

Paragon Electronic Components PLC

**Directors' report and financial
statements**

Registered number 2590508

30 September 2002



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2002.

Principal activities

The main activities of the company are the distribution of electronic components and allied added value services to original equipment manufacturers.

Business review

The Directors are pleased to report that, despite difficult market conditions and the resultant reduction in turnover, the company continues to perform well. The ongoing investment in Information Technology, marketing initiatives and staff development is resulting in increased operational efficiency and improved customer service levels.

The management team predicted the significant slowdown in the company's rate of expansion in last year's directors' report, and cannot foresee a dramatic upturn in the short term. However, the Directors feel that the company is very well placed to thrive given that the services it provides are particularly appropriate as customers seek to outsource an increasing range of activities.

Proposed dividends

The directors do not recommend the payment of a final dividend (2001: £Nil).

Directors and directors' interests

The directors who held office during the year were as follows:

CM Johnson
JG Mayes
GC Smith
P Keane
MDC Stuart
SJ Dabson (appointed 25/2/2002)

The interests of the directors who held office at 30 September 2002 in the share capital of the company according to the Register of Directors' Interests were as follows:

	Class of share	Interest at end of year	Interest at start of year
CM Johnson	Ordinary	2,501	2,501
JG Mayes	Ordinary	2,501	2,501
GC Smith	Ordinary	1,000	1,000

The interests of the directors in the holding company, Paragon Electronics Limited at 30 September 2002 are shown in the consolidated accounts of that company.

Political and charitable contributions

The company made no political contributions during the year (2001: £Nil). Donations to UK charities amounted to £3,315 (2001: £1,736).

Directors' report *(continued)*

Supplier payment policy

It is the company's payment policy to negotiate terms with its suppliers in all sectors and to ensure they know the terms on which payments will take place when the business is agreed. It is our policy to abide by these terms and accordingly the company has signed up to the code of practice drawn up by the Better Payment Practice Group. The average creditor days for the year ended 30 September 2002 was 57 days (*2001: 59 days – restated to be consistent in method of calculation*).

Auditors

KPMG resigned as auditors on 16 May 2002 and the directors thereupon appointed KPMG LLP to fill a casual vacancy arising. A resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



JG Mayes
Directors

Wolseley Road
Kempston
Bedford
MK42 7UP

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- 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 keeping proper financial records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



Altius House
One North Fourth Street
Milton Keynes
MK9 1NE
United Kingdom

Report of the independent auditors to the members of Paragon Electronic Components PLC

We have audited the financial statements on pages 5 to 18

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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.

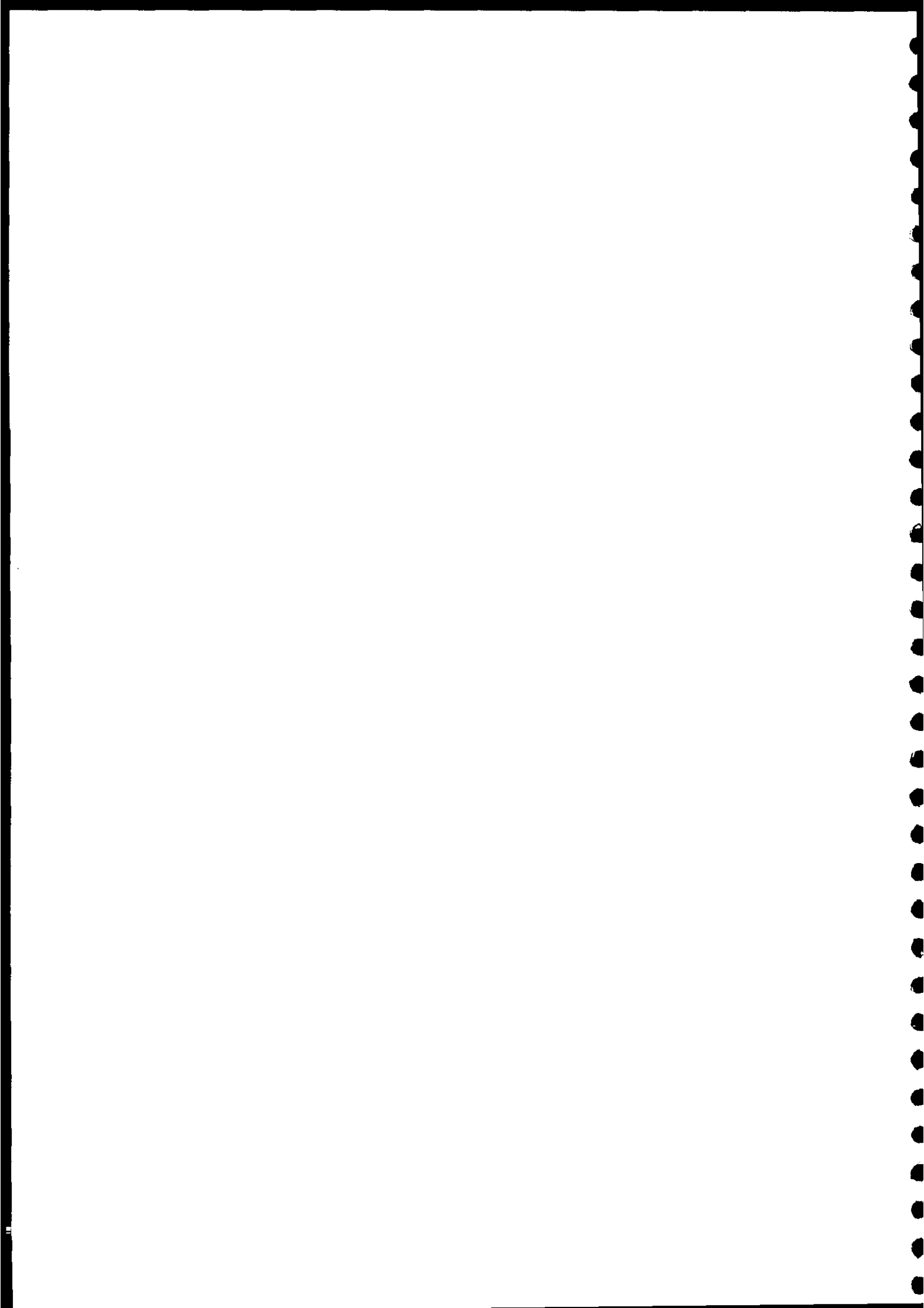
Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

*Chartered Accountants
Registered Auditor*

29 April 2003



Profit and loss account

for the year ended 30 September 2002

	Notes	2002 £	2001 £
Turnover	2	9,319,528	12,041,920
Cost of sales		(7,334,896)	(9,569,012)
Gross profit		1,984,632	2,472,908
Distribution costs		(39,981)	(33,849)
Administrative expenses		(1,965,672)	(2,074,109)
Other operating income	3	95,000	126,500
Operating profit		73,979	491,450
Interest receivable and similar income		-	153
Interest payable and similar charges	7	(42,896)	(71,743)
Profit on ordinary activities before taxation	4-6	31,083	419,860
Tax on profit on ordinary activities	8	(19,138)	(101,283)
Profit on ordinary activities after taxation		11,945	318,577
Retained profit brought forward		729,634	411,057
Retained profit carried forward	16	741,579	729,634

A statement of movements on reserves is given in note 16.

There were no acquisitions or disposals of activities during the year.

There were no recognised gains or losses during the year other than the retained profit shown above.

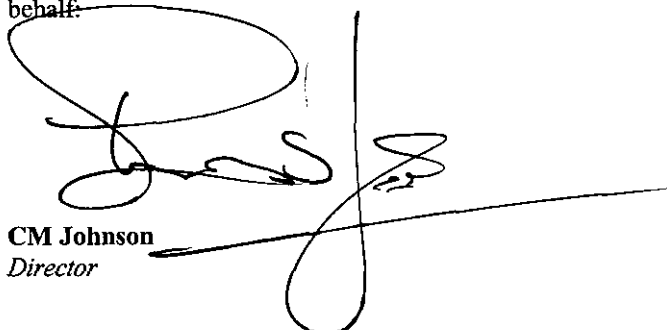
The notes on pages 8 to 18 form part of these financial statements.

Balance sheet
at 30 September 2002

	Notes	2002	2001
		£	£
Fixed assets			
Tangible assets	9	393,995	446,870
Current assets			
Stocks	10	1,121,316	1,364,148
Debtors	11	1,680,574	2,408,713
Cash at bank and in hand		9,107	1,095
		<u>2,810,997</u>	<u>3,773,956</u>
Creditors: amounts falling due within one year	12	<u>(2,194,105)</u>	<u>(3,036,022)</u>
Net current assets		<u>616,892</u>	<u>737,934</u>
Total assets less current liabilities		<u>1,010,887</u>	<u>1,184,804</u>
Creditors: amounts falling due after more than one year	13	<u>(194,157)</u>	<u>(385,168)</u>
Provisions for liabilities and charges	14	<u>(5,149)</u>	<u>-</u>
Net assets		<u>811,581</u>	<u>799,636</u>
Capital and reserves			
Called up share capital	15	51,002	51,002
Share premium	16	19,000	19,000
Profit and loss account	16	741,579	729,634
Equity shareholders' funds	19	<u>811,581</u>	<u>799,636</u>

The notes on pages 8 to 18 form part of the financial statements.

These financial statements were approved by the board of directors on 29/4/03 and were signed on its behalf:


CM Johnson
Director

Cash flow statement

for the year ended 30 September 2002

	Notes	2002 £	2001 £
Net cash inflow/(outflow) from operating activities	20	1,061,988	(490,113)
Return on investments and servicing of finance			
Interest received		-	153
Interest paid		(29,992)	(55,132)
Interest element of finance leases		(12,904)	(16,611)
Net cash outflow from returns on investment and servicing of Finance		(42,896)	(71,590)
Taxation		(110,788)	(15,000)
Capital expenditure			
Purchase of tangible fixed assets		(31,310)	(74,445)
Sale of plant and machinery		-	43,530
Net cash outflow from capital expenditure		(31,310)	(30,915)
Cash inflow/(outflow) before financing		876,994	(607,618)
Financing			
Capital element of hire purchase payments		(130,581)	(97,759)
Repayment of loans		(132,500)	(17,500)
Loans received in year		31,000	87,000
Net cash outflow from financing		(232,081)	(28,259)
Increase/(decrease) in cash in the period		644,913	(635,877)
Reconciliation of net cash flow to movement in net debt	21		
Increase/(decrease) in cash in the period		644,913	(635,877)
Cash flow from decrease in net debt:			
Repayment of loans		132,500	(17,500)
Movement in respect of hire purchase agreements		130,581	(321,593)
Loans received in year		(31,000)	87,000
New finance leases		(58,454)	-
		173,627	(252,093)
Movement in net debt in the period		818,540	(887,970)
Opening net debt		(1,504,955)	(616,985)
Closing net debt		(686,415)	(1,504,955)

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Fixtures and fittings	-	15% per annum
Motor vehicles	-	25% per annum
Office equipment	-	15% per annum
Computer equipment	-	25% to 33% per annum

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date except as otherwise required by FRS 19.

Notes (continued)

1 Accounting policies (continued)

Turnover

Turnover represents the amounts (excluding value added tax) receivable from the company's principal activities as detailed in the directors report.

2 Analysis of turnover

By geographical market

	2002 £	2001 £
United Kingdom	7,699,475	11,178,697
USA	1,620,053	863,223
	<u>9,319,528</u>	<u>12,041,920</u>

3 Other operating income

	2002 £	2001 £
Management income	<u>95,000</u>	<u>126,500</u>

4 Profit on ordinary activities before taxation

	2002 £	2001 £
<i>Profit on ordinary activities before taxation is stated</i>		
<i>After charging</i>		
Auditors' remuneration:		
Audit	11,000	11,000
Other services	3,200	3,200
Depreciation and other amounts written off tangible fixed assets:		
Owned	31,088	32,681
Leased	109,920	83,338
Operating lease costs:		
Land and buildings	97,500	97,500
Loss on disposal of fixed assets	1,630	-
<i>After crediting</i>		
Foreign currency gains	36,750	63,659
Profit on disposal of fixed assets	-	32,513
	<u>36,750</u>	<u>63,659</u>

Notes (continued)

5 Remuneration of directors

	2002 £	2001 £
Directors' emoluments	365,230	236,349
Company contributions to money purchase pension schemes	24,145	15,834

The aggregate emoluments of the highest paid director was £96,389 and company pension contributions of £6,092 were made to a money purchase scheme on his behalf.

Retirement benefits are accruing to the following number of directors under:

	2002 No	2001 No
Money purchase schemes	4	3

6 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2002	2001
Distribution	39	45
Administration	6	5
	45	50

The aggregate payroll costs of these persons were as follows:

	2002 £	2001 £
Wages and salaries	996,571	943,030
Social security costs	90,022	95,270
Other pension costs	38,944	28,393
	1,125,537	1,066,693

Notes (continued)

7 Interest payable and similar charges

	2002 £	2001 £
On bank loans and overdrafts	18,052	38,643
On all other loans	11,940	16,489
Finance charges payable in respect of finance leases and hire purchase Contracts	12,904	16,611
	<u>42,896</u>	<u>71,743</u>

8 Taxation

Analysis of charge in period

	2002 £	2001 £
<i>UK corporation tax</i>		
Current tax on income for the year	13,989	110,991
Adjustments in respect of prior years	-	(9,708)
Total current tax	<u>13,989</u>	<u>101,283</u>
<i>Deferred tax</i>		
Origination/reversal of timing differences	5,149	-
Tax on profit on ordinary activities	<u>19,138</u>	<u>101,283</u>

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2001: lower) than the standard rate of corporation tax in the UK (19.5%, 2001: 30%). The differences are explained below.

	2002 £	2001 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	31,083	419,860
Current tax at 19.5% (2001: 30%)	6,061	125,958
<i>Effects of:</i>		
Expenses not deductible for tax purposes	104	753
Capital allowances for period less than/ (in excess) of depreciation	7,824	(16,350)
Adjustment in respect of prior years	-	(9,078)
Total current tax charge (see above)	<u>13,989</u>	<u>101,283</u>

Notes (continued)

9 Tangible fixed assets

	Fixtures and fittings £	Motor vehicles £	Office equipment £	Computer equipment £	Total £
<i>Cost</i>					
At beginning of year	223,018	331,359	72,733	104,939	732,049
Additions	36,589	11,000	2,338	39,836	89,763
Disposals	(1,630)	-	-	-	(1,630)
At end of year	257,977	342,359	75,071	144,775	820,182
<i>Depreciation and diminution in value</i>					
At beginning of year	87,574	81,199	33,804	82,602	285,179
Charge for year	35,415	82,017	9,045	14,531	141,008
On disposal	-	-	-	-	-
At end of year	122,989	163,216	42,849	97,133	426,187
<i>Net book value</i>					
At 30 September 2002	134,988	179,143	32,222	47,642	393,995
At 30 September 2001	135,444	250,160	38,929	22,337	446,870

Included in the total net book value of tangible fixed assets is £298,986 (2001: £342,539) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on such assets was £109,920 (2001: £83,338).

Notes (continued)

10 Stock

	2002 £	2001 £
Finished goods and goods for resale	1,121,316	1,364,148

There is no material difference between the replacement cost of stocks and their balance sheet amounts.

11 Debtors

	2002 £	2001 £
Trade debtors	1,673,072	2,407,550
Amounts owed from group undertakings	7,102	913
Other debtors	400	250
	<u>1,680,574</u>	<u>2,408,713</u>

12 Creditors: amounts falling due within one year

	2002 £	2001 £
Bank overdraft	330,432	967,333
Other loans	49,000	-
Obligations under hire purchase contracts	121,933	121,049
Trade creditors	1,385,175	1,393,280
Amounts owed to group undertakings	211,668	171,390
Corporation tax	13,989	110,788
Taxation and social security	36,103	153,425
Other creditors	6,414	69,474
Accruals and deferred income	39,391	49,283
	<u>2,194,105</u>	<u>3,036,022</u>

The bank overdraft is secured by a fixed and floating charge over all the assets of the company.

Notes (continued)

13 Creditors: amounts falling due after more than one year

	2002 £	2001 £
Other loans	118,000	236,000
Obligations under hire purchase contracts	76,157	149,168
	<u>194,157</u>	<u>385,168</u>

The above liabilities comprise loans from the company's self-administered pension scheme and the directors' unapproved pension schemes, and hire purchase liabilities.

The loans are repayable on 30 September 2006 and 2007 and carry interest at 3% over bank base rates.

	2002 £	2001 £
Analysis of debt:		
Debt can be analysed as falling due:		
In one year or less; or on demand	379,432	1,120,882
Between one and two years	118,000	338,451
Between two and five years	-	46,717
	<u>497,432</u>	<u>1,506,050</u>

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2002 £	2001 £
Within one year	121,933	121,049
In the second to fifth year	76,157	149,168
	<u>198,090</u>	<u>270,217</u>

Notes (continued)

14 Provisions for liabilities and charges

The amounts provided for deferred taxation and the amounts not provided are set out below:

	2002
	£
At beginning of year	-
Charge to the profit and loss account for the year	5,149
	<hr/>
At the end of the year	5,149
	<hr/>

The elements of deferred taxation are as follows:

	2002 (Provided)	2001 (Unprovided)
	£	£
Difference between accumulated depreciation and capital allowances	(4,688)	3,136
Other short term timing differences	(461)	(757)
	<hr/>	<hr/>
At the end of the year	(5,149)	2,379
	<hr/>	<hr/>

Following the implementation of FRS 19 – Deferred Tax the deferred tax liability arising on the differences between accumulated depreciation and capital allowances and the short term timing differences has been recognised in full.

15 Called up share capital

	2002 £	2001 £
<i>Authorised</i>		
100,000 ordinary shares of £1 each	100,000	100,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
51,002 ordinary shares of £1 each	51,002	51,002
	<hr/>	<hr/>

Notes (continued)

20 Reconciliation of operating profit to net cash outflow from operating activities

	2002 £	2001 £
Operating profit	73,979	491,450
Depreciation charge	141,008	116,019
Loss/(profit) on disposal of fixed assets	1,630	(32,513)
Movement in stocks	242,832	(21,894)
Movement in debtors	728,139	(583,418)
Movement in creditors	(125,600)	(459,757)
Net cash inflow/(outflow) from operating activities	1,061,988	(490,113)

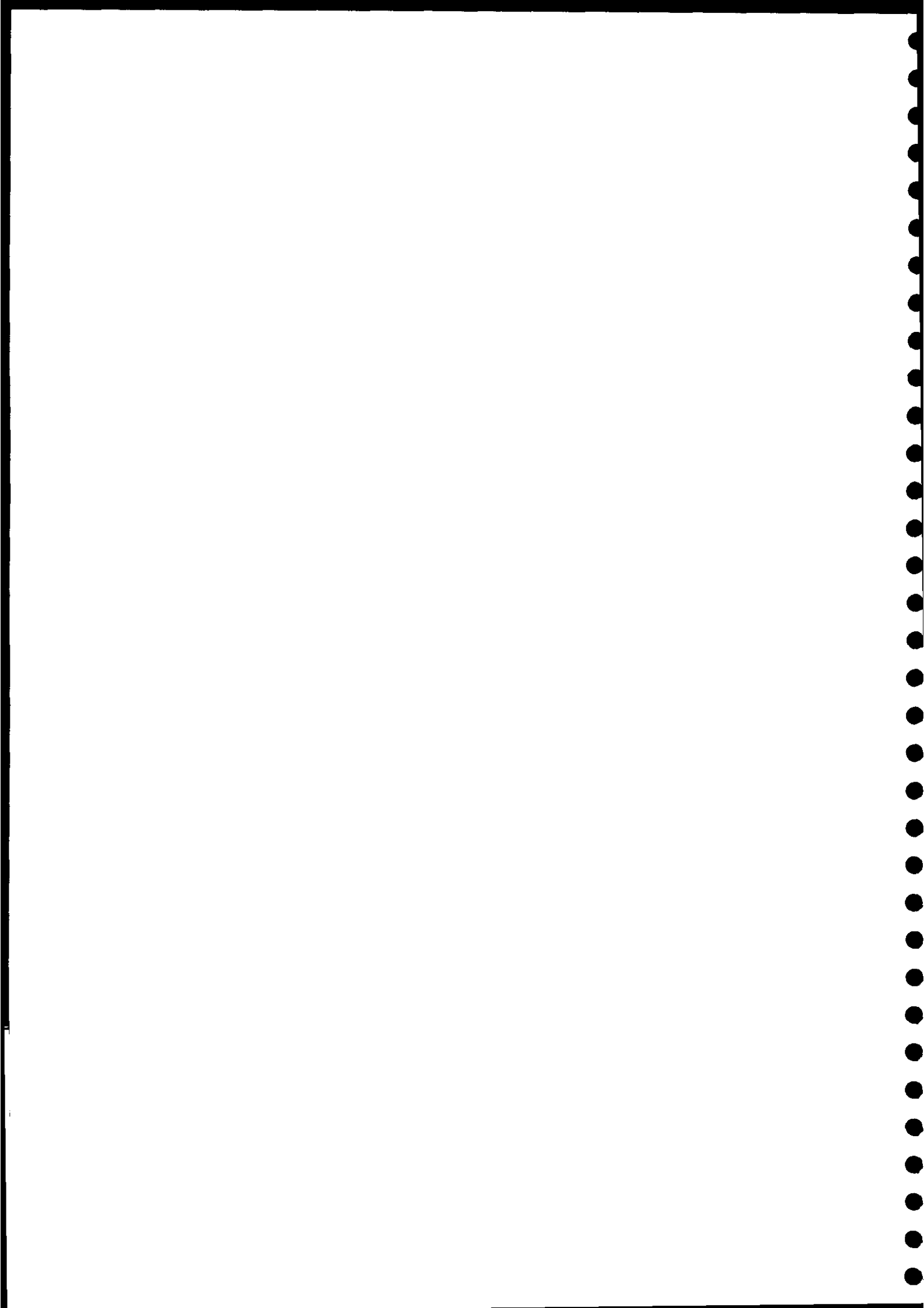
21 Analysis of net debt

	At beginning of year £	Cash flow £	Other non cash Changes £	At end of year £
Cash at bank	1,095	8,012	-	9,107
Overdrafts	(967,333)	636,901	-	(330,432)
	(966,238)	644,913	-	(321,325)
Debt due within one year	(32,500)	32,500	(49,000)	(49,000)
Debt due after two or more years	(236,000)	69,000	49,000	(118,000)
Finance leases	(270,217)	130,581	(58,454)	(198,090)
	(1,504,955)	876,994	(58,454)	(686,415)

22 Pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £38,944 (2001: £ 29,393).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.



Notes (continued)

16 Share premium and reserves

	Share premium account £	Profit and loss account £
At beginning of year	19,000	729,634
Retained profit for the year	-	11,945
At end of year	19,000	741,579

17 Contingent liabilities

The Company is party to a group banking arrangement which provides for a £1,000,000 composite overdraft facility. In connection with this arrangement, the Company has guaranteed the overdrafts of certain fellow subsidiaries and its immediate holding company. At 30 September 2002, the aggregate amount of such overdrafts was £330,432 (2001: £967,333).

18 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2002 Land and buildings £	2001 Land and buildings £
Operating leases which expire:		
After more than 5 years	97,500	97,500

The group operates from freehold premises which are leased from the group's self administered pension scheme under a 15 year agreement which terminates on 25 July 2013. The current annual rent paid to the scheme is £97,500 which is due for review on 25 July 2003 and 25 July 2008.

19 Reconciliation of movement in shareholders' funds

	2002 £	2001 £
Profit for the financial year	11,945	318,577
Opening shareholders' funds	799,636	481,059
Closing shareholders' funds	811,581	799,636

Notes (continued)

23 Related party transactions

The company is controlled by Paragon Electronics Limited, its immediate parent company. The ultimate controlling parties are CM Johnson and JG Mayes who own 100% of the share capital of Paragon Electronics Limited.

During the year Paragon Electronics Limited raised management charges totalling £426,000 (2001: £600,000) for management services provided by JG Mayes and CM Johnson during the period. At 30 September 2002, the company was indebted to Paragon Electronics Limited in the sum of £361,668 (2001: £159,022), of which this amount has been included in creditors (note 12).

During the year, the company raised management charges totalling £95,000 (2001: £126,500) to RFID Components Limited (RFID), its fellow subsidiary undertaking, for management and administrative services provided during the year. At 30 September 2002, the company was indebted to RFID in the sum of £7,102 (2001: £12,902).

The company has loans from the company's self administered pension scheme. The balance outstanding at the year end was £167,000 (2001: £136,000).

24 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Paragon Electronics Limited, a company incorporated in England.

The largest group in which the results of the company are consolidated is that headed by Paragon Electronics Limited. The consolidated accounts of this company are available to the public and may be obtained from Companies House, Crown Way, Maindy, Cardiff. No other group accounts include the results of the company.