

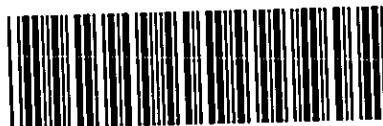
Paragon Electronic Components PLC

**Directors' report and financial
statements**

Registered number 2590508

30 September 2008

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2008.

Principal activities

The principal activities of the company are the provision of electronic component procurement logistics, distribution, managing contract electronics manufacturing and allied services.

Business review

The Directors are pleased to report that turnover, operating profit and profit after tax have all increased on 2007, as they also did last year against 2006. The directors set objectives of increasing customer service levels and improving operational efficiency and good progress has been made again during the year. The company has also benefitted from the synergies arising following the acquisition of the Baxcol Limited Group by its parent company in 2007. The results for the year are set out in detail on page 6.

The company strives to be the best it can be through adopting leading edge management techniques and business processes and constantly seeks ways to improve and innovate. The Directors consider that the company is well positioned for further profitable growth in 2008.

Principal risks and uncertainties

The Directors constantly review the risks and uncertainties that face the business, key examples being the loss of a major customer and the failure of a major supplier. The company reduces these risks by endeavouring to ensure that no customer represents more than 15% of turnover and ensuring multiple sourcing from suppliers wherever possible. The company has continued to expand in a controlled manner during the year.

The company has continued to invest significantly in information technology to streamline and manage the increasingly complicated demands of customers. The failure of these systems would significantly hamper the operation of the business. Therefore the company has an array of dual redundancy and warm backup solutions for critical hardware and software to ensure that the integrity of data is, as far as is technically feasible, never compromised.

Key performance indicators

Given the straight forward nature of the business, the company's directors' are of the opinion that an analysis using KPI's is not necessary for an understanding of the performance, development and position of the company.

Proposed dividends

The directors do not recommend the payment of a final dividend (2007: £Nil).

Directors

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

CM Johnson
JG Mayes
GC Smith
PD Keane
MDC Stuart
SJ Dabson

Directors' report *(continued)*

Political and charitable contributions

The company made no political contributions during the year (2007: £nil). The company made no donations to UK charities during the year (2007: £nil).

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 the company's 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.


Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment 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
Director

Wolseley Road
Kempston
Bedford
MK42 7UP

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have 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.



KPMG LLP

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

Independent auditors' report to the members of Paragon Electronic Components PLC

We have audited the financial statements of Paragon Electronic Components Limited for the year ended 30 September 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

Independent auditors' report to the members of Paragon Electronic Components PLC (*continued*)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

16 February 2009

Profit and loss account

for the year ended 30 September 2008

	Notes	2008 £	2007 £
Turnover	1, 2	15,804,929	15,039,602
Cost of sales		(12,021,130)	(11,463,595)
Gross profit		3,783,799	3,576,007
Distribution costs		(44,873)	(38,662)
Administrative expenses		(3,161,688)	(3,125,170)
Other operating income	3	96,000	196,000
Operating profit		673,238	608,175
Interest receivable and similar income	8	1,207	2,007
Interest payable and similar charges	7	(18,411)	(19,929)
Profit on ordinary activities before taxation	4-6	656,034	590,253
Tax on profit on ordinary activities	9	(177,937)	(153,219)
Profit on ordinary activities after taxation	17	478,097	437,034

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 9 to 20 form part of these financial statements.

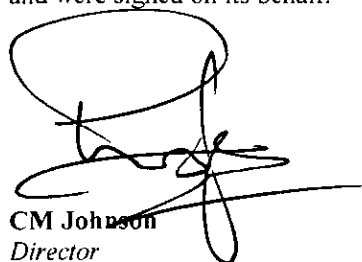
Balance sheet
at 30 September 2008

	Notes	2008	2007
		£	£
Fixed assets			
Tangible assets	10	233,429	261,010
Current assets			
Stocks	11	2,372,860	2,044,629
Debtors	12	4,378,073	4,016,691
Cash at bank and in hand		51,891	245,189
		<u>6,802,824</u>	<u>6,306,509</u>
Creditors: amounts falling due within one year	13	<u>(4,497,511)</u>	<u>(4,534,842)</u>
Net current assets		<u>2,305,313</u>	<u>1,771,667</u>
Total assets less current liabilities		<u>2,538,742</u>	<u>2,032,677</u>
Creditors: amounts falling due after more than one year	14	(50,710)	(29,820)
Provisions for liabilities	15	-	-
Net assets		<u>2,488,032</u>	<u>2,002,857</u>
Capital and reserves			
Called up share capital	16	51,002	51,002
Share premium	17	19,000	19,000
Profit and loss account	17	2,418,030	1,932,855
Shareholders' funds	19	<u>2,488,032</u>	<u>2,002,857</u>

The notes on pages 9 to 20 form part of the financial statements.

These financial statements were approved by the board of directors and were authorised for issue on and were signed on its behalf:

16/2/09


CM Johnson
Director

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

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

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 is recognised on dispatch and represents the amounts (excluding value added tax) receivable from the company's principal activities as detailed in the directors' report.

Employee share schemes

There is a share option scheme which allows certain senior management employees of the company to acquire shares in the parent company.

An expense is recognised in the income statement over the vesting period on all share-based payment schemes granted after 7 November 2002, with a corresponding increase in equity. Awards made before this date are not accounted for under FRS 20. For awards made after 7 November 2002 the expense in the income statement is based on the fair value to the employee of the option granted, calculated using an option pricing model.

2 Analysis of turnover

By geographical market

	2008 £	2007 £
United Kingdom	15,575,372	14,784,797
USA	54,380	230,725
Rest of the world	175,177	24,080
	<u>15,804,929</u>	<u>15,039,602</u>

3 Other operating income

	2008 £	2007 £
Management income	96,000	196,000
	<u>96,000</u>	<u>196,000</u>

4 Profit on ordinary activities before taxation

	2008 £	2007 £
<i>Profit on ordinary activities before taxation is stated</i>		
<i>After charging/(crediting):</i>		
Auditors' remuneration:		
Audit of these financial statements	13,000	13,000
Other services relating to taxation	2,560	3,750
Depreciation and other amounts written off tangible fixed assets:		
Owned	78,929	53,522
Leased	50,638	77,580
Operating lease costs:		
Land and buildings	110,000	110,000
Profit on disposal of fixed assets	(4,221)	(3,908)
Foreign currency gains	(18,108)	(28,014)
	<u>189,808</u>	<u>365,930</u>

Notes (continued)

5 Remuneration of directors

	2008 £	2007 £
Directors' emoluments	582,764	570,420
Company contributions to money purchase pension schemes	30,206	29,024
	<u>612,970</u>	<u>599,444</u>

The aggregate emoluments of the highest paid director were £168,498 (2007: £176,869) and company pension contributions of £6,089 (2007: £6,035) were made to a money purchase scheme on his behalf.

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

	2008 No	2007 No
Money purchase schemes	<u>4</u>	<u>4</u>

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	
	2008	2007
Distribution	50	50
Administration	13	14
	<u>63</u>	<u>64</u>

The aggregate payroll costs of these persons were as follows:

	2008 £	2007 £
Wages and salaries	1,724,621	1,584,291
Social security costs	186,899	167,105
Other pension costs	64,664	61,571
Share based payments (see note 22)	7,078	33,914
	<u>1,983,262</u>	<u>1,846,881</u>

Notes (continued)

7 Interest payable and similar charges

	2008 £	2007 £
On bank loans and overdrafts	1,409	818
On all other loans	9,548	9,985
Finance charges payable in respect of finance leases and hire purchase contracts	7,454	9,126
	<u>18,411</u>	<u>19,929</u>

8 Interest receivable and similar income

	2008 £	2007 £
Bank interest	<u>1,207</u>	<u>2,007</u>

9 Taxation

Analysis of charge in period

	2008 £	2007 £
<i>UK corporation tax</i>		
Current tax on income for the year	170,253	159,823
Adjustments in respect of previous periods	(1,871)	(74)
Total current tax	<u>168,382</u>	<u>159,749</u>
<i>Deferred tax (see note 15)</i>		
Origination/reversal of timing differences		
Relating to current year	9,555	(6,530)
Relating to prior year	-	-
	<u>9,555</u>	<u>(6,530)</u>
Tax on profit on ordinary activities	<u>177,937</u>	<u>153,219</u>

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2007: lower) than the standard rate of corporation tax in the UK of 28% (2007: 30%).

Notes (continued)

9 Taxation (continued)

The differences are explained below.

	2008 £	2007 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	656,034	590,253
Current tax at 28% (2007: 30%)	183,690	177,076
<i>Effects of:</i>		
Expenses not deductible for tax purposes	875	2,190
Depreciation in excess of capital allowances	11,242	10,764
Impact of rate change on current year deferred tax credit	-	683
Other short term timing differences	(20,742)	(1,207)
Other tax adjustments	5,871	-
Group relief for nil proceeds	(12,665)	(39,857)
FRS 20 – share based payment	1,982	10,174
Adjustments to tax charge in respect of previous periods	(1,871)	(74)
Total current tax charge (see above)	168,382	159,749

10 Tangible fixed assets

	Fixtures and fittings £	Motor vehicles £	Office equipment £	Computer equipment £	Total £
<i>Cost</i>					
At beginning of year	281,762	330,386	125,751	258,346	996,246
Additions	13,531	68,987	651	18,816	101,985
Disposals	-	(14,516)	-	(1,549)	(16,065)
At end of year	295,293	384,858	126,402	275,613	1,082,166
<i>Depreciation and diminution in value</i>					
At beginning of year	259,049	183,312	95,474	197,400	735,235
Charge for year	11,096	83,324	8,465	26,682	129,567
On disposal	-	(14,516)	-	(1,549)	(16,065)
At end of year	270,145	252,120	103,939	222,533	848,737
<i>Net book value</i>					
At 30 September 2008	25,148	132,738	22,463	53,080	233,429
At 30 September 2007	22,713	147,074	30,277	60,946	261,010

Included in the total net book value of tangible fixed assets is £116,838 (2007: £147,073) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on such assets was £50,638 (2007: £77,580).

Notes (continued)

11 Stocks

	2008 £	2007 £
Finished goods and goods for resale	2,372,860	2,044,629

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

12 Debtors

	2008 £	2007 £
Trade debtors	2,609,127	2,969,390
Amounts owed by group undertakings	1,677,444	994,775
Other debtors	49,131	600
Deferred tax (see note 15)	42,371	51,926
	<u>4,378,073</u>	<u>4,016,691</u>

13 Creditors: amounts falling due within one year

	2008 £	2007 £
Bank overdraft	613,186	134,876
Other loans	87,000	98,070
Obligations under hire purchase contracts	57,790	61,343
Trade creditors	2,833,963	2,794,321
Amounts owed to group undertakings	209,102	613,235
Corporation tax	101,043	159,864
Taxation and social security	274,955	390,898
Other creditors	21,173	20,024
Accruals and deferred income	299,299	262,211
	<u>4,497,511</u>	<u>4,534,842</u>

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

14 Creditors: amounts falling due after more than one year

	2008 £	2007 £
Other loans	-	-
Obligations under hire purchase contracts	50,710	29,820
	<u>50,710</u>	<u>29,820</u>

Notes (continued)

14 Creditors: amounts falling due after more than one year (continued)

	2008 £	2007 £
Analysis of debt:		
Debt can be analysed as falling due:		
In one year or less; or on demand	700,186	232,946
Between one and two years	-	-
	<u>700,186</u>	<u>232,946</u>

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

	2008 £	2007 £
Within one year	57,790	61,343
In the second to fifth year	50,710	29,820
	<u>108,500</u>	<u>91,163</u>

15 Deferred taxation

The amounts provided for deferred taxation are set out below:

	2008 £
At beginning of year	(51,926)
Charge to the profit and loss account for the year	9,555
At the end of the year	<u>(42,371)</u>

The elements of deferred taxation are as follows:

	2008 £	2007 £
Difference between accumulated depreciation and capital allowances	(40,622)	(29,436)
Other short term timing differences	(1,749)	(22,490)
At the end of the year	<u>(42,371)</u>	<u>(51,926)</u>

Notes (continued)

16 Called up share capital

	2008 £	2007 £
<i>Authorised</i>		
100,000 ordinary shares of £1 each	100,000	100,000
<i>Allotted, called up and fully paid</i>		
51,002 ordinary shares of £1 each	51,002	51,002

17 Share premium and reserves

	Share premium account £	Profit and loss account £
At beginning of year	19,000	1,932,855
Credit in relation to share based payments	-	7,078
Retained profit for the year	-	478,097
At end of year	19,000	2,418,030

18 Commitments

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

	2008 Land and buildings £	2007 Land and buildings £
Operating leases which expire:		
After more than 5 years	110,000	110,000

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 £110,000 which was due for review in July 2008 but has not taken place as at 30 September 2008.

Notes (continued)

19 Reconciliation of movement in shareholders' funds

	2008 £	2007 £
Profit for the financial year	478,097	437,034
Credit in relation to share based payments	7,078	33,914
Opening shareholders' funds	2,002,857	1,531,909
	<hr/>	<hr/>
Closing shareholders' funds	2,488,032	2,002,857
	<hr/>	<hr/>

20 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 £64,664 (2007: £61,571).

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

21 Employee share schemes

Share based payments

The terms and conditions of grants in the parent company are as follows, whereby all options are settled by physical delivery of shares:

Grant date/ Employees entitled/ nature of scheme	Number of instruments	Vesting conditions	Contractual life of options
Equity-settled award to 1 employee granted by the company on 17 November 2003	2,760	See below	17 November 2013
Equity-settled award to 1 employee granted by the company on 17 November 2003	2,760	See below	17 November 2013
Equity-settled award to 1 employee granted by the company on 17 November 2003	3,313	See below	17 November 2013
Equity-settled award to 1 employee granted by the company on 17 November 2003	1,380	See below	17 November 2013

Beneficiaries are entitled to exercise their share options between 5 and 10 years after the grant date.

The number and weighted average exercise prices of share options are as follows:

	2008 Weighted average exercise price £	2008 Number of options
At the beginning of the period	19.41	10,203
Granted during the period	-	-
	<hr/>	<hr/>
At the end of the period	19.41	10,203
	<hr/>	<hr/>
Exercisable at the end of the period	-	-
	<hr/>	<hr/>

Notes (continued)

22 Employee share schemes (continued)

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black Scholes model.

	2008
Fair value at measurement date	£1.00
Weighted average share price	£19.41
Exercise price	£19.41
Expected volatility	10%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	5 yr
Expected dividends	-
Risk free interest rate (based on national government bonds)	7.2%

The expected volatility is wholly based on the historic volatility calculated based on the weighted average remaining life of the share options, adjusted for any expected changes to future volatility due to publicly available information.

The total expenses recognised for the period arising from share based payments are as follows:

	2008 £	2007 £
Equity settled share based payments	7,078	33,914
Total carrying amount of liabilities	<u>40,992</u>	<u>33,914</u>

23 Related party transactions

As the company is a wholly owned subsidiary of Paragon Electronics Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

The company has loans from the company's self administered pension scheme. The balance outstanding at the year end was £87,000 (2007: £98,070). The company is charged interest on this loan at a rate of 3.00% per annum over base rate, and amounted to £7,358 for the year.

The company 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 £110,000. The current annual rent paid to the scheme was due for renewal in July 2008 but has not taken place as at 30 September 2008.

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 financial statements of Paragon Electronics Limited 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.