

Paragon Electronic Components PLC

**Directors' report and financial
statements**

Registered number 2590508

30 September 2006



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2006

Principal activities

The principle activities of the company are the provision of electronic component procurement logistics, distribution, contract electronics and allied services

Business review

The Directors are pleased to report that turnover has continued to increase, the company remained profitable and continued to move forward with its objectives of increasing customer service levels and improving operational efficiency. The results for the year are set out in detail on page 6

The results are particularly pleasing given the significant additional workload and cost generated by the RoHS Directive that came in to effect in July. The RoHS legislation bans six substances (lead, cadmium, mercury, hexavalent chromium, PBB and PDBE) from products that are either made or sold in the EU. This legislation has created one of the biggest upheavals that the electrical and electronics industry has seen since it began. For example, hundreds of thousands of part numbers have had to be changed and despite lobbying from a number of industry bodies no common part numbering system was implemented which could have drastically simplified the implementation and reduced costs for us all.

In addition to avoiding the potential chaos caused by the myriad of part numbering approaches adopted by the industry, we undertook the major task of interpreting and explaining the RoHS directives to customers, and gathering the compliance information from component suppliers who produce the two hundred and fifty thousand plus components we currently manage on behalf of our customers. To manage this successfully and ensure that we supported our customers and could demonstrate compliance, we implemented sophisticated new systems and procedures across the business. In doing so we gained the recognition of the BSI RoHS Trusted Kitemark, which enables our customers to have even greater confidence in their supply chain.

It is difficult to state accurately the true cost of the RoHS directive during this accounting period. Suffice to say it is hugely significant, the DTI estimates that RoHS compliance will cost the UK economy in excess of £120 million per annum for capital costs and R&D alone, plus at least as much again in increased operating costs.

In spite of all of this, during the year we have continued to invest in information technology, staff training and marketing initiatives together with recruiting additional sales resource and, with the impact of RoHS now easing, the Directors consider that the company is extremely well positioned for further profitable growth in 2007.

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. It is a testament to this policy that the products supplied to two key customers, representing over 20% of turnover, are reaching the end of their life cycles with the associated reduction in demand. The company has continued to expand in a controlled manner despite this loss of business.

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.

Proposed dividends

The directors do not recommend the payment of a final dividend (2005 £Nil)

Directors

The directors who held office during the year were as follows

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

Political and charitable contributions

The company made no political contributions during the year (2005 £Nil) The company made no donations to UK charities during the year (2005 £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 Group'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.

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 PLC for the year ended 30 September 2006 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

As described in the Statement of Directors' Responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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. We also 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 2006 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

Long LLP

KPMG LLP
Chartered Accountants
Registered Auditor

27 April 2007

Profit and loss account
for the year ended 30 September 2006

	Notes	2006 £	2005 £
Turnover	2	13,620,686	12 759,074
Cost of sales		(10,949,637)	(10,097,164)
Gross profit		2,671,049	2 661,910
Distribution costs		(35,820)	(27,553)
Administrative expenses		(2,519,763)	(2,270,363)
Other operating income	3	126,000	102,000
Operating profit		241,466	465,994
Interest receivable and similar income	8	2,526	3,148
Interest payable and similar charges	7	(24,581)	(41,038)
Profit on ordinary activities before taxation	4-6	219,411	428,104
Tax on profit on ordinary activities	9	(58,225)	(121,332)
Profit on ordinary activities after taxation		161,186	306,772

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 9 to 18 form part of these financial statements

Balance sheet
at 30 September 2006

	Notes	2006	2005
		£	£
Fixed assets			
Tangible assets	10	279,982	305,039
Current assets			
Stocks	11	1,742,537	1,414,984
Debtors	12	3,432,510	2,808,470
Cash at bank and in hand		199,929	148,367
		<u>5,374,976</u>	<u>4,371,821</u>
Creditors amounts falling due within one year	13	(4,057,758)	(3,201,179)
Net current assets		<u>1,317,218</u>	<u>1,170,642</u>
Total assets less current liabilities		<u>1,597,200</u>	<u>1,475,681</u>
Creditors amounts falling due after more than one year	14	(65,291)	(104,958)
Provisions for liabilities and charges	15	-	-
Net assets		<u>1,531,909</u>	<u>1,370,723</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	1,461,907	1,300,721
Equity shareholders' funds	19	<u>1,531,909</u>	<u>1,370,723</u>

The notes on pages 9 to 18 form part of the financial statements

These financial statements were approved by the board of directors on 27/4/07 and were signed on its behalf


CM Johnson
Director

Cash flow statement

for the year ended 30 September 2006

	Notes	2006	2005
		£	£
Net cash (outflow)/inflow from operating activities	20	(106,711)	630,937
Return on investments and servicing of finance			
Interest received		2,526	3,148
Interest paid		(15,487)	(31,004)
Interest element of finance leases		(9,094)	(10,034)
		<hr/>	<hr/>
Net cash outflow from returns on investment and servicing of Finance		(22,055)	(37,890)
Taxation		(123,884)	(146,814)
Capital expenditure			
Purchase of tangible fixed assets		(36,905)	(69,466)
Sale of tangible fixed assets		16,450	39,450
		<hr/>	<hr/>
Net cash outflow from capital expenditure		(20,455)	(30,016)
		<hr/>	<hr/>
Cash (outflow)/inflow before financing		(273,105)	416,217
Financing			
Capital element of hire purchase payments		(81,264)	(67,116)
Repayment of loans		(9,761)	(40,165)
		<hr/>	<hr/>
Net cash outflow from financing		(91,025)	(107,281)
		<hr/>	<hr/>
(Decrease)/increase in cash in the period		(364,130)	308,936
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the period		(364,130)	308,936
Cash flow from increase in net debt			
Repayment of loans		9,761	40,165
Movement in respect of hire purchase agreements		81,264	67,116
		<hr/>	<hr/>
Change in net debt resulting from cash flows		(273,105)	416,217
New finance leases		(65,614)	(155,779)
		<hr/>	<hr/>
Movement in net debt in the period		(338,719)	260,438
Opening net debt		(240,636)	(501,074)
		<hr/>	<hr/>
Closing net debt	21	(579,355)	(240,636)
		<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

	2006 £	2005 £
United Kingdom	12,234,686	10,701,973
USA	1,331,000	2,057,101
Rest of the world	55,000	-
	<u>13,620,686</u>	<u>12,759,074</u>

3 Other operating income

	2006 £	2005 £
Management income	<u>30,000</u>	<u>102,000</u>

4 Profit on ordinary activities before taxation

	2006 £	2005 £
<i>Profit on ordinary activities before taxation is stated</i>		
<i>After charging/(crediting)</i>		
Auditors' remuneration		
Audit of these financial statements	12,700	12,250
Other services relating to taxation	3,600	3,500
Depreciation and other amounts written off tangible fixed assets		
Owned	52,179	51,246
Leased	65,400	63,757
Operating lease costs		
Land and buildings	110,000	110,000
Profit on disposal of fixed assets	(6,453)	(34,368)
Foreign currency gains	<u>(13,742)</u>	<u>(60,051)</u>

Notes (continued)

5 Remuneration of directors

	2006 £	2005 £
Directors' emoluments	461,372	574,457
Company contributions to money purchase pension schemes	28,167	28,167
	<u>489,539</u>	<u>602,624</u>

The aggregate emoluments of the highest paid director were £129,889 (2005 £171,943) and company pension contributions of £6,035 (2005 £6,035) were made to a money purchase scheme on his behalf

Retirement benefits are accruing to the following number of directors under

	2006 No	2005 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	
	2006	2005
Distribution	49	43
Administration	13	13
	<u>62</u>	<u>56</u>

The aggregate payroll costs of these persons were as follows

	2006 £	2005 £
Wages and salaries	1,393,861	1,340,479
Social security costs	156,528	138,525
Other pension costs	54,536	44,880
	<u>1,604,924</u>	<u>1,523,884</u>

Notes (continued)

7 Interest payable and similar charges

	2006 £	2005 £
On bank loans and overdrafts	29	20,731
On all other loans	15,458	10,273
Finance charges payable in respect of finance leases and hire purchase contracts	9,094	10,034
	<u>24,581</u>	<u>41,038</u>

8 Interest receivable and similar income

	2006 £	2005 £
Bank interest	<u>2,526</u>	<u>3,148</u>

9 Taxation

Analysis of charge in period

	2006 £	2005 £
<i>UK corporation tax</i>		
Current tax on income for the year	93,060	122,241
Over provision in respect of prior period	1,697	(6,676)
	<u>94,757</u>	<u>115,565</u>
<i>Deferred tax (see note 15)</i>		
Origination/reversal of timing differences		
Relating to current year	(34,755)	7,560
Relating to prior year	(1,777)	(1,793)
	<u>(36,532)</u>	<u>5,767</u>
	<u>58,225</u>	<u>121,332</u>

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2005 lower) than the standard rate of corporation tax in the UK of 30% (2005 30%)

Notes (continued)

9 Taxation (continued)

The differences are explained below

	2006 £	2005 £
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	219,411	428,104
Current tax at 30% (2004 30%)	65,823	128,431
<i>Effects of</i>		
Expenses not deductible for tax purposes	4,649	1,370
Depreciation in excess of capital allowances	12,488	(9,593)
Other short term timing differences	22,267	2,033
Group relief for nil proceeds	(10,553)	-
Small company relief	(1,614)	-
Over provision in respect of prior years	1,697	(6,676)
Total current tax charge (see above)	94,757	115,565

10 Tangible fixed assets

	Fixtures and fittings £	Motor vehicles £	Office equipment £	Computer equipment £	Total £
<i>Cost</i>					
At beginning of year	275,309	269,575	109,201	183,031	837,117
Additions	2,460	72,634	6,337	21,088	102,519
Disposals	-	(38,351)	-	-	(38,351)
At end of year	277,769	303,858	115,538	204,119	901,284
<i>Depreciation and diminution in value</i>					
At beginning of year	219,835	77,853	75,912	158,477	532,077
Charge for year	20,705	72,195	10,079	14,600	117,579
On disposal	-	(28,354)	-	-	(28,354)
At end of year	240,540	121,694	85,991	173,077	621,302
<i>Net book value</i>					
At 30 September 2006	37,229	182,164	29,547	31,042	279,982
At 30 September 2005	55,474	191,723	33,289	24,554	305,039

Included in the total net book value of tangible fixed assets is £180,957 (2005 £209,748) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on such assets was £65,400 (2005 £63,757).

Notes (continued)

11 Stock

	2006 £	2005 £
Finished goods and goods for resale	1,742,537	1,414,984

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

12 Debtors

	2006 £	2005 £
Trade debtors	3,133,711	2,561,811
Amounts owed by group undertakings	178,587	184,259
Other debtors	74,816	53,536
Deferred tax (see note 15)	45,396	8,864
	<u>3,432,510</u>	<u>2,808,470</u>

13 Creditors: amounts falling due within one year

	2006 £	2005 £
Bank overdraft	533,499	117,807
Other loans	97,395	96,761
Obligations under hire purchase contracts	83,099	69,477
Trade creditors	2,608,124	2,129,620
Amounts owed to group undertakings	368,787	334,187
Corporation tax	93,114	122,241
Taxation and social security	100,101	97,142
Other creditors	16,368	53,880
Accruals and deferred income	157,271	180,064
	<u>4,057,758</u>	<u>3,201,179</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

	2006 £	2005 £
Other loans	11,072	21,467
Obligations under hire purchase contracts	54,219	83,491
	<u>65,291</u>	<u>104,958</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

Notes (continued)

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

	2006 £	2005 £
Analysis of debt		
Debt can be analysed as falling due		
In one year or less or on demand	630,894	214,568
Between one and two years	11,072	21,467
	<u>641,966</u>	<u>236,035</u>

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

	2006 £	2005 £
Within one year	83,099	69,477
In the second to fifth year	54,219	83,491
	<u>137,318</u>	<u>152,968</u>

15 Provisions for liabilities and charges

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

	2006 £
At beginning of year	(8,864)
Charge to the profit and loss account for the year	(36,532)
At the end of the year	<u>(45,396)</u>

The elements of deferred taxation are as follows

	2006 £	2005 £
Difference between accumulated depreciation and capital allowances	(20,006)	(5,741)
Other short term timing differences	(25,390)	(3,123)
At the end of the year	<u>(45,396)</u>	<u>(8,864)</u>

Notes (continued)

16 Called up share capital

	2006 £	2005 £
<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	1,300,721
Retained profit for the year	-	161 186
At end of year	19,000	1,461,907

18 Commitments

Annual commitments under non-cancellable operating leases are as follows

	2006 Land and buildings £	2005 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 is due for review in July 2008.

19 Reconciliation of movement in shareholders' funds

	2006 £	2005 £
Profit for the financial year	161,186	306 772
Opening shareholders' funds	1,370,723	1,063 951
Closing shareholders' funds	1,531,909	1,370 723

Notes (continued)

20 Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	2006 £	2005 £
Operating profit	241,466	465,994
Depreciation charge	117,579	115,003
Loss on disposal of fixed assets	(6,453)	(34,368)
Movement in stocks	(327,553)	263,692
Movement in debtors	(587,508)	(402,249)
Movement in creditors	455,758	222,865
Net cash inflow from operating activities	<u>(106,711)</u>	<u>630,937</u>

21 Analysis of net debt

	At beginning of year £	Cash flow £	Other non cash Changes £	At end of year £
Cash at bank	148,367	51,562	-	199,929
Overdrafts	(117,807)	(415,692)	-	(533,499)
	<u>30,560</u>	<u>(364,130)</u>	<u>-</u>	<u>(333,570)</u>
Debt due within one year	(96,761)	(634)	-	(97,395)
Debt due after two or more years	(21,467)	10,395	-	(11,072)
Finance leases	<u>(152,968)</u>	<u>81,264</u>	<u>(65,614)</u>	<u>(137,318)</u>
	<u>(240,636)</u>	<u>(273,105)</u>	<u>(65,614)</u>	<u>(579,355)</u>

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 £54,536 (2005 £44,880).

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

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 £108,467 (2005 £118,228).

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.

Notes *(continued)*

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, Mandy, Cardiff. No other group accounts include the results of the company.