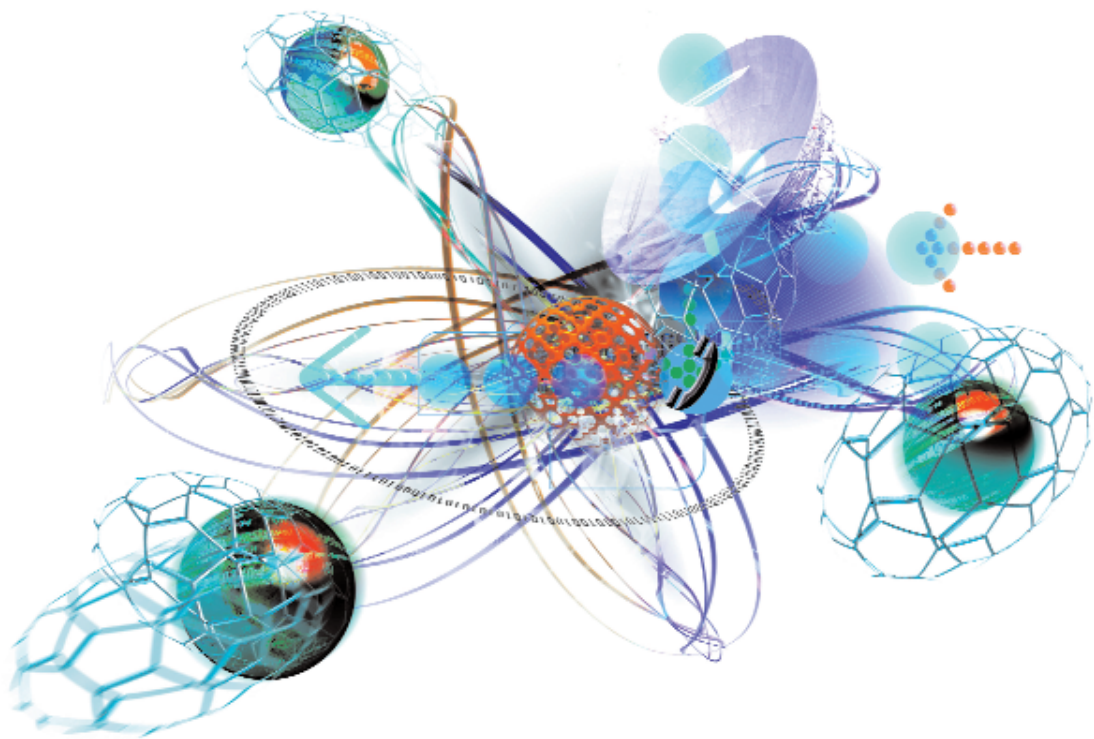


Interim Report 2006





Chairman's Statement

Financial results

I am pleased to report that the Group has achieved another encouraging improvement in performance during the first half year, with our main operating company, Paradise Datacom, showing impressive growth over the previous year. Sales for the first six months of the year increased by £1.6m to £18.4m with order inflow up substantially at £18.8m (2005: £16.3m). The Group's headline profit increased by 25% to £1.02m with headline earnings per share increasing by 29% to 0.80p per share (2005: 0.62p per share). Following one-off gains from reducing the pension scheme deficit, the profit before tax closed at £4.02m (2005: £0.81m).

Trading

Satellite Communications — Paradise Datacom Sales £8.5m (2005: £6.6m)

Operating Profit £1.34m (2005: £0.83m)

Paradise Datacom had a very successful half-year with sales up by 28% and, with overhead growth held to 8%, operating profit increased by 61% compared with the previous year. Order inflow at Paradise Datacom amounted to £9.2m in the six months, representing a growth of 41% over the comparable 2005 figure. Amplifiers continued to gain market share with strong demand from the government sector. These included two programmes for undisclosed US Government systems integrators. In the first programme, \$1m of amplifiers were shipped in the six months to September 2006 for use in US air traffic control systems, while the second programme generated sales of \$0.9m of high powered amplifiers in a project with a potential value to Paradise Datacom of more than \$5m over the next four years. Paradise Datacom also successfully completed the third tranche of a multi-million dollar contract for amplifiers for a satellite weather tracking system and is hopeful for further work in this area. The Evolution modem, launched in 2005, grew month by month throughout the six months culminating in the delivery of half of a \$1.5m modem contract in September for a GSM network in China, with the balance delivered in October.

Microwave Circuits and Components — Labtech Sales £4.4m (2005: £4.8m)

Operating Loss £(0.27)m (2005: Profit £0.32m)

As expected, Labtech faced a challenging first six months with a continuing drop-off in their older volume programmes and pressure on margins from rising raw material and consumable prices. Although Labtech sustained a loss in the first four months of the year, it returned to a respectable monthly profit level in September and October. Selective price increases were implemented in August coinciding with a pick-up in volume as new contracts entered the production phase. These include a number of phased array radar programmes, one of which has the potential to provide Labtech with £1m of deliveries over the next twelve months. Labtech was chosen as a supplier to this programme as a direct consequence of offering the combined capability of the PCB and microwave component facilities. Labtech also saw a growing level of interest in the emerging millimetre-wave programmes for imaging systems which are used to locate concealed weapons and explosives in personnel security checks. The second half will also benefit from the recent investment at Milton Keynes in fully automatic chip and wire bonding and assembly machines. Labtech Microwave's new products launched in June are beginning to gain market acceptance and sales momentum is growing. These factors, combined with Labtech Circuits' new programmes, should provide us with an improved second half performance.

Aerostructures — CML

Sales £5.6m (2005: £5.4m)

Operating Profit £0.64m (2005: £0.56m)

CML continued to perform robustly throughout the six month period, with sales up by 4% and operating profit 15% higher than last year. The five year contract with Airbus, awarded earlier this financial year, has enabled CML to plan medium-term capacity levels with more confidence. The company invested in a new machining centre in October to meet the

Chairman's Statement (continued)

increased A320 build rates required by Airbus. CML's second largest programme after the A320 is the Hawker corporate jet which has also seen its build rate increase significantly. The delays announced in the A380 programme are expected to have minimal direct effect on CML as this is not one of their major projects. CML has also been successful in broadening its customer base with initial orders of £0.24m in the half-year from four new British and French customers. We are also currently in the process of preparing a new strategic plan for the Composites' facility within CML to enable us to meet the expected increase in demand as more commercial aircraft designs focus on composite materials as a means of reducing weight.

Pensions

In my Chairman's Statement in June 2006, I outlined that we intended to address the issue of the pension scheme deficit by implementing several initiatives. These initiatives mainly related to the offer of an option to certain deferred and employee members of an enhanced transfer value. This has secured a reduction of £4.5m in the deficit at a cost to the Group of £1.8m funded by bank facilities agreed specifically for this purpose. In addition, delinking of future pension benefits for current employees from their final salary to an RPI adjusted 1 July 2006 salary has also decreased the deficit by a further £0.3m. The combined effect of these initiatives is to reduce the deficit by £4.8m at 30 September 2006 representing 37% of the deficit as reported at 31 March 2006. The net effect on the profit before tax is a one-off benefit of £3.0m.

Net debt

Net debt increased by £1.6m during the six months to £5.0m, £0.7m of which was due to the pension transfer exercise, and £0.5m for conversion of operating leases into finance leases at CML. The balance was the planned net funds outflow from operations at this stage

of the year including payment of the scheduled £0.7 million contribution towards the pension scheme deficit and further investment in equipment and working capital.

Dividend

As a result of the continued improvement in the performance of the Group, the Board of Directors has decided to increase the interim dividend by 8% to 0.13p per Ordinary Share (2005: 0.12p). This dividend will be paid on 24 January 2007 to shareholders on the register at 22 December 2006.

Extraordinary General Meetings

The Company held two Extraordinary General Meetings ("EGMs") yesterday, 15 November 2006. The resolutions at both meetings were duly passed and announced to the market. The first EGM proposed a resolution relating to the delisting of Intelek's shares from the Official List of the UK Listing Authority and trading on the London Stock Exchange's market for listed securities and their subsequent admission to AIM. The Board believes that AIM is a more appropriate market for Intelek that should lead to a simplification of administration requirements. It will also enable the Company to agree and execute transactions more quickly should any acquisition or other development opportunities arise in the future. The Board, however, envisages no alteration to the standards of reporting and corporate governance which the Group has always achieved. The application process for admission to AIM has now commenced which is expected to become effective on 14 December 2006.

The second EGM proposed resolutions relating to the cancellation of the Company's share premium account and capital redemption reserves. This will allow the Company's distributable reserves to be credited with the sums released and thereby enable the absorption of a significant proportion of the Group's pension scheme deficit onto the

Balance Sheet. This is necessary as the parent company will be adopting International Financial Reporting Standards (IFRS) for the preparation of the parent company's accounts for 2007. Without the cancellation of the share premium account and the capital redemption reserve, the effect of accounting under IFRS for the pension scheme deficit would have been to reduce the distributable reserves to below the level at which the Board will be able to recommend payment of a dividend to Shareholders. Application will now be made to the Court for approval of the cancellation, which is expected to be effective on or about 22 December 2006.

Strategy

We continue to focus on the wireless communications market and, in particular, the satellite end of that market. We have, over the last two years, established our amplifier range as the leading product group in its class and at the same time developed and brought to market the next generation high data rate modem. We shall continue to invest in R&D to enable us to build on the features and breadth of product offered at Paradise Datacom. At Labtech, we are employing a four-pronged approach to the market, embracing high-end microwave PCB's, defence related microwave components, contract microwave PCB assembly and MMIC packaging solutions. CML will continue to seek

opportunities to expand its share of current aircraft programmes and to broaden its customer base. We continue to explore potential acquisition opportunities which will add complementary products and services to develop further our presence in our core markets.

Prospects

Paradise Datacom had an excellent first half, benefiting from favourable phasing on certain government contracts. Taking the year as a whole, I expect Paradise Datacom to show continuing strong growth over 2005/06. Labtech should have an improved second six months and return to profit before the year end, while at CML I expect to see a continuation in their robust performance. Net finance costs, which were £0.2m lower than 2005 in the first half, should continue to be less than last year albeit at a higher rate than the six months to September 2006. In the preliminary announcement in June, I said that I expected steady but significant growth. Overall, I expect growth to be somewhat higher than this, with the outlook of satisfactory growth into the next financial year.

David M. Bramwell
Chairman
16 November 2006

Please consult Inteltek's web site www.intelek.plc.uk for press releases from Inteltek and Inteltek's subsidiaries. Alternatively, if you would like to receive copies of press releases by e-mail, please notify info@intelek.plc.uk

Consolidated Income Statement (unaudited)

for the six months ended 30 September 2006

		Half year to 30 September		Year to 31 March
	Note	2006 £000	2005 £000	2006 £000
Sales	2	18,430	16,839	35,212
Cost of goods sold		(13,520)	(12,106)	(25,473)
Gross profit		4,910	4,733	9,739
Selling and administrative expenses		(2,584)	(2,555)	(5,274)
Research and development expenses		(1,044)	(893)	(1,764)
Headline operating profit		1,282	1,285	2,701
Interest receivable		17	80	71
Interest payable		(196)	(247)	(382)
Expected return on pension scheme assets	7	534	383	761
Interest on pension scheme obligations	7	(621)	(688)	(1,345)
Finance costs – net		(266)	(472)	(895)
Headline profit		1,016	813	1,806
Pension transfer project	3	3,008	—	—
Profit before tax		4,024	813	1,806
Taxation	4	(1,244)	(285)	(483)
Profit for the period attributable to equity shareholders	2	2,780	528	1,323
Earnings per share – continuing				
Basic	5	3.29p	0.62p	1.56p
Diluted		3.28p	0.62p	1.56p

Consolidated Statement of Recognised Income and Expense (unaudited)

for the six months ended 30 September 2006

	Note	Half year to		Year to
		30 September		31 March
		2006	2005	2006
		£000	£000	£000
Foreign exchange translation differences (net of tax)		(5)	5	(5)
Net gain/(loss) on hedge of net investment in foreign subsidiary (net of tax)		(62)	53	39
Actuarial gains and losses on defined benefit pension plan		(708)	863	(943)
Deferred tax on actuarial gains and losses		212	(288)	283
Income and expense recognised directly in equity		(563)	633	(626)
Profit for the period		2,780	528	1,323
Total recognised income and expense for the period attributable to equity shareholders of the parent		2,217	1,161	697
Equity at 1 April		11,390	10,998	10,998
Dividends paid	6	(203)	(203)	(305)
Equity at end of period		13,404	11,956	11,390

Consolidated Balance Sheet (unaudited)

as at 30 September 2006

		30 September		31 March
		2006	2005	2006
	Note	£000	£000	£000
ASSETS				
Goodwill		13,528	13,529	13,608
Intangible assets		430	318	466
Property, plant and equipment		6,367	6,091	6,176
Deferred tax assets arising on pension obligation	7	2,490	3,708	3,914
Other deferred tax assets		624	152	418
Total non-current assets		23,439	23,798	24,582
Inventories		3,739	3,278	4,218
Trade and other receivables		6,558	6,557	6,701
Current tax assets		—	—	30
Cash and cash equivalents		746	803	1,114
Total current assets		11,043	10,638	12,063
Total assets		34,482	34,436	36,645
LIABILITIES				
Defined benefit pension obligation	7	(8,300)	(12,360)	(13,048)
Borrowings		(2,112)	(2,155)	(2,065)
Deferred tax liabilities		(572)	(614)	(1,070)
Deferred government grants		(92)	(108)	(93)
Total non-current liabilities		(11,076)	(15,237)	(16,276)
Borrowings		(3,681)	(2,116)	(2,452)
Trade and other payables		(4,856)	(4,966)	(6,454)
Current tax liabilities		(200)	(84)	—
Provisions and other liabilities	3	(1,265)	(77)	(73)
Total current liabilities		(10,002)	(7,243)	(8,979)
Total liabilities		(21,078)	(22,480)	(25,255)
Net assets attributable to equity shareholders		13,404	11,956	11,390
SHAREHOLDERS' EQUITY				
Issued capital		4,304	4,304	4,304
Share premium		9,104	9,104	9,104
Own shares		(326)	(326)	(326)
Other reserves		4,366	4,366	4,366
Retained earnings		(4,044)	(5,492)	(6,058)
Total equity		13,404	11,956	11,390

Consolidated Cash Flow Statement (unaudited)

for the six months ended 30 September 2006

		Half year to 30 September		Year to 31 March
		2006	2005	2006
	Note	£000	£000	£000
Cash flows from operating activities				
Cash generated from operations	8	(436)	1,253	2,281
Interest paid		(194)	(247)	(382)
Interest received		17	80	71
Tax paid		(52)	(404)	(190)
Net cash from operating activities		(665)	682	1,780
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		—	—	70
Purchases of property, plant, equipment and intangible assets		(78)	(275)	(710)
Acquisition of businesses		—	(474)	(462)
Net cash used in investing activities		(78)	(749)	(1,102)
Cash flows from financing activities				
Increase/(decrease) in bank loans		769	420	334
Finance lease payments		(357)	(294)	(590)
Dividends paid	6	(203)	(203)	(305)
Net cash used in financing activities		209	(77)	(561)
Net (decrease)/increase in cash and cash equivalents	9	(534)	(144)	117
Cash and cash equivalents at 1 April		1,114	1,091	1,091
Effect of foreign exchange rates		166	(144)	(94)
Cash and cash equivalents at end of period		746	803	1,114

- The financial information contained herein does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.
- The statutory accounts for the year ended 31 March 2006, which have been delivered to the Registrar of Companies, carry an unqualified report by the auditors and do not contain a statement under Section 237(2) or Section 237(3) of the Companies Act 1985.
- Copies of this Statement are being sent to Shareholders. Further copies are available from the Company Secretary, PO Box 25, South Marston Park, Swindon, SN3 4TR, and it is also available on our web site, <http://www.intelek.plc.uk>.

Notes to the Interim Report (unaudited)

for the six months ended 30 September 2006

1. Basis of preparation

This interim financial report has been prepared using the accounting policies and methods of computation applied in the Company's most recent annual financial statements. There are some minor restatements of the September 2005 comparative on finalisation of compliance with International Financial Reporting Standards at the year end March 2006.

2. Segment reporting

Business segment	Half year to 30 September						Year to 31 March		
	2006			2005			2006		
	Sales £000	Profit £000	Margin %	Sales £000	Profit £000	Margin %	Sales £000	Profit £000	Margin %
Satellite communications	8,508	1,336	16%	6,642	830	12%	14,114	2,027	14%
Microwave circuits and components	4,368	(271)	-6%	4,849	323	7%	10,194	652	6%
Aerostructures	5,610	649	12%	5,389	564	10%	10,996	1,091	10%
Eliminate intra-segment trading	(56)			(41)			(92)		
Continuing operations	18,430	1,714	9%	16,839	1,717	10%	35,212	3,770	11%
Central costs		(432)			(432)			(1,069)	
Net interest costs		(179)			(167)			(311)	
Pension finance costs		(87)			(305)			(584)	
Pension transfer project		3,008			—			—	
Taxation		(1,244)			(285)			(483)	
Total for the period	18,430	2,780		16,839	528		35,212	1,323	

Geographical markets – Sales by destination	Half year to 30 September		Year to 31 March
	2006	2005	2006
	£000	£000	£000
UK	8,035	7,314	14,696
Rest of Europe	3,174	5,037	11,926
North America	3,962	2,271	5,836
Rest of World	3,259	2,217	2,754
	18,430	16,839	35,212

3. Pension transfer project

During the period, two projects were undertaken concerning the Group's defined benefit pension scheme.

The first project terminated the link from final salary for employee members. For these members, the pensionable salary was fixed as at 1 July 2006, adjusted thereafter at the lower of movements in the retail price index and 5% each year.

The second project involved an invitation to certain of the non-pensioner members to transfer out of the scheme. The offer included a supplementary sum to be paid by the Company. The offer was well received by the membership.

Because of the way in which the liabilities are calculated for accounting purposes, these projects gave rise to reductions in the reported scheme deficit. As at 30 September the reductions are as follows:

	£000
Project 1: De-linking of final salary	296
Project 2: Transfers out	4,560
	4,856

The expenses and supplementary sums payable by the Company on these transfers out amount to £1,848,000, leaving a net credit to the Income Statement of £3,008,000. As at 30 September, £665,000 of these costs to the Company had been paid out, with the balance expected to be settled by December 2006.

4. Taxation

Tax for the interim period is based on effective tax rates expected to be applicable to the full year. This is estimated at 33.3% for headline profit and 30% for other gains/(losses) (2005: 35% and 30% respectively).

	Half year to 30 September	Year to 31 March
	2006	2005
	£000	£000
Current taxation	(280)	(161)
Deferred taxation	(964)	(124)
	(1,244)	(285)
	88	(571)
	(483)	

Notes to the Interim Report (unaudited) (continued)

for the six months ended 30 September 2006

5. Earnings per Share

Basic earnings per share were calculated based on the profit for the period divided by the weighted average number of ordinary shares outstanding during the period, excluding those held by the Employees Share Trust (84,586,000 (2005: 84,586,000)). Diluted EPS adjusts the basic EPS for dilutive potential ordinary shares (43,029 (2005: nil)).

In order to provide a trend measure of underlying performance, the Board also monitors headline earnings per share, computed as follows:

	Earnings			EPS		
	Half year to	Year to		Half year to	Year to	
	30 September	31 March		30 September	31 March	
	2006	2005	2006	2006	2005	2006
	£000	£000	£000	p	p	p
Profit for the period	2,780	528	1,323	3.29	0.62	1.56
Exceptional items	(3,008)	—	—	(3.56)	—	—
Tax on exceptional items	902	—	—	1.07	—	—
Headline	674	528	1,323	0.80	0.62	1.56

6. Dividends

The following dividend payments have been made, in each case on 86,076,072 ordinary 5p shares:

	Rate	Date	Half year to	Year to	
			30 September	31 March	
			2006	2005	2006
			£000	£000	£000
Final 2004/05	0.24p	30 September 2005	—	207	207
Interim 2005/06	0.12p	25 January 2006	—	—	103
Final 2005/06	0.24p	27 September 2006	207	—	—
Less: Dividends paid to employee share trust			(4)	(4)	(5)
			203	203	305

At 30 September 2006, the 2006 interim dividend had not been approved by the Board and as such was not included as a liability. The dividend is expected to be £112,000, to be paid in January 2007.

7. Defined benefit pension

	Half year to		Year to
	30 September		31 March
	2006	2005	2006
	£000	£000	£000
Gross deficit 1 April	(13,048)	(12,918)	(12,918)
Contributions	687	—	1,397
Finance costs	(87)	(305)	(584)
Curtailment gain from delinking of final salary	296	—	—
Transfers out	4,560	—	—
Actuarial (loss)/gain	(708)	863	(943)
Gross deficit at end of period	(8,300)	(12,360)	(13,048)
Deferred tax asset	2,490	3,708	3,914
Net deficit	(5,810)	(8,652)	(9,134)

The defined benefit plan was revalued by the Company in line with advice from the scheme actuary as at 30 September 2006. The principal assumptions were:

Rate of increase in salaries	3.20	3.30	3.20
Rate of increase in pensions in payment	2.70	2.80	2.70
Discount rate	5.00	5.50	5.00
Inflation	2.70	2.80	2.70

8. Cash generated from operations

	Half year to		Year to
	30 September		31 March
	2006	2005	2006
	£000	£000	£000
Headline operating profit from operations	1,282	1,285	2,701
Depreciation and amortisation	696	679	1,257
Pension contribution paid towards deficit	(687)	—	(1,397)
Deferred income	(1)	8	(7)
(Profit)/loss on disposal of tangible fixed assets	5	1	53
Decrease/(increase) in inventories	368	263	(644)
Increase in receivables	(85)	(469)	(586)
(Decrease)/increase in payables	(1,349)	(498)	968
Net cash flow before special projects	229	1,269	2,345
Pension transfer project	(665)	—	—
Special pension contribution in respect of Pascall disposal	—	(16)	(64)
Cash generated from operations	(436)	1,253	2,281
Being: Continuous operations	(436)	1,269	2,345
Discontinued operations	—	(16)	(64)

Notes to the Interim Report (unaudited) (continued)

for the six months ended 30 September 2006

9. Reconciliation of net cash flow to movement in net debt

	Half year to		Year to
	30 September		31 March
	2006	2005	2006
	£000	£000	£000
Net (decrease)/increase in cash and cash equivalents	(534)	(144)	117
Effect of foreign exchange rates	166	(144)	(233)
Repayment of finance leases	354	294	590
Cash (inflow)/outflow from debt	(769)	(420)	(334)
Changes in net debt resulting from cash flows	(783)	(414)	140
New finance leases	(861)	(710)	(1,199)
Net movement in debt	(1,644)	(1,124)	(1,059)
Opening debt	(3,403)	(2,344)	(2,344)
Closing debt	(5,047)	(3,468)	(3,403)
Analysis of net debt:			
Cash at bank	746	803	1,114
Debt	(3,995)	(3,173)	(3,223)
Finance leases	(1,798)	(1,098)	(1,294)
	(5,047)	(3,468)	(3,403)



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