

# Paradise Datacom Limited

Annual Report

*Year ended 31 March 2004*



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## Company Information

Directors	N L Mills R Titchener J Dixon (resigned 1 April 2004) I D Brodie K N Edwards
Secretary	K N Edwards
Registered office	P O Box 25 South Marston Park Swindon Wiltshire SN3 4TR
Registered number	2829165
Auditors	RSM Robson Rhodes LLP Chartered Accountants Centre City Tower 7 Hill Street Birmingham B5 4UU
Bankers	Barclays Bank Park House Stoke Clifford Bristol BS34 8TN

## Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 March 2004.

### Principal activities

The company designs, manufactures and sells high specification digital satellite communications equipment.

### Business review and future developments

Paradise Datacom has two operations, one based in Essex, UK, and one in Pennsylvania, USA. The USA company recorded record results in 2003/04 although these were reduced by £150k in sterling terms from the weakening of the dollar exchange rate. Government spending, in particular the USA, has remained strong in 2003/04, as witnessed by our homeland security contract of £1.0 million. Sales to Russia also performed strongly, growing by 350% to £1.1 million. Although modem sales increased by 28% in the USA, they were 17% lower in the UK where the late surge of £0.7 million in the fourth quarter of 2002/03 relating to supplies for military and media purposes in the Middle East was not repeated. As a consequence of this changing pattern of sales, the weakening US dollar and increased spend on R&D, overall operating profit at Paradise Datacom reduced to £2.0 million but still some 13% of sales.

Following Jim Dixon's resignation as President of the American operation, we have combined the two Paradise Datacom organisations under one Chief Executive, John Restivo, who joined the Group in September 2003. John Restivo previously held senior executive positions with Viasat Inc. and one of our largest modem competitors, Radyne/Comstream of the USA. This move allows Paradise Datacom to pursue more effectively the markets and customers which are common to both operations. This re-organisation is expected to have, in the medium term, positive financial results, especially in our amplifier product lines which traditionally had limited exposure to our European customer base.

We have made, and will continue to make changes to allow the company to focus more effectively on product/market development and, in particular, on the more lucrative sectors of the power amplifier range and on the new higher data rate modem.

Research and Development remains a core part of Paradise's Datacom's growth strategy, representing 10% of sales. We have recently released additional higher power solid-state amplifiers, resulting in our extended product range being one of the most comprehensive and compact lines in the industry. These product releases are expanding our addressable market allowing us to penetrate areas traditionally dominated by competing technologies. We will continue to review opportunities for acquiring additional skills and products to broaden the specialist base of the Paradise Datacom activities and invest in the long term future of the Group.

### Dividends

The directors propose a final dividend for the year of £258,100 (2003: £590,411). An interim dividend of £341,666 was paid during the year (2003: £128,000).

### Directors

The directors of the company who served during the year are set out on page 1.

None of the directors have any interest in shares of the company. The interests of the directors, who are all main board directors of Inteltek plc except for the director noted below, are disclosed in the directors report of that company.

## Report of the Directors

(continued)

### Directors (continued)

The beneficial interests of the directors and their families at 31 March 2004 and the beginning of the year (or date of appointment if appointed during the year) in the ordinary share capital of Inteltek plc other than for main board directors are detailed below:

	Beneficial		Options under the Executive Scheme		Options under Savings Related Scheme	
	2004	2003	2004	2003	2004	2003
R Titchener	60,000	60,000	40,000	40,000	6,529	6,529

The options granted under the terms of the Executive Scheme are exercisable between 2004 and 2013 at prices between 10.5p and 34p per share.

### Statement of directors' responsibilities for the financial statements

Company law in the United Kingdom 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 of the company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

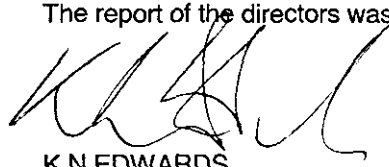
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Auditors

The auditors, RSM Robson Rhodes LLP, are willing to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

### Approval

The report of the directors was approved by the Board on 7 June 2004 and signed on its behalf by:



K N EDWARDS  
Secretary

# Independent Auditors' Report to the Shareholders of Paradise Datacom Limited

We have audited the financial statements on pages 5 to 17.

This report is made solely to the company's shareholders, 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 shareholders those matters we are required to state to them in an auditors' 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 shareholders 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 Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 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.

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

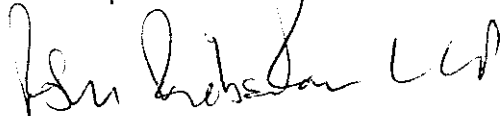
## Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 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 affairs of the company as at 31 March 2004 and of its profit for the year ended and have been properly prepared in accordance with the Companies Act 1985.



RSM Robson Rhodes LLP  
Chartered Accountants and Registered Auditors  
Birmingham, England  
7 June 2004

# Profit and Loss Account

for the year ended 31 March 2004

	Note	2004 £	2003 £
<b>Turnover - continuing operations</b>	2	6,375,976	6,781,158
Cost of sales		(4,575,940)	(4,451,911)
<b>Gross profit</b>		1,800,036	2,329,247
Distribution costs		(444,842)	(260,611)
Administrative expenses		(587,728)	(767,151)
Other operating income/(expenditure)		33,318	(23,993)
<b>Operating profit before management charges</b>		800,784	1,277,492
Management charges		(88,000)	(113,000)
<b>Operating profit - continuing operations</b>	3	712,784	1,164,492
Exceptional loss on termination of operations	4	-	(48,413)
<b>Profit on ordinary activities before interest and taxation</b>		712,784	1,116,079
Dividend received from subsidiary undertaking		307,766	316,456
Bank interest receivable		14,557	12,128
<b>Profit on ordinary activities before taxation</b>		1,035,107	1,444,663
Taxation	7	(144,145)	(324,296)
<b>Profit on ordinary activities after taxation</b>		890,962	1,120,367
Equity dividends	8	(599,766)	(718,411)
<b>Retained profit for the year</b>	17	291,196	401,956

All recognised gains and losses are reflected in the profit and loss account for the years.

# Balance Sheet

at 31 March 2004

	Note	2004 £	(restated note 14) 2003 £
<b>Fixed assets</b>			
Intangible fixed assets	9	265,124	40,875
Tangible assets	10	3,873,207	866,386
Investments	11	733,894	3,873,207
		<hr/>	<hr/>
		4,872,225	4,780,468
<b>Current assets</b>			
Stocks	12	940,003	746,365
Debtors	13	1,210,619	2,297,018
Cash at bank and in hand		622,981	754,029
		<hr/>	<hr/>
<b>Creditors: Amounts falling due within one year</b>	14	2,773,603 (1,612,219)	3,797,412 (2,819,708)
		<hr/>	<hr/>
<b>Net current assets</b>		1,161,384	977,704
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		6,033,609	5,758,172
<b>Creditors: Amounts falling due after more than one year</b>	15	(3,960,095)	(3,960,095)
<b>Provisions for liabilities and charges</b>	16	(12,741)	(28,500)
		<hr/>	<hr/>
<b>Net assets</b>		2,060,773	1,769,577
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	17	60,000	60,000
Profit and loss account	18	2,000,773	1,709,577
		<hr/>	<hr/>
<b>Equity shareholders' funds</b>	19	2,060,773	1,769,577
		<hr/>	<hr/>

The financial statements were approved by the Board on 7 June 2004 and signed on its behalf by:



R TITCHENER  
Director



# Notes to the Financial Statements

31 March 2004

## 1. ACCOUNTING POLICIES

### Basis of accounting

The financial statements are prepared in accordance with applicable accounting standards and under the historical cost convention.

### Turnover

Turnover consists of the invoiced value (excluding VAT) for goods and services supplied in the year.

### Depreciation

Depreciation is provided to write down the cost of tangible fixed assets over their estimated useful lives. The principal annual rates used are:

Leasehold property	Period of lease
Plant and machinery	20% straight line
Fixtures, fittings and equipment	15% straight line
Motor vehicles	25% straight line

### Stocks

Stocks and work in progress are stated at the lower of cost and estimated net realisable value. Cost is determined on a first-in first-out basis. The cost of work in progress and finished goods comprises materials, direct labour and attributable production overheads. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

### Deferred taxation

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes.

In accordance with FRS 19 deferred tax is not provided on timing differences arising from:

- a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date; and
- b) gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

### Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction, or if hedged at the forward contract rate. Monetary assets and liabilities denominated in foreign currency are translated into sterling at the rate of exchange ruling at the balance sheet date, or if hedged the forward contract rate. All exchange differences are recognised in the profit and loss account.

# Notes to the Financial Statements

31 March 2004

## 1. ACCOUNTING POLICIES (Continued)

### Research and development

To the extent that there is no clearly identifiable project, or where expenditure is not separately identifiable, research and development expenditure is charged to the profit and loss account as incurred. Development costs relating to projects the outcome of which can be assessed with reasonable certainty are capitalised as an intangible fixed asset. These costs are amortised from the date of product release over a period not exceeding 36 months, representing the Directors' view of the maximum product life span within the market in which it operates.

### Investments

Investments are stated at cost less provision for impairment in value. Cost is purchase price including acquisition expenses, but excluding any payment for accrued interest or fixed dividend entitlement.

### Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are invested and managed independently of the finances of the company. The pension cost charge represents contributions payable in the year.

### Group accounts

The company has taken advantage of the exemption not to prepare consolidated accounts on the basis that it is a wholly owned subsidiary of Intelek Plc for which consolidated financial statements have been prepared.

### Leased assets

Fixed assets subject to finance leases are capitalised and depreciated in accordance with the depreciation policy stated above. The corresponding liability for the capital element is included in creditors, and the interest, calculated on the basis of the amount outstanding, is charged against profits over the period of the lease. The rental and operating lease costs of all other assets are charged against profit before interest, as incurred.

### Cash flow Statement

The company has taken advantage of the exemption not to prepare a cashflow statement on the basis that it is a wholly owned subsidiary of Intelek Plc for which consolidated financial statements have been prepared.

# Notes to the Financial Statements

31 March 2004

## 2. TURNOVER BY GEOGRAPHICAL MARKET

	2004 £	2003 £
European Community (excluding United Kingdom)	1,818,593	2,307,122
Rest of Europe	447,980	588,560
North America	261,943	324,294
Africa	1,218,038	382,368
Rest of world	210,089	393,675
	<hr/>	<hr/>
Export sales	3,956,643	3,996,019
United Kingdom	2,419,333	2,785,139
	<hr/>	<hr/>
	6,375,976	6,781,158
	<hr/>	<hr/>

## 3. OPERATING PROFIT

Operating profit is arrived at after charging/(crediting):

	2004 £	2003 £
Depreciation of tangible fixed assets	246,825	208,985
Auditors' remuneration	6,850	6,000
Fees paid to auditors for other services	-	-
Operating lease rental on land and buildings	88,543	83,803
Research and development expenditure	889,444	753,205
Management charges	88,000	113,000
Royalty income	(147,962)	(103,044)
	<hr/>	<hr/>

## 4. EXCEPTIONAL ITEM

	2004 £	2003 £
Loss on termination of Pascall Microwave operation	-	48,413
	<hr/>	<hr/>

# Notes to the Financial Statements

31 March 2004

## 5. EMPLOYEES

	2004 £	2003 £
Wages and salaries	1,703,910	1,600,492
Social security costs	188,326	160,748
Pension costs	83,761	56,486
	<hr/>	<hr/>
	1,975,997	1,817,726
	<hr/>	<hr/>
Average monthly number employed, including executive directors		
Production	37	37
Administration	16	9
	<hr/>	<hr/>
	53	46
	<hr/>	<hr/>

## 6. DIRECTORS

Emoluments of the company's directors:

	2004 £	2003 £
Emoluments	190,123	207,495
Contributions to defined contribution scheme	26,191	21,626
	<hr/>	<hr/>
	216,314	229,121
	<hr/>	<hr/>
Number of directors to whom retirement benefits are accruing	4	4
	<hr/>	<hr/>

The emoluments of the highest paid director (excluding pension contributions) were £124,098 (2003: £118,663).

# Notes to the Financial Statements

31 March 2004

## 7. TAXATION

	2004 £	2003 £
<b>United Kingdom Corporation Tax</b>		
Current tax on income for the year	-	-
Adjustment in respect of prior year	729	(2,529)
<b>Total</b>	<b>729</b>	<b>(2,529)</b>
<b>Group relief payable</b>		
Current tax on income for the year	188,405	308,877
Adjustment in respect of prior year	(29,230)	16,448
<b>Total</b>	<b>159,175</b>	<b>325,325</b>
Current taxation	159,904	322,796
Deferred taxation	(15,759)	1,500
<b>Tax on profit on ordinary activities</b>	<b>144,145</b>	<b>324,296</b>
<b>Current tax reconciliation</b>		
	2004 £	2003 £
Profit on ordinary activities before taxation	1,039,037	1,444,663
Theoretical tax at UK corporation tax rate 30% (2003: 30%)	311,710	433,399
Effects of:		
- Marginal tax rates	-	-
- Adjustments in respect of prior years	(29,193)	13,919
- Research and development credit	(30,000)	(27,000)
- Depreciation of ineligible fixed assets	5,075	5,075
- Expenditure that is not tax deductible	3,693	(6,160)
- Income that is not taxable	(117,140)	(94,937)
- Accelerated capital allowances	15,759	(1,500)
<b>Actual current taxation charge</b>	<b>159,904</b>	<b>322,796</b>

### Exceptional item

The taxation charge is stated after a tax credit of £Nil (2003: £14,524) relating to the exceptional loss on discontinued operations.

# Notes to the Financial Statements

31 March 2004

## 8. EQUITY DIVIDENDS

	2004 £	2003 £
Interim dividend paid of £5.69 per share (2003: £2.13)	341,666	128,000
Final dividend proposed of £4.30 per share (2003: £9.84)	258,100	590,411
	<hr/>	<hr/>
	599,766	718,411
	<hr/>	<hr/>

## 9. INTANGIBLE FIXED ASSETS

	Total £
<b>Development cost</b>	
At 1 April 2003	40,875
Additions	224,249
	<hr/>
At 31 March 2004	265,124
	<hr/>
<b>Depreciation</b>	
At 1 April 2003	-
Charge for year	-
	<hr/>
At 31 March 2004	-
	<hr/>
<b>Net book value</b>	
At 31 March 2004	265,124
	<hr/>
At 31 March 2003	40,875
	<hr/>

The above expenditure on intangible fixed assets relates to development costs, which will be amortised over 3 years from date of first production.

# Notes to the Financial Statements

31 March 2004

## 10. TANGIBLE ASSETS

	Leasehold property £	Plant and machinery £	Fixtures and fittings £	Total £
<b>Cost</b>				
At 1 April 2003	181,392	912,830	368,086	1,462,308
Additions	-	41,797	72,536	114,333
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	181,392	954,627	440,622	1,576,641
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>				
At 1 April 2003	28,384	313,261	254,277	595,922
Charge for year	18,139	108,741	119,945	246,825
Inter Group transfer				
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	46,523	422,002	374,222	842,747
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>				
At 31 March 2004	134,869	532,625	66,400	733,894
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2003	153,008	599,569	113,809	866,386
	<hr/>	<hr/>	<hr/>	<hr/>

## 11. FIXED ASSET INVESTMENTS

	Shares in subsidiary undertaking £
<b>Cost and net book value</b>	
At 1 April 2003 and 31 March 2004	3,873,207
	<hr/>

The company owns a 100% share in Paradise Datacom, LLC a limited liability corporation incorporated and operating in the USA.

Paradise Datacom LLC designs and manufactures high specification digital satellite communications equipment.

The company is itself a wholly owned subsidiary and has therefore not presented consolidated financial statements.

# Notes to the Financial Statements

31 March 2004

## 12. STOCKS

	2004 £	2003 £
Raw materials	495,177	459,685
Work in progress	280,018	157,208
Finished Goods	164,808	129,472
	<hr/>	<hr/>
	940,003	746,365
	<hr/>	<hr/>

In the directors opinion, the replacement cost of stock and work in progress does not differ materially from the values stated.

## 13. DEBTORS

	2004 £	Restated 2003 £
Trade debtors	702,376	1,435,900
Amounts owed by parent company	111,949	700,097
Amounts owed by group undertakings	251,198	42,343
Other debtors	40,150	37,984
Prepayments and accrued income	104,946	80,694
	<hr/>	<hr/>
	1,210,619	2,297,018
	<hr/>	<hr/>

## 14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £	Restated 2003 £
Bank loans and overdrafts	-	534,268
Trade creditors	691,642	809,185
Amounts owed to parent company	-	-
Amounts owed to group undertakings	176,500	98,244
Corporation tax	188,406	308,878
Group relief payable	-	-
Other taxation and social security	84,795	143,325
Other creditors	89,180	94,649
Proposed dividend	258,100	590,411
Accruals and deferred income	123,596	240,748
	<hr/>	<hr/>
	1,612,219	2,819,708
	<hr/>	<hr/>

The restatement in 2003 relates to a reclassification of a proposed dividend of £590,411 from Amounts owed by parent company in debtors to creditors.



# Notes to the Financial Statements

31 March 2004

## 15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2004 £	2003 £
Loan from parent company	3,960,095	3,960,095

The loan from the parent company is interest free, unsecured and has no fixed term of repayment. The parent company has confirmed that no substantial repayment will be requested within 12 months of the balance sheet date.

## 16. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £
<b>Movement in year</b>	
At 1 April 2003	28,500
Credit to profit and loss account	(15,759)
At 31 March 2004	12,741

Deferred taxation comprises:

	2004 £	2003 £
Capital allowances	15,088	28,500
Short term timing differences	(2,347)	-
	12,741	28,500

## 17. CALLED UP SHARE CAPITAL

	2004 £	2003 £
<b>Authorised</b>		
250,000 Ordinary shares of £1 each	250,000	250,000
<b>Allotted and fully paid</b>		
60,000 Ordinary shares of £1 each	60,000	60,000

# Notes to the Financial Statements

31 March 2004

## 18. RESERVES

	Profit and loss account £
At 1 April 2003	1,709,577
Profit for the year	291,196
	<hr/>
At 31 March 2004	2,000,773
	<hr/>

## 19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS

	2004 £	2003 £
Profit on ordinary activities after taxation	890,962	1,120,367
Dividends	(599,766)	(718,411)
	<hr/>	<hr/>
Net addition to shareholders funds	291,196	401,956
Opening shareholders funds	1,769,577	1,367,621
	<hr/>	<hr/>
Closing shareholders funds	2,060,773	1,769,577
	<hr/>	<hr/>

## 20. CONTINGENT LIABILITIES

The company has given an unlimited cross currency guarantee in favour of Barclays Bank plc as security for the borrowings of certain group companies.

## 21. FINANCIAL COMMITMENTS

### Operating lease commitments

The annual commitments under operating leases are analysed for the year in which each lease expiring, as follows:

	2004 £	2003 £
Land and Buildings leases expiring:		
Between one and five years	92,650	87,775
	<hr/>	<hr/>

## Notes to the Financial Statements

31 March 2004

### 22. RELATED PARTY DISCLOSURES

Advantage has been taken of the special exemptions for group companies regarding related party disclosures.

### 23. PARENT UNDERTAKING

The ultimate parent company is Intelek plc, a company registered in England and Wales. Its group accounts are available to the public on payment of the appropriate fee, from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.