

Company No.3016831

POWER INNOVATIONS LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 1998



POWER INNOVATIONS LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

Company registration number: 3016831

Registered office: Manton Lane
Bedford
MK41 7BJ

Directors: Mr Christopher W Smith
Mr Kenneth J Sanders
Mr Michael Whitlock
Mr Robert E Butler
Mr Michael J Maytum
Mr David Mackness
Mr Mark D Appleton

Secretary: Mr Michael Whitlock

Bankers: National Westminster Bank plc
81 High Street
Bedford
MK40 1NE

Solicitors: Hewitson Becke & Shaw
7 Spencer Parade
Northampton
NN1 5AB

Auditors: Grant Thornton
Registered auditors
Chartered accountants
49 Mill Street
Bedford
MK40 3LB

POWER INNOVATIONS LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

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POWER INNOVATIONS LIMITED

CHAIRMAN'S STATEMENT

These accounts represent the first full year's result of POWER INNOVATIONS LIMITED, which commenced trading on August 5 1997.

The Results

Turnover for 1998 totalled £16,763,000 which was on plan. Operating profits were £513,000 enabling a retained profit of £375,000 which was well above plan.

The profit improvement, achieved against a market environment showing no improvement in market prices, came from cost reduction at the product level - improving gross margins, and tight control of non-manufacturing overheads.

There was no recommendation for any dividend payment to the ordinary shareholders.

The Market

Although the overall semiconductor market remained depressed throughout 1998, the telecommunications sector was buoyant, enabling growth in overvoltage protection - the core business of POWER INNOVATIONS - to 75% of total Sales. Particularly pleasing was growth in the US Sales, and in the Asia Pacific Region.

This growth took export revenues for POWER INNOVATIONS in 1998 to over 90% of the total.

The company took steps to strengthen the Sales and Marketing organisation to continue to position itself for future growth.

The Future

Continuing strong emphasis was placed on new product development in 1998, enabling the company to release some 40 new products in the second half of 1998 including two ranges of products in a new package. In total, in 1998 a sum of £1,004,000 was expended on new product development.

Capital expenditures for 1998 were at a very high level of £1,662,000 because of a £1,034,000 investment in new plant for an upgraded Deionised Water/Effluent Plant, which came on stream at the end of 1998 producing significant cost and environmental benefits. In addition to this a sum of £628,000 was expended on equipment in the manufacturing areas and laboratories.

The company has continued with its commitment to a Business Excellence Culture, focused on Employee involvement and customer satisfaction, and achieved a world class level of employee training and development in 1998, including gaining recognition in March 1999 to the Investors in People standard.

March closing Backlog in 1999 has grown by 37% since December 1998 close and is up 8% from the same period last year.



C W Smith
Chairman
24 May 1999

POWER INNOVATIONS LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with financial statements for the year ended 31 December 1998.

Principal activity

The company's principal activity is the provision of power semiconductor products to support the telephone system protection, electronic lighting and general purpose power markets.

Business review

Turnover for the company for the year totalled £ 16,763,000 (1997: £6,936,000 five month period of trading) with 92% being attributable to geographical markets outside the UK.

The company achieved a profit of £375,000 (1997: loss of £13,000 in a five month period) for the year. The directors do not recommend payment of a dividend.

Directors

The present membership of the Board is set out below. All directors served throughout the year. Mr Peter J C Mathis ceased to be a director on 24 March 1998.

	£1 Ordinary shares	
	1998	1997
Christopher W Smith (Chairman)	-	-
Kenneth J Sanders	74,667	58,334
Michael Whitlock	42,874	33,541
David Mackness	37,334	29,167
Michael J Maytum	37,334	29,167
Mark D Appleton	37,334	29,167
Robert E Butler	37,334	29,167

Mr C W Smith has an option in respect of 5,000 shares in the company.

Directors' responsibilities for the financial statements

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- i select suitable accounting policies and then apply them consistently;
- ii make judgements and estimates that are reasonable and prudent;
- iii state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- iv prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

POWER INNOVATIONS LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Charitable and political donations

Donations to charitable organisations amounted to £1,050.

Year 2000 compliance

Many computer systems which express dates using only the last two digits of the year may malfunction due to the date change to the Year 2000. The risk to the business relates not only to the company's computer systems, but also to some degree on those of the company's customers and suppliers.

The company has reviewed its computer systems for the impact of the Year 2000 date change. An impact analysis has been prepared to identify the major risks, and action plans have been developed to address these in advance of critical dates. The plans give priority to the systems which could have a significant or legal impact if they were to fail.

The main systems affected are:

- the accounting and management information systems, which have been verified as Year 2000 compliant.
- the stock purchasing and inventory management systems which have been verified as Year 2000 compliant.
- the manufacturing system, which is being replaced and will be Year 2000 compliant before 31 December 1999.

The company has requested from major customers, suppliers and other trading partners with whom information is exchanged electronically, confirmation that their relevant systems are Year 2000 compliant.

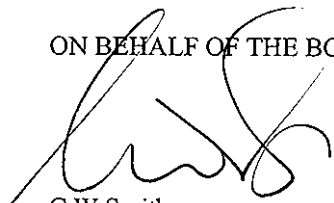
The issue is complex, and no business can guarantee that there will be no Year 2000 problems. However, the Board believes that its plans and the resources allocated are appropriate and adequate to address the issue.

External costs to address the issue are not expected to exceed £100,000, which had already been planned.

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD



C W Smith
Director
24 May 1999

**REPORT OF THE AUDITORS TO THE MEMBERS OF
POWER INNOVATIONS LIMITED**

We have audited the financial statements on pages 5 to 18 which have been prepared under the accounting policies set out on pages 5 and 6.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

Bedford
24 May 1999

POWER INNOVATIONS LIMITED

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention.

The principal accounting policies of the company remained unchanged from the previous year and are set out below.

TURNOVER

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

DEPRECIATION

Depreciation is calculated to write down the cost less estimated residual values of all tangible fixed assets over their expected useful lives. The rates generally applicable are:

Leasehold land and buildings/fixtures and fittings	over 3 years
Manufacturing plant and machinery	over 4 years
Di-water effluent plant	over 15 years

RESEARCH AND DEVELOPMENT

Research and development expenditure is charged to profits in the period in which it is incurred.

GOODWILL

Purchased goodwill accounted for in accounting periods ending before 23 December 1998, the implementation date of Financial Reporting Standard No 10, was eliminated from the financial statements by immediate write-off against reserves.

STOCKS

Stock is valued at the lower of cost and net realisable value.

DEFERRED TAXATION

Deferred tax is provided for using the tax rates estimated to arise when the timing differences reverse and is accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax is disclosed as a contingent liability.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

POWER INNOVATIONS LIMITED

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

CONTRIBUTIONS TO PENSION FUNDS

Defined Contribution Scheme

The company operates a money purchase scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

LEASED ASSETS

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

POWER INNOVATIONS LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1998

	Note	1998 £'000	1997 £'000
Turnover	1	16,763	6,936
Cost of sales		(12,431)	(5,286)
Gross profit		4,332	1,650
Distribution costs		(318)	(188)
Administrative expenses		(4,170)	(1,641)
Business support allocation		588	415
Other operating income		81	-
Operating profit		513	236
Exceptional items:			
Start up costs for new business		-	(203)
		513	33
Net interest	2	(98)	(46)
Profit/(loss) on ordinary activities before taxation	1	415	(13)
Tax on profit/(loss) on ordinary activities	4	(40)	-
Profit/(loss) on ordinary activities after taxation transferred to reserves	13	375	(13)

There were no recognised gains or losses other than the profit/(loss) for the year.

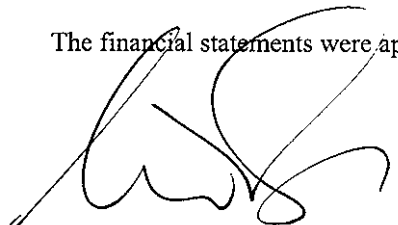
The accompanying accounting policies and notes form an integral part of these financial statements

POWER INNOVATIONS LIMITED

BALANCE SHEET AT 31 DECEMBER 1998

	Note	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	6	1,742	385
Current assets			
Stocks	7	2,780	3,207
Debtors	8	1,772	2,405
Cash at bank and in hand		639	12
		<u>5,191</u>	<u>5,624</u>
Creditors: amounts falling due within one year	9	<u>(3,038)</u>	<u>(2,657)</u>
Net current assets		<u>2,153</u>	<u>2,967</u>
Total assets less current liabilities		<u>3,895</u>	<u>3,352</u>
Creditors: amounts falling due after more than one year	10	<u>(3,549)</u>	<u>(3,381)</u>
		<u>346</u>	<u>(29)</u>
Capital and reserves			
Called up share capital	12	267	267
Profit and loss account	13	79	(296)
Shareholders' funds	14	<u>346</u>	<u>(29)</u>

The financial statements were approved by the Board of Directors on 24 May 1999


C W Smith
Director

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

POWER INNOVATIONS LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1998

	Note	1998 £'000	1997 £'000
Net cash inflow/(outflow) from operating activities	15	2,048	(1,188)
Returns on investments and servicing of finance	17	(98)	(46)
Taxation		(11)	-
Capital expenditure	17	(555)	(53)
Acquisitions and disposals	17	-	(3,009)
Financing	17	(8)	3559
Increase/(decrease) in cash	16	<u>1,376</u>	<u>(737)</u>

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

POWER INNOVATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

1 TURNOVER AND PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties.

	1998	1997
Turnover attributable to geographical markets outside the UK	92%	88%
The profit/(loss) on ordinary activities is stated after:		
	1998	1997
	£'000	£'000
Auditor's remuneration		
Audit services	20	20
Non-audit services	10	-
Depreciation		
Tangible fixed assets owned	298	129
Tangible fixed assets, held under finance leases	7	-
Amortisation of goodwill	-	283
Hire of plant and machinery	5	3
Other operating lease rentals	188	105
Pension costs	219	86
Exceptional administration costs:		
Legal and professional fees	80	-
Sub-contractor related	99	-
Sundry other	82	-

2 NET INTEREST

	1998	1997
	£'000	£'000
On bank loans and overdrafts	13	7
On other loans	98	44
Finance charges in respect of finance leases	2	-
	113	51
Other interest receivable and similar income	(15)	(5)
	98	46

POWER INNOVATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 1998

3 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	1998 £'000	1997 £'000
Wages and salaries	4,108	1,644
Social security costs	417	159
Other pension costs	219	86
	<u>4,744</u>	<u>1,889</u>

Average number of employees during the year were:

	1998 Number	1997 Number
Administration	106	106
Manufacturing	79	85
	<u>185</u>	<u>191</u>

Remuneration in respect of directors was as follows:

	1998 £'000	1997 £'000
Emoluments	519	224
Compensation for loss of office	113	-
Pension contributions to money purchase pension schemes	28	9
	<u>660</u>	<u>233</u>

During the year 7 directors (1997: 7 directors) participated in the money purchase pension scheme.

The amounts set out above include remuneration in respect of the highest paid director as follows:

	1998 £'000	1997 £'000
Emoluments	148	60
Pension contributions to money purchase pension scheme	8	3
	<u>156</u>	<u>63</u>

POWER INNOVATIONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

FOR THE YEAR ENDED 31 DECEMBER 1998

4 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

The tax charge represents:

	1998 £	1997 £
Corporation tax at 31%	40	-
	<u>40</u>	<u>-</u>

5 INTANGIBLE FIXED ASSETS

	Purchased goodwill £'000
Cost	
At 1 January 1998 and 31 December 1998	283
Amortisation	
At 1 January 1998 and 31 December 1998	283
Net book amount	
At 31 December 1998 and 31 December 1997	-

6 TANGIBLE FIXED ASSETS

	Short leasehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 January 1998	1,364	6,788	8,152
Additions	17	1,645	1,662
At 31 December 1998	1,381	8,433	9,814
Depreciation			
At 1 January 1998	1,340	6,427	7,767
Charge for the year	18	287	305
At 31 December 1998	1,358	6,714	8,072
Net book amount at 31 December 1998	23	1,719	1,742
Net book amount at 31 December 1997	24	361	385

POWER INNOVATIONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

FOR THE YEAR ENDED 31 DECEMBER 1998

6 TANGIBLE FIXED ASSETS (CONTINUED)

The figures stated above include assets held under finance leases as follows:

	Plant and machinery £'000
Net book amount at 31 December 1998	1,108
Net book amount at 31 December 1997	-
Depreciation provided in the year	7

7 STOCKS

	1998 £'000	1997 £'000
Raw materials and consumables	191	267
Work in progress	1,306	1,124
Finished goods and goods for resale	1,283	1,816
	2,780	3,207

8 DEBTORS

	1998 £'000	1997 £'000
Trade debtors	1,499	2,221
Other debtors	143	142
Prepayments and accrued income	130	42
	1,772	2,405

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £'000	1997 £'000
Bank overdrafts and other loans	456	749
Trade creditors	670	722
Corporation tax	40	-
Social security and other taxes	110	112
Other creditors	75	9
Accruals and deferred income	1,251	1,066
Amounts due under finance leases	436	-
	3,038	2,657

POWER INNOVATIONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

FOR THE YEAR ENDED 31 DECEMBER 1998

**10 CREDITORS: AMOUNTS FALLING DUE AFTER
MORE THAN ONE YEAR**

	1998 £'000	1997 £'000
Other loans	2,836	3,292
Accruals and deferred income	50	89
Amounts due under finance leases	663	-
	<u>3,549</u>	<u>3,381</u>

11 BORROWINGS

Borrowings are repayable as follows:

	1998 £'000	1997 £'000
Within one year		
Bank and other borrowings	456	749
Finance leases	436	-
After one and within two years		
Bank and other borrowings	915	456
Finance leases	232	-
After two and within five years		
Bank and other borrowings	1,921	2,836
Finance leases	431	-
	<u>4,391</u>	<u>4,041</u>

The bank overdraft and other loans are secured by a fixed and floating charge over all current and future assets of the company.

12 SHARE CAPITAL

	1998 £'000	1997 £'000
Authorised 330,000 (1997: 300,000) ordinary shares of £1 each	330	300
Allotted, called up and fully paid 267,000 ordinary shares of £1 each	267	267

POWER INNOVATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 1998

12 SHARE CAPITAL (CONTINUED)

Contingent rights to the allotment of shares

The company has granted options to a director and certain employees in respect of 42,500 ordinary shares at £1 per share, exercisable immediately before and conditionally upon the sale or flotation of the company's shares or the sale of the company's assets and business.

At the year end the number of options remaining unexercised was 40,000 (1997:20,000) with 2,500 options having lapsed.

13 PROFIT AND LOSS ACCOUNT

	1998 £'000
At 1 January 1998	(296)
Retained profit	375
	<hr/>
At 31 December 1998	79
	<hr/>
Goodwill written off to reserves amounted to £283,000	

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £'000	1997 £'000
Profit/(loss) for the financial year	375	(13)
Issue of shares	-	267
Goodwill written off to reserves	-	(283)
	<hr/>	<hr/>
Net increase/(decrease) in shareholders' funds	375	(29)
Shareholders' funds at 1 January 1998	(29)	-
	<hr/>	<hr/>
Shareholders' funds at 31 December 1998	346	(29)
	<hr/>	<hr/>

15 NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	1998 £'000	1997 £'000
Operating profit	513	33
Depreciation	305	129
Write off goodwill to reserves	-	(283)
Decrease/(increase) in stocks	427	(659)
Decrease/(increase) in debtors	644	(2,405)
Increase in creditors	159	1,997
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	2,048	(1,188)
	<hr/>	<hr/>

POWER INNOVATIONS LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 1998****16 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

	1998 £'000	1997 £'000
Increase/(decrease) in cash in the period	1,376	(737)
Cash inflow from financing	-	(3,292)
Cash outflow from finance leases	8	-
Change in net debt	1,384	(4,029)
Inception of finance leases	(1,107)	-
Net debt at 1 January 1998	(4,029)	-
Net debt at 31 December 1998	(3,752)	(4,029)

17 GROSS CASH FLOWS

	1998 £'000	1997 £'000
Returns on investments and servicing of finance		
Interest received	15	5
Interest paid	(111)	(51)
Finance lease interest paid	(2)	-
	(98)	(46)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(555)	(53)
Acquisitions and disposals		
Purchase of assets	-	(3,009)
Financing		
Issue of shares	-	267
Receipts from borrowings	-	3,292
Capital element of finance lease rentals	(8)	-
	(8)	3,559

POWER INNOVATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 1998

18 ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 1998 £'000	Cashflows £'000	Non-cash items £'000	At 31 December 1998 £'000
Cash at bank and in hand	12	627	-	639
Overdrafts	(749)	749	-	-
	<u>(737)</u>	<u>1,376</u>	<u>-</u>	<u>639</u>
Debt	(3,292)	-	-	(3,292)
Finance leases	-	8	(1,107)	(1,099)
	<u>(4,029)</u>	<u>1,384</u>	<u>(1,107)</u>	<u>(3,752)</u>

19 CAPITAL COMMITMENTS

	1998 £'000	1997 £'000
Contracted for but not provided in these financial statements	10	236
Authorised but not contracted for	33	-

20 CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 1998 or 31 December 1997.

21 PENSIONS

Defined Contribution Scheme

The company operates a money purchase pension scheme for the benefit of the employees and directors. The assets of the scheme are administered by trustees in a fund independent from those of the company.

POWER INNOVATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 1998

22 LEASING COMMITMENTS

Operating lease payments amounting to £260,157 (1997:£244,480) are due within one year. The leases to which these amounts relate expire as follows:

	1998		1997	
	Land and buildings £	Other £	Land and buildings £	Other £
In one year or less	-	76,682		61,045
Between one and five years	-	48,443	-	48,403
In five years or more	135,032	-	135,032	-
	<u>135,032</u>	<u>125,125</u>	<u>135,032</u>	<u>109,448</u>