

Paragon Electronic Components PLC

**Directors' report and financial
statements**

Registered number 2590508

30 September 2003



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2003.

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 results for the year are set out in detail on page 5.

The directors are pleased to report that, despite difficult market conditions, turnover and gross profit have both increased on 2002. The company continues to perform well with the investments into information technology, marketing initiatives and staff development having increased operational efficiency and improved customer service levels further during the year.

If it were not for the exceptional costs arising in connection with the cessation of trading of Birchleaf Engineering Limited, which was acquired by the company's parent company during the year, the company would have achieved a four-fold increase in operating profit.

The directors consider that the company is very well positioned for further growth in 2004 and are confident that it will return to profitability.

Proposed dividends

The directors do not recommend the payment of a final dividend (2002: £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

The interests of the directors who held office at 30 September 2003 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
JG Mayes	Ordinary	-	2,501
GC Smith	Ordinary	-	1,000

The interests of the directors in the holding company, Paragon Electronics Limited at 30 September 2003 are shown in the consolidated accounts of that company.

Political and charitable contributions

The company made no political contributions during the year (2002: £Nil). Donations to UK charities amounted to £1,177 (2002: £3,315).

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.

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
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 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Kings LLP

*Chartered Accountants
Registered Auditor*

28 April 2004

Profit and loss account

for the year ended 30 September 2003

	Notes	2003 £	2002 £
Turnover	2	10,442,039	9,319,528
Cost of sales		(8,023,227)	(7,334,896)
Gross profit		2,418,812	1,984,632
Distribution costs		(52,862)	(39,981)
Administrative expenses	- other	(1,978,451)	(1,965,672)
	- exceptional	(407,832)	-
Other operating income	3	90,000	95,000
Operating (loss)/profit		(101,851)	73,979
Interest receivable and similar income	8	16	-
Interest payable and similar charges	7	(43,007)	(42,896)
(Loss)/profit on ordinary activities before taxation	4-6	(144,842)	31,083
Tax on (loss)/ profit on ordinary activities	9	11,036	(19,138)
(Loss)/profit on ordinary activities after taxation		(133,806)	11,945
Retained profit brought forward		741,579	729,634
Retained profit carried forward	17	607,773	741,579

A statement of movements on reserves is given in note 17.

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.

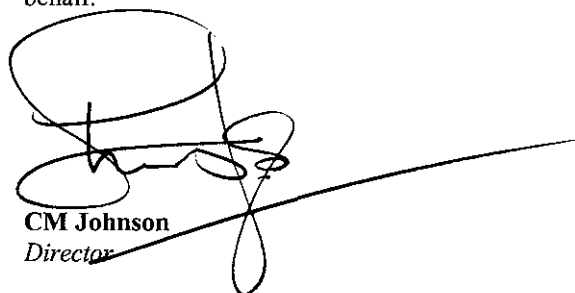
Balance sheet

at 30 September 2003

	Notes	£	2003 £	£	2002 £
Fixed assets					
Tangible assets	10		273,433		393,995
Current assets					
Stocks	11	1,410,930		1,121,316	
Debtors	12	2,136,410		1,680,574	
Cash at bank and in hand		357,415		9,107	
			<u>3,904,755</u>	<u>2,810,997</u>	
Creditors: amounts falling due within one year	13	(3,314,675)		(2,194,105)	
Net current assets			<u>590,080</u>	<u>616,892</u>	
Total assets less current liabilities			<u>863,513</u>	<u>1,010,887</u>	
Creditors: amounts falling due after more than one year	14	(185,738)		(194,157)	
Provisions for liabilities and charges	15	-		(5,149)	
Net assets			<u>677,775</u>	<u>811,581</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	607,773		741,579	
Equity shareholders' funds	20		<u>677,775</u>	<u>811,581</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 28/04/04 and were signed on its behalf:



CM Johnson
Director

Cash flow statement

for the year ended 30 September 2003

	Notes	2003		2002	
		£	£	£	£
Net cash (outflow)/inflow from operating activities	21	(47,367)		1,061,988	
Return on investments and servicing of finance					
Interest received		16	-		
Interest paid		(28,008)	(29,992)		
Interest element of finance leases		(14,999)	(12,904)		
		<hr/>		<hr/>	
Net cash outflow from returns on investment and servicing of Finance		(42,991)		(42,896)	
Taxation		(13,989)		(110,788)	
Capital expenditure					
Purchase of tangible fixed assets		(61,705)	(31,310)		
Sale of plant and machinery		24,330	-		
		<hr/>		<hr/>	
Net cash outflow from capital expenditure		(37,375)		(31,310)	
Cash inflow/(outflow) before financing		(141,722)		876,994	
Financing					
Capital element of hire purchase payments		(141,606)	(130,581)		
Repayment of loans		(5,000)	(132,500)		
Loans received in year		31,000	31,000		
		<hr/>		<hr/>	
Net cash outflow from financing		(115,606)		(232,081)	
(Decrease)/increase in cash in the period		(257,328)		644,913	
		<hr/>		<hr/>	
Reconciliation of net cash flow to movement in net debt	22				
(Decrease)/increase in cash in the period		(257,328)		644,913	
Cash flow from increase in net debt:					
Repayment of loans		5,000	132,500		
Movement in respect of hire purchase agreements		141,606	130,581		
Loans received in year		(31,000)	(31,000)		
New finance leases		(26,645)	(58,454)		
		<hr/>		<hr/>	
		88,961		173,627	
		<hr/>		<hr/>	
Movement in net debt in the period		(168,367)		818,540	
Opening net debt		(686,415)		(1,504,955)	
		<hr/>		<hr/>	
Closing net debt		(854,782)		(686,415)	
		<hr/>		<hr/>	

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

	2003 £	2002 £
United Kingdom	8,231,793	7,699,475
USA	2,210,246	1,620,053
	<u>10,442,039</u>	<u>9,319,528</u>

3 Other operating income

	2003 £	2002 £
Management income	<u>90,000</u>	<u>95,000</u>

4 Profit on ordinary activities before taxation

	2003 £	2002 £
<i>Profit on ordinary activities before taxation is stated</i>		
<i>After charging/(crediting)</i>		
Auditors' remuneration:		
Audit	12,000	11,000
Other services	3,200	3,200
Depreciation and other amounts written off tangible fixed assets:		
Owned	64,779	31,088
Leased	69,053	109,920
Operating lease costs:		
Land and buildings	97,500	97,500
Loss on disposal of fixed assets	50,751	1,630
Foreign currency gain/ (losses)	6,468	(36,750)
	<u>407,832</u>	<u>-</u>
<i>Exceptional item</i>		
Write off of amounts due from group undertaking	<u>407,832</u>	<u>-</u>

Notes (continued)

5 Remuneration of directors

	2003 £	2002 £
Directors' emoluments	451,152	365,230
Company contributions to money purchase pension schemes	24,725	24,145
	<u>475,877</u>	<u>389,375</u>

The aggregate emoluments of the highest paid director was £120,136 (2002: £96,389) and company pension contributions of £6,013 (2002: £6,092) were made to a money purchase scheme on his behalf.

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

	2003 No	2002 No
Money purchase schemes	4	4
	<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	
	2003	2002
Distribution	37	37
Administration	8	8
	<u>45</u>	<u>45</u>

The aggregate payroll costs of these persons were as follows:

	2003 £	2002 £
Wages and salaries	998,911	996,571
Social security costs	117,826	90,022
Other pension costs	46,872	38,944
	<u>1,163,609</u>	<u>1,125,537</u>

Notes (continued)

7 Interest payable and similar charges

	2003 £	2002 £
On bank loans and overdrafts	16,575	18,052
On all other loans	11,433	11,940
Finance charges payable in respect of finance leases and hire purchase Contracts	14,999	12,904
	<u>43,007</u>	<u>42,896</u>

8 Interest receivable and similar income

	2003 £	2002 £
Bank interest	16	-
	<u>16</u>	<u>-</u>

9 Taxation

Analysis of charge in period

	2003 £	2002 £
<i>UK corporation tax</i>		
Current tax on income for the year	-	13,989
Total current tax		<u>13,989</u>
<i>Deferred tax (see note 15)</i>		
Origination/reversal of timing differences		
Relating to current year	1,283	5,149
Relating to prior year	(12,318)	-
Tax on (loss)/ profit on ordinary activities	<u>(11,036)</u>	<u>19,138</u>

Notes (continued)

9 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2002: higher) than the standard rate of corporation tax in the UK of 30% (2002: 19.5%). The differences are explained below.

	2003 £	2002 £
<i>Current tax reconciliation</i>		
(Loss)/ profit on ordinary activities before tax	(144,842)	31,083
Current tax at 30% (2002: 19.5%)	(43,453)	6,061
<i>Effects of:</i>		
Expenses not deductible for tax purposes	353	104
Depreciation in excess of capital allowances	(4,517)	7,824
Other short term timing differences	3,234	-
Group relief for nil proceeds	44,382	-
Total current tax charge (see above)	-	13,989

10 Tangible fixed assets

	Fixtures and fittings £	Motor vehicles £	Office equipment £	Computer equipment £	Total £
<i>Cost</i>					
At beginning of year	257,977	342,359	75,071	144,775	820,182
Additions	3,973	52,836	22,789	8,752	88,350
Disposals	-	(204,719)	-	-	(204,719)
At end of year	261,950	190,476	97,860	153,527	703,813
<i>Depreciation and diminution in value</i>					
At beginning of year	122,989	163,216	42,849	97,133	426,187
Charge for year	34,598	66,245	11,610	21,379	133,832
On disposal	-	(129,639)	-	-	(129,639)
At end of year	157,587	99,822	54,459	118,512	430,380
<i>Net book value</i>					
At 30 September 2003	104,363	90,654	43,401	35,015	273,433
At 30 September 2002	134,988	179,143	32,222	47,642	393,995

Included in the total net book value of tangible fixed assets is £142,430 (2002: £298,986) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on such assets was £69,053 (2002: £109,920).

Notes (continued)

11 Stock

	2003 £	2002 £
Finished goods and goods for resale	1,410,930	1,121,316

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

12 Debtors

	2003 £	2002 £
Trade debtors	2,087,954	1,673,072
Amounts owed from group undertakings	26,844	7,102
Other debtors	4,286	400
Prepayments	11,439	-
Deferred tax (see note 15)	5,887	-
	<u>2,136,410</u>	<u>1,680,574</u>

13 Creditors: amounts falling due within one year

	2003 £	2002 £
Bank overdraft	936,068	330,432
Other loans	35,800	49,000
Obligations under hire purchase contracts	54,591	121,933
Trade creditors	1,798,398	1,385,175
Amounts owed to group undertakings	389,794	211,668
Corporation tax	-	13,989
Taxation and social security	36,878	36,103
Other creditors	48,735	6,414
Accruals and deferred income	14,411	39,391
	<u>3,314,675</u>	<u>2,194,105</u>

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

Notes (continued)

14 Creditors: amounts falling due after more than one year

	2003 £	2002 £
Other loans	157,200	118,000
Obligations under hire purchase contracts	28,538	76,157
	<u>185,738</u>	<u>194,157</u>

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

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

	2003 £	2002 £
Analysis of debt:		
Debt can be analysed as falling due:		
In one year or less; or on demand	971,868	379,432
Between one and two years	157,200	118,000
Between two and five years	-	-
	<u>1,129,068</u>	<u>497,432</u>

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

	2003 £	2002 £
Within one year	54,591	121,933
In the second to fifth year	28,538	76,157
	<u>83,129</u>	<u>198,090</u>

Notes (continued)

15 Provisions for liabilities and charges

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

	2003
	£
At beginning of year	5,149
Credit to the profit and loss account for the year	(11,036)
	<hr/>
At the end of the year	(5,887)
	<hr/>

The elements of deferred taxation are as follows:

	2003	2002
	£	£
Difference between accumulated depreciation and capital allowances	(2,652)	(4,688)
Other short term timing differences	(3,235)	(461)
	<hr/>	<hr/>
At the end of the year	(5,887)	(5,149)
	<hr/>	<hr/>

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

16 Called up share capital

	2003	2002
	£	£
<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)

17 Share premium and reserves

	Share premium account £	Profit and loss account £
At beginning of year	19,000	741,579
Retained loss for the year	-	(133,806)
At end of year	19,000	607,773

18 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 2003, the aggregate amount of facilities utilised was £365,311 (2002: £190,807).

19 Commitments

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

	2003 Land and buildings £	2002 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 in April 2004 and July 2008.

20 Reconciliation of movement in shareholders' funds

	2003 £	2002 £
(Loss)/profit for the financial year	(133,806)	11,945
Opening shareholders' funds	811,581	799,636
Closing shareholders' funds	677,775	811,581

Notes (continued)

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

	2003 £	2002 £
Operating (loss)/profit	(101,851)	73,979
Depreciation charge	133,832	141,008
Loss on disposal of fixed assets	50,750	1,630
Movement in stocks	(289,614)	242,832
Movement in debtors	(449,949)	728,139
Movement in creditors	609,465	(125,600)
Net cash (outflow)/inflow from operating activities	(47,367)	1,061,988

22 Analysis of net debt

	At beginning of year £	Cash flow £	Other non cash Changes £	At end of year £
Cash at bank	9,107	348,308	-	357,415
Overdrafts	(330,432)	(605,636)	-	(936,068)
	(321,325)	(257,328)	-	(578,653)
Debt due within one year	(49,000)	13,200	-	(35,800)
Debt due after two or more years	(118,000)	(39,200)	-	(157,200)
Finance leases	(198,090)	141,606	(26,645)	(83,129)
	(686,415)	(141,722)	(26,645)	(854,782)

23 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 £46,872 (2002: £38,944).

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

Notes (continued)

24 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 £576,000 (2002: £426,000) for management services provided by JG Mayes and CM Johnson during the period. At 30 September 2003, the company was indebted to Paragon Electronics Limited in the sum of £389,794 (2002: £211,668). This amount has been included in creditors (note 13).

During the year, the company raised management charges totalling £90,000 (2002: £95,000) to RFID Components Limited (RFID), its fellow subsidiary undertaking, for management and administrative services provided during the year. At 30 September 2003, the company was owed £26,844 (2002: £7,102) by RFID.

The company has loans from the company's self administered pension scheme. The balance outstanding at the year end was £193,000 (2002: £167,000).

During the year company cars were transferred to JG Mayes and CM Johnson at book value as benefits in kind. Their respective book values were £34,687 and £22,358.

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 £97,500.

25 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.