

INTELEK plc **Interim Report**

for the 6 months ended 30 September 2008



INTELEK

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

Group Highlights

- Turnover increased 8% to £18.8 million (2007: £17.3 million)
- Underlying profit before tax increased by 39% to £2.05 million (2007: £1.48 million)
- Underlying earnings per share increased by 43% to 1.64p from 1.15p
- Interim dividend increased by 10% to 0.165p (2007: 0.15p)

www.intelek.plc.uk

Stock exchange code: ITK

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Chairman's Statement

David Bramwell



"Our markets have proved resilient and there is plenty of scope for growth. We expect further increases in market share with profit ahead of management's original expectations for the current financial year."

Financial results

The first half of the financial year has been one of continuing strong performance across the Group with both sales and order intake up on the same period last year. Sales increased £1.4 million to £18.8 million, £0.3 million of which was due to the strengthening US dollar.

I am pleased also to report a substantial improvement in the profit performance of the Group for the six months to 30 September 2008, with underlying profit before tax increasing by 39% to £2.05 million.

Underlying earnings per share for the half year were 1.64p, a 43% increase on last year's 1.15p.

Trading

Satellite Communications

Equipment — Paradise Datacom

Sales £8.1m (2007: £7.8m)

Operating Profit £1.65m (2007: £1.45m)

Operating profit improved by 13% to £1.65 million, a margin of 20%. Sales were 4% ahead of the same

period last year and order intake was 24% higher, exceeding sales by £1.2 million, a book to bill ratio of 1.15 times. This was due, in part, to the increase in our global sales and marketing presence over the last 12 months. Our office in Thailand, which opened in April 2008, has already contributed \$2.2 million of orders during the period to the end of October. This includes \$0.4 million for the first phase of a \$1.3 million modem requirement for a mobile telephone network project in Asia and \$1 million for high power amplifiers for an Indonesian satellite data link. Our expansion in the Far East continued with the opening of an office in Beijing in early October. Asia is expected to be the main area of growth in the next decade for satcoms in the commercial market, especially for telecommunications. We are now well placed to benefit from this regional growth.

We are also benefiting from increased activity in oil, gas and other natural resources sectors in

regions such as Alaska, Russia, the Middle East and Africa.

By far the largest market for satcoms is government funded projects across a broad front, where Paradise Datacom currently has a small market share, but has rapidly become a serious competitor in multi-million dollar and multi-year programmes. A recent example of this is the receipt of a \$0.4 million initial order for a military programme which could yield \$5 million over five years to supply compact outdoor solid-state amplifiers to replace the older technology tube amplifiers.

We have continued to invest in new product development and now have a high quality offering which meets or exceeds the specifications of our competitors. During the period, we released our new Vision 80 modem designed specifically for the burgeoning "High Definition" TV market. The Vision 80 compression technology will be incorporated in our standard product, boosting the

bandwidth saving available to our customers. As announced on 3 October 2008, Paradise Datacom has reached an agreement with ViaSat, Inc., a NASDAQ quoted Company, to incorporate ViaSat's Paired Carrier Multiple Access technology into Paradise Datacom's modems. This technology provides a further reduction in bandwidth requirement of 50%. The cost of bandwidth from a satellite is by far the largest recurring operational expense for our customers.

Our amplifier research and development team is focused primarily on designing the next quantum leap in power levels for solid-state amplifiers. This will break new technological ground and will move us further into the lucrative market dominated by tube amplifiers. It is scheduled for launch soon after our financial year end. The development team has also been applying finishing touches to our new lower power amplifier range that should enable us to achieve significant price and performance advantages over the competition. Initial production has commenced, with volume production expected to be outsourced soon to our contract assembler. To support our research and development programmes, we have also recently opened a design centre and recruited a number of engineers in Phoenix, Arizona.

With our continued programme of new product development and our investment in a global sales and marketing infrastructure now gaining traction, we look forward to the next six months with confidence.

Microwave Components & Manufacturing Services — Labtech

**Sales £3.7m (2007: £3.5m)
Operating Profit £0.05m (2007: £0.01m)**

Labtech Microwave sales were 6.5% higher than last year with profit showing further improvement. Sales continued to reflect Labtech's evolution from the volume telecommunications market towards defence, security and other sectors.

Telecom sales were unchanged at £1.9 million, whilst non-telecom sales increased by 12% to £1.8 million. Non-telecom sales would have been higher still but for a customer reschedule on a major programme to enable a systems redesign. Deliveries to this programme recommenced in September, calling for 12% more systems than previously expected with the strong likelihood of further orders to come.

There are increasingly encouraging signs that Labtech Microwave is forging a niche in the phased array radar market where the combination of our microwave component design, microwave circuit board manufacture and assembly and test facilities has carved out a significant advantage in this specialist area. In addition, our detector log video amplifiers (DLVAs) have found a growing following with non-USA defence electronic system suppliers, providing them with a high quality alternative to the USA for these complex microwave components.

Labtech Microwave's capability in microwave amplifier engineering enabled their selection by Paradise Datacom to develop and produce a new line of Ka-band Low Noise Amplifiers, a new area of opportunity as satellite customers look for alternatives to the congested standard frequencies.

**Aerostructures — CML
Sales £7.1m (2007: £6.2m)
Operating Profit £1.20m (2007: £0.76m)**

CML had an excellent start to the year, with operating profit up 57% to £1.2 million, on a sales increase of 15%. The order intake for the first six months exceeded sales by 22%.

CML saw growth in all divisions. Precision machining (of aluminium and titanium structural parts) accounted for over 50% of sales, with the division operating at close to full capacity, primarily in support of the increased build rate for Airbus single aisle planes.

The Fabrication Division saw growth especially in spares and repairs opportunities for its sheet metal parts, with sales increasing to over £1 million for the first time.

The strategically important Composites Division saw sales grow by 25% to £2 million, and orders by 82%. This reflects continued interest in CML's composite capability as the industry moves more towards the lighter weight composite materials used on new aircraft programmes. In that regard, following receipt of the relevant approvals to supply parts on the Joint Strike Fighter

programme, CML received further orders of £0.5 million to cover the next six month initial production phase. As this programme is likely to increase significantly over the next five years, CML has been considering investment proposals for enlarging its production capability over the next three years. For this investment, CML will receive grant support of £600,000 from the Northwest Regional Development Agency. Once the investment programme is completed, CML will have created a substantial composites division alongside its precision machining operation, and at the same time achieved an important diversification towards military aircraft supply to match its commercial aerospace capability.

Net debt

Net debt as at 30 September 2008 was £3.81 million, slightly lower than at 31 March 2008 (£3.86 million), and substantially lower than 30 September 2007 (£5.65 million). This is after payments into the Group's defined benefit pension scheme of £0.6 million. Interest cover (measured as underlying operating profit to net interest excluding pension finance costs) increased from 7.6 times to 15.4 times, and net debt to EBITDA reduced from 1.2 to 0.6 times, on an annualised basis. The pension deficit reduced further to £4.8 million (£3.5 million after tax), after applying assumptions agreed with the scheme actuary.

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 10% to 0.165p per Ordinary share (2007: 0.15p). This dividend will be paid on 21 January 2009 to shareholders on the register at 19 December 2008.

Strategy

Our strategy is to develop our business in the communications industry and, in particular, in the transmission of voice, video and data using satellite and microwave communications technology. Our emphasis will be on the defence, security and broadcast sectors. We will also continue to develop our profitable and growing aerostructures business. The Group will grow organically within our chosen markets through 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. In order to supplement 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, and is now seeing the benefit of the investment in sales resource and product development, as evidenced by the increase in order inflow. We anticipate further growth in market share in the next six months and consequently an

improvement in Paradise Datacom's full year performance.

Labtech has a number of large programmes that are due to commence or increase deliveries in the next six months. We expect the year as a whole to show improvement on last year.

CML continues the momentum of the last few years. With 74% of projected sales for the second six months already in the order book, we are confident that CML will record yet another year of strong growth.

Any comments on prospects, even in the short term, would not be complete without referring to the implications for the Group's activities of the macro economic climate and the consequential effect on global trade. Although no sector can be isolated from these concerns, satellite and microwave communications, and aerospace, to date, have proved to be resilient and, consequently, we still see plenty of scope for growth across our operations. In the next six months, we expect to secure further increases in market share with profit ahead of management's original expectations for the current financial year.

David M Bramwell

Chairman

25 November 2008

Consolidated Income Statement

For the six months ended 30 September 2008

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		Half year to 30 September (unaudited)	Year to 31 March (audited)
	Note	2008 £000	2007 £000
Continuing operations			
Sales	2	18,754	17,338
Cost of goods sold		(12,742)	(12,315)
Gross profit		6,012	5,023
Selling and administrative expenses		(2,484)	(2,249)
Research and development expenses		(1,157)	(1,010)
Operating profit*		2,371	1,764
Interest receivable		5	16
Interest payable		(159)	(245)
Expected return on pension scheme assets	7	443	520
Interest on pension scheme obligations	7	(613)	(550)
Finance costs — net		(324)	(259)
Profit before tax from continuing operations†		2,047	1,505
Taxation	4	(655)	(512)
Profit for the period attributable to equity shareholders	2	1,392	993
Earnings per share — basic	5	1.64p	1.17p
Earnings per share — diluted	5	1.64p	1.17p
* Underlying operating profit	3	2,371	1,735
† Underlying profit before tax	3	2,047	1,476

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		Half year to 30 September (unaudited)	Year to 31 March (audited)
	Note	2008 £000	2007 £000
			2008 £000
Foreign exchange translation differences (net of tax)		54	(35)
Net gain on hedge of net investment in foreign subsidiary (net of tax)		172	24
Actuarial gains and losses on defined benefit pension plan		18	(873)
Deferred tax on actuarial gains and losses		(4)	244
Income and expense recognised directly in equity		240	(640)
Profit for the period		1,392	2,356
Total recognised income and expense for the period attributable to equity shareholders of the Parent		1,632	1,716
Equity at start of period		15,964	14,544
Disposal of investment in own shares		—	59
Dividends paid	6	(260)	(355)
Equity at end of period		17,336	15,964

Consolidated Balance Sheet

As at 30 September 2008

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	Note	30 September (unaudited)		31 March
		2008	2007	2008
		£000	£000	£000
ASSETS				
Goodwill		13,543	13,340	13,366
Intangible assets		363	334	383
Property, plant and equipment		5,760	5,929	5,864
Deferred tax assets arising on pension obligation	7	1,347	1,457	1,459
Other deferred tax assets		703	919	817
Total non-current assets		21,716	21,979	21,889
Inventories		4,103	4,197	3,706
Trade and other receivables		7,164	5,639	6,292
Current tax assets		—	—	112
Cash and cash equivalents		200	473	1,245
Total current assets		11,467	10,309	11,355
Total assets		33,183	32,288	33,244
LIABILITIES				
Defined benefit pension obligation	7	(4,811)	(5,205)	(5,212)
Borrowings		(3,359)	(2,812)	(2,994)
Deferred tax liabilities		(532)	(410)	(450)
Deferred government grants		(77)	(85)	(78)
Total non-current liabilities		(8,779)	(8,512)	(8,734)
Borrowings		(653)	(3,315)	(2,115)
Trade and other payables		(6,252)	(5,281)	(6,381)
Current tax liabilities		(151)	(17)	—
Provisions and other liabilities		(12)	(115)	(50)
Total current liabilities		(7,068)	(8,728)	(8,546)
Total liabilities		(15,847)	(17,240)	(17,280)
Net assets attributable to equity shareholders		17,336	15,048	15,964
SHAREHOLDERS' EQUITY				
Issued capital		4,369	4,369	4,369
Own shares		(429)	(428)	(429)
Other reserves		3,411	3,411	3,411
Retained earnings		9,985	7,696	8,613
Total equity		17,336	15,048	15,964

Consolidated Cash Flow Statement

For the six months ended 30 September 2008

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		Half year to 30 September (unaudited)	Year to 31 March (audited)
	Note	2008 £000	2007 £000
			2008 £000
Cash flows from operating activities			
Cash generated from operations	8	1,287	4,101
Interest paid		(153)	(477)
Interest received		5	27
Tax paid		(143)	(985)
Net cash from operating activities		996	2,666
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		—	15
Purchases of property, plant, equipment and intangible assets		(298)	(604)
Net cash used in investing activities		(298)	(589)
Cash flows from financing activities			
Share issues		—	60
Increase in bank loans		44	144
Finance lease payments		(342)	(769)
Dividends paid	6	(260)	(355)
Net cash used in financing activities		(558)	(920)
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at start of period		192	(963)
Effect of foreign exchange rates		(211)	2
Cash and cash equivalents at end of period	10	121	192

- (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 2008, 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 website, <http://www.intelek.plc.uk>

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

Business segment

	Half year to 30 September (unaudited)					
	2008			2007		
	Sales £000	Profit £000	Margin %	Sales £000	Profit £000	Margin %
Satellite communications — Paradise Datacom	8,080	1,646	20%	7,751	1,452	19%
Microwave components & manufacturing services — Labtech	3,696	45	1%	3,469	8	0%
Aerostructures — CML	7,104	1,198	17%	6,156	762	12%
Eliminate intra-segment trading	(126)			(38)		
Continuing operations	18,754	2,889	15%	17,338	2,222	13%
Central costs		(518)			(487)	
Net finance costs		(324)			(259)	
Underlying profit before tax		2,047	11%		1,476	9%
Pension curtailment and settlement gains		—			29	
Taxation		(655)			(512)	
Total for the period	18,754	1,392		17,338	993	

Year to 31 March 2008
(audited)

	Sales £000	Profit £000	Margin %
Satellite communications — Paradise Datacom	15,288	3,172	21%
Microwave components & manufacturing services — Labtech	7,899	154	2%
Aerostructures — CML	12,878	1,778	14%
Eliminate intra-segment trading	(103)		
Continuing operations	35,962	5,104	14%
Central costs		(1,286)	
Net finance costs		(509)	
Underlying profit before tax		3,309	9%
Pension curtailment and settlement gains			
Taxation		(953)	
Total for the period	35,962	2,356	

Intra-segment sales are at prevailing market rates.

2. Segment reporting (continued)

Geographical markets — Sales by destination

	Half year to 30 September (unaudited)		Year to 31 March (audited)
	2008	2007	2008
	£000	£000	£000
UK	8,005	7,608	16,507
Rest of Europe	3,047	3,183	6,486
North America	3,097	3,282	6,159
Rest of World	4,605	3,265	6,810
	18,754	17,338	35,962

3. Reconciliation between profit and underlying profit

		Half year to 30 September (unaudited)		Year to 31 March (audited)
	Note	2008	2007	2008
		£000	£000	£000
Operating profit		2,371	1,764	3,818
Less:				
Gain arising on transfers from the defined benefit pension scheme		—	29	—
		—	29	—
Underlying operating profit		2,371	1,735	3,818
Profit before taxation		2,047	1,505	3,309
Adjustments to operating profit per above		—	(29)	—
Underlying profit before taxation		2,047	1,476	3,309
Profit for the year		1,392	993	2,356
Adjustments to profit before taxation per above		—	(29)	—
Tax effect of adjustments to operating profit		—	9	—
Underlying profit for the year		1,392	973	2,356
Underlying Earnings per Share	5	1.64p	1.15p	2.78p

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 32% for underlying profit and 28% for other gains/(losses) (2007: 34% and 30% respectively).

	Half year to 30 September (unaudited)		Year to 31 March (audited)
	2008	2007	2008
	£000	£000	£000
Current taxation	(400)	(237)	(417)
Deferred taxation	(255)	(275)	(536)
	(655)	(512)	(953)

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 Employee Share Trust (84,936,000 (2007: 84,761,000 and 84,833,000 respectively)). Diluted EPS adjusts the basic EPS for dilutive potential ordinary shares (103,000 (2007: 157,000)).

6. Dividends

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

			Half year to 30 September (unaudited)	Year to 31 March (audited)
	Rate	Shares in issue	2008 £000	2007 £000
Final 2006/07				
— 26 September 2007	0.26p	87,376,072	—	227
Interim 2007/08				
— 23 January 2008	0.15p	87,376,072	—	131
Final 2007/08				
— 24 September 2008	0.30p	87,376,072	262	—
Less: Dividends paid to employee share trust			(2)	(3)
			260	355

At 30 September 2008, the 2008 interim dividend had not been approved by the Board and as such was not included as a liability. The dividend is expected to be £144,000 and will be paid in January 2009.

7. Defined benefit pension scheme

	Half year to 30 September (unaudited)	Year to 31 March (audited)
	2008 £000	2007 £000
Gross deficit at start of period	(5,212)	(5,283)
Contributions	553	436
Finance costs	(170)	(30)
Curtailment and settlement gain	—	67
Actuarial (loss)/gain	18	(395)
Gross deficit at end of period	(4,811)	(5,205)
Deferred tax asset	1,347	1,457
Net deficit	(3,464)	(3,748)

The defined benefit plan was revalued by the Company in line with advice from the scheme actuary as at 30 September 2008.

The principal assumptions were:

Inflation	3.70	3.20	3.50
Discount rate	7.30	5.45	6.50

The increase in the discount rate reflects the change in both AA and AAA Corporate Bond rates.

Mortality: The September valuation uses the assumptions used in the preceding March valuation, as set out in the Annual Report.

8. Cash generated from operations

	Half year to 30 September (unaudited)		Year to 31 March (audited)
	2008 £000	2007 £000	2008 £000
Underlying operating profit	2,371	1,735	3,818
Depreciation and amortisation	673	641	1,290
Pension contribution paid towards deficit	(553)	(436)	(931)
Pension curtailment gain (net of expenses)	—	—	(13)
Deferred income	(1)	(1)	(7)
Profit on disposal of property, plant and equipment	—	(11)	(10)
(Increase)/decrease in inventories	(214)	(379)	139
(Increase)/decrease in trade and other receivables	(480)	796	161
(Decrease)/increase in trade and other payables	(464)	(979)	32
Net cash flow before special projects	1,332	1,366	4,479
Pension transfer project	(23)	(187)	(190)
Other exceptional items	(22)	(219)	(188)
Cash generated from operations	1,287	960	4,101

9. Analysis of net debt

	Half year to 30 September (unaudited)		Year to 31 March (audited)
	2008 £000	2007 £000	2008 £000
Net increase/(decrease) in cash and cash equivalents	140	(531)	1,157
Effect of foreign exchange rates	(211)	61	35
Repayment of finance leases	342	382	768
Cash inflow from debt	(44)	(245)	(144)
Changes in net debt resulting from cash flows	227	(333)	1,816
New finance leases	(175)	(195)	(554)
Net movement in debt	52	(528)	1,262
Opening debt	(3,864)	(5,126)	(5,126)
Closing debt	(3,812)	(5,654)	(3,864)
Analysis of net debt:			
Cash at bank	200	473	1,245
Bank overdraft and loans	(2,635)	(4,556)	(3,566)
Finance leases	(1,377)	(1,571)	(1,543)
Total net debt	(3,812)	(5,654)	(3,864)

10. Reconciliation of cash and cash equivalents

	Half year to 30 September (unaudited)		Year to 31 March (audited)
	2008 £000	2007 £000	2008 £000
Cash and cash equivalents per balance sheet	200	473	1,245
Bank overdrafts included within 'current liabilities — borrowings'	(79)	(1,906)	(1,053)
Cash and cash equivalents per cash flow statement	121	(1,433)	192

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