# INTELEK plc Interim Report 2007

INTELEK

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**INTELEK** designs and manufactures electronic systems for satellite and microwave communications and is a specialist manufacturer for the aerospace market.

## Contents

# CHAIRMAN'S STATEMENT

## Financial results

I am pleased to report that the Group has performed extremely well in the first six months of the 2007/08 financial year. The operating profit across all our trading companies showed noticeable improvement over last year with each of them meeting or exceeding their internal targets.

As a result of improved margins, the Group's underlying profit before tax increased 45% to £1.48 million. This was achieved on sales of £17.3 million, a small reduction from last year's £18.4 million due to the weakened US$ and the expected reduction in business at Labtech. Earnings per share from underlying profit after tax was 1.15p, a 44% increase on last year's 0.80p. Underlying profit excludes exceptional items, which last year added £3.0 million for the one-off gain from reducing the pension scheme deficit.

## Trading

**Satellite Communications Equipment — Paradise Datacom**
**Sales £7.8m (2006: £8.5m)**
**Operating Profit £1.45m (2006: £1.34m)**

With the previous year's sales having been boosted by our largest ever modem order (a mobile telecom project in China) and the current year being adversely affected by £0.6 million of sales revenue on currency conversion due to the weakening US$, Paradise Datacom achieved a credible performance with sales only down by £0.7 million. The US$ effect also reduced profit, by £0.2 million. However, despite the weak dollar, I am pleased to report that profit increased overall by 9% through improved margins and increased operating efficiencies.

Both amplifiers and modems performed strongly in a market which is becoming increasingly dominated by international high-value projects. Orders received in the six month period included US $1 million of equipment for Russia's oil and gas industry together with US $0.9 million of modems and amplifiers for GSM networks in India and the Middle East. During August, Paradise Datacom was successful in winning a US $0.9 million order for the first tranche of a US $1.2 million government modem programme, both tranches of which are due for delivery by the year end.

We are maintaining our investment in product development. New multiple frequency, rack mounted amplifiers have been launched giving customers greater power and flexibility from more compact units which is important where space is often at a premium. Two new medium power block up converters (BUCs) are also now available which will enable us to compete more effectively for a larger share of the market for small commercial earth stations. On the modem side, additional features have been released, extending Internet connectivity features in this growing market. Other significant development projects are expected to be brought to market within the next six to twelve months which will further strengthen Intelek's position.

There are some significant global opportunities available to our growing range of products. To help increase our market share, we have invested in key additional sales talent and will continue to build our front-end resource in the growth areas of the world market, such as Asia, South America and Africa.

**Microwave Components & Manufacturing Services — Labtech**
**Sales £3.5m (2006: £4.4m)**
**Operating Profit/Loss £0.01m (2006: £(0.27)m)**

The development of the Labtech business model continues to make good progress and the company is successfully transforming itself from being a commodity dominated microwave circuit board company into a designer and manufacturer of specialist microwave package products and solutions for the security, defence and communications markets worldwide. After an operating loss of £(0.27) million in the first six months of last year and a loss of £(0.5) million for the full year, the business was significantly restructured with the intention of breaking even in the first half of 2007/08 and returning to profit in the second half. I am pleased to announce that, despite the expected drop off in sales in the first half, an operating profit has been achieved.

As part of the repositioning programme, it was very encouraging to record order intake some 42% ahead of sales. In particular, Labtech has achieved notable success in the defence and security markets by winning £1.3 million of production orders for AESA (active electronically scanned array) antenna circuits for phased-array radar applications. Labtech has also received other development orders for further phased-array radar circuits which we would expect to turn into production orders during the next twelve months. We have seen encouraging growth in orders from customers developing high frequency (millimetre wave) system products for high capacity radio links, security, defence and commercial applications. Development of our new microwave component products and establishment of our reputation in the market are gathering pace. A major international equipment manufacturer has recently approved the modified designs for our DLVA (detector log video amplifier) for their European defence programme and shipments have already commenced on this £0.3 million contract.

**Aerostructures — CML**
**Sales £6.2m (2006: £5.6m)**
**Operating Profit £0.76m (2006: £0.65m)**

CML continued to perform strongly throughout the six months period with sales increasing by 10% and operating profit by 17%. Production deliveries moved ahead on both of CML's major programmes — the Airbus A320 and the Hawker Beechcraft corporate jet. In addition, there were significant shipments for the C27 military transport aircraft which will become increasingly more important in the next two years. We continue to expand our Composite operation, including orders for £0.6 million of added-value assemblies, deliverable direct to the aircraft manufacturer, on a composite nose cone, the shell of which was already manufactured at CML. For both environmental and fuel efficiency reasons the use of composites is rapidly growing in a wide range of sustainable markets and, therefore, we intend to ensure that CML takes advantage of the growing number of opportunities.

CML completed a successful six months by achieving ISO 14001 accreditation in September in recognition of the steps it takes to protect the environment.

## Net Debt

Net debt at 30 September 2007 closed at £5.7 million compared with £5.0 million at the equivalent stage last year. The increase over last year is more than explained by £2.2 million paid as part of the pension transfer exercise which itself contributed significantly to reducing the gross pension deficit by 37% from £8.3 million at September 2006 to £5.2 million at September 2007. A revised actuarial valuation has been carried out on the Defined Benefit Pension Scheme at 31 March 2007. As a result of the improvement in the overall funding of the Scheme, the actuary has recommended, and the Trustees have approved, a reduction in the annual contribution from £1.3 million to £0.8 million effective 1 April 2007.

## 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 15% to 0.15p per Ordinary share (2006: 0.13p). This dividend will be paid on 23 January 2008 to shareholders on the register at 21 December 2007.

## Strategy

Our strategy continues to be focused on the development of our businesses in the communications industry and, in particular, the satellite segment of that industry. We intend to develop shareholder value by continuing to build an integrated Group with a significant share of niche global communications markets and the further development of our profitable and growing aerostructures business. We aim to grow organically within our chosen markets by sound investment in product development, capital equipment and enhanced geographic coverage. We will continue to encourage the professional development of our staff enhanced, where necessary, by the recruitment of key additional skills. To supplement our organic growth, we will actively seek out suitable acquisitions within our core activity.

## Prospects

Paradise Datacom has continued to perform extremely well in the first six months of the financial year, especially given the effect of the weak dollar. With their increasing territorial sales coverage and the growing reputation of their modem and amplifier products, I am confident that we should see a similar level of performance from Paradise Datacom in the second six months of the current financial year.

Labtech successfully achieved the major milestone of break-even by the half-year and, with their strong performance in order intake during the first half, Labtech should return to a respectable level of profit in the second six months.

CML continues to perform robustly. With the benefit of order cover of 88% for the second half, the Directors are confident that CML will record another year of encouraging growth.

Overall, I expect to see a continued and significant improvement in our performance in the current financial year.

**David M Bramwell**
Chairman
19 November 2007

Please consult Intelek's web site **www.intelek.plc.uk** for press releases from Intelek and Intelek'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 2007

| | Note | Half year to 30 September 2007 £000 | Half year to 30 September 2006 £000 | Year to 31 March 2007 £000 |
|---|---|---|---|---|
| **Sales** | 2 | **17,338** | 18,430 | 36,840 |
| Cost of goods sold | | **(12,315)** | (13,520) | (26,189) |
| **Gross profit** | | **5,023** | 4,910 | 10,651 |
| Selling and administrative expenses | | **(2,249)** | 424 | (2,389) |
| Research and development expenses | | **(1,010)** | (1,044) | (2,075) |
| **Operating profit*** | | **1,764** | 4,290 | 6,187 |
| Interest receivable | | **16** | 17 | 46 |
| Interest payable | | **(245)** | (196) | (419) |
| Expected return on pension scheme assets | 7 | **520** | 534 | 1,092 |
| Interest on pension scheme obligations | 7 | **(550)** | (621) | (1,284) |
| **Finance costs — net** | | **(259)** | (266) | (565) |
| **Profit before tax from continuing operations**** | | **1,505** | 4,024 | 5,622 |
| Taxation | 4 | **(512)** | (1,244) | (1,789) |
| **Profit for the period attributable to equity shareholders** | 2 | **993** | 2,780 | 3,833 |
| Earnings per share — basic | 5 | **1.17p** | 3.29p | 4.53p |
| Earnings per share — diluted | 5 | **1.17p** | 3.28p | 4.53p |
| * Underlying operating profit | 3 | **1,735** | 1,282 | 2,905 |
| ** Underlying profit before tax | 3 | **1,476** | 1,016 | 2,340 |

# CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE (UNAUDITED)

for the six months ended 30 September 2007

| | Note | Half year to 30 September 2007 £000 | Half year to 30 September 2006 £000 | Year to 31 March 2007 £000 |
|---|---|---|---|---|
| Foreign exchange translation differences (net of tax) | | **(107)** | (5) | (316) |
| Net gain/(loss) on hedge of net investment in foreign subsidiary (net of tax) | | **67** | (62) | 107 |
| Actuarial gains and losses on defined benefit pension plan | | **(395)** | (708) | (215) |
| Deferred tax on actuarial gains and losses | | **111** | 212 | 60 |
| **Income and expense recognised directly in equity** | | **(324)** | (563) | (364) |
| **Profit for the period** | | **993** | 2,780 | 3,833 |
| **Total recognised income and expense for the period attributable to equity shareholders of the Parent** | | **669** | 2,217 | 3,469 |
| Equity at start of period | | **14,544** | 11,390 | 11,390 |
| Disposal of investment in own shares | | **60** | — | — |
| Dividends paid | 6 | **(225)** | (203) | (315) |
| Equity at end of period | | **15,048** | 13,404 | 14,544 |

# CONSOLIDATED BALANCE SHEET (UNAUDITED)

as at 30 September 2007

| | | 30 September | | 31 March |
|---|---|---|---|---|
| | | **2007** | 2006 | 2007 |
| | Note | **£000** | £000 | £000 |
| **ASSETS** | | | | |
| Goodwill | | **13,340** | 13,528 | 13,391 |
| Intangible assets | | **334** | 430 | 337 |
| Property, plant and equipment | | **5,929** | 6,367 | 6,051 |
| Deferred tax assets arising on pension obligation | 7 | **1,457** | 2,490 | 1,479 |
| Other deferred tax assets | | **919** | 624 | 1,000 |
| **Total non-current assets** | | **21,979** | 23,439 | 22,258 |
| Inventories | | **4,197** | 3,739 | 3,883 |
| Trade and other receivables | | **5,639** | 6,558 | 6,494 |
| Cash and cash equivalents | | **473** | 746 | 543 |
| **Total current assets** | | **10,309** | 11,043 | 10,920 |
| **Total assets** | | **32,288** | 34,482 | 33,178 |
| **LIABILITIES** | | | | |
| Defined benefit pension obligation | 7 | **(5,205)** | (8,300) | (5,283) |
| Borrowings | | **(2,812)** | (2,112) | (1,775) |
| Deferred tax liabilities | | **(410)** | (572) | (366) |
| Deferred government grants | | **(85)** | (92) | (86) |
| **Total non-current liabilities** | | **(8,512)** | (11,076) | (7,510) |
| Borrowings | | **(3,315)** | (3,681) | (3,894) |
| Trade and other payables | | **(5,281)** | (4,856) | (6,496) |
| Current tax liabilities | | **(17)** | (200) | (469) |
| Provisions and other liabilities | | **(115)** | (1,265) | (265) |
| **Total current liabilities** | | **(8,728)** | (10,002) | (11,124) |
| **Total liabilities** | | **(17,240)** | (21,078) | (18,634) |
| **Net assets attributable to equity shareholders** | | **15,048** | 13,404 | 14,544 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Issued capital | | **4,369** | 4,304 | 4,369 |
| Share premium | | **—** | 9,104 | — |
| Own shares | | **(428)** | (326) | (488) |
| Other reserves | | **3,411** | 4,366 | 3,411 |
| Retained earnings | | **7,696** | (4,044) | 7,252 |
| **Total equity** | | **15,048** | 13,404 | 14,544 |

# CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

for the six months ended 30 September 2007

| | | Half year to 30 September | | Year to 31 March |
|---|---|---|---|---|
| | | **2007** | 2006 | 2007 |
| | Note | **£000** | £000 | £000 |
| **Cash flows from operating activities** | | | | |
| Cash generated from operations | 8 | **960** | (436) | 286 |
| Interest paid | | **(199)** | (194) | (419) |
| Interest received | | **16** | 17 | 46 |
| Tax paid | | **(676)** | (52) | (20) |
| **Net cash from operating activities** | | **101** | (665) | (107) |
| **Cash flows from investing activities** | | | | |
| Proceeds from sale of property, plant and equipment | | **—** | — | 5 |
| Purchases of property, plant, equipment and intangible assets | | **(330)** | (78) | (316) |
| **Net cash used in investing activities** | | **(330)** | (78) | (311) |
| **Cash flows from financing activities** | | | | |
| Increase in bank loans | | **645** | 769 | 872 |
| Finance lease payments | | **(382)** | (357) | (704) |
| Sale of investment in own shares | | **60** | — | — |
| Dividends paid | 6 | **(225)** | (203) | (315) |
| **Net cash used in financing activities** | | **98** | 209 | (147) |
| **Net decrease in cash and cash equivalents** | 9 | **(131)** | (534) | (565) |
| Cash and cash equivalents at start of period | | **543** | 1,114 | 1,114 |
| Effect of foreign exchange rates | | **61** | 166 | (6) |
| **Cash and cash equivalents at end of period** | | **473** | 746 | 543 |

(a) The financial information contained herein does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

(b) The statutory accounts for the year ended 31 March 2007, 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.

(c) 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 2007

## 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.

## 2. Segment reporting

| | | Half year to 30 September | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2007** | | | 2006 | | |
| | | **Sales** | **Profit** | **Margin** | Sales | Profit | Margin |
| **Business segment** | | **£000** | **£000** | **%** | £000 | £000 | % |
| Satellite communications | Paradise Datacom | **7,751** | **1,452** | **19%** | 8,508 | 1,336 | 16% |
| Microwave components and manufacturing services | Labtech | **3,469** | **8** | **0%** | 4,368 | (271) | -6% |
| Aerostructures | CML | **6,156** | **762** | **12%** | 5,610 | 649 | 12% |
| Eliminate intra-segment trading | | **(38)** | | | (56) | | |
| Continuing operations | | **17,338** | **2,222** | **13%** | 18,430 | 1,714 | 9% |
| Central costs | | | **(487)** | | | (432) | |
| Net finance costs | | | **(259)** | | | (266) | |
| Underlying profit before tax | | | **1,476** | | | 1,016 | |
| Pension curtailment and settlement gains | | | **29** | | | 3,008 | |
| Exceptional operating costs: | | | | | | | |
| Microwave components and manufacturing services | | | **—** | | | — | |
| Central | | | **—** | | | — | |
| Taxation | | | **(512)** | | | (1,244) | |
| Total for the period | | **17,338** | **993** | | 18,430 | 2,780 | |

Intra-segment sales are at prevailing market rates.

| Business segment | | Sales £000 | Profit £000 | Margin % |
|---|---|---|---|---|
| | | Year to 31 March 2007 | | |
| Satellite communications | Paradise Datacom | 16,941 | 2,953 | 17% |
| Microwave components and manufacturing services | Labtech | 8,311 | (479) | -6% |
| Aerostructures | CML | 11,704 | 1,582 | 14% |
| Eliminate intra-segment trading | | (116) | | |
| Continuing operations | | 36,840 | 4,056 | 11% |
| Central costs | | | (1,151) | |
| Net finance costs | | | (565) | |
| Underlying profit before tax | | | 2,340 | |
| Pension curtailment and settlement gains | | | 3,992 | |
| Exceptional operating costs: | | | | |
| Microwave components and manufacturing services | | | (531) | |
| Central | | | (179) | |
| Taxation | | | (1,789) | |
| Total for the period | | 36,840 | 3,833 | |

Intra-segment sales are at prevailing market rates.

| Geographical markets — Sales by destination | Half year to 30 September **2007** **£000** | Half year to 30 September 2006 £000 | Year to 31 March 2007 £000 |
|---|---|---|---|
| UK | **7,608** | 8,035 | 16,238 |
| Rest of Europe | **3,183** | 3,174 | 6,747 |
| North America | **3,282** | 3,962 | 6,502 |
| Rest of World | **3,265** | 3,259 | 7,353 |
| | **17,338** | 18,430 | 36,840 |

# NOTES TO THE INTERIM REPORT (UNAUDITED)

for the six months ended 30 September 2007

## 3. Reconciliation between profit and underlying profit

| | Note | Half year to 30 September 2007 £000 | Half year to 30 September 2006 £000 | Year to 31 March 2007 £000 |
|---|---|---|---|---|
| Operating profit | | **1,764** | 4,290 | 6,187 |
| Less: | | | | |
| Asset impairment and restructuring | | **—** | — | (531) |
| Curtailment gain on delinking the final salary for active members of the defined benefit pension scheme | | **—** | — | 268 |
| Restructuring of holding company and its listing | | **—** | — | (124) |
| Abortive costs of disposal/acquisition | | **—** | — | (26) |
| Setting up the Executive LTIP | | **—** | — | (29) |
| Gain arising on transfers from the defined benefit pension scheme | | **29** | 3,008 | 3,724 |
| | | **29** | 3,008 | 3,282 |
| Underlying operating profit | | **1,735** | 1,282 | 2,905 |
| Profit before taxation | | **1,505** | 4,024 | 5,622 |
| Adjustments to operating profit per above | | **(29)** | (3,008) | (3,282) |
| Underlying profit before taxation | | **1,476** | 1,016 | 2,340 |
| Profit for the year | | **993** | 2,780 | 3,833 |
| Adjustments to profit before taxation per above | | **(29)** | (3,008) | (3,282) |
| Tax effect of adjustments to operating profit | | **9** | 902 | 1,182 |
| Underlying profit for the year | | **973** | 674 | 1,733 |
| Underlying Earnings per Share | 5 | **1.15p** | 0.80p | 2.05p |

## 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 34% for underlying profit and 30% for other gains/(losses) (2006: 33.3% and 30% respectively).

| | Half year to 30 September 2007 £000 | Half year to 30 September 2006 £000 | Year to 31 March 2007 £000 |
|---|---|---|---|
| Current taxation | **(237)** | (280) | (531) |
| Deferred taxation | **(275)** | (964) | (1,258) |
| | **(512)** | (1,244) | (1,789) |

## 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 (84,761,000 (2006: 84,586,000)). Diluted EPS adjusts the basic EPS for dilutive potential ordinary shares (157,000 (2006: 43,000)).

## 6. Dividends

The following dividend payments have been made on the ordinary 5p shares in issue:

| | | | | Half year to 30 September | | Year to 31 March |
|---|---|---|---|---|---|---|
| | Rate | Date | Shares in issue | **2007 £000** | 2006 £000 | 2007 £000 |
| Final 2005/06 | 0.24p | 27 September 2006 | 86,076,072 | **—** | 207 | 207 |
| Interim 2006/07 | 0.13p | 24 January 2007 | 87,376,072 | **—** | — | 114 |
| Final 2006/07 | 0.26p | 26 September 2007 | 87,376,072 | **227** | — | — |
| Less: Dividends paid to employee share trust | | | | **(2)** | (4) | (6) |
| | | | | **225** | 203 | 315 |

At 30 September 2007, the 2007 interim dividend had not been approved by the Board and as such was not included as a liability. The dividend is expected to be £131,000, to be paid in January 2008.

## 7. Defined benefit pension

| | Half year to 30 September | | Year to 31 March |
|---|---|---|---|
| | **2007 £000** | 2006 £000 | 2007 £000 |
| Gross deficit at start of period | **(5,283)** | (13,048) | (13,048) |
| Contributions | **436** | 687 | 1,387 |
| Finance costs | **(30)** | (87) | (192) |
| Curtailment and settlement gain | **67** | 4,856 | 6,785 |
| Actuarial (loss)/gain | **(395)** | (708) | (215) |
| Gross deficit at end of period | **(5,205)** | (8,300) | (5,283) |
| Deferred tax asset | **1,457** | 2,490 | 1,479 |
| Net deficit | **(3,748)** | (5,810) | (3,804) |

The defined benefit plan was revalued by the Company in line with advice from the scheme actuary as at 30 September 2007. The principal assumptions were:

| | | | |
|---|---|---|---|
| Rate of increase in salaries | **n/a** | 3.20 | n/a |
| Rate of increase in pensions in payment | **3.20** | 2.70 | 3.20 |
| Discount rate | **5.45** | 5.00 | 5.45 |
| Inflation | **3.20** | 2.70 | 3.20 |

## 8. Cash generated from operations

| | Half year to 30 September 2007 £000 | Half year to 30 September 2006 £000 | Year to 31 March 2007 £000 |
|---|---|---|---|
| Underlying operating profit | **1,735** | 1,282 | 2,905 |
| Depreciation and amortisation | **641** | 696 | 1,437 |
| Pension contribution paid towards deficit | **(436)** | (687) | (1,387) |
| Deferred income | **(1)** | (1) | (7) |
| (Profit)/loss on disposal of tangible fixed assets | **(11)** | 5 | 20 |
| (Increase)/decrease in inventories | **(379)** | 368 | 137 |
| Decrease/(increase) in receivables | **796** | (85) | 9 |
| (Decrease)/increase in payables | **(979)** | (1,349) | 18 |
| Net cash flow before special projects | **1,366** | 229 | 3,132 |
| Pension transfer project | **(187)** | (665) | (2,639) |
| Other exceptional items | **(219)** | — | (207) |
| Cash generated from operations | **960** | (436) | 286 |

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

| | Half year to 30 September 2007 £000 | Half year to 30 September 2006 £000 | Year to 31 March 2007 £000 |
|---|---|---|---|
| Net decrease in cash and cash equivalents | **(131)** | (534) | (565) |
| Effect of foreign exchange rates | **61** | 166 | 217 |
| Repayment of finance leases | **382** | 354 | 703 |
| Cash inflow from debt | **(645)** | (769) | (907) |
| Changes in net debt resulting from cash flows | **(333)** | (783) | (552) |
| New finance leases | **(195)** | (861) | (1,171) |
| Net movement in debt | **(528)** | (1,644) | (1,723) |
| Opening debt | **(5,126)** | (3,403) | (3,403) |
| Closing debt | **(5,654)** | (5,047) | (5,126) |
| Analysis of net debt: | | | |
| Cash at bank | **473** | 746 | 543 |
| Bank overdraft and loans | **(4,556)** | (3,995) | (3,912) |
| Finance leases | **(1,571)** | (1,798) | (1,757) |
| Total net debt | **(5,654)** | (5,047) | (5,126) |

**INTELEK plc**

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