based on aggregate sales over a 12-month period or early payment discounts if the customers made early repayment. Revenue from these sales is recognised based on the price specified in the contract, net of the discounts. Accumulated experience is used to estimate and provide for the volume discounts, using the expected value method, and early payment discounts, using most likely approach. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice. The Group will usually issue a credit note for refund for faulty products.

A receivable (financial asset) is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

Volume rebates and early payment discounts are recognised when the goods are delivered and is presented as a reduction in trade and other receivables.

The Group has elected to apply the practical expedient not to adjust the transaction price for the existence of significant financing component when the period between the transfer of control of good or service to a customer and the payment date is one year or less.

b. Interest income

Interest income is recognised using the effective interest method.

2.4 Group accounting

a. Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Group accounting (continued)

a. Subsidiaries (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost less impairment in the separate financial statements. This cost of investment is subsequently adjusted to reflect changes in contingent consideration, if any. In the separate financial statements, cost of investment in subsidiaries also includes directly attributable acquisition costs.

b. Transactions with non-controlling interests

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity, and balance sheet.

Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases of shares from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary, is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the statement of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the statement of comprehensive income.

2.5 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.

2.6 Property, plant and equipment

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

The historical 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.

Subsequent costs are included in the asset's carrying amount, as appropriate, 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 repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment (continued)

Freehold land and property under development are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

Plant and equipment	–	10 - 33%
Motor vehicles	–	20 - 25%
Building improvements	–	10 - 33%
Buildings	–	2 - 5%

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 statement of comprehensive income when the changes arise.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses arising on the disposal or retirement of an asset are determined as the difference between the sale proceeds less cost to sell and the carrying amount of the asset, and are recognised in the statement of comprehensive income.

2.7 Intangible assets

a. Goodwill

The excess of the consideration transferred, the amount of non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of identifiable net assets acquired, is recorded as goodwill.

Goodwill is tested annually for impairment and whenever there is an indication that the goodwill may be impaired. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

b. Internally generated intangible assets – research and development expenditure

The cost of an item of internally generated intangible assets initially recognised includes materials used, direct labour and other directly attributable costs to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

Expenditure on research activities is recognised as an expense as incurred.

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

- There is an ability to use or sell the asset;
- Management intends to complete the asset and use or sell it;
- It can be demonstrated the asset will generate probable future economic benefits;
- It is technically feasible to complete the asset so that it will be available for use;
- Adequate technical, financial and other resources to complete the development and to use or sell the asset are available; and
- The expenditure attributable to the asset during its development can be reliably measured.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives, which vary between three and seven years depending on the exact nature of the project undertaken. Amortisation commences when the product is ready and available for use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets (continued)

c. Acquired computer software licences

Acquired computer software licences are initially capitalised at cost which includes the purchase prices (net of any discounts and rebates) and other directly attributable costs of preparing the asset for its intended use. Direct expenditures including employee costs, which enhance or extend the performance of computer software beyond its specifications and which can be reliably measured, are added to the original cost of the software. Costs associated with maintaining the computer software are expensed off when incurred.

Computer software licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over their estimated useful lives of seven to ten years.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

d. Other intangible assets

Other intangible assets that are acquired by the Group are initially recognised at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation. Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful lives as follows:

Brand	–	10% - 50%
Technology	–	10% - 20%
Customer relationships	–	10% - 20%
Customer contracts	–	90% - 100%

2.8 Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method except for these costs that are directly attributable to the construction or development of properties and assets under construction. This includes those costs on borrowings acquired specifically for the construction or development of properties and assets under construction, as well as those in relation to general borrowings used to finance the construction or development of properties and assets under construction.

2.9 Impairment of non-financial assets

a. Goodwill

Goodwill recognised separately as an intangible asset is tested for impairment annually and whenever there is indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, 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. The 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.

An impairment loss on goodwill is recognised as an expense and is not reversed in a subsequent period.

b. Intangible assets
   Property, plant and equipment
   Investments in subsidiaries

Intangible assets, property, plant and equipment and investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Fair value estimation of financial assets and liabilities

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices used for financial liabilities are the current asking prices.

The fair values of currency forwards are determined using actively quoted forward exchange rates.

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

2.11 Financial assets

Beginning 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost; and
- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss).

The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial assets.

For assets measured at fair values, gains or losses will either be recorded in profit or loss or other comprehensive income.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

AT SUBSEQUENT MEASUREMENT

Debt instruments

Debt instruments mainly comprise "trade receivables", "other current assets (excluding prepayments, VAT receivables and rights to returned goods)", "cash and cash equivalents" and "ESOP loans to employees" in the balance sheet.

There are three subsequent measurement categories, depending on the Group's business model for managing the asset and the cash flow characteristics of the asset:

Amortised cost: Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through other comprehensive income ("FVOCI"): Debt instruments that are held for collection of contractual cash flows and for sale, and where the assets' cash flows represent solely payments of principal and interest, are classified as FVOCI. Movements in fair values are recognised in Other Comprehensive Income ("OCI") and accumulated in fair value reserve, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and presented in "other gains/(losses)". Interest income from these financial assets is recognised using the effective interest rate and presented in "interest income".

Fair value through profit or loss ("FVTPL"): Debt instruments that are held for trading as well as those that do not meet the criteria for classification as amortised cost or FVOCI are classified as FVTPL. Movement in fair values and interest income that is not part of a hedging relationship is recognised in profit or loss in the period in which it arises and presented in "other gains/(losses)".

The Group applies the simplified approach permitted by the IFRS 9 *Financial Instruments*, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The Group uses a provision matrix to measure expected credit loss.

Expected credit loss is assessed separately for each of the Group's key regions and is based on each region's two-year historical credit loss experience.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and the liability simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Trade and other payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.13 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and 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 as a finance expense. Changes in the estimated timing or amount of the expenditure or discount rate are recognised in the statement of comprehensive income when the changes arise.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date, in which case they are presented as non-current liabilities.

2.15 Leases

a. The accounting policy for leases before 1 January 2019 are as follows:

When the Group is the lessee:

Leases in which a significant portion of the risks and rewards of 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 charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

b. The accounting policy for leases from 1 January 2019 are as follows:

When the Group is the lessee:

At the inception of the contract, the Group assesses if the contract contains a lease. A contract contains a lease if the contract convey the right to control the use of an identified asset for a period of time in exchange for consideration. Reassessment is only required when the terms and conditions of the contract are changed.

- Right-of-use assets

  The Group recognised a right-of-use asset and lease liability at the date which the underlying asset is available for use. Right-of-use assets are measured at cost which comprises the initial measurement of lease liabilities adjusted for any lease payments made at or before the commencement date and lease incentive received. Any initial direct costs that would not have been incurred if the lease had not been obtained are added to the carrying amount of the right-of-use assets.

  These right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Leases (continued)

- Lease liabilities

  The initial measurement of lease liability is measured at the present value of the lease payments discounted using the implicit rate in the lease, if the rate can be readily determined. If that rate cannot be readily determined, the Group shall use its incremental borrowing rate.

  Lease payments include the following:

  - Fixed payment (including in-substance fixed payments), less any lease incentives receivables;
  - Variable lease payment that are based on an index or rate, initially measured using the index or rate at the commencement date;
  - Amount expected to be payable under residual value guarantees;
  - The exercise price of a purchase option if is reasonably certain to exercise the option; and
  - Payment of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

  For contract that contain both lease and non-lease components, the Group allocates the consideration to each lease component on the basis of the relative stand-alone price of the lease and non-lease component. The Group has elected to not separate lease and non-lease component for property leases and account these as one single lease component.

  Lease liability is measured at amortised cost using the effective interest method. Lease liability shall be remeasured when:

  - There is a change in future lease payments arising from changes in an index or rate;
  - There is a change in the Group's assessment of whether it will exercise an extension option; or
  - There is modification in the scope or the consideration of the lease that was not part of the original term.

  Lease liability is remeasured with a corresponding adjustment to the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

- Short-term or low-value leases

  The Group has elected to not recognised right-of-use assets and lease liabilities for short-term leases that have lease terms of 12 months or less and leases of low value leases, except for sublease arrangements. Lease payments relating to these leases are expensed to profit or loss on a straight-line basis over the lease term.

- Variable lease payments

  Variable lease payments that are not based on an index or a rate are not included as part of the measurement and initial recognition of lease liability. The Group shall recognise those lease payments in profit or loss in the periods that triggered those lease payments.

2.16 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their 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 designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Fair value changes on derivatives that are not designated or do not qualify for the hedge accounting are recognised in profit or loss when the changes arise.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Derivative financial instruments and hedging activities (continued)

CASH FLOW HEDGES THAT QUALIFY FOR HEDGE ACCOUNTING

i. Currency forwards

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in statement of comprehensive income.

When currency forwards are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within OCI in the hedging reserve within equity. In some cases, the Group may designate the full change in fair value of the forward contract (including forward points) as the hedging instruments. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

Amounts accumulated in equity are reclassified to the statement of comprehensive income in the periods when the hedged item affects profit or loss.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 23. Movements on the hedging reserve in other comprehensive income are shown in the Consolidated Statement of Changes in Equity. 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.

2.17 Current and deferred income tax

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 statement of comprehensive income 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. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

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 statement of comprehensive income, 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.

As the timing of the tax deduction and the recognition of the employee share option expense differs, IAS 12 *Income Taxes* requires the recognition of the related deferred tax asset if the deferred tax asset recognition criteria are met. For an equity-settled share-based payment, if the cumulative amount of tax deduction exceeds the tax effect of the related cumulative remuneration expense at the reporting date, the excess of the associated deferred tax shall be recognised directly in equity. All taxes related to cash-settled share-based payments shall be recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and deposits with financial institutions.

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. 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 statement of comprehensive income, 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 reissued to the employees.

2.20 Defined contribution plans

The Group operates several defined contribution plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities on a mandatory, contracted or voluntary basis. 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 in the statement of comprehensive income 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 issue of new ordinary shares are shown in equity, net of tax, from the proceeds.

When any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the consideration paid, including any directly attributable incremental cost (net of income taxes), is deducted from 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 reserve 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.

Other reserve comprises future transactions with the non-controlling interest. The amount that may become payable under the agreement is initially recognised at the present value of the redemption amount within liabilities with a corresponding charge directly to equity. The liability is subsequently accreted through equity up to the redemption amount that is payable at the date at which the agreement first becomes exercisable.

2.23 Dividend distribution

Dividend distributions to the Company's Shareholders are recognised when the dividends are approved for payment or, in the case of interim dividends, when paid.

2.24 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Makers who are responsible for allocating resources and assessing performance of the operating segments. Segment reporting is disclosed in Note 4.

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 development costs

During the year £8.0 million (2018: £6.2 million) of development costs were capitalised, bringing the total carrying amount of development costs capitalised as intangible assets as at 31 December 2019 to £23.4 million (2018: £20.1 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 will be removed from the balance sheet and charged to the statement of comprehensive income. Significant judgements are used by the Group to estimate future sales of products and expected future cash flows. In making these estimates, management has relied on past performance, its expectations of market developments, and industry trends.

b. Useful lives of Capitalised development costs

The Group estimates the useful lives of capitalised development costs based on the period over which the assets are expected to be available for use by the Group. Significant judgements are used by the Group in determining the useful lives of capitalised development costs based on the expected life cycle of these products, taking into consideration expected customer demand and technological innovation.

c. Impairment of Goodwill

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

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

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 2019 was £53.2 million (2018: £54.1 million) with no impairment adjustment required for 2019.

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

4. SEGMENTED AND REVENUE INFORMATION

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

The Executive Board of Directors considers and manages the business on a geographic basis. Management manages and monitors the business based on the three primary geographic areas: North America, Europe and Asia. 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, operating expenses directly attributable to the segment, and a portion of corporate expenses. Costs excluded from segment operating income include stock-based compensation expense, income taxes, various non-operating charges, and other separately managed general and administrative costs.

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

Segment liabilities comprise trade and other current liabilities, derivative financial instruments, borrowings, accrued contingent consideration and exclude tax liabilities.

4. SEGMENTED AND REVENUE INFORMATION (CONTINUED)

i. Revenue

The Group derives revenue from the transfer of goods at a point in time in the following major product lines and geographical regions.

The revenue by class of customer and location of the design win is as follows:

	Year to 31 December 2019				Year to 31 December 2018			
£ Millions	**Europe**	**North America**	**Asia**	**Total**	Europe	North America	Asia	Total
Semiconductor Manufacturing	**0.4**	**36.6**	**0.4**	**37.4**	0.5	46.2	0.7	47.4
Technology	**6.2**	**14.4**	**6.8**	**27.4**	6.2	13.0	1.2	20.4
Industrial Electronics	**45.8**	**33.3**	**10.1**	**89.2**	43.2	30.6	9.9	83.7
Healthcare	**12.0**	**31.2**	**2.7**	**45.9**	11.2	29.3	3.1	43.6
Total	**64.4**	**115.5**	**20.0**	**199.9**	61.1	119.1	14.9	195.1

Revenues of £20.5 million (2018: £27.9 million) are derived from a single external customer. These revenues are attributable to the semiconductor manufacturing sector.

The revenue by region or country where sales are generated is as follows:

£ Millions	**2019**	2018
North America	**107.5**	110.0
United Kingdom	**31.8**	28.3
Singapore	**29.1**	24.9
Germany	**13.9**	14.9
Switzerland	**2.7**	2.6
France	**3.7**	3.7
Other countries	**11.2**	10.7
Total revenue	**199.9**	195.1

The majority of North America's revenue is generated from the United States of America.

ii. Segment

As permitted under IFRS 15 *Revenue from Contracts with Customers*, the aggregated transaction price allocated to unsatisfied contracts of periods one year or less, or are billed based on time incurred, is not disclosed.

The segment information provided to the CODM for the reportable segments for the year ended 31 December 2019 and prior year comparatives is as follows:

Reconciliation of segment results to profit after tax:

£ Millions	**2019**	2018
Europe	**16.4**	15.9
North America	**32.0**	40.8
Asia	**6.6**	4.9
Segment results	**55.0**	61.6
Research and development	**(8.4)**	(8.7)
Manufacturing	**(3.8)**	(2.7)
Corporate cost from operating segment	**(6.9)**	(7.3)
Adjusted operating profit	**35.9**	42.9
Finance charge	**(2.7)**	(1.7)
Specific items	**(9.2)**	(3.6)
Profit before tax	**24.0**	37.6
Income tax expense	**(3.2)**	(7.2)
Profit after tax	**20.8**	30.4

4. SEGMENTED AND REVENUE INFORMATION (CONTINUED)

ii. Segment (continued)

£ Millions	Year to 31 December 2019+ Europe	North America	Asia	Total	Year to 31 December 2018 Europe	North America	Asia	Total
Other Information								
Property, plant and equipment additions	**0.2**	**2.3**	**2.2**	**4.7**	0.5	4.7	5.7	10.9
Depreciation of property, plant and equipment	**0.5**	**1.1**	**2.0**	**3.6**	0.6	1.1	1.7	3.4
Right-of-use assets additions	**0.3**	**1.4**	*****	**1.7**	–	–	–	–
Depreciation of right-of-use assets	**0.3**	**1.1**	**0.3**	**1.7**	–	–	–	–
Intangible assets additions	**–**	**4.1**	**7.5**	**11.6**	0.4	18.1	4.7	23.2
Amortisation	**0.3**	**4.2**	**2.9**	**7.4**	–	4.1	1.6	5.7
Balance sheet								
Segment assets	**31.1**	**123.7**	**74.8**	**229.6**	28.4	126.8	77.7	232.9
Unallocated deferred income tax and current income tax				**3.8**				1.4
Consolidated total assets				**233.4**				234.3
Segment liabilities	**(5.3)**	**(66.2)**	**(14.4)**	**(85.9)**	(3.7)	(71.0)	(13.3)	(88.0)
Unallocated deferred and current income tax				**(8.6)**				(8.9)
Consolidated total liabilities				**(94.5)**				(96.9)

* Balance is less than £100,000.

+ The Group initially applied IFRS 16 at 1 January 2019, which requires the recognition of right-of-use assets and lease liabilities for lease contacts that were previously classified as operating leases (see Note 2.1). As a result, the Group recognised £6.4 million of right-of-use assets and £6.4 million of liabilities from those lease contracts. The assets and liabilities are included in the Europe, North America and Asia segments as at 31 December 2019. The Group applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated (see Note 2.1).

NON-CURRENT ASSETS, OTHER THAN DEFERRED INCOME TAX ASSETS, BY COUNTRIES:

£ Millions	2019	2018
North America	**84.3**	81.4
United Kingdom	**13.1**	13.0
Singapore	**23.1**	19.1
Germany	**0.5**	–
Switzerland	**0.1**	–
France	*****	–
Other countries	**14.5**	15.1
Total non-current assets	**135.6**	128.6

* Balance is less than £100,000.

RECONCILIATION OF ADJUSTED MEASURES

The Group presents adjusted operating profit and adjusted profit before tax by making adjustments for costs and profits which management believes to be significant by virtue of their size, nature or incidence or which have a distortive effect on current year earnings. Such items may include, but are not limited to, costs associated with business combinations, gains and losses on the disposal of businesses, fair value movements, restructuring charges, acquisition related costs and amortisation of intangible assets arising from business combinations.

In addition, the Group presents an adjusted profit after tax measure by making adjustments for certain tax charges and credits which management believes to be significant by virtue of their size, nature or incidence or which have a distortive effect.

The Group uses these adjusted measures to evaluate performance and as a method to provide shareholders with clear and consistent reporting. See below for a reconciliation of operating profit to adjusted operating profit, a reconciliation of profit before tax to adjusted profit before tax and a reconciliation of profit after tax to adjusted profit after tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4. SEGMENTED AND REVENUE INFORMATION (CONTINUED)

a. A reconciliation of operating profit to adjusted operating profit is as follows:

£ Millions	2019	2018
Operating profit	**26.7**	39.3
Adjusted for:		
Acquisition costs	**0.9**	0.6
Costs related to ERP implementation	**2.2**	0.2
Amortisation of intangible assets due to business combination	**3.2**	2.8
Legal costs	**1.9**	–
Restructuring costs	**1.0**	–
	9.2	3.6
Adjusted operating profit	**35.9**	42.9

b. A reconciliation of profit before income tax to adjusted profit before tax is as follows:

£ Millions	2019	2018
Profit before tax ("PBT")	**24.0**	37.6
Adjusted for:		
Acquisition costs	**0.9**	0.6
Costs related to ERP implementation	**2.2**	0.2
Amortisation of intangible assets due to business combination	**3.2**	2.8
Legal costs	**1.9**	–
Restructuring costs	**1.0**	–
	9.2	3.6
Adjusted PBT	**33.2**	41.2

c. A reconciliation of profit after tax to adjusted profit after tax is as follows:

£ Millions	2019	2018
Profit after tax ("PAT")	**20.8**	30.4
Adjusted for:		
Acquisition costs	**0.9**	0.6
Costs related to ERP implementation	**2.2**	0.2
Amortisation of intangible assets due to business combination	**3.2**	2.8
Legal costs	**1.9**	–
Restructuring costs	**1.0**	–
Non-recurring tax benefits[1]	**(1.3)**	(0.1)
	7.9	3.5
Adjusted PAT	**28.7**	33.9

[1] Adjusted for tax on specific items relating to completed acquisitions of £0.2 million (2018: £0.1 million), costs related to ERP implementation of £0.4 million (2018: £Nil), legal costs of £0.5 million (2018: £Nil), and restructuring costs of £0.2 million (2018: £Nil).

5. EMPLOYEE COMPENSATION (INCLUDING DIRECTORS)

£ Millions	2019	2018
Wages and salaries	**51.4**	47.6
Employers' contribution to defined contribution plans	**7.6**	6.8
Share option expense	**0.7**	0.8
	59.7	55.2
Less: amount capitalised in intangible assets	**(6.8)**	(6.7)
Total	**52.9**	48.5

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

6. FINANCE CHARGE

£ Millions	2019	2018
Interest income	*	*
Interest expense on bank loans and overdrafts		
- Bank borrowings	2.7	1.7
- Lease liabilities	0.3	–
	3.0	1.7
Unwinding of discount for asset retirement obligation	*	–
Unwinding of discount for accrued consideration	*	*
	3.0	1.7
Less: amount capitalised in intangible assets and property, plant and equipment	(0.3)	–
Amount recognised in profit or loss	2.7	1.7

* Balances are less than £100,000.

Finance expenses on general financing were capitalised at a rate of 4.0% per annum (2018: Nil per annum).

7. EXPENSES BY NATURE

£ Millions	2019	2018
Profit after tax is after charging:		
Amortisation of intangible assets	7.4	5.7
Depreciation of property, plant and equipment	3.6	3.4
Depreciation of right-of-use assets	1.7	–
Employee compensation (Note 5)	52.9	48.5
Foreign exchange (gain)/loss	(0.1)	0.4
Gain on foreign exchange forwards	(0.4)	(0.3)
Purchases of inventories	78.6	102.4
Changes in inventories	12.4	(18.7)
Fees payable to the Group's Auditor for the audit of the Group's accounts	0.5	0.5
Fees payable to the Group's Auditor for non-audit services	0.1	–
Fees payable to other audit firm for audit related services	*	–
Tax fees payable to other firms for services provided to the Group	0.1	*
Lease expense (Note 14)	0.4	1.6
Finance charge (Note 6)	2.7	1.7
Consultancy fees	3.0	1.0
Travel and entertainment	2.4	2.9
Costs related to ERP implementation	2.2	0.2
Legal costs	1.9	*
Restructuring costs	1.0	–
Other charges	5.5	8.1
Total	175.9	157.5

* Balances are less than £100,000.

8. INCOME TAXES

£ Millions	2019	2018
Singapore corporation tax		
- current year	2.5	3.5
- over-provision in prior financial year	(0.2)	(0.2)
Overseas corporation tax		
- current year	0.9	3.3
- (over)/under-provision in prior financial years	(1.0)	0.3
Withholding tax	0.2	–
Current income tax	2.4	6.9
Deferred income tax		
- current year	1.0	0.3
- over-provision in prior financial years	(0.2)	–
Income tax expense	3.2	7.2

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

In 2018, a tax credit of £1.7 million was refunded by the Singapore tax authority.

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

£ Millions	2019	2018
Profit before tax	24.0	37.6
Tax on profit at standard Singapore tax rate of 17% (2018: 17%)	4.1	6.4
Tax incentives	(0.5)	(0.5)
Higher rates of overseas corporation tax	0.5	1.1
Deduction for employee share options	*	(0.2)
Non-deductible expenditure	0.3	0.3
(Over)/under-provision of tax in prior financial years	(1.4)	0.1
Withholding tax	0.2	–
Income tax expense	3.2	7.2

* Balance is less than £100,000.

There is no (2018: £nil) tax (charge)/credit relating to components of other comprehensive income.

Aggregate deferred tax asset arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly (debited) or credited to equity:

£ Millions	2019	2018
Deferred tax asset – share option plan expenses	1.1	(0.9)
Total	1.1	(0.9)

9. DIVIDENDS

Amounts recognised as distributions to equity holders in the period:

	2019		2018	
	Pence per share	**£ Millions**	Pence per share	£ Millions
Prior year third quarter dividend paid	**19.0***	**3.6**	18.0	3.4
Prior year final dividend paid	**33.0***	**6.3**	29.0	5.5
First quarter dividend paid	**17.0^**	**3.3**	16.0*	3.1
Second quarter dividend paid	**18.0^**	**3.5**	17.0*	3.3
Total	**87.0**	**16.7**	80.0	15.3

* Dividends in respect of 2018 (85.0p).

^ Dividends in respect of 2019 (91.0p).

The third quarter dividend of 20.0 pence per share was paid on 13 January 2020. The proposed final dividend of 36.0 pence per share for the year ended 31 December 2019 is subject to approval by Shareholders at the Annual General Meeting scheduled for 21 April 2020 and has not been included as a liability in these financial statements. It is proposed that the final dividend be paid on 28 April 2020 to members on the register as at 27 March 2020.

10. EARNINGS PER SHARE

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

£ Millions	**2019**	2018
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit attributable to equity holders of the Company)	**20.5**	30.2
Earnings for earnings per share	**20.5**	30.2
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share (thousands)	**19,154**	19,134
Effect of potentially dilutive share options (thousands)	**368**	366
Weighted average number of shares for the purposes of dilutive earnings per share (thousands)	**19,522**	19,500
Earnings per share from operations		
Basic	**107.0p**	157.8p
Basic adjusted*	**148.3p**	176.1p
Diluted	**105.0p**	154.9p
Diluted adjusted*	**145.5p**	172.8p

* Reconciliation to compute the diluted adjusted earnings from operations is as per below:

£ Millions		
Earnings for the purposes of basic and diluted earnings per share (profit attributable to equity holders of the Company)	**20.5**	30.2
Amortisation of intangible assets due to business combination	**3.2**	2.8
Acquisition costs	**0.9**	0.6
Non-recurring tax benefits	**(1.3)**	(0.1)
Costs related to ERP implementation	**2.2**	0.2
Legal costs	**1.9**	–
Restructuring costs	**1.0**	–
Adjusted earnings	**28.4**	33.7

11. GOODWILL

£ Millions	2019	2018
Cost		
At 1 January	**54.1**	40.4
Accrued consideration (Note 21)	**0.3**	–
Recognised on acquisition of business	**–**	12.5
Foreign currency translation	**(1.2)**	1.2
At 31 December	**53.2**	54.1
Accumulated impairment loss		
At 31 December	**–**	–
Carrying amount		
At 31 December	**53.2**	54.1

Goodwill arises on the consolidation of business/subsidiary undertakings.

In 2018, the Group has recorded an estimated future payment related to the acquisition of the final 10.1% of Powersolve Electronics Limited. The Group will acquire the remaining 10.1% of Powersolve Electronics Limited in early 2022. When discounted to present value, the total of this payment is estimated at £0.9 million and that amount is reflected on the balance sheet. Since the final payment will be dependent on the actual financial performance of the business, an estimate is required to approximate future business conditions.

For the purpose of impairment testing, goodwill has been allocated to the cash-generating units according to operating segments identified in Note 4.

The recoverable amount of the goodwill is determined from value-in-use calculations.

Key assumptions used for value-in-use calculations:

	31 December 2019			31 December 2018		
	Growth rate[1]	Discount rate[2]	Terminal growth rate	Growth rate[1]	Discount rate[2]	Terminal growth rate
North America	8.4%	13.0%	2.0%	5.0%	8.4%	0.0%
Europe	4.0%	12.7%	2.0%	5.0%	12.2%	0.0%
Asia	8.8%	14.0%	2.0%	5.0%	8.1%	0.0%

[1] Compound annual growth rate of projected revenue over five years
[2] Pre-tax discount rate applied to the pre-tax cash flow projections

The Group prepares cash flow forecasts derived from the most recent financial results and takes into account industry growth forecasts for five years and estimates cash flows based on these forecasts.

A sensitivity analysis was performed for each of the CGUs or group of CGUs and other than for the Europe CGU, management concluded that no reasonably possible change in any of the key assumptions would result in the carrying value of the CGU to exceed its recoverable amount.

The impairment test carried out as at 31 December 2019 for the Europe CGU, which includes 19% of the goodwill recognised on the balance sheet, has revealed that the recoverable amount of the CGU is £3.2 million or 14% higher than its carrying amount. A reasonably possible change of a 1.2% increase in the discount rate or a decrease in growth rate by 0.2% would result in the recoverable amount of the Europe CGU being equal to its carrying value.

12. INTANGIBLE ASSETS

£ Millions	Development costs	Brand	Trademarks	Technology	Customer relationships	Customer contracts	Intangible Software	Intangible Software under development	Total
Cost									
At 1 January 2018	29.0	0.1	1.0	2.3	5.5	0.4	–	–	38.3
Additions	6.2	–	–	–	–	–	0.2	1.1	7.5
Reclassification from property, plant and equipment	–	–	–	–	–	–	–	0.5	0.5
Acquisition of business	–	0.8	–	2.6	12.1	0.2	–	–	15.7
Foreign currency translation	1.2	0.1	–	0.3	1.0	–	–	0.1	2.7
At 31 December 2018	36.4	1.0	1.0	5.2	18.6	0.6	0.2	1.7	64.7
Additions	8.0	–	*	–	–	–	0.2	3.4	11.6
Transfer	–	*	*	*	–	–	4.9	(4.9)	–
Reclassification from property, plant and equipment	–	–	–	–	–	–	2.3	–	2.3
Foreign currency translation	(1.2)	*	*	(0.3)	(0.8)	*	(0.2)	(0.2)	(2.7)
At 31 December 2019	**43.2**	**1.0**	**1.0**	**4.9**	**17.8**	**0.6**	**7.4**	**–**	**75.9**
Amortisation									
At 1 January 2018	13.0	–	0.9	0.2	0.5	0.2	–	–	14.8
Charge for the year	2.9	0.1	–	0.5	1.8	0.4	*	–	5.7
Foreign currency translation	0.4	–	–	0.1	0.1	–	–	–	0.6
At 31 December 2018	16.3	0.1	0.9	0.8	2.4	0.6	*	–	21.1
Charge for the year	3.9	0.1	–	0.6	2.5	–	0.3	–	7.4
Transfer	–	*	–	*	–	–	–	–	–
Reclassification from property, plant and equipment	–	–	–	–	–	–	1.6	–	1.6
Foreign currency translation	(0.4)	*	–	*	(0.2)	*	*	–	(0.6)
At 31 December 2019	**19.8**	**0.2**	**0.9**	**1.4**	**4.7**	**0.6**	**1.9**	**–**	**29.5**
Carrying amount									
At 31 December 2019	**23.4**	**0.8**	**0.1**	**3.5**	**13.1**	**–**	**5.5**	**–**	**46.4**
At 31 December 2018	20.1	0.9	0.1	4.4	16.2	–	0.2	1.7	43.6

* Balances are less than £100,000.

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

Amortisation commences when the product is ready and available for use.

The remaining amortisation period for customer relationships ranges from two to eight years.

The Group's trademarks used to identify and distinguish the Group's name and logo have a carrying amount of £0.1 million (2018: £0.1 million). The Group intends to renew the trademarks continuously and evidence supports its ability to do so, based on its past experience. An analysis of market and competitive trends provides evidence that the trademarks will generate net cash inflows for the Group for an indefinite period. Therefore, the trademarks are carried at cost without amortisation, but is tested for impairment on an annual basis.

13. PROPERTY, PLANT AND EQUIPMENT

£ Millions	Freehold land	Buildings	Plant and equipment	Motor vehicles	Building improvements	Projects under development	Total
Cost							
At 1 January 2018	0.6	12.4	22.7	0.6	4.9	0.2	41.4
Acquisition of business	0.9	2.1	–	–	–	–	3.0
Additions	–	0.1	2.2	0.1	0.7	4.8	7.9
Disposals	–	–	(1.4)	(0.2)	(0.5)	–	(2.1)
Transfer	–	–	2.0	–	–	(2.0)	–
Reclassification to intangible assets	–	–	(0.5)	–	–	–	(0.5)
Foreign currency translation	0.1	0.6	1.1	–	0.2	0.2	2.2
At 31 December 2018	1.6	15.2	26.1	0.5	5.3	3.2	51.9
Reclassification to right-of-use asset on initial application of IFRS 16	–	(0.7)	–	–	–	–	(0.7)
Adjusted balance at 1 January 2019	1.6	14.5	26.1	0.5	5.3	3.2	51.2
Additions	–	–	2.1	0.1	1.2	1.3	4.7
Disposals	–	–	(1.6)	(0.2)	*	–	(1.8)
Transfer	–	3.5	1.0	–	*	(4.5)	–
Reclassification to intangible assets	–	–	(2.1)	–	(0.2)	*	(2.3)
Foreign currency translation	*	(0.7)	(1.0)	*	(0.2)	*	(1.9)
At 31 December 2019	1.6	17.3	24.5	0.4	6.1	–	49.9
Depreciation							
At 1 January 2018	–	2.6	13.9	0.3	2.1	–	18.9
Charge for the year	–	0.4	2.4	0.1	0.5	–	3.4
Disposals	–	–	(1.3)	(0.1)	(0.4)	–	(1.8)
Foreign currency translation	–	–	0.7	–	–	–	0.7
At 31 December 2018	–	3.0	15.7	0.3	2.2	–	21.2
Reclassification to right-of-use asset on initial application of IFRS 16	–	(0.1)	–	–	–	–	(0.1)
Adjusted balance at 1 January 2019	–	2.9	15.7	0.3	2.2	–	21.1
Charge for the year	–	0.3	2.7	0.1	0.5	–	3.6
Disposals	–	–	(1.6)	(0.1)	(0.1)	–	(1.8)
Transfer	–	–	*	–	*	–	–
Reclassification to intangible assets	–	–	(1.6)	–	–	–	(1.6)
Foreign currency translation	–	(0.1)	(0.6)	*	*	–	(0.7)
At 31 December 2019	**–**	**3.1**	**14.6**	**0.3**	**2.6**	**–**	**20.6**
Carrying amount							
At 31 December 2019	**1.6**	**14.2**	**9.9**	**0.1**	**3.5**	**–**	**29.3**
At 31 December 2018	1.6	12.2	10.4	0.2	3.1	3.2	30.7

* Balances are less than £100,000.

14. LEASES

a. Right-of-use assets

Carrying amounts and depreciation charge during the year

£ Millions	Leasehold land and buildings	Equipment and motor vehicles	Total
Cost			
At 1 January 2019	6.9	0.1	7.0
Additions	1.4	0.3	1.7
Disposals	*	–	*
Depreciation charge during the year	(1.7)	*	(1.7)
Foreign currency translation	(0.3)	(0.1)	(0.4)
At 31 December 2019	**6.3**	**0.3**	**6.6**

* Balances are less than £100,000.

There is no balance in 2018 as IFRS 16 *Leases* was adopted by the Group on 1 January 2019.

b. Lease expense not capitalised in lease liabilities

£ Millions	2019
Lease expense – short-term leases	**0.3**
Lease expense – low-value leases	**0.1**
Total (Note 7)	**0.4**

c. Total cash outflow for all leases in 2019 was £2.2 million.

d. Future cash outflows which are not capitalised in lease liabilities

Extension options

The leases for certain office spaces contain extension periods, for which the related lease payments have not been included in lease liabilities as the Group is not reasonably certain to exercise these extension options. The Group negotiates extension options to optimise operational flexibility in terms of managing the assets used in the Group's operations. All the extensions are exercisable by the Group and not by the lessor.

e. Nature of the Group's leasing activities

Leasehold land and buildings

The Group has made an upfront payment to secure the right-of-use of two 50-year leasehold lands, which are used in the Group's production operations. The Group also leases office space for the purpose of back office operations, sales activities, and warehousing activities.

Equipment and motor vehicles

The Group leases vehicles to render logistic services, and leases copier machines for back office use.

15. SUBSIDIARIES

Details of principal subsidiaries as at 31 December 2019, all of which are consolidated, are as follows:

Name of Subsidiary	Place of incorporation/ ownership (or registration) and operation	**Proportion of Ownership 2019 (%)**	Proportion of Ownership 2018 (%)	Statutory Auditor of subsidiaries
Held by the Company				
XP Power Plc	UK	**100**	100	PricewaterhouseCoopers LLP
XP Power Singapore Holdings Pte Limited	Singapore	**100**	100	PricewaterhouseCoopers LLP
Held by the Group				
XP PLC	UK	**100**	100	PricewaterhouseCoopers LLP
XP Power Holdings Limited	UK	**100**	100	PricewaterhouseCoopers LLP
XP Power AG	Switzerland	**100**	100	Karpf Treuhand & Revisions AG
Powersolve Electronics Limited*	UK	**89.9**	89.9	PricewaterhouseCoopers LLP
XP Power Srl	Italy	**100**	100	Exempted to be audited by local statutory law
XP Power ApS	Denmark	**100**	100	Bierholm
XP Power Sweden AB	Sweden	**100**	100	Rodl & Partner Nordic AB
XP Power BV	Holland	**100**	100	Exempted to be audited by local statutory law
XP Power GmbH	Germany	**100**	100	Exempted to be audited by local statutory law
XP Power SA	France	**100**	100	Deloitte
XP Power Norway AS	Norway	**100**	100	BDO AS
XP Power International Limited	UK	**100**	100	Exempted to be audited by local statutory law
Forx, Inc.	Delaware	**100**	100	Exempted to be audited by local statutory law
XP Power LLC	USA	**100**	100	Exempted to be audited by local statutory law
XP Power (Shanghai) Co., Limited	China	**100**	100	Shanghai Jahwa CPAs
XP Power (Hong Kong) Limited	HK	**100**	100	PricewaterhouseCoopers Limited
XP Power (Vietnam) Co., Limited	Vietnam	**100**	100	PricewaterhouseCoopers (Vietnam) Limited
XP Power Singapore Manufacturing Pte. Ltd.	Singapore	**100**	100	PricewaterhouseCoopers LLP
XP Power (Israel) Ltd	Israel	**100**	100	Ernst and Young Solutions LLP
XP Power Japan K.K.	Japan	**100**	100	Exempted to be audited by local statutory law
Hanpower Co., Ltd	South Korea	**51**	51	Exempted to be audited by local statutory law

* Refer to Note 21.

16. CASH AND CASH EQUIVALENTS

£ Millions	**2019**	2018
Cash at bank and on hand	**11.1**	10.9
Short-term bank deposits	**0.1**	0.6
Total	**11.2**	11.5

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

£ Millions	**2019**	2018
Cash at bank balances (as above)	**11.2**	11.5
Cash and cash equivalents per consolidated cash flow statement	**11.2**	11.5

17. INVENTORIES

£ Millions	2019	2018
Goods for resale	**18.6**	25.2
Raw materials	**21.8**	27.2
Work-in-progress	**3.7**	4.1
Total	**44.1**	56.5

The cost of inventories recognised as an expense and included in "cost of sales" amounts to £109.8 million (2018: £102.8 million).

18. TRADE RECEIVABLES

	31 December		1 January
£ Millions	**2019**	2018	2018
Current assets			
Trade receivables	**34.9**	33.1	23.9
Loss allowance (Note 30 (d))	**(0.1)**	(0.1)	(0.1)
Total	**34.8**	33.0	23.8

The average credit period taken on sales of goods is 64 days (2018: 62 days). No interest is charged on the outstanding receivables balance. The carrying amounts of trade receivables approximate their fair values.

19. OTHER CURRENT ASSETS

£ Millions	2019	2018
Prepayments	**2.1**	2.2
Deposits	**0.3**	0.3
VAT receivables	**0.4**	0.4
Rights to returned goods	**0.2**	–
Other receivables	**0.3**	0.4
Total	**3.3**	3.3

Other current assets are not impaired as at 31 December 2019 and 31 December 2018.

20. TRADE AND OTHER PAYABLES

£ Millions	2019	2018
Trade payables	**12.7**	11.5
Other taxes	**2.3**	1.4
Other creditors and accruals	**9.8**	9.5
Refund liabilities	**0.4**	–
Total	**25.2**	22.4

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The carrying amounts of trade and other payables approximate their fair values.

The refund liabilities and rights to returned goods (Note 19) are recognised for products expected to be returned from customers.

21. ACCRUED CONSIDERATION

£ Millions	2019	2018
At 1 January	1.4	1.4
Movement in provision during the year	0.3	–
Payment	–	–
At 31 December	**1.7**	1.4

£ Millions	2019	2018
Current portion	0.5	–
Non-current portion	1.2	1.4
At 31 December	**1.7**	1.4

The Group owns 89.9% (2018: 89.9%) of the shares of Powersolve Electronics Limited ("Powersolve") and entered into an amended agreement on 29 October 2016 to purchase the remaining 10.1% of the shares in 2022. The Group owns 51% (2018: 51%) of the shares of Hanpower Co., Ltd ("Hanpower") and entered into an agreement on 20 May 2015 to purchase an additional 15.0% of the shares in 2020 and another 15.0% of the shares in 2025.

The commitment to purchase the remaining ownership interests has been accounted for as accrued consideration and is calculated based on the expected future payment which will be based on a predefined multiple of the average earnings for three years.

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 for Powersolve. For Hanpower, the amount that is payable under the agreement is initially recognised at the present value of the redemption amount within liabilities with a corresponding charge directly to equity. The liability is subsequently accreted through equity up to the redemption amount that is payable in 2020 and 2025.

22. BORROWINGS AND LEASE LIABILITIES

a. Bank borrowings

The borrowings are repayable as follows:

£ Millions	2019	2018
On demand or within one year	–	–
In the second year	–	–
In the third year	–	63.5
In the fourth year	52.5	–
Total	**52.5**	63.5

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

£ Millions	2019	2018
Bank loans (in USD)	52.5	63.5
Total	**52.5**	63.5

UNDRAWN BORROWING FACILITIES

£ Millions	2019	2018
Expiring beyond one year	37.1	19.0
Total	**37.1**	19.0

There is no drawdown on bank overdrafts (2018: £Nil) during the year.

The fair value of the Group's bank loans and overdrafts approximates their book value.

22. BORROWINGS AND LEASE LIABILITIES (CONTINUED)

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

1. On 27 September 2017, the Group entered into a revolving credit facility of US$40.0 million with a US$20.0 million additional accordion option. In May 2018, the Group increased the revolving credit facility to US$85.0 million with a US$20.0 million additional accordion option. In November 2018, the Group has fully exercised the US$20.0 million additional accordion option and the revolving credit facility has increased to US$105.0 million. In November 2019, the Group renewed its facility from US$105.0 million to US$120.0 million with a US$60.0 million accordion option with a four-year term up to November 2023. The facility has no fixed repayment terms until maturity. The revolving loan is priced at LIBOR plus a margin of 1.2% for the utilisation facility and a margin of 0.4%-0.5% for the unutilised facility.
2. Management assessed all loan covenants have been complied with as at 31 December 2019.

b. Lease liabilities

£ Millions	**2019**	2018
Current portion	**1.6**	–
Non-current portion	**4.8**	–
Total	**6.4**	–

There is no balance in 2018 as IFRS 16 *Leases* was adopted by the Group on 1 January 2019.

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

				Non-cash changes				
£ Millions	**1 January 2019**	**Proceeds from borrowings**	**Principal and interest payments**	**Adoption of IFRS 16**	**Addition during the year**	**Interest expense**	**Foreign exchange movement**	**31 December 2019**
Bank loans	**63.5**	**–**	**(11.2)**	**–**	**–**	**2.7**	**(2.5)**	**52.5**
Lease liabilities	**–**	**–**	**(1.8)**	**6.4**	**1.6**	**0.3**	**(0.1)**	**6.4**

				Non-cash changes		
£ Millions	1 January 2018	Proceeds from borrowings	Principal and interest payments	Interest expense	Foreign exchange movement	31 December 2018
Bank loans	24.0	39.4	(4.9)	1.5	3.5	63.5

23. DERIVATIVE FINANCIAL INSTRUMENTS

Forward foreign exchange contracts

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

a. Instruments applying hedge accounting

In 2019, the total notional amount of outstanding currency forward contracts that the Group has committed is £Nil (2018: £10.8 million). These contracts are to hedge against exchange rate movements on future sales and hedge accounting has been applied.

31 December 2019	**Contract notional amount**	**Fair value asset**
£ Millions		
Forward foreign exchange contracts		
Current portion	–	–
Total	–	–

31 December 2018	Contract notional amount	Fair value asset
£ Millions		
Forward foreign exchange contracts		
Current portion	10.8	*
Total	10.8	*

* Balances are less than £100,000.

23. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

b. Instruments not applying hedge accounting

Certain currency forward contracts were taken up to protect against exchange rate movements on future purchases of goods. Hedge accounting has not been applied to these contracts.

The total notional amount and fair value asset/(liability) of these forward contracts are as follows:

	Assets		Liabilities	
December 2019	**Contract notional amount**	**Fair value asset**	**Contract notional amount**	**Fair value (liability)**
£ Millions				
Forward foreign exchange contracts				
Current portion	**11.3**	**0.6**	**–**	**–**
Total	**11.3**	**0.6**	**–**	**–**

	Assets		Liabilities	
December 2018	Contract notional amount	Fair value asset	Contract notional amount	Fair value (liability)
£ Millions				
Forward foreign exchange contracts				
Current portion	–	–	15.0	(0.2)
Total	–	–	15.0	(0.2)

24. DEFERRED INCOME TAXES

The movement in deferred income tax assets and liabilities during the financial year is as follows:

Deferred income tax assets

	Share-based payment
£ Millions	
At 1 January 2018	1.4
Credit to statement of comprehensive income	0.1
Charge to equity	(0.9)
At 31 December 2018	**0.6**
Credit to statement of comprehensive income	0.1
Credit to equity	1.1
At 31 December 2019	**1.8**

Deferred income tax liabilities

	Accelerated tax depreciation	**Intangible assets amortisation**	**Capitalised development costs**	**Other temporary differences**	**Total**
£ Millions					
At 1 January 2018	(0.7)	(0.8)	(3.4)	0.7	(4.2)
(Charge)/credit to statement of comprehensive income	–	–	(0.8)	0.4	(0.4)
Foreign currency translation	0.1	(0.1)	(0.2)	0.1	(0.1)
At 31 December 2018	**(0.6)**	**(0.9)**	**(4.4)**	**1.2**	**(4.7)**
(Charge)/credit to statement of comprehensive income	(0.4)	(0.2)	(0.9)	0.6	(0.9)
Foreign currency translation	–	–	0.2	(0.1)	0.1
At 31 December 2019	**(1.0)**	**(1.1)**	**(5.1)**	**1.7**	**(5.5)**

25. SHARE CAPITAL AND RESERVES

CALLED UP SHARE CAPITAL

£ Millions	2019	2018
Allotted and fully paid 19,242,296 ordinary shares (2018: 19,242,296)	**27.2**	27.2

RESERVE

The reserves of the Group comprise the following balances:

£ Millions	2019	2018
Merger reserve	**0.2**	0.2
Share option reserve	**3.9**	2.1
Treasury shares reserve	**(0.5)**	(1.0)
Hedging reserve	**–**	0.1
Translation reserve	**(0.2)**	4.0
Other reserve	**(0.8)**	(0.8)
Retained earnings	**108.4**	104.6
Balance at 31 December	**111.0**	109.2

Merger reserve represents the difference between the value of shares issued by the Company in exchange for the value of shares of subsidiaries acquired under common control.

Share option reserve represents the equity-settled share options granted to employees. The reserve is made up of the cumulative value of services received from employees recorded over the vesting period commencing from the grant date of equity-settled share options, and is reduced by the expiry or exercise of share options.

Treasury shares reserve represents the amount of treasury shares held by the Group. 33,650 (2018: 54,800) treasury shares were sold during the financial year. The cost of the treasury shares sold amounted to £0.8 million (2018: £0.5 million). As at 31 December 2019, the Group's Employee Share Ownership Plan (ESOP) held 46,090 (2018: 79,740) shares carrying value of £475,561 (2018: £960,084) owned by the Trust.

Hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments.

Translation reserve represents exchange differences arising from the translation of financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

Other reserves comprises future transactions with the non-controlling interest. The amount that may become payable under the agreement is initially recognised at the present value of the redemption amount within liabilities with a corresponding change directly to equity. The liability is subsequently accreted through finance charges up to the redemption amount that is payable at the date at which the agreement first becomes exercisable. The Group has an agreement with the non-controlling shareholders of its Hanpower Co. Ltd ("Hanpower") subsidiary to purchase an additional 15.0% of the shares in 2020 and another 15.0% of the shares in 2025.

26. OPERATING LEASES AND OTHER COMMITMENTS

As at 31 December 2018, the future minimum lease payments under non-cancellable operating leases contracted for but not recognised as liabilities, are as follows:

£ Millions	2018
Within one year	2.1
In the second to fifth years inclusive	5.2
After five years	0.5
Total	7.8

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

The Group has remaining £Nil commitments (2018: £0.1 million) on the contract for the construction of a factory in Vietnam.

As disclosed in Note 2.1, the Group has adopted IFRS 16 on 1 January 2019. These lease payments have been recognised as ROU assets and lease liabilities on the balance sheet as at 31 December 2019, except short-term and low-value leases.

27. DEFINED CONTRIBUTION PLANS

The total cost recognised is £7.6 million (2018: £6.8 million) for the Group.

In the USA, the total cost charged to the statement of comprehensive income of £4.1 million (2018: £3.7 million) represents the Group's defined contribution.

In the United Kingdom and Europe, the Group operates defined contribution pension schemes for its employees with contributions amounting to £2.1 million (2018: £1.8 million).

In Asia, the Group contributes to the defined contribution plans regulated and managed by the governments of the countries in which the Group operates. The Group's contribution to the defined contribution plans is charged to the statement of comprehensive income in the period to which the contributions relate. The total cost charged to the statement of comprehensive income was £1.4 million (2018: £1.3 million).

28. RELATED PARTY TRANSACTIONS

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.

As at 31 December 2019, the Company's Employee Share Ownership Plan provided nil (2018: nil) interest-free loans to Directors for the deferred payment share scheme. The detailed information is provided for in the Directors' Remuneration Report on pages 86 to 103.

The remuneration of the Directors of the Group who are considered to be key management 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 86 to 103.

£ Millions	**2019**	2018
Short-term employee benefits	**1.4**	2.0
Post-employment benefits	*	*
Total Directors' remuneration	**1.4**	2.0

* Balances are less than £100,000.

29. SHARE-BASED PAYMENTS

Share Option Plans

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

Number of shares	**Exercise Price (pence)**	**Grant Date**	**Expiry Date**
119,200	946	10 October 2012*	10 October 2022
266,383	1,543	23 February 2016#	23 February 2026
385,583			

* 2012 Approved option scheme has been fully vested.

50% of 2016 Approved option scheme vested in 2019 and 50% will vest in 2020.

	2019		2018	
	Number of share options	**Weighted average exercise price (pence)**	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of the year	**510,750**	**1,391**	568,550	1,350
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**(93,120)**	**–**	(3,000)	–
Exercised during the year	**(32,047)**	**1,346**	(54,800)	957
Outstanding at the end of the year	**385,583**	**1,358**	510,750	1,391
Exercisable at the end of the year	**252,392**	**1,261**	129,750	946

The weighted average share price at the date of exercise for the share options exercised during the period was £25.37 (2018: £34.89). The options outstanding at 31 December 2019 had a weighted average exercise price of £13.58 (2018: £13.91), and a weighted average remaining contractual life of 5.1 years.

29. SHARE-BASED PAYMENTS (CONTINUED)

For options granted in 2016, the Group has taken a charge of £0.1 million (2018: £0.2 million). The fair value of options was determined using the Black-Scholes Model with a share price of £15.43 and a weighted average exercise price of £15.43, standard deviation of expected share returns of 0.292, and an annual risk free interest rate of 0.28%.

The volatility measured as the standard deviation of expected share price returns was based on statistical analysis of the Company's share price over the last year.

Long-Term Incentive Plan ("LTIP")

The Group has introduced a LTIP scheme to replace the Share Option Plan. Under the scheme, conditional awards of share options are made to the scheme participants at nil or nominal cost or deferred cash.

Number of shares	Exercise Price (pence)	Grant Date	Expiry Date
39,400	1	30 May 2017	30 May 2022
2,250	1	12 October 2017	12 October 2022
8,000	1	1 November 2017	1 November 2022
54,199	1	16 May 2018	16 May 2023
800	1	4 September 2018	4 September 2023
123,747	1	8 March 2019	8 March 2024
228,396			

At the vesting date, the share award will either vest, in full or in part, or lapse depending on the outcome of the performance conditions. The performance conditions of the awards are based on the growth in Earnings Per Share ("EPS") and the Total Shareholder Return ("TSR") of the Group measured against that of the FTSE 250 over the Performance Period. The Group has taken a charge of £0.3 million (2018: £0.4 million) for the LTIPs granted in 2017, 2018, and 2019. The fair value of the equity-settled LTIP options was calculated at the grant date using the Monte Carlo model and the Black-Scholes model based on the assumptions below.

	LTIP		
	2019	2018	2017
Options granted	**123,747**	54,999	49,650
Fair value at grant date	**£13.94**	£24.84	£17.13
Assumption used:			
Share price	**£20.50**	£35.50	£26.77
Exercise price	**£0.01**	£0.01	£0.01
Expected volatility	**29.44%**	27.66%	27.69%
Expected option life	**3 years**	3 years	3 years
Expected dividend yield	**3.74%**	2.59%	3.75%
Risk free interest rate	**1.21%**	1.50%	0.99%

Volatility was estimated based on the historical volatility of the shares over a three-year period prior to grant date.

	2019		2018	
	Number of LTIP options	**Weighted average exercise price (pence)**	Number of LTIP options	Weighted average exercise price (pence)
Outstanding at beginning of the year	**104,649**	**1**	49,650	1
Granted during the year	**123,747**	**1**	54,999	1
Forfeited during the year	**(4,630)**	**(1)**	–	–
Exercised during the year	**–**	**–**	–	–
Outstanding at the end of the year	**223,766**	**1**	104,649	1
Exercisable at the end of the year	**–**	**–**	–	–

50% of the share awards will vest after the third year and the remaining 50% of the share awards will vest after the fourth year. Upon vesting, employees will receive one share for each vested share award.

30. 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.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 22, cash 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 buyback as well as the issue of new debt or the redemption of existing debt.

b. Currency risk

The Group operates in North America, Europe and Asia 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 100% of highly probable forecast transactions for Europe sales in the next 12 months.

The risk is measured through a forecast of highly probable EUR sales and tracking of firm commitment in EUR. The objective of the hedges is to minimise the volatility of the Group's currency cost of highly probable transactions and firm commitment. In order to achieve these objectives, the Group entered into cash flow hedges for highly probable sale transactions. The foreign exchange forwards are denominated in the same currency as the highly probable sale transactions. Therefore, the hedge ratio is 1:1.

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedging relationship, and through periodic prospective effective assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

Hedge ineffectiveness may occur due to changes in the credit risk of the derivative counterparty or the Group. There was no ineffectiveness during 2019 in relation to the revenue hedge.

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.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Currency risk (continued)

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

£ Millions	GBP	EUR	USD	Others	Total
At 31 December 2019					
Financial assets					
Cash and cash equivalents	**1.4**	**0.5**	**8.2**	**1.1**	**11.2**
Trade receivables	**2.6**	**2.8**	**29.1**	**0.3**	**34.8**
Other current assets	**0.1**	*	**0.2**	**0.3**	**0.6**
ESOP loan to employees	**0.1**	**–**	**–**	**–**	**0.1**
Subtotal	**4.2**	**3.3**	**37.5**	**1.7**	**46.7**
Financial liabilities					
Borrowings	**–**	**–**	**(52.5)**	**–**	**(52.5)**
Trade and other payables	**(2.9)**	**(0.7)**	**(17.5)**	**(3.5)**	**(24.6)**
Lease liabilities	**(0.6)**	**(0.5)**	**(4.8)**	**(0.5)**	**(6.4)**
Other financial liabilities	**(1.0)**	**–**	**–**	**(0.8)**	**(1.8)**
Subtotal	**(4.5)**	**(1.2)**	**(74.8)**	**(4.8)**	**(85.3)**
Net financial assets/(liabilities)	**(0.3)**	**2.1**	**(37.3)**	**(3.1)**	**(38.6)**
Add: Firm commitments and highly probable forecast transactions in foreign currency	**–**	**–**	**–**	**–**	**–**
Currency forwards	**11.3**	**–**	**–**	**–**	**11.3**
Currency profile excluding non-financial assets and liabilities	**11.0**	**2.1**	**(37.3)**	**(3.1)**	**(27.3)**
Less: Financial assets/(liabilities) denominated in the respective entities' functional currencies	**0.7**	**2.2**	**(44.3)**	**(0.3)**	**(41.7)**
Currency exposure of financial assets	**10.3**	**(0.1)**	**7.0**	**(2.8)**	**14.4**

£ Millions	GBP	EUR	USD	Others	Total
At 31 December 2018					
Financial assets					
Cash and cash equivalents	1.1	1.0	6.9	2.5	11.5
Trade receivables	2.4	2.4	27.8	0.4	33.0
Other current assets	0.1	–	0.5	0.1	0.7
ESOP loan to employees	0.2	–	–	–	0.2
Subtotal	3.8	3.4	35.2	3.0	45.4
Financial liabilities					
Borrowings	–	–	(63.5)	–	(63.5)
Trade and other payables	(2.3)	(0.6)	(18.7)	(0.5)	(22.1)
Other financial liabilities	(0.6)	–	–	(0.8)	(1.4)
Subtotal	(2.9)	(0.6)	(82.2)	(1.3)	(87.0)
Net financial assets/(liabilities)	0.9	2.8	(47.0)	1.7	(41.6)
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	12.6	–	–	12.6
Currency forwards	15.0	(10.8)	–	–	4.2
Currency profile excluding non-financial assets and liabilities	15.9	4.6	(47.0)	1.7	(24.8)
Less: Financial assets/(liabilities) denominated in the respective entities' functional currencies	1.4	2.0	(53.6)	1.4	(48.8)
Currency exposure of financial assets	14.5	2.6	6.6	0.3	24.0

* Balance is less than £100,000.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Currency risk (continued)

If the US Dollar and Euro change against Sterling by 5% and 0.4% respectively (2018: US Dollar 5%, Euro 1%) with all other variables, including tax rates, being held constant, the effects arising from the net financial asset/(liability) position will be as follows:

£ Millions	2019 Profit after tax	2018 Profit after tax
Group		
EUR against GBP		
- strengthened	*	*
- weakened	*	*
USD against GBP		
- strengthened	**0.3**	0.3
- weakened	**(0.3)**	(0.3)

* Balances are less than £100,000.

The impact of the currency risk on the other comprehensive income is not significant.

c. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income is substantially independent of changes in the market interest rates.

All of the Group's borrowings are at variable interest rates and are denominated in US Dollars. If the average interest rates on these borrowings increased/decreased by 0.5% (2018: 0.5%) with all other variables, including tax rates, being held constant, the profit before tax will be lower/higher by £262,000 (2018: £317,000) 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 uses a provision matrix to measure the lifetime expected credit loss allowance for trade receivables. In measuring the expected credit loss, trade receivables are grouped based on shared credit risk characteristics and days past due.

In calculating the expected credit loss rates, the Group considers historical loss rates for each category of customers and adjusts to reflect current and forward macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified gross domestic product (GDP) and the public policy of the countries in which it sells goods as the most relevant factors.

Trade receivables are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group considers a financial asset as in default if the counterparty fails to make contractual payments within 90 days when they fall due and writes off the financial asset when a debtor is in significant financial difficulties and have defaulted on payment which is usually greater than 120 days past due. Where receivables are written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognised in profit or loss.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Credit risk (continued)

The Group's credit risk exposure in relation to trade receivables under IFRS 9 is set out in the provision matrix as follows:

		Past due					
£ Millions	**Current**	**1 – 30 days**	**31 – 60 days**	**61 – 90 days**	**91 – 120 days**	**> 120 days**	**Total**
At 31 December 2019							
North America region							
Expected loss rate	**0.0%**	**0.1%**	**0.2%**	**0.2%**	**0.3%**	**31.1%**	
Trade receivables	**12.7**	**3.2**	**0.3**	**0.7**	**0.2**	**0.2**	**17.3**
Loss allowance	**–**	*	*	*	*	*	*
Europe region							
Expected loss rate	**0.0%**	**0.1%**	**0.2%**	**0.2%**	**0.3%**	**38.6%**	
Trade receivables	**8.0**	**2.1**	**0.7**	**0.3**	**0.1**	**0.2**	**11.4**
Loss allowance	**–**	*	*	*	*	*	*
Asia region							
Expected loss rate	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	
Trade receivables	**4.2**	**1.7**	**0.3**	*	*	*	**6.2**
Loss allowance	**–**	**–**	**–**	**–**	**–**	**–**	**–**

		Past due					
£ Millions	Current	1 – 30 days	31 – 60 days	61 – 90 days	91 – 120 days	> 120 days	Total
At 31 December 2018							
North America region							
Expected loss rate	0.0%	0.1%	0.2%	0.2%	0.3%	21.8%	
Trade receivables	13.6	4.1	2.1	0.3	0.1	0.1	20.3
Loss allowance	–	*	*	*	*	*	*
Europe region							
Expected loss rate	0.0%	0.1%	0.2%	0.2%	0.3%	36.9%	
Trade receivables	5.8	1.5	0.5	0.3	0.1	*	8.2
Loss allowance	–	*	*	*	*	*	*
Asia region							
Expected loss rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Trade receivables	2.8	1.5	0.2	–	–	0.1	4.6
Loss allowance	–	–	–	–	–	–	–

* Balances are less than £100,000.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Credit risk (continued)

The movement in the allowance for impairment of trade receivables is as follows:

£ Millions	2019	2018
Beginning of financial year	**(0.1)**	(0.5)
Application of IFRS 9	**–**	0.4
Restated allowance for impairment under IFRS9	**(0.1)**	(0.1)
Loss allowance[a] recognised in profit or loss during the year on assets acquired/originated	*	(0.1)
Receivables written off as uncollectible	*	0.1
Foreign currency translation	*	–
End of the financial year	**(0.1)**	(0.1)

[a] Loss allowance measured at lifetime ECL.

* Balances are less than £100,000.

e. Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities (Note 22) and the ability to close out market positions at a short notice. At the balance sheet date, assets held by the Group and the Company for managing liquidity risk included cash and short-term deposits as disclosed in Note 16.

The table below analyses the maturity profile of the Group's non-derivative financial liabilities at the balance sheet date based on contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

£ Millions	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Group					
At 31 December 2019					
Trade and other payables	**25.2**	**–**	**–**	**–**	**25.2**
Lease liabilities	**1.9**	**2.0**	**2.4**	**0.9**	**7.2**
Accrued consideration	**0.5**	**1.0**	**0.2**	**–**	**1.7**
Borrowings, including interest	**1.9**	**1.8**	**55.7**	**–**	**59.4**
Total	**29.5**	**4.7**	**58.4**	**1.0**	**93.6**
At 31 December 2018					
Trade and other payables	22.4	–	–	–	22.4
Accrued consideration	–	0.5	0.6	0.3	1.4
Borrowings, including interest	2.8	2.6	65.5	–	70.9
Total	25.2	3.1	66.1	0.3	94.7

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

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

f. Fair value measurements

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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 (i.e. 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 2019.

£ Millions	Level 1	Level 2	Level 3	Total
2019				
Assets				
Derivative financial instruments	**–**	**0.6**	**–**	**0.6**
Liabilities				
Derivative financial instruments	**–**	**–**	**–**	**–**
2018				
Assets				
Derivative financial instruments	–	*	–	*
Liabilities				
Derivative financial instruments	–	(0.2)	–	(0.2)

* Balance is less than £100,000.

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 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.

g. Offsetting financial assets and financial liabilities

The Group has no financial instruments subject to enforceable master netting arrangements.

31. OTHER INFORMATION

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of XP Power Limited on 3 March 2020.

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2019

£'000	Note	2019	2018 Restated	2017 Restated
ASSETS				
Current assets				
Cash and cash equivalents	35	**5,016**	4,865	4,633
Trade and other receivables	36	**42,437**	16,719	9,181
Other current assets	37	**565**	660	1,092
Derivative financial instruments	38	**632**	42	154
Inventories	39	**10,949**	12,327	10,434
Corporation tax recoverable	46	**–**	–	1,291
Total current assets		**59,599**	34,613	26,785
Non-current assets				
Investment in subsidiaries*	34	**44,892**	46,951	44,279
Property, plant and equipment	40	**1,626**	1,821	2,299
Right-of-use assets	41	**333**	–	–
Intangible assets	42	**16,377**	12,220	7,564
Long-term receivable	45	**6,806**	28,171	18,495
Total non-current assets		**70,034**	89,163	72,637
Total assets		**129,633**	123,776	99,422
LIABILITIES				
Current liabilities				
Trade and other payables	44	**46,509**	34,190	21,210
Current income tax liabilities	46	**2,449**	3,784	3,146
Derivative financial instruments	38	**–**	229	248
Lease liabilities		**167**	–	–
Total current liabilities		**49,125**	38,203	24,604
Non-current liabilities				
Deferred income tax liabilities	43	**2,479**	1,738	1,419
Lease liabilities		**173**	–	–
Total non-current liabilities		**2,652**	1,738	1,419
Total liabilities		**51,777**	39,941	26,023
NET ASSETS		**77,856**	83,835	73,399
EQUITY				
Share capital	47	**29,770**	29,786	29,786
Share option reserve	47	**404**	179	5
Hedging reserve	47	**–**	42	(239)
Translation reserve*	47	**18,868**	22,502	17,857
Retained earnings	47	**28,814**	31,326	25,990
TOTAL EQUITY		**77,856**	83,835	73,399

* Please refer to Note 49 for the effect of restatement.

NOTES TO THE COMPANY BALANCE SHEET

32. 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 providing power supply solutions and acting as an investment holding company.

33. BASIS OF ACCOUNTING POLICIES

The Company applies the same principal accounting policies as the Group as set out in Note 2 under the Group Consolidated Financial Statements.

On 1 January 2019, the Company adopted the new or amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for application for the financial year. Changes to the Company's accounting policies have been made as required, in accordance with the transitional provisions in the respective IFRS and IFRIC.

The adoption of these new or amended IFRS and IFRIC did not result in substantial changes to the Company's accounting policies and had no material effect on the amounts reported for the current or previous financial years except for the following:

Adoption of IFRS 16 *Leases*

The effects on adoption of IFRS 16 on the Company's financial statements as at 1 January 2019 are as follows:

	Increase £'000
Right-of-use assets	**546**
Lease liabilities	**546**

An explanation of the differences between the operating lease commitments previously disclosed in the Company's financial statements as at 31 December 2018 and the lease liabilities recognised in the balance sheet as at 1 January 2019 are as follows:

	£'000
Operating lease commitment disclosed as at 31 December 2018	**688**
Less: Low-value leases	**(4)**
Less: Discounting effect using weighted average incremental borrowing rate of 2.86%	**(138)**
Lease liabilities recognised as at 1 January 2019	**546**

Financial guarantees

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiaries. These guarantees are financial guarantees as they require the Company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings. Intra-Group transactions are eliminated on consolidation.

Financial guarantee contracts are initially measured at fair values plus transaction costs and subsequently measured at the higher of:

a. premium received on initial recognition less the cumulative amount of income recognised in accordance with the principles of IFRS 15; and

b. the amount of expected loss computed using the impairment methodology under IFRS 9.

34. INVESTMENT IN SUBSIDIARIES

£'000	2019	2018 Restated
Cost at carrying value		
At 1 January	**46,951**	44,279
Exchange differences on translation	**(2,059)**	2,672
At 31 December	**44,892**	46,951

Please refer to Note 49 for the effect of restatement.

Name of Subsidiary	Place of incorporation/ Ownership (or registration) and operation	Proportion of Ownership % 2019	Proportion of Ownership % 2018	Auditor of Subsidiaries
XP Power Plc	UK	**100**	100	PricewaterhouseCoopers LLP
XP Power Singapore Holdings Pte Limited	Singapore	**100**	100	PricewaterhouseCoopers LLP

35. CASH AND CASH EQUIVALENTS

£'000	2019	2018
Cash at bank	**5,016**	4,865
Total	**5,016**	4,865

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

	GBP £'000	USD £'000	EUR £'000	SGD £ '000	JPY £'000	SEK £'000	DKK £'000	TOTAL £'000
At 31 December 2019								
Cash at bank	**197**	**4,548**	**6**	**264**	**1**	**–**	**–**	**5,016**

	GBP £'000	USD £'000	EUR £'000	SGD £ '000	JPY £'000	SEK £'000	DKK £'000	TOTAL £'000
At 31 December 2018								
Cash at bank	17	3,495	352	946	4	1	50	4,865

36. TRADE AND OTHER RECEIVABLES

	31 December		1 January
£'000	2019	2018	2018
Trade receivables	**6,223**	4,236	2,520
Trade receivables from related parties	**13,219**	12,168	6,246
Other receivables from related parties	**12,482**	258	-
Loan receivables from a related party	**10,513**	57	415
Total	**42,437**	16,719	9,181

The average credit period taken on sales of goods is 78 days (2018: 59 days). No interest is charged on the outstanding receivables balance.

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

Loan from a related party is unsecured and bears interest at LIBOR plus 1.5% per annum.

37. OTHER CURRENT ASSETS

£'000	2019	2018
Deposit	65	68
Prepayments	408	230
VAT receivables	92	362
Total	**565**	660

38. DERIVATIVE FINANCIAL INSTRUMENTS

The total notional amount of outstanding currency forward contracts that the Company has committed is £Nil (2018: £10.8 million). These contracts are to hedge against exchange movements on future sales and hedge accounting has been applied.

As at 31 December 2019, the fair value asset/(liability) of the currency forward contracts recognised under a hedging reserve is £Nil (2018: £42,000) (Note 47).

December 2019	**Contract notional amount**	**Fair value asset**
£'000		
Current portion	–	–
Total	–	–

December 2018	Contract notional amount	Fair value asset
£'000		
Current portion	10,841	42
Total	10,841	42

Certain currency forward contracts were taken up to protect against exchange movements on future sales. Hedge accounting has not been applied to these contracts.

December 2019	**Assets**		**Liabilities**	
£'000	**Contract notional amount**	**Fair Value asset**	**Contract notional amount**	**Fair Value (liability)**
Current portion	**11,300**	**632**	–	–
Total	**11,300**	**632**	–	–

December 2018	Assets		Liabilities	
£'000	Contract notional amount	Fair Value asset	Contract notional amount	Fair Value (liability)
Current portion	–	–	14,975	(229)
Total	–	–	14,975	(229)

39. INVENTORIES

£'000	2019	2018
Goods for resale	**10,949**	12,327

40. PROPERTY, PLANT AND EQUIPMENT

£'000	Freehold land	Building	Plant and equipment	Motor vehicles	Building improvements	Total
Cost						
At 1 January 2018	217	1,743	1,895	41	471	4,367
Additions	–	–	90	–	–	90
Reclassification to intangible assets (Note 42)	–	–	(458)	–	–	(458)
Disposals	–	–	(30)	–	–	(30)
Foreign currency translation	13	105	89	2	29	238
At 31 December 2018	**230**	**1,848**	**1,586**	**43**	**500**	**4,207**
Additions	–	–	104	–	–	104
Disposals	–	–	(43)	–	–	(43)
Foreign currency translation	(10)	(81)	(72)	(2)	(22)	(187)
At 31 December 2019	**220**	**1,767**	**1,575**	**41**	**478**	**4,081**
Depreciation						
At 1 January 2018	–	479	1,162	9	418	2,068
Additions	–	52	137	8	15	212
Disposals	–	–	(30)	–	–	(30)
Foreign currency translation	–	32	77	1	26	136
At 31 December 2018	**–**	**563**	**1,346**	**18**	**459**	**2,386**
Additions	–	56	141	9	16	221
Disposals	–	–	(42)	–	–	(42)
Foreign currency translation	–	(27)	(62)	(1)	(21)	(110)
At 31 December 2019	**–**	**592**	**1,383**	**26**	**454**	**2,455**
Carrying amount						
At 31 December 2019	**220**	**1,175**	**192**	**15**	**24**	**1,626**
At 31 December 2018	230	1,285	240	25	41	1,821

41. RIGHT-OF-USE ASSETS

£'000	Leasehold land and buildings
Cost	
At 1 January 2019	546
Depreciation charge during the year	(202)
Foreign currency translation	(11)
At 31 December 2019	**333**

42. INTANGIBLE ASSETS

£'000	Development costs	Trademarks	Intangible software	Intangible software under development	Total
Cost					
At 1 January 2018	11,769	–	–	–	11,769
Additions	3,806	–	239	1,141	5,186
Reclassification from Property, plant and equipment (Note 40)	–	–	–	458	458
Foreign currency translation	949	–	15	100	1,064
At 31 December 2018	16,524	–	254	1,699	18,477
Additions	4,006	*	65	3,392	7,463
Transfer	(91)	91	4,949	(4,949)	–
Foreign currency translation	(857)	(4)	(97)	(142)	(1,100)
At 31 December 2019	**19,582**	**87**	**5,171**	**–**	**24,840**
Amortisation					
At 1 January 2018	4,205	–	–	–	4,205
Charge for the year	1,656	–	36	–	1,692
Foreign currency translation	358	–	2	–	360
At 31 December 2018	6,219	–	38	–	6,257
Charge for the year	2,439	–	133	–	2,572
Foreign currency translation	(361)	–	(5)	–	(366)
At 31 December 2019	**8,297**	**–**	**166**	**–**	**8,463**
Carrying amount					
At 31 December 2019	**11,285**	**87**	**5,005**	**–**	**16,377**
At 31 December 2018	10,305	–	216	1,699	12,220

* Balance is less than £1,000.

The amortisation period for development costs incurred varies between three and seven years according to the expected useful life of the products being developed.

Amortisation commences when the products are ready for sale.

43. DEFERRED INCOME TAXES

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

£'000	Accelerated tax depreciation	Capitalised development costs	Intangible assets amortisation	Other temporary differences	Total
At 1 January 2018	(142)	(1,272)	–	(5)	(1,419)
Charge to statement of comprehensive income	226	(399)	–	(46)	(219)
Exchange difference	6	(102)	–	(4)	(100)
At 31 December 2018	90	(1,773)	–	(55)	(1,738)
Charge to statement of comprehensive income	(65)	(231)	(505)	(46)	(847)
Exchange difference	(2)	86	18	4	106
At 31 December 2019	**23**	**(1,918)**	**(487)**	**(97)**	**(2,479)**

44. TRADE AND OTHER PAYABLES

£'000	2019	2018
Trade payables and other creditors	**5,056**	4,594
Amount payable to related parties	**41,453**	29,596
Total	**46,509**	34,190

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. Amount payable to related parties includes borrowings from related parties and trade and other payables to related parties. The Directors consider that the carrying amount approximates their fair value.

The Company borrows from subsidiaries at an interest rate of 1.5% - 2.0% above LIBOR. The borrowing is repayable upon demand.

45. LONG-TERM RECEIVABLE

£'000	2019	2018
Loans to related parties	**6,806**	28,171
Total	**6,806**	28,171

Loans to related parties bear interest at LIBOR plus 1.5% - 2.0% per annum. The loans to related parties are unsecured. The Directors consider the carrying amount approximates their fair value.

46. CORPORATE TAX RECOVERABLE/CURRENT INCOME TAX LIABILITIES

Movement in corporate tax recoverable:

£'000	2019	2018
At 1 January	–	1,291
Currency translation differences	–	53
Under-provision in prior financial year	–	(2)
Refund received	–	(1,342)
At 31 December	–	–

Movement in current income tax liabilities:

£'000	2019	2018
At 1 January	**3,784**	3,146
Currency translation differences	**(231)**	241
Income tax paid (net of refund)	**(3,233)**	(2,828)
Current year tax expense	**2,350**	3,396
Over-provision in prior financial year	**(221)**	(171)
At 31 December	**2,449**	3,784

47. SHARE CAPITAL AND RESERVES

Share capital £'000	2019	2018
Allotted and fully paid 19,242,296 ordinary shares	**29,770**	29,786

The movement in 2019 relates to transaction costs incurred in anticipation of an equity issuance.

Share option reserve £'000	2019	2018
Balance at 1 January	**179**	5
Share option expense	**232**	174
Exchange differences on translation	**(7)**	–
Balance at 31 December	**404**	179

Hedging reserve £'000	2019	2018
Foreign exchange risk		
Balance at 1 January	**42**	(239)
Net change in cash flow hedges	**(42)**	281
Balance at 31 December	**–**	42

Translation reserve £'000	2019	2018 Restated
Balance at 1 January	**22,502**	17,857
Exchange differences on translation	**(3,634)**	4,645
Balance at 31 December	**18,868**	22,502

Please refer to Note 49 for the effect of restatement.

Retained earnings £'000	2019	2018
Balance at 1 January	**31,326**	25,990
Changes in accounting policy	**–**	9
Dividends paid	**(16,675)**	(15,284)
Profit for the year	**14,163**	20,611
Balance at 31 December	**28,814**	31,326

48. 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, cash and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Note 47.

b. Currency risk

The Company transacts in North America, Europe and Asia 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.

Company's risk management policy is to hedge 100% of highly probable forecast transactions for Europe sales in the next 12 months.

The risk is measured through a forecast of highly probable EUR sales and tracking of firm commitment in EUR. The objective of the hedges is to minimise the volatility of the Company's currency cost of highly probable transactions and firm commitment. In order to achieve these objectives, the Company entered into cash flow hedges for highly probable sale transactions. The foreign exchange forwards are denominated in the same currency as the highly probable sale transactions, therefore the hedge ratio is 1:1.

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedging relationship, and through periodic prospective effective assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Company enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item, and so a qualitative assessment of effectiveness is performed. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

Hedge ineffectiveness may occur due to changes in the credit risk of the derivative counterparty or the Company. There was no ineffectiveness during 2019 in relation to the revenue hedge.

In addition, the Company is exposed to translation risk when the results of its operations and balance sheet are converted from its 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 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.

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

b. Currency risk (continued)

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

At 31 December 2019 **£'000**	**GBP**	**EUR**	**USD**	**Others**	**Total**
Financial assets					
Cash and cash equivalents	**197**	**6**	**4,549**	**264**	**5,016**
Trade and other receivables	**3,973**	**1,778**	**35,953**	**733**	**42,437**
Other current assets	**–**	**–**	**–**	**65**	**65**
Long-term receivables	**–**	**–**	**6,806**	**–**	**6,806**
Subtotal	**4,170**	**1,784**	**47,308**	**1,062**	**54,324**
Financial liabilities					
Trade and other payables	**(12,471)**	**(400)**	**(32,807)**	**(613)**	**(46,291)**
Lease liabilities	**–**	**–**	**–**	**(340)**	**(340)**
Subtotal	**(12,471)**	**(400)**	**(32,807)**	**(953)**	**(46,631)**
Net financial (liabilities)/assets	**(8,301)**	**1,384**	**14,501**	**109**	**7,693**
Currency forwards	**11,300**	**–**	**–**	**–**	**11,300**
Currency profile excluding non-financial assets and liabilities	**2,999**	**1,384**	**14,501**	**109**	**18,993**
Less: Financial assets denominated in the entity's functional currency	**–**	**–**	**14,501**	**–**	**14,182**
Currency exposure of financial assets	**2,999**	**1,384**	**–**	**109**	**4,492**

At 31 December 2018 **£'000**	GBP	EUR	USD	Others	Total
Financial assets					
Cash and cash equivalents	17	352	3,495	1,001	4,865
Trade and other receivables	72	1,369	14,962	316	16,719
Other current assets	–	–	68	–	68
Long-term receivables	–	–	28,171	–	28,171
Subtotal	89	1,721	46,696	1,317	49,823
Financial liabilities					
Trade and other payables	(6,014)	(196)	(27,849)	(131)	(34,190)
Subtotal	(6,014)	(196)	(27,849)	(131)	(34,190)
Net financial (liabilities)/assets	(5,925)	1,525	18,847	1,186	15,633
Add: Firm commitments and highly probable forecast transactions in foreign currency	–	12,604	–	–	12,604
Currency forwards	14,975	(10,841)	–	–	4,134
Currency profile excluding non-financial assets and liabilities	9,050	3,288	18,847	1,186	32,371
Less: Financial assets denominated in the entity's functional currency	–	–	18,847	–	18,847
Currency exposure of financial assets	9,050	3,288	–	1,186	13,524

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

c. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income is substantially independent of changes in the market interest rates.

The Company borrows from subsidiaries at an interest rate of 1.5% - 2.0% above LIBOR. If the average interest rates on these borrowings increased/decreased by 0.76% (2018: 0.75%) with all other variables, including tax rates, being held constant, the profit before tax will be lower/higher by £152,738 (2018: £102,844) 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 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 a majority of the sales are made to the subsidiaries. Trade receivables are neither past due nor impaired are substantially companies with a good collection track record with the Company.

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.

The Company applies the IFRS 9 simplified approach to measuring expected credit loss which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, it is based on the Company's two years historical credit loss experience and a provision matrix has been set up using the amount of bad debt incurred over the carrying value of the trade receivables per aging brackets at each financial year end.

The Company's credit risk exposure in relation to trade receivables under IFRS 9 are set out in the provision matrix as follows:

		Past due					
£'000	**Current**	**1 – 30 days**	**31 – 60 days**	**61 – 90 days**	**91 – 120 days**	**> 120 days**	**Total**
At 31 December 2019							
Expected loss rate	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	
Trade receivables	**10,268**	**5,907**	**2,321**	**74**	**207**	**665**	**19,442**
Loss allowance	**–**	**–**	**–**	**–**	**–**	**–**	**–**

		Past due					
£'000	Current	1 – 30 days	31 – 60 days	61 – 90 days	91 – 120 days	> 120 days	Total
At 31 December 2018							
Expected loss rate	0%	0%	0%	0%	0%	0%	
Trade receivables	12,567	3,072	275	56	4	430	16,404
Loss allowance	–	–	–	–	–	–	–

The Company assessed the credit risk of each intercompany loan by considering the terms of the loans, whether the loan is past due, borrower's cash position, revenue, profit before tax and net assets. Based on these, it was concluded that the credit risk is low and hence, the Company compute the expected credit loss on a 12-month basis instead of a lifetime approach.

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

d. Credit risk (continued)

FINANCIAL ASSETS AT AMORTISED COSTS

Category of internal credit rating	Performing	Under-performing	Non-performing	Write-off
Definition of category	Issuers have a low risk of default and a strong capacity to meet contractual cash flows	Issuers for which there is a significant increase in credit risk; as significant in credit risk is presumed if interest and/or principal repayment are 30 days past due	Interest and/or principal payments are 90 days past due	Interest and/or principal repayments are 120 days past due and there is no reasonable expectation of recovery
Basis of recognition of expected credit loss	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Asset is written off

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. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

£'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2019					
Trade and other payables	**46,509**	**–**	**–**	**–**	**46,509**
Lease liabilities	**176**	**174**	**–**	**–**	**350**
Total	**46,685**	**174**	**–**	**–**	**46,859**

£'000	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
At 31 December 2018					
Trade and other payables	34,190	–	–	–	34,190
Total	34,190	–	–	–	34,190

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

The Company has issued a multilateral guarantee to HSBC and Fifth Third Bank for the revolving credit facility entered into by the Group. On 27 September 2017, the Group entered into a revolving credit facility amounting to US$40 million with a US$20 million additional accordion option and has a tenure of the four years from loan agreement date with potential of one year extension. In May 2018, the Group increased the revolving credit facility to US$85 million with a US$20 million additional accordion option. In November 2018, the Group has fully exercised the US$20 million additional accordion option and the revolving credit facility has increased to US$105 million. In November 2019, the Group renewed its facility by increasing its revolving credit facility by US$15.0 million with a US$20.0 million accordion option with a four-year term up to November 2023. The facility has no fixed repayment terms until maturity. The revolving loan is priced at LIBOR plus a margin of 1% for the utilisation facility and a margin of 0.4% to 5.0% for the unutilised facility.

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

f. Fair value measurements

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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 (i.e. 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 measured at fair value at 31 December 2019:

£'000	Level 1	Level 2	Level 3	Total
2019				
Assets				
Derivative financial instruments	**–**	**632**	**–**	**632**
Liabilities				
Derivative financial instruments	**–**	**–**	**–**	**–**
2018				
Assets				
Derivative financial instruments	–	42	–	42
Liabilities				
Derivative financial instruments	–	(229)	–	(229)

g. Offsetting financial assets and financial liabilities

i. Financial assets

The Company has the following financial instruments subject to enforceable master netting arrangements or similar agreements as follows:

	Related amounts set off in the balance sheet			Related amounts not set off in the balance sheet		
£'000 At 31 December 2019	**Gross amounts – financial assets**	**Gross amounts – financial liabilities**	**Net amounts – financial assets presented in the balance sheet**	**Financial assets / liabilities**	**Financial collateral received**	**Net amount**
Trade receivables	**–**	**–**	**–**	**13,219**	**–**	**13,219**
Loan receivables from a related party	**10,845**	**(332)**	**10,513**	**–**	**–**	**–**
Total	**10,845**	**(332)**	**10,513**	**13,219**	**–**	**13,219**
At 31 December 2018						
Trade receivables						
Loan to related parties	28,441	(270)	28,171	–	–	–
Total	28,441	(270)	28,171	12,168	–	12,168

48. FINANCIAL RISK MANAGEMENT (CONTINUED)

g. Offsetting financial assets and financial liabilities (continued)

ii. Financial liabilities

The Company has the following financial instruments subject to enforceable master netting arrangements or similar agreements as follows:

49. PRIOR YEAR RESTATEMENT

Under IAS 21 *The Effects of Changes in Foreign Exchange Rates*, investment in subsidiaries should have been translated to the presentation currency at the closing rate at each financial statement date, with the corresponding translation difference recorded within equity. Investment in subsidiaries on the Company Balance Sheet was previously accounted for based on the historical translation rate at the date of acquisition. As disclosed in Note 2.2(a), while the Company's functional currency is USD, the financial statements are presented in GBP.

Accordingly, these balances have been restated and accounted for using the closing rate at each financial statement date and in accordance with IAS 21.

The effects of this restatement are as follows:

RECONCILIATION FOR THE BALANCE SHEET ON 1 JANUARY 2018:

	As previously reported	Adjustment	As restated
£'000			
ASSETS			
Investment in subsidiaries	29,786	14,493	44,279
EQUITY			
Translation reserve	3,364	14,493	17,857

RECONCILIATION FOR THE BALANCE SHEET ON 31 DECEMBER 2018:

	As previously reported	Adjustment	As restated
£'000			
ASSETS			
Investment in subsidiaries	29,786	17,165	46,951
EQUITY			
Translation reserve	5,337	17,165	22,502

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	2019 £ Millions	2018 £ Millions	2017 £ Millions	2016 £ Millions	2015 £ Millions
Results					
Revenue	**199.9**	195.1	166.8	129.8	109.7
Profit from operations	**26.7**	39.3	32.5	28.0	25.6
Profit before tax	**24.0**	37.6	32.2	27.8	25.4
Assets employed					
Non-current assets	**137.4**	129.2	88.1	73.2	65.4
Current assets	**96.0**	105.1	83.5	65.7	53.5
Current liabilities	**(30.4)**	(26.8)	(25.1)	(25.8)	(19.8)
Non-current liabilities	**(64.1)**	(70.1)	(29.6)	(6.2)	(10.0)
Net assets	**138.9**	137.4	116.9	106.9	89.1
Financed by					
Equity	**138.2**	136.4	116.0	106.1	88.3
Non-controlling interests	**0.7**	1.0	0.9	0.8	0.8
	138.9	137.4	116.9	106.9	89.1
Key statistics (pence)					
Earnings per share	**107.0**	157.8	148.3	112.0	103.7
Adjusted earnings per share	**148.3**	176.1	149.4	116.2	105.3
Diluted earnings per share	**105.0**	154.9	146.0	111.2	102.8
Diluted adjusted earnings per share	**145.5**	172.8	147.0	115.3	104.3
Share price in the year (pence)					
High	**3,110.0**	3,740.0	3,626.0	1,845.0	1,750.0
Low	**1,965.0**	2,090.0	1,725.0	1,410.0	1,375.0
Dividends per share (pence)	**91.0**	85.0	78.0	71.0	66.0

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