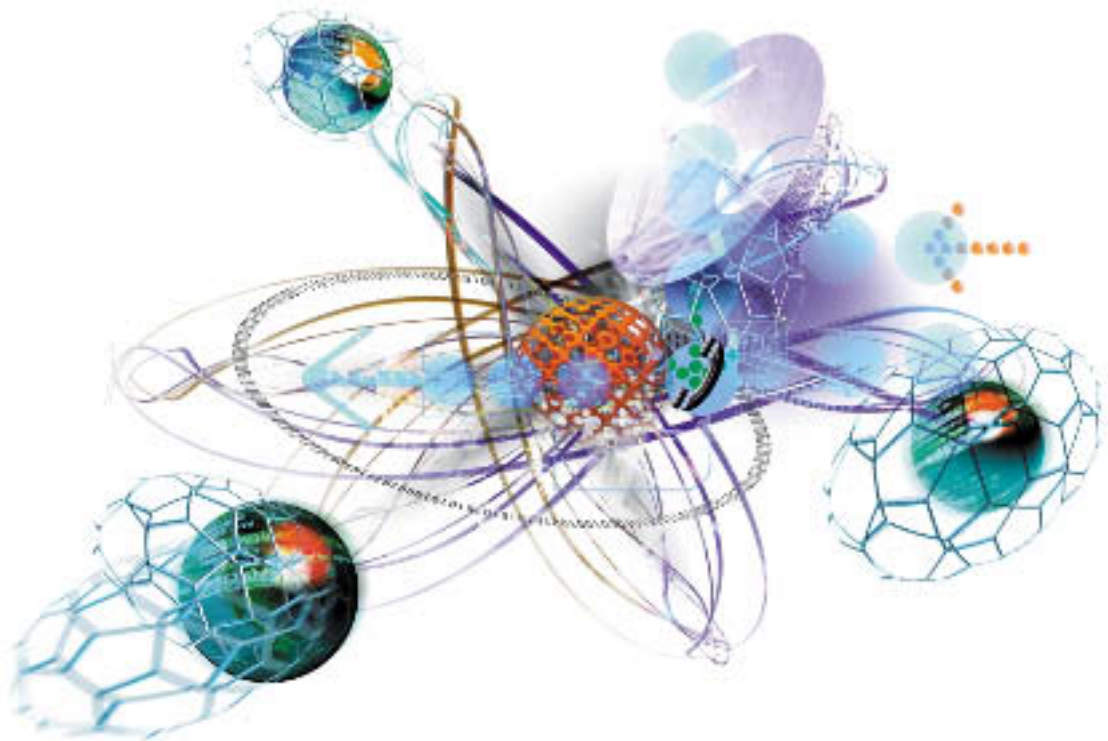




ANNUAL REPORT 2004



INTELEK designs and manufactures electronic systems for satellite communications, defence and telecommunications, and provides specialist manufacturing services for aerospace and microwave communications.

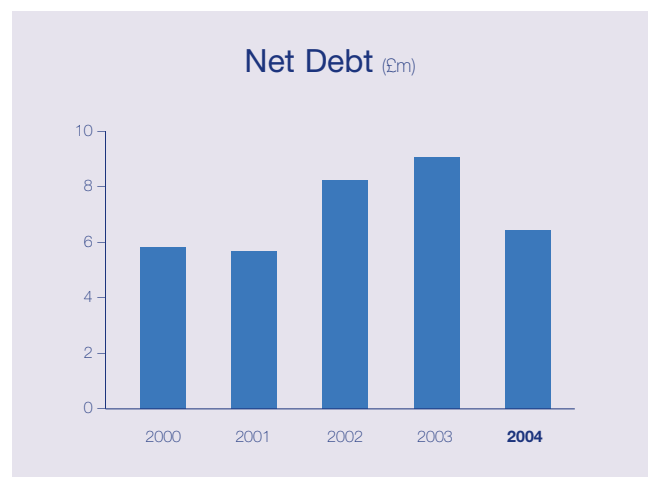
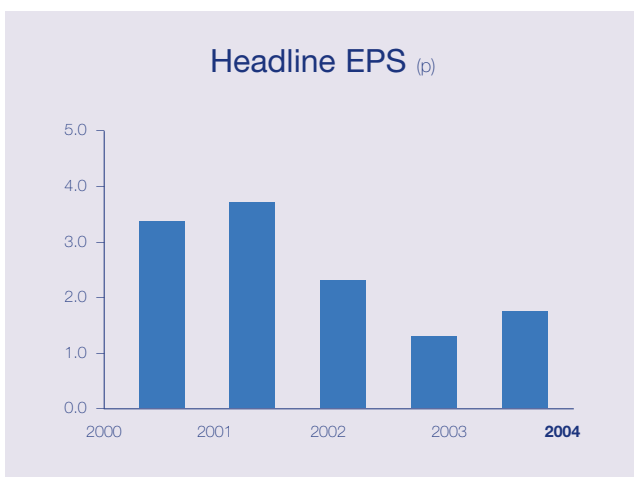
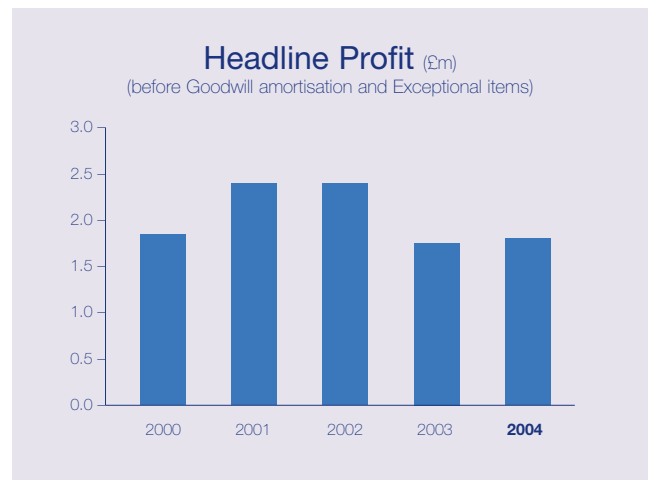
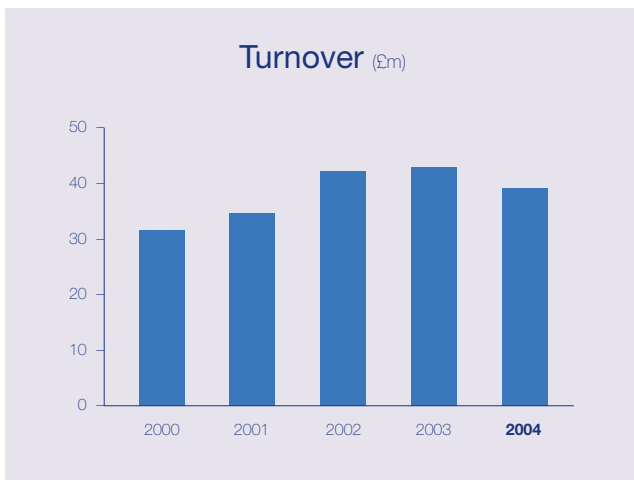


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Group Highlights

- **Sales £38.9 million (2003: £41.6 million)**
- **Headline profit before tax £1.8 million, up 5% after £0.6 million (35%) negative currency effect**
- **Headline EPS up 23% to 1.74p**
- **Full year dividend up 6% to 0.36p**
- **Net debt reduced 28% to £6.6 million**



Directors and Advisers



Nigel Mills



Ian Brodie



Kevin Edwards



Don Wilson

Nigel L Mills

Chairman. Age 43.

Founder of Paradise Datacom Limited. BSc Electrical Engineering, Chartered Engineer, Fellow of the Institute of Electrical Engineers. Appointed to the Board in March 2001.

Ian D Brodie

Chief Executive. Age 52.

Appointed to the Board on joining the Group as Finance Director in 1992. Previously Finance Director of GEC Plessey Semiconductors, having qualified as a Chartered Accountant with Binder Hamlyn.

Kevin N Edwards

Finance Director/Company Secretary. Age 47.

Appointed to the Board in May 2000. Previously Finance Director of Textron Fastening Systems Limited, a subsidiary of Textron Inc., having qualified as a Chartered Accountant with Ernst & Young.

Donald Wilson

Senior Independent Non-Executive Director. Age 71.

Chairman of the Remuneration and Nomination Committees and a member of the Audit Committee. Appointed to the Board in 1995. Formerly Managing Director of Rank Xerox (UK) Limited.

Auditors

RSM Robson Rhodes LLP
Chartered Accountants
Centre City Tower, 7 Hill Street,
Birmingham, B5 4UU

Solicitors

DLA
Victoria Square House,
Victoria Square, Birmingham, B2 4DL

Bankers

Barclays Bank PLC
Park House, Stoke Gifford, Bristol,
BS34 8TN

Fortis Bank
The Imperium, Imperial Way,
Worton Grange, Reading, RG2 0TD

Sovereign Bank
2790 West College Avenue,
Suite 800, State College,
PA 16801, USA

Stockbrokers

Williams de Broë Plc
1st Floor, Innovation Court,
121 Edmund Street,
Birmingham, B3 2HJ

Registrars and Transfer Office

Capita Registrars
Northern House, Woodsome Park,
Fenay Bridge, Huddersfield, HD8 0LA

Roger B Fletcher and James P Dixon served as Directors during the year, but have since left the Board. More details are included in the Directors' Report.

Chairman's Statement

In the year to 31 March 2004 the Group continued to make encouraging progress on a number of fronts.

Group sales were 6% lower than the prior year, primarily caused by Labtech's planned withdrawal from low complexity, high volume microwave circuit boards. Margins, as a consequence, improved and headline profit before tax, amortisation of goodwill and exceptional items increased by 5% to £1.8 million (2003: £1.7 million). This increase in profit was after absorbing a £0.6 million negative US dollar exchange effect. The exceptional items related to the book loss of £0.3 million incurred on the sale and leaseback of the CML property. Headline earnings per share moved ahead strongly by 23% to 1.74p per share (2003: 1.41p per share) with the Group benefiting from steps taken to improve our tax position in the USA.

I am also pleased to report that the Group's total borrowings reduced sharply in the year to £6.6 million (2003: £9.3 million), helped by a Group-wide inventory reduction programme which yielded £1.4 million and by the £1.5 million net proceeds from the sale and leaseback of property. This reduction in borrowings was after making a £1.3 million contribution towards the deficit of the Defined Benefit Pension Scheme which was closed for future service in September 2002. It is also pleasing to note that the FRS 17 deficit has reduced during the year by 10%, i.e. £1.4 million.

Dividend

In the light of these results, the Board is recommending an increased final dividend of 0.24p (2003: 0.10p) per Ordinary share, which will make a total dividend for the year of 0.36p, an increase of 6% on the 2003 dividend of 0.34p.

If approved, this final dividend will be paid on 1 October 2004 to shareholders on the register at close of business on 3 September 2004.

Strategy

It is the Group's agreed strategy to dispose of non-core assets at prices which give fair strategic value to shareholders as demonstrated by the sale and leaseback of property. We will also focus our resources on niche areas of wireless communications, particularly satcoms, via increased market penetration, product development and acquisition.

We shall continue to pursue structural change in our operations, where necessary, as their markets evolve. In the case of CML, we are presently reviewing opportunities to broaden their aerospace offering, possibly involving joint ventures or alliances.

People

On 1 April 2004 Jim Dixon stepped down as an Executive Director of the Group and as President of Paradise Datacom in the USA to devote more time to his other interests. Jim was one of the two partners in Paradise Datacom and contributed significantly in the development of that business.

It was announced on 28 May 2004 that our Chairman, Roger Fletcher, had left the Board. Whilst latterly there were some



disagreements between Roger and the remainder of the Board over certain aspects of the Group's direction and strategy, I would nevertheless like to pay tribute to Roger for his chairmanship of the Company over the last five years.

In addition, I would like to record my thanks to all our employees whose skill and dedication were key to last year's performance and are fundamental to the future of your Group.

Prospects

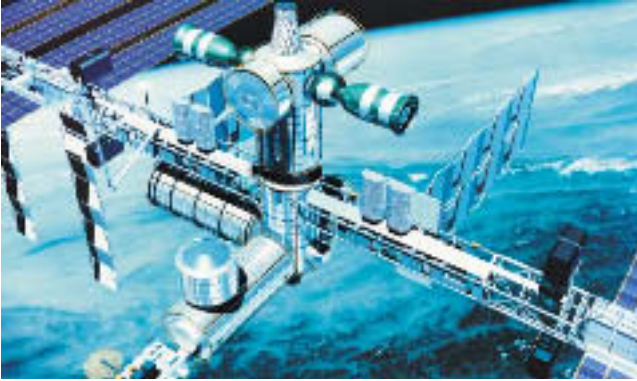
Our businesses operate in a global market where activity levels are influenced by external factors such as a sudden increase in oil prices and a weakening in the US dollar exchange rate. With the visibility that we have, we are encouraged by early signs of improving conditions in both the aerospace and mobile telecommunications infrastructure markets. However, we must take a cautious view of the first half, especially as year-on-year we do not expect to repeat the one-off benefit of Paradise Datacom's £1 million homeland security contract. For the year as a whole, we expect to continue to keep costs and cash flow under control and to target opportunities to expand market share. Paradise Datacom should begin to benefit in the latter part of the year from the continued investment in new product development.

During 2004/05, Inteltek will continue to work hard to meet the challenges of its markets. We anticipate the continuing evolution of our businesses with major structural changes taking place in our markets and, as necessary, within our companies. Nevertheless, we are emerging with a stronger, more focused and updated product offering and expect to make steady progress overall.

Nigel L Mills

Chairman
7 June 2004

Chief Executive's Review



The Group's headline profit before tax of £1.8 million was 5% higher than the previous year. Headline earnings per share at 1.74p recorded an increase of 23% over last year as a result of benefits gained from efficient USA tax planning.

This was achieved despite sales being 6% lower than last year. This reduction in sales was as a consequence of Labtech's realignment towards the more complex, higher margin but lower volume circuit boards. Margin levels improved and assisted significantly in helping to reduce the borrowings to £6.6 million (2003: £9.3 million), a reduction of 28%. The reduction of £1.4 million in inventory and the net proceeds of £1.5 million from sale and leaseback of property also made a significant contribution to this encouraging reduction in borrowings. This was also after making a further £1.3 million payment into the defined benefit pension scheme, closed in September 2002 for future service accrual.

In terms of our principal markets, satellite communications benefited in the first six months from one-off contracts in the government sector, particularly US military and homeland security, while the commercial end of the satcoms business remained at similar levels to the prior year. The mobile phone infrastructure market started to show some signs of improvement at the end of our first quarter from a particularly low base. I am pleased to report that this progress continued throughout the remaining nine months of the year and, indeed, picked up further in the final quarter. Activity levels in the aerospace industry were affected in our third quarter by de-stocking although our aerospace subsidiary, CML, offset the effect of this in the full year by increasing its market share.

The weakness of the dollar significantly impacted the profitability for the year. Twenty-five per cent of the Group's turnover is generated by our subsidiary in the USA, and a further 15% is priced from the UK in dollars, the vast majority of which is invoiced by our power supply company, Pascall Electronics, and sold forward at order receipt to combat currency exposure. The adverse profit effect of the dollar movement year on year, net of any reduced cost of materials procured in dollars, amounted to £0.6 million.

Satellite Communications: Paradise Datacom

Sales £15.5m (2003: £16.0m)
Operating Profit £1.99m (2003: £2.56m)



A selection from Paradise Datacom's range of products



A technician tuning a high power amplifier module



The high power amplifier design team in Pennsylvania, USA

Paradise Datacom designs and manufactures satellite modems, transceivers, block up-converters, solid state power amplifiers, low noise amplifiers and associated equipment for the terrestrial segment of the satellite communications market.

In addition to the individual products, Paradise Datacom offers customers the possibility of purchasing total electronic package solutions for many of their needs. The ability to offer the full range of related products, manufactured by a single company, is uncommon in our industry.

Paradise Datacom is also one of a very few commercial satellite earth station equipment manufacturers with manufacturing and support facilities in both Europe and North America. This ability to manufacture and offer support in two continents differentiates the company as a supplier of satellite communications equipment.

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.

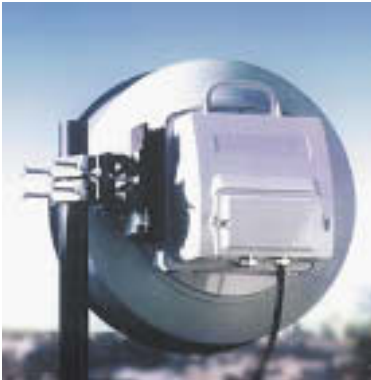
Following Jim Dixon's resignation as President of the American operation, we have combined the two Paradise Datacom organisations under one Chief Executive, John Restivo, who joined the Group in September 2003. John Restivo previously held senior executive positions with Viasat Inc. and one of our largest 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 reorganisation 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.

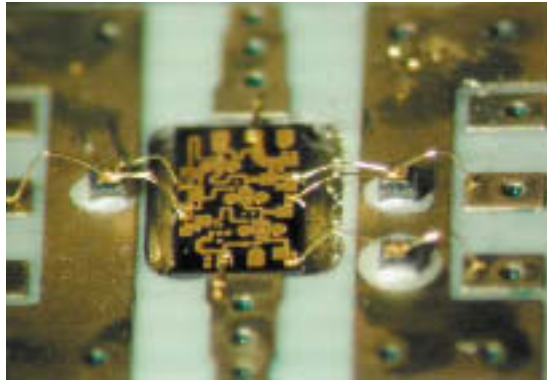
Research and Development remains a core part of Paradise's Datacom's growth strategy, representing 10% of sales. We have recently released additional higher power solid state amplifiers, resulting in our extended product range being one of the most comprehensive and compact lines in the industry. These 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.

Microwave Circuits: Labtech

Sales £7.9m (2003: £10.4m)
Operating Profit £0.82m (2003: £0.46m)



A mobile telephone base station incorporating Labtech's metal-backed microwave circuit board



Assembled MMIC chip under high magnification



New laser profiling machine for high specification circuits

Labtech are one of the world leaders in advanced microwave printed circuit processing technology and MMIC (Monolithic Microwave Integrated Circuit) packaging and multi-chip interconnect. Microwave circuit boards, incorporating precision machining, are manufactured in prototype and high volumes for major telecommunications, military and space system customers worldwide. These circuits are deployed in wireless telecommunications networks, radar and ground and flight-based satellite applications.

Labtech's technology is based on processing high performance PTFE microwave substrates with plated through holes. Circuits can be bonded together in a multi-layer construction and include machined metal backing for high frequency applications such as broadband digital radio links and microwave power amplifiers.

Labtech's "Chip & Wire" assembly clean room provides fully assembled and packaged MMIC circuits which enable very high levels of integration to be achieved while utilising Labtech's cost-effective manufacturing techniques.

The combination of precision circuit machining, now including laser technology, advanced automatic chemical processing and MMIC packaging and assembly gives Labtech a total capability unequalled in the global microwave printed circuit board market.

Operating profit nearly doubled to £0.82 million, notwithstanding the predicted reduction in Labtech's sales which fell by 24%. This reduction in sales was as a consequence of the successful realignment of Labtech towards higher value added circuit boards. Trading levels in the first six months of the year were adversely affected by a depressed telecommunication equipment market. However, this market improved consistently throughout the second half enabling Labtech to exceed its budget profit for the year. Profitability was also enhanced by maintaining a lean cost base and a more diverse product mix which included more military and space activity than in previous years.

A key investment made during the year was in laser profiling equipment which enables Labtech to achieve substantially increased levels of manufacturing precision on its higher value circuits. This new capability further differentiates Labtech from many of its competitors and has also opened up new product opportunities.

Following the recent improvements in the telecommunications equipment market, Labtech anticipates this sector of its business will provide more consistent growth through the coming year. Significant sales and marketing effort was directed at the military and satcom markets during last year and resulted in increased sales in the second half. Labtech's strategy to concentrate on higher value products will be enhanced during the coming year by the recruitment of a full-time Sales Manager based in the USA.

Power Supplies and RF Electronics: Pascall Electronics

Sales £6.9m (2003: £7.1m*)
Operating Profit £0.34m (2003: £0.27m*)

* incorporates discontinued satellite monitoring business



Pascall's new in-flight power supply for audio and video on demand



Alignment of a Frequency Discriminator



New FET Switch for inclusion in military and high grade electronic systems, where reliable, fast switching of signals is required

Pascall Electronics' power conversion and radio frequency skills are applied to the design and manufacture of a broad range of power converters, RF (radio frequency) components and sub-systems for avionics, telecommunications, defence and other high performance markets. Application areas include mission computers, electronic intelligence, in-flight entertainment systems, radar avionics instrumentation and navigational aids.

In the Power Conversion field, Pascall has built on its already significant presence in the in-flight entertainment sector by developing new products for flight data handling and other flight support systems in the civil avionics field. Pascall is also a provider of high performance power converters for defence and other extreme environment applications. Pascall is investing in new technology to provide significant increases in power density to meet today's and the next decade's requirements.

Pascall is a leading supplier of signal processing components, broadband amplifiers and bespoke RF and microwave sub-systems for defence, communications, air traffic control and weather radar applications. Recent developments have seen the product portfolio expand to encompass higher frequencies and high stability oscillator products.

The business environment in which Pascall operates continues to be difficult and, with the closure of the satellite monitoring division last year, sales dropped by 3% to £6.9 million. Our exports to the USA, which account for 80% of turnover, have been affected by the weakness of the US dollar against sterling and this has continued to impact our margins. The year on year fall in our average hedged dollar rate, from \$1.45/£ to \$1.60/£, resulted in a net reduction in operating profit of £0.5 million. Nevertheless, the expected increase in activity in the second half emerged, particularly from in-flight entertainment power supplies, and resulted in an operating profit of £0.3 million in the second half, a considerable improvement over the first half break-even position.

Investment in both customer specific and private venture product developments has continued at a high level. Improvements in new product introduction procedures have aided the speed of delivery of quality designs to key customers. Once again, Pascall has received a top supplier award from its largest customer, Rockwell Collins of the USA.

We remain optimistic about the coming year in terms of our technology and programmes although the timing of deliveries will be dependent on the acceptance of our customer's new in-flight entertainment system and the phasing of deliveries on the new military programmes.

Aerostructures:
CML Group

Sales £8.6m (2003: £8.1m)
Operating Profit £0.24m (2003: £0.22m)



Airbus A318



Airbus Gear Rib in final test



Lynx Helicopter

CML Group provides a total aerostructures solution, from the supply of individual machined or composite components through to complete sub-assemblies and kits of parts.

The company has its roots in precision machining for the aerospace industry and operates from facilities with a manufacturing area of 120,000 square feet. The comprehensive range of capabilities includes precision machining, composite and sheet detail manufacture and surface treatments of ferrous and non-ferrous materials. Specialist 5-axis machining of complex components from both hard and soft aerospace materials enables CML to supply major structural assemblies. Kits and completed assemblies are supplied in a finished state to customers after passing through CML's comprehensive in-house treatments facility.

CML enjoys preferred supplier status to several OEMs and has an active continuous improvement programme which is focused on maintaining and improving all aspects of quality, cost and delivery. The company has obtained the relevant aerospace approvals, including those from CAA, Airbus, BAe Systems, Agusta Westland and Raytheon.

The year to March 2004 has seen a 6% increase in CML's turnover, reflecting an increase in their share of a recovering market even with some considerable destocking by CML's major customer in our third quarter. A combination of productivity improvements and tight control of overheads has seen operating profit, before release of contract termination provisions, increase by £0.18 million and, together with careful management of stock levels, enabled the company to maintain its cash positive position.

The strategy for the coming year is to continue to consolidate CML Group, to strengthen its position in the marketplace as a strategic supplier of precision components and to develop further opportunities for the supply of composite details and assemblies.

During the next 12 months, we intend to expand our capacity and capability through strategic alliances to enable us to meet our customers' requirements for a supplier to work in partnership providing total design, manufacture and project management solutions.

Outlook

In the satellite communications area, we do not expect to see the benefit in the first six months this year of any homeland security contract. Modem sales are expected to remain level until the launch of the next generation product due in 2005. While there is no sign of any major increase in commercial satcoms, we do expect, for the full year, our power amplifiers to show growth in the USA with increased market penetration elsewhere, offsetting a reduction in the level of sales of block-up converters which are facing increased, low price, competition from the Far East. As a consequence, we are reviewing each product line and refocusing engineering on to the more lucrative sectors of the power amplifier range. Some product lines may be cut back, others enhanced. John Restivo's appointment as Paradise Datacom's new global CEO brings a fresh view with ambition for accelerated growth.

Following the steady growth experienced in the final nine months of our last financial year, investment in mobile telephone infrastructure is expected to grow in line with the increasing level of interest in the capability of the next generation of mobile phones.

As regards aerospace, the programmes supplied by CML appear to be showing signs of encouraging progress. Overall, the aerospace supply industry in the UK should benefit from the build-up of activity in the Airbus A380 programme and also the new military programmes, particularly the A400M.

Of all our companies, Pascall Electronics has the longest visibility in their order book. During May 2004, Pascall received a significant follow-on contract from Rockwell Collins of the USA. This secures continuous production until late 2005 of a range of power supply units for Rockwell Collins' in-flight entertainment system. In December 2003, Pascall also received a £1m contract for delivery over 4 years from end 2004 of a new low voltage power supply for the cockpit upgrade of the Tornado GR 4 aircraft. These orders, particularly the Rockwell Collins' order, will provide an encouraging platform for Pascall in the current year. Order book at the end of May 2004 amounted to £3.7 million (May 2003: £2.8 million).

It is our intention in 2004/05 to expand our geographic activities with Paradise Datacom opening an office in the Far East and Labtech having, for the first time, a full-time sales person based in the USA. In addition, the next generation modem development programme will continue to have the highest priority with an increasing level of resource being applied to the broadening of our satcom amplifier line. CML will seek additional opportunities to allow it to continue to expand its market share while considering potential areas for developing its service offering through partnerships and alliances.

While most of our major markets are showing some signs of improvement, we are still in the early days of recovery in aerospace and wireless communications infrastructure.

Ian D Brodie

Chief Executive

7 June 2004

Financial Review

This year has seen a substantial improvement in both earnings per share and net debt. Basic EPS improved 190% to 0.61p, whilst headline EPS, measured before goodwill amortisation and exceptional items, increased 23% to 1.74p. Net debt reduced by £2.7 million (28%) to £6.6 million.

The higher EPS is after a 5% increase in the average shares in issue, following the settlement of the deferred consideration for Paradise Datacom partly in shares in October 2002. The underlying trading performance increased headline earnings by 5%. The improvement would have been 39% if exchange rates had remained at prior year levels. The Group has a significant exposure to the US\$ as the USA is a major market for us and is the home of our largest subsidiary, Paradise Datacom LLC. We take out forward cover for orders received in foreign currency for our UK operations; however, the average hedge rates available have declined 10% in line with spot rates. In 2003/04, £6m of sales from our UK operations were in US\$. The overall effect was a reduction in headline profit before tax of £0.6 million.

An even greater improvement in EPS came from the investment we made in improved tax management, the results of which have produced a catch-up of tax credits, notably for exports from the USA. The effective tax rate on headline profit fell from 34% to 18%. This includes some one-off elements and consequently we expect the rate to be in the region of 30% in 2004/05.

Exceptional items in the year of £0.3 million are the losses on sale and leaseback of the Group's property interests at our aerospace subsidiary, CML. These properties had been revalued and the associated surplus of £0.6 million placed in a revaluation reserve. This surplus has now been released to distributable reserves.

In line with our stated strategy, net debt was reduced from £9.3 million to £6.6 million. The Group's primary investment in freehold property was sold and leased back during the year, generating £1.5 million net proceeds. In addition, we placed great emphasis on reducing inventory through improved working practices, concluding the year with a net reduction of £1.4 million. The £2.7

million reduction is also set in a period which saw contributions to the Group Defined Benefit Pension Scheme increase to £1.3 million (2003: £0.98 million) and pressure from some of our largest customers for longer payment periods. The contribution to the Pension Scheme and careful tax management have also led to significant reductions in tax payments.

The properties sold and leased back formed an important part of the loan security. We have mitigated the effect this could have had on our facilities, agreeing with our bankers to apply the whole of the net proceeds to the term loan, whilst securing an increase of 50% of the amount to our overdraft facility. As at 31 March 2004, we have £2 million in undrawn borrowing facilities.

£0.52 million of the £1.04 million loan notes held by Nigel Mills and Jim Dixon were repaid during the year. The balance is payable in April 2005.

Notwithstanding the gradual rises in UK interest rates over the year, our net interest cost reduced 24% to £0.6 million, with interest cover increasing from 3.3 to 4.1 times. Gearing has improved from 44% to 33%, measured on net assets.

The deficit on the Defined Benefit Pension Scheme has fallen, as measured under the stringent FRS 17 rules, from £13.8 million (£9.7 million net of tax) to £12.4 million (£8.7 million net of tax). The annual contribution level of £1.3 million is presently under review. We have been in consultation with the scheme actuary and the Trustee on an extended contribution plan. This is close to resolution and we expect to achieve confirmation of an annual contribution close to the current rate.

The Board recognises the need to maintain net cash generation as one of our primary goals. We shall be seeking new opportunities to further reduce working capital and net debt in 2004/05.

Kevin N Edwards

Finance Director

7 June 2004

Remuneration Report

The Directors present the Remuneration Report for the financial year ended 31 March 2004.

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority.

As required by the Directors' Remuneration Report Regulations 2002, a resolution to approve this Directors' Remuneration Report will be proposed at the Company's Annual General Meeting.

The auditors are required to report to the shareholders on the "auditable part" of the Directors' Remuneration Report and to state whether in their opinion the "auditable part" of the Directors' Remuneration Report has been properly prepared in accordance with the Companies Act 1985. This Report therefore has separate sections containing unaudited and audited information.

UNAUDITED INFORMATION

Remuneration Committee

The Remuneration Committee is responsible for determining the remuneration and other terms of employment of the Executive Directors. No external advisors have been used. In determining remuneration for the year, the Committee has given full consideration to the requirements of the Combined Code.

The Remuneration Committee consists wholly of independent Non-Executive Directors who have no day-to-day involvement in the running of the Group's business. The following independent Non-Executive Directors served as members of the Remuneration Committee throughout the year and to the date stated:

Donald Wilson (Chairman of the Remuneration Committee) (to 7 June 2004)

Roger B Fletcher (to 27 May 2004)

Remuneration policy

The key objectives of the Committee in determining the remuneration packages of Executive Directors for 2004 and subsequent years are:

1. The recruitment, retention and incentivisation of Executive management.
2. The alignment of Executive management and shareholder interests.

The remuneration packages of Executive Directors comprise the following elements:

Basic salary and benefit

Basic annual salaries for Executive Directors are reviewed annually having regard to individual performance and market practice. Benefits provided to Executive Directors vary but may comprise the provision of a company car and health insurance.

Annual bonus

The targets for annual bonus are set each year by the Committee. Targets are set at Group level, but account is also taken of the profit and cash flow performance of the individual operations for which Executive Directors are responsible. The Group level bonus for 2003/04 comprised three elements based respectively on: (a) Headline Profit Before Tax in the first half of the year at or exceeding the prior year; (b) Net debt at the year end being below the prior year; (c) Headline EPS for the full year with bonus commencing at 90% of the prior year EPS.

Share options and Long-Term Incentive Plan

The Company has the following share options schemes: an Executive Scheme, Mr R B Fletcher's acquisition option, a SAYE Scheme and an International Sharesave Scheme.

The Executive Scheme is designed to promote long-term improvement in the performance of the Company, sustained increase in shareholder value and clear linkage between Executive reward and the Company's performance. There are two sections of the scheme still operative, 1995 and 2000. The 1995 and 2000 sections are conditional upon achieving headline EPS growth in the aggregate of 6% above RPI in the 3 years prior to exercise.

The Chief Executive has been granted separate options over 700,000 shares at an option price of 17p per share, being the mid-market price on the date of his appointment, with the same performance conditions as the 1995 Plan. The first period for the exercise condition is the 3 years to 31 March 2004, which is to be based on EPS growth above 1.34p, the rate set upon the Chief Executive's date of appointment. These shares will be provided out of the Employee Share Ownership Plan. The difference between the option price and the cost of the shares to the Plan was charged to profit in the year to 31 March 2000 and is recorded as a provision against investment in own shares. In addition, the Chief Executive is entitled to a bonus on 50,000 shares issued under the 1995 scheme equal to the difference between the grant price of the shares and the price existing on the initial allocation to him. The total bonus payable amounts to £8,000, which was charged to profit in the year to 31 March 2000.

Mr R B Fletcher was granted separate options over 545,454 ordinary shares at a price of 44p per share on 7 March 2001. These options are exercisable between 5 and 10 years from the date of grant subject to the satisfaction of a performance condition, which requires average annual growth in headline earnings per share to be in excess of RPI plus 12% in the five year period before exercise. As Mr Fletcher left the Group in May 2004, the options will lapse as the exercise condition cannot be met.

Directors' shareholdings

The interests of the Directors and their families in the Ordinary Shares at the beginning and end of the year were as follows:

	31 March 2004	1 April 2003
R B Fletcher	4,896,081	4,896,081
I D Brodie	236,437	236,437
J P Dixon	—	4,544,207
K N Edwards	100,000	100,000
N L Mills	10,416,550	10,416,550
D Wilson	258,592	258,592

The interest shown above for R B Fletcher includes non-beneficial interests over 3,296,081 shares. There are no other non-beneficial interests. Since the year end, Mr Fletcher has transferred the 1,600,000 beneficial interest to a non-beneficial interest. There have been no other changes in the above Directors' Interests in the period to 7 June 2004.

Pension Contributions

The Company makes annual contributions to the Inteltek and Paradise Datacom Pension Schemes for the Executive Directors. The Schemes are funded, Inland Revenue approved, contributory occupational pension schemes.

Service contracts and letters of appointment

The Executive Directors are provided with service contracts, none of which exceeds one year.

Mr I D Brodie and Mr N L Mills have notice entitlements of one year. Mr N L Mills is entitled to a non-pensionable Director's fee from Inteltek plc of £20,000 per annum. Mr K N Edwards has a notice entitlement of six months. In the event of the Company being taken over and the Executives leaving the Company, the notice periods are as follows: Mr I D Brodie, two years; Mr K N Edwards and Mr N L Mills, one year. Mr R B Fletcher provided his services as a Non-Executive Director pursuant to a letter of appointment under which he is entitled to three months' notice. Mr D Wilson does not have a service contract with the Company. Mr J P Dixon had a service contract with a notice entitlement of 30 days. He resigned from the Company on 1 April 2004.

The Committee considers the Directors' notice entitlements to be appropriate as they are in line with the market and take account of the Directors' knowledge and experience.

Non-Executive Directors

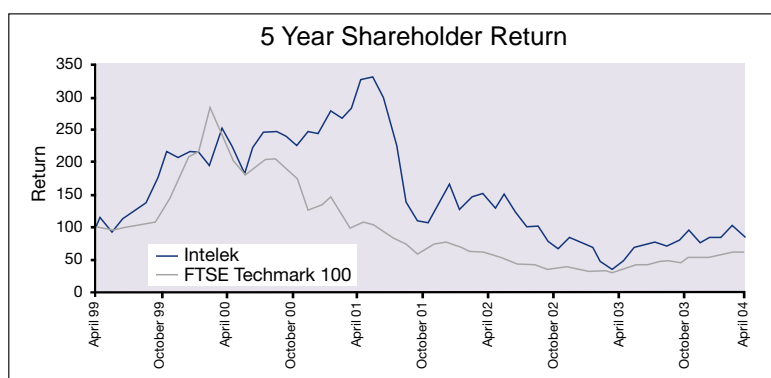
The fees of Non-Executive Directors are determined by the full Board to an amount not exceeding £200,000, as set out in the Memorandum

and Articles of Association. The Non-Executive Directors are not eligible for bonuses or pension benefits.

Performance Graph

This graph shows the Company's performance for the last five years, as measured by the Total Shareholder Return (TSR) (with dividends reinvested), for equity shareholders of Intelek plc, compared with the TSR of the Techmark 100 index.

This index was chosen as it represents a broad indication of performance in the sector in which the Company operates.



AUDITED INFORMATION

Details of the Directors' emoluments are as follows:

Directors' emoluments and share interests

Directors' emoluments	Current year					Previous year				
	Salary/fees £000	Benefits £000	Bonus £000	Pension contributions £000	Total £000	Salary/fees £000	Benefits £000	Bonus £000	Pension contributions £000	Total £000
R B Fletcher	42	—	—	—	42	50	—	—	—	50
I D Brodie	131	14	66	32	243	129	14	—	28	171
J P Dixon (appointed 9 October 2002)	99	3	56	—	158	57	1	7	—	65
K N Edwards	97	9	48	23	177	96	14	—	9	119
N L Mills	96	2	23	19	140	118	—	27	17	162
D Wilson	21	—	—	—	21	32	—	—	—	32
Total	486	28	193	74	781	482	29	34	54	599

Benefits comprise primarily car allowances and medical care.

Included in the previous year's fees above is an amount of £14,000 paid to D Wilson in respect of additional consultancy services, an arrangement that ceased in September 2002. With this exception, no Director was materially interested either at the year end or during the year in any contract of significance to the Group.

Directors' pensions	2004 No.	2003 No.
The number of Directors who are accruing benefits under:		
— money purchase schemes	3	3
— defined benefit schemes (further accrual terminated 1 October 2002)	1	1

Directors' defined benefit pension entitlement excluding additional voluntary contributions:

Increase in accrued annual pension excluding inflation £000	Transfer value of increase less Directors' contributions £000	Accumulated total accrued pension at 31 March 2004 £000	Accumulated total accrued pension at 31 March 2003 £000
I D Brodie	—	(2)	17

The transfer value of the Directors' accrued benefit at the end of the financial year is shown below. (Note that the transfer value represents a liability of the Company, not a sum paid or due to an individual.)

I D Brodie	£000
Transfer value at 31 March 2003	167
Increase in transfer value (less Director's contributions)	47
Transfer value at 31 March 2004	214

Directors' share options

Ordinary shares under the Executive Scheme

			31 March 2004	Granted during year	Exercised during year	Expired during year	1 April 2003	Option price £	Expiry date
I D Brodie	1986	A	—	—	—	(125,000)	125,000	0.250	21.02.04
	1995	A	50,000	—	—	—	50,000	0.160	13.01.05
	1995	A	50,000	—	—	—	50,000	0.330	29.01.07
	1995	B	250,000	—	—	—	250,000	0.360	29.07.07
	Special	A	700,000	—	—	—	700,000	0.170	20.09.07
	2000	B	250,000	—	—	—	250,000	0.190	11.02.12
Total			1,300,000	—	—	(125,000)	1,425,000		
J P Dixon	2000	B	50,000	—	—	—	50,000	0.140	07.08.12
	2000	B	50,000	—	—	—	50,000	0.105	07.01.13
	Total			100,000	—	—	—	100,000	
K N Edwards	1995	B	150,000	—	—	—	150,000	0.350	28.07.07
	2000	B	250,000	—	—	—	250,000	0.190	11.02.12
	2000	B	100,000	—	—	—	100,000	0.105	07.01.13
	Total			500,000	—	—	—	500,000	
N L Mills	2000	B	50,000	—	—	—	50,000	0.105	07.01.13
	Total			50,000	—	—	—	50,000	

Mr Dixon left the Group on 1 April 2004 and his options will lapse as the exercise conditions cannot be met.

Ordinary shares under the Chairman's option scheme

			31 March 2004	Granted during year	Exercised during year	Expired during year	1 April 2003	Option price £	Expiry date
R B Fletcher		B	545,454	—	—	—	545,454	0.440	06.03.11
Total			545,454	—	—	—	545,454		

Mr Fletcher left the Group on 27 May 2004 and his options will lapse as the exercise conditions cannot be met.

Ordinary shares under the Savings Related Scheme

			31 March 2004	Granted during year	Exercised during year	Expired during year	1 April 2003	Option price £	Expiry date
I D Brodie		B	6,529	—	—	—	6,529	0.340	01.03.07
Total			6,529	—	—	—	6,529		

Ordinary shares under the International Sharesave Scheme

			31 March 2004	Granted during year	Exercised during year	Cancelled during year	1 April 2003	Option price £	Expiry date
J P Dixon		B	—	—	—	(10,964)	10,964	0.190	01.02.07
Total			—	—	—	(10,964)	10,964		

Shares under option at the end of the year are designated as:

A where the options are exercisable

B where the options are not yet exercisable as performance conditions have not yet been met.

The options for I D Brodie and R B Fletcher are discussed in more detail on page 12.

The mid-market price at 31 March 2004 was 12.0p. The highest mid-market price during the year was 14.8p and the lowest mid-market price during the year was 5.5p.

The performance criteria for annual bonuses and share options are set out in the unaudited section of this report.

Approval

The Directors' Remuneration Report was approved by the Board on 7 June 2004 and signed on its behalf by:

D Wilson

Director

Chairman of the Remuneration Committee

7 June 2004

Corporate Governance

The Listing Rules of the Financial Services Authority require listed companies to disclose how they have applied the principles set out in Section 1 of the Combined Code prepared by the committee on Corporate Governance and whether they have complied with its provisions throughout the period.

The Directors consider that the Company and Group have complied with the provisions of the Combined Code throughout the period, with the exception of the matters noted below:

The Audit Committee comprises the two Non-Executive Directors of the Company rather than three as specified by the Combined Code. The Board does not believe that this affects the control environment within the Group and is consistent with the size of the Group.

In the event of the Company being taken over, the notice period for I D Brodie is 2 years. The Board believes that this is reasonable for the size of the Group and is appropriate for the position of Chief Executive.

An explanation of how the principles of the Combined Code have been applied is given below.

The Board

The composition of the Board is shown on page 2. The Board meets regularly throughout the year. There is a schedule of matters reserved for its approval, ensuring that it exercises control over Group strategy, key financial and compliance issues and significant operational and management matters. A clearly defined organisational structure exists with lines of responsibility and delegation of authority to Executive management. Due to the recent departure of the Non-Executive Chairman, the Board has only one Non-Executive Director. It is the Board's intention to recruit an additional Non-Executive Director. The Non-Executives are genuinely independent, not being past Executives of the Company and other than their shareholdings and fees they have no financial interest in the Company. They do not have business relationships that would interfere with their independent judgement. It is Board policy to separate the role of Chairman from that of the Chief Executive.

The Company Secretary ensures that the Board and its committees are supplied with papers of sufficient quality to enable them to consider matters in good time for meetings and enable them to discharge their duties properly.

The principal standing committees established by the Board are the Audit Committee and Remuneration Committee, each of which operates within defined terms of reference. Both committees comprise all the Non-Executive Directors of the Company and meet at least twice a year.

The Audit Committee reviews the scope and results of the external audit and its cost-effectiveness and the objectivity of the auditors. It reviews, prior to publication, the interims, preliminary announcement and the full annual report, including the statutory financial statements of the Group. The Remuneration Report is set out on page 11.

As the Board is small, nominations to the Board are considered by all of the Directors under the Chairmanship of a Non-Executive Director of the Company.

Internal controls

The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness. It should be recognised

that the Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve the Group's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

There is an established process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place for the full financial year and up to the date of approval of this annual report. This process is regularly reviewed by the Directors and accords with the internal control guidance prepared for directors by the Turnbull Committee.

The Group operates a risk management process which is embedded in normal management and governance processes. As part of the annual strategic planning and budgeting process, each subsidiary documents the significant risks identified, the probability of those risks occurring, their potential impact and the plans for managing and mitigating each of those risks. These assessments are then reviewed by the Group's Executive Directors as part of the strategic planning process. The plans are discussed, updated and reviewed on a quarterly basis when any control issues identified, including matters arising from internal reviews or external audit, are also considered.

The Group operates a series of controls to meet its needs with the key risk issues being communicated through its operating and control policies. These controls include, but are not limited to, the annual strategic planning and budgeting process, a clearly defined organisational structure with authorisation limits and reviews by senior management of monthly financial and operating information including comparisons with budgets and adherence to the Group operating and control policies.

The Board regularly reviews the effectiveness of the risk management process. It also receives reports from internal and external audit concerning the system of internal control and any material control weaknesses.

The Board makes an annual assessment of the effectiveness of the Group's internal control system, including financial, operational and compliance controls, before making this statement. In order to conduct this review, the Board obtains assurance directly from the Directors and appropriate senior management of each subsidiary concerning compliance with the Group's risk management and control policies and procedures. The Board also considers issues included in reports received during the year, how the risks have changed during the year and reviews reports on internal controls from management.

Shareholder relationships

Presentations are made to shareholders, institutions and analysts at least twice a year to coincide with results announcements and are made available on the Company's website. Additional dialogue with institutions is entered into as necessary, mindful of the rules on insiders and price-sensitive information.

Going concern

After making enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Directors' Report

The Directors present their Report and Accounts for the year ended 31 March 2004.

Principal activities

The principal activities of the Group are the design, manufacture and supply of precision products and sub-systems primarily for the Communications and Aerospace markets. Details of the activities, developments and progress of the Group are contained in the Chairman's Statement, the Chief Executive's Review and the Financial Review.

Research and development activities

The Group continued to invest in new product development, primarily in satellite communications, power supplies and RF electronics.

Results and dividends

The results for the year are set out on page 20. The profit on ordinary activities before taxation amounts to £722,000 (2003: £499,000). An interim dividend of 0.12p (2003: 0.24p) per Ordinary Share was paid on 6 April 2004. A final dividend of 0.24p (2003: 0.10p) per share is recommended for approval at the Annual General Meeting on 16 September 2004. It is proposed that this should be paid on 1 October 2004 to shareholders on the register at the close of business on 3 September 2004.

Directors

The Directors listed on page 2 served throughout the year. Mr R B Fletcher served throughout the year as Non-Executive Chairman. He left the Board on 27 May 2004. Mr J P Dixon served throughout the year and resigned from the Board on 1 April 2004. Mr D Wilson retires having reached the statutory retirement age and, being eligible, he offers himself for re-election. Mr N L Mills retires by rotation and, being eligible, he offers himself for re-election.

Details of the interests of the Directors and their families in the Ordinary Shares of the Company, and options to subscribe for shares under the Executive, Savings Related and other share option schemes, are set out in the Remuneration Report on pages 11 to 14.

Share capital

As at 7 June 2004, the Directors have been notified of the following interests amounting to 3% or more of the issued share capital of the Company:

N L Mills	10,416,550	—	12.10%
Herald Investment Trust Plc	5,000,000	—	5.81%
R B Fletcher	4,896,081	—	5.69%
Framlington Investment Management Ltd.	4,850,000	—	5.63%
Österreichische Volksbanken	3,580,169	—	4.16%

Payment of creditors

The Group's policy for the year ending 31 March 2005, for all suppliers, is to fix terms of payment for each business transaction, to ensure that the supplier is aware of those terms, and to abide by the agreed terms of payment. The Company had no trade creditors.

Donations

The Group did not make any political or charitable donations in the year (2003: £nil).

Employee involvement

During the year the Group has continued its policy of full involvement of employees wherever possible. This has taken place through the provision of information, consultation on policy issues where appropriate, and the mutual setting of objectives against which performance is measured. The Group takes the approach of maximising performance through the heightening of awareness of corporate objectives and policies.

Disabled persons

It is the Group's policy to offer equal opportunities to disabled persons applying for vacancies, having regard to their abilities in relation to the job for which they apply. It is also Group practice, wherever possible, to continue the employment of any employees who become disabled during the course of their employment.

Corporate governance

The Board's formal statement of Compliance with the Combined Code is given on page 15 and its Remuneration Report on page 11.

Special business

A resolution will be proposed at the Annual General Meeting to renew the existing authority of the Directors, conferred by a resolution passed in September 2003, to allot unissued shares in the Company. The authority (resolution 8 in the Notice of Meeting) will extend until the earlier of the Annual General Meeting for 2005 and fifteen months from the date of the Annual General Meeting for 2004.

The Company was authorised at the Annual General Meeting in September 2003 to purchase up to 10% of its issued Ordinary Shares, subject to certain restrictions. This authority has not yet been exercised, but the Directors consider that purchases by the Company of its Ordinary Shares for cancellation could in certain circumstances be advantageous to Shareholders, and are accordingly seeking the renewal of the authority (resolution 9 in the Notice of Meeting) to extend until the earlier of the Annual General Meeting for 2005 and fifteen months from the date of the Annual General Meeting for 2004. This authority will only be exercised if to do so would result in an increase in earnings per share. Under the proposed authority, the maximum price payable for the purchase of shares shall not exceed 5% above the average of the middle market quotations taken from The London Stock Exchange Official List for the five business days before a purchase is made, and the minimum price shall be 5p per share.

In addition, the Directors consider it advisable that they continue to have power to make allotments of Ordinary Shares in the Company for cash, up to a maximum of 4,303,803 Ordinary Shares, being 5% of the issued Ordinary Share Capital of the Company at 31 March 2004. The authority (resolution 10 in the Notice of Meeting) will extend until the earlier of the Annual General Meeting for 2005 and fifteen months from the date of the Annual General Meeting for 2004.

Auditors

The Auditors, RSM Robson Rhodes LLP, offer themselves for reappointment in accordance with Section 385 of the Companies Act 1985.

Approval

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

K N Edwards

Director and Secretary

7 June 2004

Statement of Directors' Responsibilities

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 the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable United Kingdom accounting standards; and
- prepared the financial statements on the going concern basis.

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.

The Annual Report is available on the Company's web site. The maintenance and integrity of Intelek plc's web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration on these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in the annual reports may differ from legislation in other jurisdictions.

On behalf of the Board

K N Edwards

Director and Secretary, Swindon

7 June 2004

Independent Auditors' Report to the Shareholders of Inteltek plc

We have audited the financial statements on pages 20 to 41. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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 the 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, the Directors' Remuneration 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 and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority. We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been 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 or the Listing Rules regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and

consider whether it is consistent with the audited financial statements. The other information comprises the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review, the Corporate Governance Statement, the Five Year Summary and the Notice of Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 and the part of the Directors' Remuneration Report to be audited. 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 Group'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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2004 and of the Group's profit for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited 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

Group Profit and Loss Account

year ended 31 March 2004

	Note	2004 £000	2003 £000
Turnover	2		
Continuing operations		38,891	41,418
Discontinued operations		—	176
		38,891	41,594
Cost of sales		(30,499)	(32,987)
Gross profit		8,392	8,607
Distribution and administrative expenses		(7,039)	(7,090)
Other operating income		223	142
Operating profit	2,3		
Continuing operations before goodwill amortisation		2,370	2,905
Amortisation of goodwill		(794)	(803)
Total continuing operations		1,576	2,102
Discontinued operations		—	(443)
		1,576	1,659
Exceptional items	4		
Loss on disposal of property		(289)	—
Loss on termination or disposal of operations		—	(415)
Profit on ordinary activities before interest and taxation		1,287	1,244
Interest	5	(565)	(745)
Profit on ordinary activities before taxation		722	499
Taxation	7	(209)	(331)
Profit on ordinary activities after taxation		513	168
Dividends	8	(305)	(288)
Transfer to/(from) reserves	20	208	(120)
Earnings per Ordinary share	9		
Headline		1.74p	1.41p
Basic		0.61p	0.21p
Diluted		0.61p	0.21p
Dividends per Ordinary share	8		
Interim		0.12p	0.24p
Final		0.24p	0.10p
Total		0.36p	0.34p

Statement of Total Recognised Gains and Losses

year ended 31 March 2004

	2004 £000	2003 £000
Profit on ordinary activities after taxation	513	168
Exchange rate movement	(449)	(372)
Total gains and losses recognised relating to this year	64	(204)

Note on Historical Cost Profit and Losses

year ended 31 March 2004

	2004 £000	2003 £000
Profit on ordinary activities before taxation	722	499
Realisation of property valuation gains of prior years	639	—
Historical cost profit on ordinary activities before taxation	1,361	499
Historical cost retained profit/(loss) after taxation and dividends	847	(120)

Balance Sheets

as at 31 March 2004

	Note	Group		Company	
		2004 £000	2003 £000	2004 £000	2003 £000
Fixed assets					
Intangible assets	10	13,738	14,712	—	—
Tangible assets	11	6,545	9,132	16	41
Investments	12	326	326	10,281	10,283
		20,609	24,170	10,297	10,324
Current Assets					
Stock and work in progress	13	4,252	5,603	—	—
Debtors	14	9,266	7,832	20,723	23,514
Cash at bank and in hand		946	911	118	76
		14,464	14,346	20,841	23,590
Creditors					
Amounts falling due within one year	15	(11,332)	(11,989)	(7,723)	(8,071)
Net current assets		3,132	2,357	13,118	15,519
Total assets less current liabilities		23,741	26,527	23,415	25,843
Creditors					
Amounts falling due after more than one year	16	(2,637)	(5,334)	(2,312)	(4,997)
Provisions for liabilities and charges	17	(741)	(511)	(193)	8
Deferred income	18	(152)	(230)	—	(37)
Net assets		20,211	20,452	20,910	20,817
Capital and reserves					
Called up share capital	19	4,304	4,304	4,304	4,304
Share premium account	20	9,104	9,104	9,104	9,104
Revaluation reserve	20	—	639	—	—
Capital redemption reserve	20	955	955	955	955
Merger reserve	20	3,411	3,411	—	—
Other reserves	20	—	—	604	604
Profit and loss account	20	2,437	2,039	5,943	5,850
Equity shareholders' funds	21	20,211	20,452	20,910	20,817

Approved by the Board of Directors and signed on their behalf on 7 June 2004, by:

I D Brodie }
K N Edwards } Directors

Group Cash Flow Statement

year ended 31 March 2004

	Cash flow Notes	2004 £000	2003 £000
Net cash flow from operating activities	1	2,910	3,969
Return on investment and servicing of finance			
Interest paid:			
Bank loans and overdrafts		(402)	(555)
Finance leases		(60)	(74)
Other loans		(56)	(54)
Facility arrangement costs		(46)	(37)
		(564)	(720)
Taxation			
Corporation tax received/(paid)		181	(223)
Overseas tax paid		(99)	(496)
		82	(719)
Capital expenditure and financial investment			
Purchase of tangible fixed assets, net of finance leases		(463)	(1,171)
Expenditure on intangible fixed assets		(224)	(41)
Sale of tangible fixed assets		1,708	214
		1,021	(998)
Acquisitions and disposals			
Purchase of subsidiary and business undertakings		—	(1,173)
Payment of outstanding costs of acquisition		—	(541)
		—	(1,714)
Equity dividends paid		(287)	(692)
Net cash flow before financing		3,162	(874)
Financing			
Share issue costs		—	(4)
New debt received in the year		—	5,745
Debt repaid in the year		(2,617)	(5,929)
Repayment of finance leases		(510)	(505)
		(3,127)	(693)
Increase/(decrease) in cash	2	35	(1,567)

Notes to the Group Cash Flow Statement

year ended 31 March 2004

1	Reconciliation of operating profit to net cash flow from operating activities		2004	2003
			£000	£000
	Operating profit		1,576	1,659
	Depreciation		1,697	1,665
	Amortisation of goodwill		794	803
	Amortisation of pension deficit		381	381
	Pension contribution paid towards deficit		(1,290)	(968)
	Deferred income		(78)	(40)
	Profit on disposal of tangible fixed assets		(117)	(48)
	Decrease in stocks and work in progress		1,351	694
	(Increase)/decrease in debtors		(580)	21
	(Decrease)/increase in creditors		(824)	19
	Net cash flow from continuing operating activities		2,910	4,186
	Costs incurred in respect of discontinued businesses		—	(217)
	Net cash flow from operating activities		2,910	3,969
2	Reconciliation of net cash flow to movement in net debt (note 3)		2004	2003
			£000	£000
	Increase/(decrease) in cash		35	(1,567)
	Repayment of finance leases		510	505
	Cash outflow from debt		2,617	159
	Changes in net debt resulting from cash flows		3,162	(903)
	New finance leases		(533)	(233)
	Net movement in debt		2,629	(1,136)
	Opening debt		(9,259)	(8,123)
	Closing debt		(6,630)	(9,259)
3	Analysis of net debt	Analysis of movements in the year	At	At
			31 March	31 March
			2004	2003
			£000	£000
	Cash at bank	Cash Flow		
		£000		
		Other non-cash changes		
		£000		
			946	911
	Debt due after one year	1,285	(2,313)	(4,998)
	Debt due within one year	1,332	(4,506)	(4,438)
	Finance leases	510	(757)	(734)
	Debt	3,127	(7,576)	(10,170)
	Total net debt	3,162	(6,630)	(9,259)

Notes to the Financial Statements

year ended 31 March 2004

1. Accounting Policies

a) Accounting convention

The consolidated financial statements are prepared in accordance with applicable accounting standards under the historical cost convention as modified for the revaluation of certain freehold land and buildings.

b) Basis of consolidation

The consolidated financial statements include the accounts of Inteltek plc and its subsidiary undertakings, made up to the balance sheet date in each year. The results of subsidiary undertakings acquired during a year are included from their effective dates of acquisition, and the results of subsidiary companies and businesses sold during a year are included to their effective date of sale.

c) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of net assets acquired. The cost of acquisition includes estimated deferred purchase consideration. Positive goodwill is capitalised in the year in which it arises and amortised evenly over 20 years. In addition to systematic amortisation, the book value will be written down to its recoverable amount when any impairment is identified. Goodwill relating to acquisitions prior to the introduction of FRS 10 in 1999 continues to be eliminated against reserves and will be expensed in the profit and loss account in any future disposal or closure of the acquired businesses.

d) Turnover

Turnover is the amount receivable for goods and services supplied, excluding value added tax and transactions between Group undertakings.

e) Exceptional items

Exceptional items are those that need to be disclosed by virtue of their size and incidence. Such items are included within operating profit unless they represent profits and losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the Group, or profits or losses on the disposal of fixed assets. In these cases, separate disclosure is provided on the face of the Profit and Loss Account after operating profit.

f) Depreciation

Depreciation is provided to write down the cost or valuation of tangible fixed assets to their residual value over their estimated useful lives on the following bases:

Freehold land	Nil
Freehold properties	2% straight line
Leasehold properties	in equal instalments over the lease period
Plant and equipment	7%-33% straight line
Motor vehicles	25% straight line

Where there is evidence of impairment, fixed assets are written down to their recoverable amount.

g) Government grants

Government capital grants are credited to a deferred income account, and transferred to profit and loss account over the estimated useful life of the related asset.

h) 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 on a straight line basis over the lease terms.

i) Stock and work in progress

Stock and work in progress are stated at the lower of cost and net realisable value. Cost comprises direct material and labour, and, where appropriate, includes attributable overheads. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

j) 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 for:

- i) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date;
- ii) gains on the sale of non-monetary assets, if the taxable gain will probably be rolled over;
- iii) extra tax payable if the overseas retained profits of subsidiaries and associates are remitted in the future; and
- iv) fair value adjustment gains to fixed assets and stock to uplift prices to those ruling when an acquisition is made.

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 enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Where law or accounting standards require gains and losses to be recognised in the statement of total gains and losses, the related taxation is also taken directly to the statement of total recognised gains and losses in due course.

k) 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 rates of exchange ruling at the balance sheet date or the forward contract rate. The investment in overseas subsidiary undertakings is partly funded by overseas currency borrowings. Exchange differences arising on the translation into sterling of its net assets, less related borrowings, are shown as movements on reserves. All other exchange differences are recognised in the profit and loss account.

l) Pensions

In accordance with SSAP 24, the pension deficit in the Group defined benefit pension scheme determined in the latest triennial actuarial valuation is amortised to profit over the weighted average anticipated service life of active scheme members, on the recommendation of a qualified actuary. Contributions to the scheme are charged to profit on the recommendation of a qualified actuary using the defined accrued benefit method. Contributions to the Group's defined contribution schemes are charged to profit as they fall due. In accordance with the transitional requirements of FRS 17 "Retirement Benefits", additional disclosures are included in these Notes on the evaluation of the defined benefit pension scheme under FRS 17.

m) Employee Share Trust

The Group operates an Employee Share Trust, the assets of which comprise shares in Intelek plc held in an independently administered trust. The trust has been included with the Group's financial statements. Shares are stated at cost less a provision for any diminution in value which the Directors consider to be permanent.

n) Research and development

Research and development expenditure is charged to the profit and loss account as incurred, except for development projects subcontracted to third parties where those projects are separately identifiable and for each of which the outcome can be assessed with reasonable certainty. For each such project, the costs 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.

Notes to the Financial Statements

year ended 31 March 2004

2. Turnover and Operating Profit

	2004	2003
	£000	£000
The geographical markets for direct sales by the Group were:		
European Community (excluding UK)	11,988	15,138
Rest of Europe	463	721
North America	10,589	7,245
Rest of World	4,025	4,622
Total Overseas	27,065	27,726
United Kingdom	11,826	13,868
	38,891	41,594
Group sales by business segment were:		
Satellite communications	15,496	16,024
Microwave circuits	7,913	10,389
Power supplies and RF electronics	6,926	6,945
Aerostructures	8,556	8,060
Continuing operations	38,891	41,418
Discontinued operations: Satellite monitoring equipment	—	176
	38,891	41,594
Group operating profits by business segment were:		
Satellite communications	1,985	2,561
Microwave circuits	821	462
Power supplies and RF electronics	335	709
Aerostructures	239	218
Continuing operations	3,380	3,950
Discontinued operations: Satellite monitoring equipment	—	(443)
Central costs	(629)	(664)
Amortisation of pension deficit	(381)	(381)
Amortisation of goodwill	(794)	(803)
	1,576	1,659

3. Analysis of profit

	Continuing excl. goodwill £000	Goodwill amorti- sation £000	Total continuing £000	Dis- continued £000	Total 2004 £000	Continuing £000	Dis- continued £000	Total 2003 £000
Turnover	38,891	—	38,891	—	38,891	41,418	176	41,594
Cost of sales	(30,499)	—	(30,499)	—	(30,499)	(32,513)	(474)	(32,987)
Gross profit	8,392	—	8,392	—	8,392	8,905	(298)	8,607
Distribution and administrative expenses	(6,245)	(794)	(7,039)	—	(7,039)	(6,916)	(174)	(7,090)
Other operating income	223	—	223	—	223	113	29	142
Operating profit	2,370	(794)	1,576	—	1,576	2,102	(443)	1,659
						2004		2003
The operating profit is stated after charging:						£000		£000
Depreciation						1,697		1,665
Auditors' remuneration: Group						58		70
Company						16		5
Auditors' fees for non-audit services						42		40
Operating lease rentals: plant hire						453		285
property						898		877
Research and development (Amounts amortised from deferred expenditure £Nil (2003: £Nil))						2,141		2,139
and after crediting:								
Rental income						101		102
Deferred income from government grants						77		40
Net gain on sale of fixed assets						115		48

In addition to the fees noted above, the auditors received £11,000 in 2003 (2004: £Nil) for services in connection with acquisitions which was capitalised as part of the costs of acquisition.

4. Exceptional items

	2004 £000	2003 £000
Disposal of interest in properties in CML	(289)	—
Costs incurred on operations discontinued in 2003 and earlier	—	(415)
	(289)	(415)

Notes to the Financial Statements

year ended 31 March 2004

5. Interest	2004	2003
	£000	£000
Bank loans and overdrafts	403	233
Finance leases	60	74
Other loans	56	366
Amortisation of loan note arrangement fees	46	72
	565	745
6. Employees	2004	2003
	No.	No.
The average monthly number of Group employees was:		
Production	423	445
Administration and sales	76	81
	499	526
Costs in respect of these employees were:	2004	2003
	£000	£000
Wages and salaries	11,950	12,360
Social security costs	1,171	1,104
Other pension costs	850	863
	13,971	14,327
Other pension costs comprise:		
Regular cost	—	182
Amortisation of experience deficit	381	381
Defined benefit scheme	381	563
Defined contribution scheme	469	300
Amount of the pension charge under SSAP 24	850	863

Directors' emoluments are disclosed in the Remuneration Report on page 13.

Notes to the Financial Statements

year ended 31 March 2004

9. Earnings per Share

Headline Earnings Per Share is as recommended by the UK Society of Investment Professionals. It is calculated on the earnings adjusted as follows:

	Earnings		Earnings per Share	
	2004 £000	2003 £000	2004 p	2003 p
Profit after taxation	513	168	0.61	0.21
Non-operating exceptional items	289	415	0.34	0.52
Goodwill amortisation	794	803	0.94	1.00
Tax on exceptional items and goodwill amortisation	(124)	(255)	(0.15)	(0.32)
Headline	1,472	1,131	1.74	1.41

The earnings per share ratio has been calculated on the weighted average number of shares in issue, excluding those held by the Employee Share Trust. This gives a weighted average number of 84,586,012 (2003: 80,430,745).

There were no exercisable share options in existence during the year (2003: Nil) that were below the average fair value of 11.0p per share of the ordinary shares in issue during the year. There was therefore no dilution in shares (2003: Nil).

10. Intangible Assets

£000

Goodwill	
Cost	
At 1 April 2003	16,222
Exchange adjustment	(430)
At 31 March 2004	15,792
Amortisation	
At 1 April 2003	1,551
Exchange adjustment	(26)
Charge for the year	794
At 31 March 2004	2,319
Net book value	
At 31 March 2004	13,473
At 31 March 2003	14,671
Development	
Cost	
At 1 April 2003	41
Additions	224
Net book value	
At 31 March 2004	265
At 31 March 2003	41
Total net book value	
At 31 March 2004	13,738
At 31 March 2003	14,712

11. Tangible Assets

	Freehold properties £000	Leasehold properties £000	Plant and Equipment £000	Total £000
The Group				
Cost or valuation at 1 April 2003	2,050	1,167	17,956	21,173
Exchange adjustment	—	—	(162)	(162)
Additions	—	13	983	996
Disposals	(1,872)	—	(236)	(2,108)
Reclassification	(72)	(65)	137	—
Cost at 31 March 2004	106	1,115	18,678	19,899
Depreciation at 1 April 2003	196	308	11,537	12,041
Exchange adjustment	—	—	(64)	(64)
Charge for the year	32	59	1,606	1,697
Disposals	(202)	—	(118)	(320)
Reclassification	—	(47)	47	—
Depreciation at 31 March 2004	26	320	13,008	13,354
Net book amount:				
31 March 2004	80	795	5,670	6,545
31 March 2003	1,854	859	6,419	9,132
The Company				
Cost at 1 April 2003			268	268
Disposals			(30)	(30)
Cost at 31 March 2004			238	238
Depreciation at 1 April 2003			227	227
Charge for the year			16	16
Disposals			(21)	(21)
Depreciation at 31 March 2004			222	222
Net book amount:				
31 March 2004			16	16
31 March 2003			41	41

The net book amount of plant and equipment includes £2,040,000 (2003: £1,908,000) in respect of leased assets, the depreciation charge on which amounted to £351,000 (2003: £389,000). Tangible assets are stated at cost, apart from freehold property of the Group, valued on an open market value for existing use in 1987 at £1,291,000 by Eastlands, Chartered Surveyors and Valuers. The transitional provisions of FRS 15 "Fixed Assets" in respect of revalued assets are being applied by the Group. During the year, the Group disposed of the revalued freehold property. The net book amount of leasehold properties includes £245,000 (2003: £282,000) in respect of a long leasehold property and £550,000 (2003: £577,000) in respect of short leasehold property.

Comparable amounts for the Group's freehold properties, under historical cost rules would be:	2004	2003
	£000	£000
Cost	106	2,309
Depreciation	(26)	(470)
Net book amount	80	1,839

Notes to the Financial Statements

year ended 31 March 2004

12. Investments		£000
Shares in subsidiary undertakings (Company)		
Cost		
At 1 April 2003		10,734
Exchange adjustment		(2)
At 31 March 2004		10,732
Provision		
At 1 April 2003 and 31 March 2004		777
Net book amount	At 31 March 2004	9,955
	At 31 March 2003	9,957
Investment in own shares (Group and Company)		
At 1 April 2003 and 31 March 2004		376
Provision		
At 1 April 2003 and 31 March 2004		(50)
Net book amount	At 31 March 2004	326
	At 31 March 2003	326
Total net book amount	At 31 March 2004	10,281
	At 31 March 2003	10,283

The Company's principal subsidiary undertakings, all of which are wholly owned, are listed inside the back cover. Apart from Paradise Datacom LLC, which is incorporated and operates in the United States of America, all the subsidiary undertakings are registered in England and Wales, and operate in Great Britain. Their activities are detailed in the Chief Executive's Review on pages 4 to 9. The Pascall group of companies is owned directly by Intelek Properties Limited.

An employee share trust has been established to hedge the obligations of the Group in respect of options issued. The Company's ordinary shares were purchased through the market and are financed and held by independent third parties. In accordance with UITF Abstract 13 the shares are included at cost in fixed asset investments and the related finance is included in creditors falling due within one year.

13. Stock and Work in Progress	The Group	
	2004	2003
	£000	£000
Work in progress	2,299	2,747
Raw materials and components	1,953	2,856
	4,252	5,603

In the Directors' opinion, the replacement cost of stock and work in progress does not differ materially from the stated amounts.

14. Debtors

	The Group		The Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	6,967	6,482	—	—
Amounts owed by subsidiary undertakings	—	—	19,516	23,334
Taxation recoverable	60	115	408	1
Other debtors	131	49	33	30
Prepayments and accrued income	612	599	36	57
Pension prepayment	1,496	587	730	92
	9,266	7,832	20,723	23,514

15. Creditors — Amounts falling due within one year

	The Group		The Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Bank loans and overdrafts	4,555	4,384	5,616	5,700
Unamortised finance costs of bank loans	(49)	(112)	(49)	(112)
Loan notes	—	166	—	166
Finance leases	433	397	—	—
Trade creditors	3,727	4,364	—	—
Amounts owed to subsidiary undertakings	—	—	1,495	1,656
Other taxes and social security	601	731	40	44
Other creditors	264	406	46	125
Accruals	1,496	1,366	270	205
Proposed dividends	305	287	305	287
	11,332	11,989	7,723	8,071

Bank loans and overdrafts are fully secured on the assets of the Group.

16. Creditors — Amounts falling due after more than one year

	The Group		The Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Bank loan	1,892	4,200	1,891	4,200
Unamortised finance costs of bank loans	(97)	(73)	(97)	(73)
Loan notes	518	870	518	870
Finance leases	324	337	—	—
	2,637	5,334	2,312	4,997

The loan notes were issued in connection with the Paradise Datacom acquisition. They carry interest at 5% per annum and are secured by guarantee, to the extent of the principal amount, by the Group's bankers. They are repayable on 30 April 2005.

The loan notes are held by two directors, N L Mills and J P Dixon. As at 31 March 2004, Mr Mills held £359,000 (2003: £719,000) and Mr Dixon held £159,000 (2003: £317,000). During the year, Mr Mills earned £33,000 (2003: £45,000) interest on the loan notes and Mr Dixon earned £15,000 (2003: £9,000).

Notes to the Financial Statements

year ended 31 March 2004

17. Provisions for liabilities and charges

	Deferred Taxation	
	The Group £000	The Company £000
Provisions at 1 April 2003	511	(8)
Exchange adjustment	(11)	—
Profit and loss account	241	201
Provisions at 31 March 2004	741	193

Deferred Taxation	The Group		The Company	
	2004 Amount provided £000	2003 Amount provided £000	2004 Amount provided £000	2003 Amount provided £000
Capital allowances	492	710	(5)	(7)
Other timing differences	306	(199)	223	(1)
Losses	(57)	—	(25)	—
	741	511	193	(8)

18. Deferred income

	The Group		The Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Deferred income at 1 April 2003	230	270	37	39
Profit and loss account	(78)	(40)	(37)	(2)
Deferred income at 31 March 2004	152	230	—	37

19. Called up Share Capital	2004	2003
	£000	£000
Authorised:		
110,000,000 (2003: 110,000,000) Ordinary 5p shares	5,500	5,500
Allotted and fully paid:		
86,076,072 (2003: 86,076,072) Ordinary 5p shares	4,304	4,304

At 31 March 2004 there were outstanding options under the Executive Option Scheme in respect of 2,352,500 ordinary shares, exercisable between 2005 and 2013 at prices varying between 10.5p and 36p per share, outstanding options under the Savings Related Scheme in respect of 567,537 ordinary shares, exercisable in 2006 at a price of 34p, and outstanding options under the International Sharesave Scheme in respect of 179,408 ordinary shares, exercisable in 2007 at a price of 19p. Advantage has been taken of the exemption under UITF17 in respect of SAYE schemes.

At 31 March 2004 options over a further 700,000 shares at a price of 17p per share were outstanding from the Employee Share Trust. The earliest performance period is the three years ended 31 March 2004.

The movement in the year in respect of share options is analysed as follows:

	Executive Options	Savings Related Options
Outstanding options at 1 April 2003	3,885,454	1,043,516
Options lapsed, closed or expired	(287,500)	(296,771)
Outstanding options at 31 March 2004	3,597,954	746,745

The figures for Executive options include the Fletcher Options and the options granted to the Chief Executive under the Employee Share Trust. There were no options granted during the period.

Notes to the Financial Statements

year ended 31 March 2004

20. Reserves

	Share Premium Account £000	Revaluation Reserve £000	Capital Redemption Reserve £000	Merger Reserve £000	Profit & Loss £000
Group					
Reserves at 1 April 2003	9,104	639	955	3,411	2,039
Exchange adjustment	—	—	—	—	(449)
Realisation of revaluation reserve on disposal of property	—	(639)	—	—	639
Transfer from profit and loss account	—	—	—	—	208
Group reserves at 31 March 2004	9,104	—	955	3,411	2,437

	Share Premium Account £000	Share Other Reserve £000	Capital Redemption Reserve £000	Profit & Loss £000	
Company					
Reserves at 1 April 2003		9,104	604	955	5,850
Transfer from profit and loss account		—	—	—	130
Exchange adjustment		—	—	—	(37)
Company reserves at 31 March 2004		9,104	604	955	5,943

A profit of £435,000 (2003: Profit £284,000), before payments of dividends of £305,000 (2003: £288,000), has been dealt with in the accounts of the Company which has not presented its own profit and loss account under the exemption contained in Section 230 Companies Act 1985.

The cumulative Goodwill written off against Group reserves in respect of continuing businesses amounted to £3,635,000 (2003: £3,635,000).

21. Reconciliation of movements on Group shareholders' funds

	2004 £000	2003 £000
Profit for the financial year	513	168
Equity dividends paid and proposed	(305)	(288)
Exchange adjustments	(449)	(269)
Share issue costs	—	(4)
Contingent share consideration	—	(1,340)
	(241)	(1,733)
Shareholders' funds at 1 April 2003	20,452	22,185
Shareholders' funds at 31 March 2004	20,211	20,452

22. Commitments

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Capital expenditure contracted but not provided	47	198	—	—

23. Operating Lease Commitments

The Group have the following commitments under non-cancellable operating leases within the next twelve months:

	Properties £000	Plant £000	Total 2004 £000	Properties £000	Plant £000	Total 2003 £000
Expiring within one year	220	47	267	—	28	28
Expiring between one and five years	198	493	691	914	526	1,440
Expiring after five years	504	—	504	502	—	502
	922	540	1,462	1,416	554	1,970

The Company had commitments under a non-cancellable operating lease for property within the next twelve months of £16,000 (2003: £16,000). The lease expires after five years.

24. Contingent Liabilities and Assets

The Group's borrowing facilities are secured by a debenture over the Group's assets and unlimited cross guarantees given by the Company and certain subsidiary undertakings.

25. Financial Instrument Disclosures

The Group's financial instruments comprise borrowings, cash at bank and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of these instruments is to raise finance for operations. The Group has not entered into derivative transactions, with the exception of foreign exchange contracts in the normal course of trade, nor does it trade in financial instruments as a matter of policy. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board's policy on interest rate and liquidity risk is described below, and on foreign currency risk is as set out below and in Note 1k) on Accounting Policies.

Operations are financed through a mixture of retained profits, lease finance and bank borrowings. Other than the finance leases and loan notes, the Board's policy is to use variable rate borrowings. To ensure continuity of debt funding the Group's policy is to keep a substantial part of debt as due in more than one year's time. Short-term flexibility is achieved by overdraft facilities. The Group has taken out an interest rate cap to March 2005, limiting the base interest cost to 5.5% on a portion of the Group's term loan.

The Group has taken advantage of the exemption in FRS 13 in respect of short-term debtors and creditors and these are excluded from the disclosures below.

Interest rate risk profile of financial assets and financial liabilities

The only financial assets (other than short-term debtors) are cash at bank held at variable interest rates. Amounts held were:

	2004 £000	2003 £000
Sterling	18	36
US Dollars	823	875
Euros	105	—
	946	911

The interest rate profile of the Group's financial liabilities (other than short-term creditors) was:

	2004			2003		
	Fixed rate £000	Floating rate £000	Total £000	Fixed rate £000	Floating rate £000	Total £000
Sterling	1,214	4,285	5,499	1,770	6,406	8,176
US Dollars	61	2,016	2,077	—	1,993	1,993
	1,275	6,301	7,576	1,770	8,399	10,169

The fixed rate financial liabilities have a weighted average interest rate of 7.0% (2003: 6.4%), a weighted average period for which interest is fixed of 1.8 years (2003: 1.8 years) and a weighted average period until maturity of 1.8 years (2003: 1.8 years). These are described in more detail in note 16.

The floating rate financial liabilities comprise borrowings and overdrafts that bear interest at rates based on the LIBOR rate and the Barclays Bank base rate.

Notes to the Financial Statements

year ended 31 March 2004

25. Financial Instrument Disclosures continued

Currency exposures and gains and losses on hedges

The Group has a US-based subsidiary company which can affect the sterling Group Balance Sheet as a result of movements in the sterling/dollar exchange rate. The Group has partly hedged the US subsidiary company's net asset exposure at 31 March 2004 and the net currency movements on these net assets less related borrowings are recognised at each year end and recorded through reserves.

The Group enters into forward foreign exchange currency contracts to eliminate the currency exposures on sales denominated in foreign currency once a significant customer order has been received. The forward contracts existing at the year end amounted to £1,539,000 (2003: £2,644,000) which results in an unrecognised exchange profit of £2,000 (2003: £41,261) when compared with the year end exchange rate.

The profit of £41,261 carried forward at 31 March 2003 was recognised in the year to 31 March 2004. The profit of £2,000 is expected to be recognised in the year to 31 March 2005. There are no significant Group foreign currency monetary assets or liabilities that are not subject to foreign exchange contracts.

Maturity of financial liabilities

The maturity profile of the Group financial liabilities was as follows:

	2004 £000	2003 £000
In one year or less or on demand	4,939	4,835
In more than one year but not more than two years	1,671	1,990
In more than two years but not more than five years	966	3,344
	7,576	10,169

Borrowing Facilities

The Group has the following undrawn committed borrowing facilities:

	2004 £000	2003 £000
Expiring in less than one year	590	921
Expiring in more than one year but not more than two years	—	—
In more than two years	1,405	1,077
	1,995	1,998

Fair value of financial liabilities and assets

The fair value of fixed rate financial liabilities at 31 March 2004 compared with the recorded book value was:

	2004		2003	
	Book Value £000	Fair value £000	Book Value £000	Fair value £000
Short-term borrowings	433	439	563	571
Long-term borrowings	842	856	1,207	1,224
	1,275	1,295	1,770	1,795

The fair value of other financial liabilities and assets is not considered to be materially different from recorded book values.

26. Pension Scheme

The Group operates a pension scheme with both a defined benefit and money purchase section for eligible employees of participating Group undertakings.

SSAP 24 Valuation

The latest actuarial triennial valuation of the Group defined benefit pension scheme was prepared as at 31 March 2002, when the market value of the Scheme assets amounted to £11.9 million. The principal assumption adopted was that the long-term rate of return on investments would exceed the average annual increases in pensionable earnings by 2% per annum. At 31 March 2002 the assets of the Scheme were sufficient to cover 60% of its accrued liabilities, with full allowance for future increases in earnings, including additional leavers' benefits arising under the Social Security Act 1990, but making no allowance for any increases in pensions in payment under that Act.

The total pension costs for the Group, determined in accordance with the advice of qualified actuaries, consistent with SSAP 24, are set out in Note 6, and include contributions amounting to £469,000 in respect of the Group's money purchase schemes.

The defined benefit pension scheme owns the 999 year lease of the premises occupied by Labtech Ltd at Presteigne, Powys. The premises are let under a 24 year lease expiring in 2018 at a current commercial rental of £72,000 per annum.

Minimum Funding Requirement (MFR)

The Group has agreed a Schedule of Contributions with the Trustee of the Group's Defined Benefit Pension Scheme, as required by the MFR regulations. Payment of £1,290,000 was made during the year and payments of £1,290,000 are to be made each year thereafter for eight years, subject to review of the Schedule during that period. In addition, the Group has arranged a £2.4 million guarantee in favour of the Scheme, based on certain of the Group's assets.

FRS 17

The profit and loss account charge for pension costs, the accounting policies and the disclosures above are given on the basis of Statement of Standard Accounting Practice 24. SSAP 24 is going to be replaced by Financial Reporting Standard 17. The additional disclosures that follow are given in preparation for FRS 17 being adopted. They are based on a full actuarial review on the projected unit basis at 1 April 2002 updated to give figures at 31 March 2004 and relate only to the defined benefit section.

a) Contributions

The defined benefit scheme employers' contributions for the year were £1,290,000.

b) FRS 17 balance sheet information

	Value at 31 March			Long-term rate of return expected at 31 March		
	2004 £000	2003 £000	2002 £000	2004 %	2003 %	2002 %
Equities	4,491	5,917	11,231	7.50	7.50	7.00
Property	1,308	1,313	625	7.50	7.50	5.50
Bonds	3,460	693	—	5.00	5.00	—
Cash	1,188	924	—	3.75	3.75	—
Fair value of assets	10,447	8,847	11,856			
Present value of scheme liabilities	(22,882)	(22,680)	(19,917)			
Actuarial deficit	(12,435)	(13,833)	(8,061)			
Deferred tax	3,731	4,150	2,418			
Actuarial deficit after deferred tax	(8,704)	(9,683)	(5,643)			

All of the £8,704,000 (2003: £9,683,000) would have been shown as a liability had the Group's balance sheet been prepared under FRS 17.

Notes to the Financial Statements

year ended 31 March 2004

26. Pension Scheme continued

c) Profit and loss account reserve

	2004	2003
	£000	£000
As reported on SSAP 24	2,437	2,039
SSAP 24 pensions credit (net of £228,000 (2003: £114,000) deferred tax)	534	267
Excluding SSAP 24 balance	2,971	2,306
FRS 17 Actuarial deficit after deferred tax	(8,704)	(9,683)
On FRS 17 basis	(5,733)	(7,377)

d) Net assets

	2004	2003
	£000	£000
As reported on SSAP 24	20,211	20,452
SSAP 24 pensions prepayment (net of £449,000 (2003: £176,000) deferred tax)	(1,047)	(411)
Excluding SSAP 24 balance	19,164	20,041
FRS 17 Actuarial deficit after deferred tax	(8,704)	(9,683)
On FRS 17 basis	10,460	10,358

e) Assumptions

The major assumptions used by the actuary in assessing scheme liabilities on a FRS 17 basis were:

	At 31 March	At 31 March	At 31 March
	2004	2003	2002
	%	%	%
Rate of increase in salaries	3.10	3.10	3.00
Rate of increase in pensions in payment	2.60	2.60	2.50
Discount rate	5.75	5.75	6.00
Inflation assumption	2.60	2.60	2.50

26. Pension Scheme continued**f) Other information**

The following amounts would have been recognised in the performance statements under the requirements of FRS 17:

	2004 £000	2003 £000
Operating profit		
Current service cost	—	(220)
Past service cost	—	—
Total operating charge	—	(220)
Other finance income		
Expected return on pension scheme assets	618	773
Interest on pension scheme liabilities	(1,304)	(1,175)
Net return	(686)	(402)
Statement of total recognised gains and losses		
Actual return less expected return on pension scheme assets	1,108	(4,060)
Experience gains and losses arising on scheme liabilities	(314)	(817)
Changes in assumptions underlying the present value of the scheme liabilities	—	(1,427)
Actuarial loss recognised in STRGL	794	(6,304)
Movement in the deficit		
Deficit in scheme at start of year	(13,833)	(8,061)
Movement in year:		
Current service cost	—	(220)
Contributions	1,290	1,154
Past service cost	—	—
Other finance income	(686)	(402)
Actuarial loss	794	(6,304)
Deficit at year end	(12,435)	(13,833)
Details of experience gains and losses for the year		
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	1,108	(4,060)
Percentage of scheme assets	11%	-46%
Experience gains and losses on scheme liabilities:		
Amount (£'000)	(314)	(817)
Percentage of present value of the scheme liabilities	1%	4%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£'000)	794	(6,304)
Percentage of present value of the scheme liabilities	-3%	28%

27. Employee Shares Trust

The Inteltek plc Employees' Trust ("the Trust") was established by a deed on 7 November 1991 made between the Company and EFG Reads Trustees Limited of Jersey. The Trust was established for the benefit of the bona fide employees or former employees of the Company and other Group Companies ("the Beneficiaries"). The Trust is a Discretionary Trust whose assets are shares in the Company and the Trustees have full authority and power to distribute such shares as they deem fit to the Beneficiaries. In addition, the Trustees may satisfy options granted by the Company to participants in one or more of the Group's Share Option Schemes should the Trustees in their absolute discretion and with the agreement of the Company decide to do so. Administration costs amount to £5,000 per annum. As of 31 March 2004, the Trust held 1,490,060 (2003: 1,490,060) Ordinary shares of 5p each in the capital of the Company (1.73% of the allotted share capital), the market value of which at 31 March 2004 was £178,807 (2003: £74,503) i.e. 12p per share (2003: 5.25p per share). Dividends on these shares have not been waived. As of 31 March 2004 4,344,699 (2003: 4,928,970) shares of the Company are under option to the participants in the Group's Share Option Schemes and the Trustees may by agreement with the Company use all or any of the shares in the Trust to satisfy such options. As of today's date, 700,000 shares in the Trust have been set aside for the options.

Five Year Summary

	2004 £000	2003 £000	2002 £000	2001 £000	2000* £000
Turnover					
Continuing operations	38,891	41,418	39,823	32,537	30,670
Discontinued operations	—	176	917	3,383	2,956
Total Turnover	38,891	41,594	40,740	35,920	33,626
Headline Operating Profit					
Continuing operations	2,370	2,905	3,302	2,795	2,630
Discontinued operations	—	(443)	(152)	165	(171)
	2,370	2,462	3,150	2,960	2,459
Interest	(565)	(745)	(716)	(558)	(651)
Headline Profit	1,805	1,717	2,434	2,402	1,808
Amortisation of goodwill	(794)	(803)	(696)	(57)	—
Exceptional Items	(289)	(415)	(228)	(273)	(55)
Profit/(loss) before taxation	722	499	1,510	2,072	1,753
Taxation	(209)	(331)	(484)	(828)	(424)
Profit/(loss) of the year	513	168	1,026	1,244	1,329
Dividends	(305)	(288)	(693)	(605)	(313)
Transfer to/(from) reserves	208	(120)	333	639	1,016
Earnings per Ordinary share (pence)					
Headline	1.74	1.41	2.37	3.87	3.32
Basic	0.61	0.21	1.34	2.81	2.99
Diluted	0.61	0.21	1.20	2.78	2.98
Dividends per Ordinary share (pence)	0.36	0.34	0.90	0.90	0.75
Net Borrowings	(6,630)	(9,259)	(8,123)	(5,494)	(5,882)
Shareholders' funds	20,211	20,452	22,185	24,824	5,321

* These figures have been restated to comply with the requirements of FRS 19 "Deferred Taxation".

Notice of Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at the premises of Intelek plc, South Marston Park, Swindon, Wiltshire, SN3 4TR on Thursday, 16 September 2004 at 9.30 am for the following purposes:

Ordinary Business

- 1 To receive and adopt the Statement of Accounts for the year ended 31 March 2004 together with the Directors' report and the auditors' report on those accounts and the auditable part of the remuneration report.
- 2 To approve the Directors' Remuneration Report for the year ended 31 March 2004.
- 3 To declare a final dividend for the year ended 31 March 2004.
- 4 To re-elect Mr Donald Wilson as a Director. Mr Wilson retired having reached the statutory retirement age. Mr Wilson is currently 71.
- 5 To re-elect Mr Nigel Lindsay Mills as a Director.
- 6 To reappoint RSM Robson Rhodes LLP as Auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the Company.
- 7 To authorise the Directors to fix the remuneration of the Auditors.

Special Business

To consider and, if thought fit, to pass Resolutions 8, 9 and 10, as to which 8 will be proposed and voted on as an Ordinary Resolution, and 9 and 10 will be proposed and voted on as Special Resolutions.

- 8 That the Directors be and are hereby generally and unconditionally authorised pursuant to the provisions of Section 80 of the Companies Act 1985 ("Act") to exercise all the powers of the Company to allot relevant securities as defined by such Section provided that:
 - a) the maximum amount of such securities that may be allotted under this authority (within the meaning of that Section) is £1,196,196; and
 - b) this authority shall, unless it is (prior to its expiry) duly revoked or is renewed, expire at the conclusion of the Annual General Meeting of the Company to be held in 2005 or fifteen months from the date of passing this Resolution (whichever shall occur first) save that the Company may, before such expiry, make an offer or agreement which will or may require relevant securities to be allotted after such expiry and the Directors of the Company may allot relevant securities in pursuance of such offer or agreement as if the power conferred hereby had not yet expired;

and provided also that the authority granted by this Resolution is in substitution for any existing authority to allot relevant securities previously granted to the Directors which (to the extent that it remains in force and unexercised) is hereby revoked.
- 9 That the Company be authorised pursuant to Section 166 of the Act to make market purchases (as defined by Section 163 of that Act) of Ordinary shares of 5p in the capital of the Company on such terms as the Directors of the Company may determine, provided that such authority shall be limited as follows:
 - a) the Company shall purchase not more than 8,607,607 Ordinary Shares of 5p each (representing 10 per cent of the Company's issued ordinary share capital);
 - b) the price per Ordinary Share (exclusive of dealing and other incidental costs and stamp duty) to be paid by the Company shall be:
 - i) not less than 5p; and
 - ii) not more than 105% of the average of the middle market quotations of the shares in question taken from The London Stock Exchange daily official list for each of the five business days immediately preceding the date upon which the purchase is made;
 - c) the authority granted by this Resolution shall, unless it is (prior to its expiry) duly revoked, expire at the conclusion of the Annual General Meeting to be held in 2005 or twelve months from the date of passing this Resolution (whichever

Notice of Meeting

shall occur first). However, the Company may purchase its own shares of 5p each after this date provided that any such purchase is made pursuant to a contract concluded before this authority expires, and provided also that the authority granted by this Resolution is in substitution for any authority to purchase its own shares previously granted to the Company which (to the extent that it remains in force and unexercised) is hereby revoked.

10 That, subject to and conditional upon the passing of Resolution 8 set out above, the Directors of the Company be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to Section 80 of the said Act as if Section 89(1) of the said Act did not apply to any such allotment, provided that this power shall be limited to:

- a) the allotment of equity securities in connection with a rights issue in favour of or general offer to Ordinary shareholders where the equity securities respectively attributable to the interests of all the Ordinary shareholders are proportionate (as nearly as may be) to the number of Ordinary shares held by them (but subject to such exclusion and other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements and any legal or practical difficulties or the requirements of any regulatory body or stock exchange); and
- b) the allotment, otherwise than pursuant to subparagraph a) above, of equity securities up to an aggregate nominal value of £215,190;

and shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2005 or fifteen months from the date of passing this Resolution, whichever shall occur first, save that the Company may before such expiry make an offer or agreement which would or may require equity securities to be allotted after such expiry and the Directors of the Company may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired and provided also that the authority and power hereby conferred shall be in substitution for any previous authority conferred upon the Directors pursuant to the said Section 95 prior to the date of passing this Resolution.

By Order of the Board

K N Edwards

Director and Secretary

South Marston Park, Swindon, Wiltshire, SN3 4TR

7 June 2004

Notes

- 1 To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members by close of business on Tuesday, 14 September 2004.
- 2 A member entitled to vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of the member. A proxy need not also be a member of the Company.
- 3 A form of proxy for the use of members is enclosed with this notice. To be effective the form of proxy must be deposited, duly completed and signed, at the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not less than forty-eight hours before the time appointed for the holding of the meeting. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he so wishes.
- 4 There will be available for inspection at the Registered Office of the Company during normal business hours from the date of this notice until the date of the Annual General Meeting, and at the place of meeting from 8.30 am on 16 September 2004 until the conclusion of the meeting, the register of Directors' interest in accordance with Section 325 of the Companies Act 1985.

Group Company Addresses

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