

**Paragon Electronic Components PLC**

**Directors' report and financial  
statements**

Registered number 2590508

30 September 2004



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COMPANIES HOUSE

\*LUU6N339\*

0178  
25/02/05

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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2004.

### 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 4.

The directors are pleased to report that, as anticipated, turnover increased significantly on 2003 and the company returned to profitability. The company continues to place great emphasis on increasing both customer service levels and maintaining its operational efficiency. To this end it will continue to make significant ongoing investments into developing added value services to its customers, information technology, marketing initiatives and staff development.

The directors consider that the company is very well positioned for further growth in 2005

### Proposed dividends

The directors do not recommend the payment of a final dividend (2003: £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

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company. Details of the interests of the above directors in group companies are included with the financial statements of Paragon Electronics Limited.

According to the register of directors' interest, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

### Political and charitable contributions

The company made no political contributions during the year (2003: £Nil). The company made no donations to UK charities during the year (2003: £1,177).

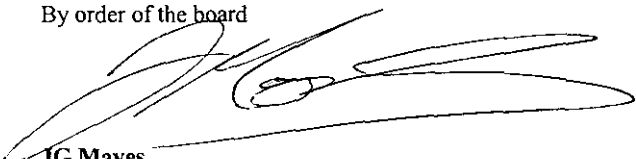
### Supplier payment policy

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  
Director

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 4 to 17.

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 2004 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

*23 February 2005*

## Profit and loss account

for the year ended 30 September 2004

	Notes	2004 £	2003 £
Turnover	2	12,151,024	10,442,039
Cost of sales		(9,595,860)	(8,023,227)
<b>Gross profit</b>		<b>2,555,164</b>	<b>2,418,812</b>
Distribution costs		(30,646)	(52,862)
Administrative expenses	- other	(2,122,734)	(1,978,451)
	- exceptional	4	(407,832)
Other operating income	3	176,000	90,000
<b>Operating profit/(loss)</b>		<b>577,784</b>	<b>(101,851)</b>
Interest receivable and similar income	8	311	16
Interest payable and similar charges	7	(47,173)	(43,007)
<b>Profit/(loss) on ordinary activities before taxation</b>	4-6	<b>530,922</b>	<b>(144,842)</b>
Tax on profit/(loss) on ordinary activities	9	(144,746)	11,036
<b>Profit/(loss) on ordinary activities after taxation</b>		<b>386,176</b>	<b>(133,806)</b>
Retained profit brought forward		607,773	741,579
<b>Retained profit carried forward</b>	17	<b>993,949</b>	<b>607,773</b>

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.

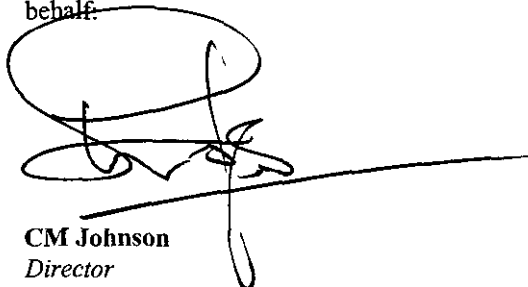
The notes on pages 7 to 17 form part of these financial statements.

**Balance sheet**  
at 30 September 2004

	Notes	2004 £	2003 £
<b>Fixed assets</b>			
Tangible assets	10	199,879	273,433
<b>Current assets</b>			
Stocks	11	1,678,676	1,410,930
Debtors	12	2,411,988	2,136,410
Cash at bank and in hand		435,272	357,415
		<u>4,525,936</u>	<u>3,904,755</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(3,586,194)</u>	<u>(3,314,675)</u>
<b>Net current assets</b>		<u>1,039,742</u>	<u>590,080</u>
<b>Total assets less current liabilities</b>		<u>1,239,621</u>	<u>863,513</u>
<b>Creditors: amounts falling due after more than one year</b>	14	<u>(175,670)</u>	<u>(185,738)</u>
<b>Provisions for liabilities and charges</b>	15	<u>-</u>	<u>-</u>
<b>Net assets</b>		<u>1,063,951</u>	<u>677,775</u>
<b>Capital and reserves</b>			
Called up share capital	16	51,002	51,002
Share premium	17	19,000	19,000
Profit and loss account	17	993,949	607,773
<b>Equity shareholders' funds</b>	19	<u>1,063,951</u>	<u>677,775</u>

The notes on pages 7 to 17 form part of the financial statements.

These financial statements were approved by the board of directors on 23/2/05 and were signed on its behalf:



CM Johnson  
Director

## Cash flow statement

for the year ended 30 September 2004

	Notes	2004	2003
		£	£
Net cash inflow/(outflow) from operating activities	20	441,014	(47,367)
<b>Return on investments and servicing of finance</b>			
Interest received	311	16	
Interest paid	(40,079)	(28,008)	
Interest element of finance leases	(7,094)	(14,999)	
		<hr/>	<hr/>
Net cash outflow from returns on investment and servicing of Finance		(46,862)	(42,991)
<b>Taxation</b>		-	(13,989)
<b>Capital expenditure</b>			
Purchase of tangible fixed assets	(4,242)	(61,705)	
Sale of plant and machinery	6,424	24,330	
		<hr/>	<hr/>
Net cash inflow/(outflow) from capital expenditure		2,182	(37,375)
<b>Cash inflow/(outflow) before financing</b>		<hr/>	<hr/>
		396,334	(141,722)
<b>Financing</b>			
Capital element of hire purchase payments	(61,450)	(141,606)	
Repayment of loans	(34,607)	(5,000)	
Loans received in year	-	31,000	
		<hr/>	<hr/>
Net cash outflow from financing		(96,057)	(115,606)
<b>Increase/(decrease) in cash in the period</b>		<hr/>	<hr/>
		300,277	(257,328)
<b>Reconciliation of net cash flow to movement in net debt</b>	21		
Increase/(decrease) in cash in the period		300,277	(257,328)
<b>Cash flow from increase in net debt:</b>			
Repayment of loans		34,607	5,000
Movement in respect of hire purchase agreements		61,450	141,606
Loans received in year		-	(31,000)
		<hr/>	<hr/>
Change in net debt resulting from cash flows		396,334	(141,722)
<b>New finance leases</b>		<hr/>	<hr/>
		(42,626)	(26,645)
<b>Movement in net debt in the period</b>		<hr/>	<hr/>
Opening net debt		353,708	(168,367)
		(854,782)	(686,415)
		<hr/>	<hr/>
Closing net debt		(501,074)	(854,782)
		<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**

	2004 £	2003 £
United Kingdom	10,049,456	8,231,793
USA	2,101,568	2,210,246
	<hr/>	<hr/>
	12,151,024	10,442,039
	<hr/>	<hr/>

**3 Other operating income**

	2004 £	2003 £
Management income	176,000	90,000
	<hr/>	<hr/>

**4 Profit on ordinary activities before taxation**

	2004 £	2003 £
<i>Profit on ordinary activities before taxation is stated</i>		
<i>After charging/(crediting)</i>		
Auditors' remuneration:		
Audit	11,600	12,000
Other services	3,500	3,200
Depreciation and other amounts written off tangible fixed assets:		
Owned	47,001	64,779
Leased	71,524	69,053
Operating lease costs:		
Land and buildings	103,750	97,500
Profit / (loss) on disposal of fixed assets	4,527	(50,751)
Foreign currency losses	28,216	6,468
	<hr/>	<hr/>
<i>Exceptional item</i>		
Write off of amounts due from group undertaking	-	407,832
	<hr/>	<hr/>

**Notes (continued)**

**5 Remuneration of directors**

	2004 £	2003 £
Directors' emoluments	424,577	451,152
Company contributions to money purchase pension schemes	26,672	24,725

The aggregate emoluments of the highest paid director were £127,371 (2003: £120,136) and company pension contributions of £6,030 (2003: £6,013) were made to a money purchase scheme on his behalf.

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

	2004 No	2003 No
Money purchase schemes	4	4

**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	
	2004	2003
Distribution	41	37
Administration	8	8
	49	45

The aggregate payroll costs of these persons were as follows:

	2004 £	2003 £
Wages and salaries	1,151,150	998,911
Social security costs	103,070	117,826
Other pension costs	34,105	46,872
	1,288,325	1,163,609

**Notes (continued)**

**7 Interest payable and similar charges**

	2004 £	2003 £
On bank loans and overdrafts	27,738	16,575
On all other loans	12,341	11,433
Finance charges payable in respect of finance leases and hire purchase contracts	7,094	14,999
	<u>47,173</u>	<u>43,007</u>

**8 Interest receivable and similar income**

	2004 £	2003 £
Bank interest	<u>311</u>	<u>16</u>

**9 Taxation**

Analysis of charge in period

	2004 £	2003 £
<i>UK corporation tax</i>		
Current tax on income for the year	<u>153,490</u>	<u>-</u>
Total current tax	153,490	-
<i>Deferred tax (see note 15)</i>		
Origination/reversal of timing differences		
Relating to current year	6,233	1,283
Relating to prior year	<u>(14,977)</u>	<u>(12,319)</u>
	<u>(8,744)</u>	<u>(11,036)</u>
Tax on profit/(loss) on ordinary activities	<u>144,746</u>	<u>(11,036)</u>

## Notes (continued)

### 9 Taxation (continued)

#### Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2003: higher) than the standard rate of corporation tax in the UK of 30% (2003: 30%).

The differences are explained below.

	2004 £	2003 £
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	530,922	(144,842)
Current tax at 30% (2003: 30%)	159,277	(43,453)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	446	353
Depreciation in excess of capital allowances	13,002	(4,517)
Other short term timing differences	(19,235)	3,234
Group relief for nil proceeds	-	44,382
Total current tax charge (see above)	153,490	-

### 10 Tangible fixed assets

	Fixtures and fittings £	Motor vehicles £	Office equipment £	Computer equipment £	Total £
<i>Cost</i>					
At beginning of year	261,950	190,476	97,860	153,527	703,813
Additions	642	42,626	-	3,603	46,871
Disposals	-	(19,250)	(1,200)	-	(20,450)
At end of year	262,592	213,852	96,660	157,130	730,234
<i>Depreciation and diminution in value</i>					
At beginning of year	157,587	99,822	54,459	118,512	430,380
Charge for year	34,115	51,395	11,748	21,267	118,525
On disposal	-	(18,445)	(105)	-	(18,550)
At end of year	191,702	132,772	66,102	139,779	530,355
<i>Net book value</i>					
At 30 September 2004	70,890	81,080	30,558	17,351	199,879
At 30 September 2003	104,363	90,654	43,401	35,015	273,433

Included in the total net book value of tangible fixed assets is £118,647 (2003: £142,430) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on such assets was £71,524 (2003: £69,053).

**Notes (continued)**

**11 Stock**

	2004 £	2003 £
Finished goods and goods for resale	1,678,676	1,410,930

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

**12 Debtors**

	2004 £	2003 £
Trade debtors	2,241,366	2,087,954
Amounts owed from group undertakings	154,802	26,844
Other debtors	1,189	4,286
Prepayments	-	11,439
Deferred tax (see note 15)	14,631	5,887
	<u>2,411,988</u>	<u>2,136,410</u>

**13 Creditors: amounts falling due within one year**

	2004 £	2003 £
Bank overdraft	713,648	936,068
Other loans	9,165	35,800
Obligations under hire purchase contracts	37,863	54,591
Trade creditors	2,014,196	1,798,398
Amounts owed to group undertakings	368,941	389,794
Corporation tax	153,490	-
Taxation and social security	73,310	36,878
Other creditors	12,599	48,735
Accruals and deferred income	102,982	14,411
	<u>3,586,194</u>	<u>3,314,675</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**

	2004 £	2003 £
Other loans	149,228	157,200
Obligations under hire purchase contracts	26,442	28,538
	<u>175,670</u>	<u>185,738</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.

	2004 £	2003 £
<b>Analysis of debt:</b>		
Debt can be analysed as falling due:		
In one year or less; or on demand	722,813	971,868
Between one and two years	149,228	157,200
	<u>872,041</u>	<u>1,129,068</u>

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

	2004 £	2003 £
Within one year	37,863	54,591
In the second to fifth year	26,442	28,538
	<u>64,305</u>	<u>83,129</u>

**Notes (continued)**

**15 Provisions for liabilities and charges**

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

	2004
	£
At beginning of year	(5,887)
Credit to the profit and loss account for the year	(8,744)
	<hr/>
At the end of the year	(14,631)
	<hr/>

The elements of deferred taxation are as follows:

	2004	2003
	£	£
Difference between accumulated depreciation and capital allowances	(13,537)	(2,652)
Other short term timing differences	(1,094)	(3,235)
	<hr/>	<hr/>
At the end of the year	(14,631)	(5,887)
	<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. This is shown in note 12.

**16 Called up share capital**

	2004	2003
	£	£
<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	607,773
Retained profit for the year	-	386,176
	<hr/>	<hr/>
At end of year	19,000	993,949
	<hr/>	<hr/>

**18 Commitments**

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

	2004 Land and buildings £	2003 Land and buildings £
Operating leases which expire:		
After more than 5 years	103,750	97,500
	<hr/>	<hr/>

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 is due for review in July 2008.

**19 Reconciliation of movement in shareholders' funds**

	2004 £	2003 £
Profit/(loss) for the financial year	386,176	(133,806)
Opening shareholders' funds	677,775	811,581
	<hr/>	<hr/>
Closing shareholders' funds	1,063,951	677,775
	<hr/>	<hr/>

## Notes (continued)

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

	2004 £	2003 £
Operating profit/(loss)	577,784	(101,851)
Depreciation charge	118,525	133,832
Loss on disposal of fixed assets	(4,527)	50,750
Movement in stocks	(267,746)	(289,614)
Movement in debtors	(340,834)	(449,949)
Movement in creditors	357,812	609,465
Net cash inflow/(outflow) from operating activities	441,014	(47,367)

### 21 Analysis of net debt

	At beginning of year £	Cash flow £	Other non cash Changes £	At end of year £
Cash at bank	357,415	77,857	-	435,272
Overdrafts	(936,068)	222,420	-	(713,648)
	(578,653)	300,277	-	(278,376)
Debt due within one year	(35,800)	34,607	(7,972)	(9,165)
Debt due after two or more years	(157,200)	-	7,972	(149,228)
Finance leases	(83,129)	61,450	(42,626)	(64,305)
	(854,782)	396,334	(42,626)	(501,074)

### 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 £34,105 (2003: £46,872).

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

**Notes (continued)**

**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 consolidated financial statements of Paragon Electronics Limited, within which this company is included, can be obtained from Companies House, Crown Way, Maindy, Cardiff.

The company has loans from the company's self administered pension scheme. The balance outstanding at the year end was £158,393 (2003: £193,000).

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.

**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.