

Filtronic Wireless Limited

Annual report and financial statements

Registered number 01360332

31 May 2016



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Strategic Report

Filtronic Wireless Limited (“the Company”) operates as a subsidiary of Filtronic plc which is a UK company trading on AIM of the London Stock Exchange.

Business model and principal activities

Filtronic Wireless Limited is a designer and manufacturer of ultra-wide band integrated antennas, RF filters, combiners and microwave subsystems for the mobile telecommunications industry, focusing on equipment for OEMs and network operators.

The legacy filter business that the Company has historically supplied into has become increasingly commoditised due to strong competition from Asia where there is an aggressive pursuit of filter business to fill excess manufacturing capacity at low cost following the completion of the 4G rollout in China. Rather than fight this trend, the Directors have manoeuvred the business towards ultra-wide band integrated antennas and operator market filter business which can still attract higher margins. In future, legacy filter business will be more targeted when the customer requires a flexible quick to market solution. The Company will pursue a strategy to cover development costs with NRE charges when bidding for this work.

One notable trend in wireless infrastructure has been the increasing integration of the various sub-systems in the RF to save weight, reduce signal losses, lower overall capital cost and decrease operating expenditure. To capitalise on this trend, the Company utilises resources from the Filtronic Wireless legal entity in Sweden where a team of antenna engineers work to develop our antenna portfolio with all of their costs recharged to the Company on a cost plus model. This has enabled the Company to develop a range of ultra-wide band antennas that integrate our existing filter, combiner, software and electronics technologies with our newly developed radiating elements and phase shifters. Key elements of these developments are subject to patent applications. These advanced and novel antennas enable our OEM customers to offer operators integrated radios and RF management in a single solution. This development has been a major focus for the Company and we are currently supplying items from this product range into a major European OEM.

The Company continues to develop new designs and products and offers the following range of solutions;

- Ultra-wide band antennas to support the need to reduce the environmental impact of mobile phone telecommunication towers and support the introduction of new transmission frequencies.
- Custom filtering for interference suppression and blocking protection.
- Remote radio head products for the OEM base station market.
- Innovative combining solutions which enable the rapid deployment of new systems maximising the use of available spectrum in the most compact and cost effective way.

With certified management systems and cost effective new product introduction and development processes, our experienced staff are able to support the needs of our customers to design and manufacture high performance products. Volume manufacturing is sourced from our manufacturing partner who is based in Suzhou, China where we also have a local Chinese subsidiary in the Filtronic group with our own dedicated staff on site to oversee the production process. We can provide the complete manufacturing process to minimise lead times, whilst maintaining the highest quality.

Business review and results

During the year, the Company received its inaugural production order for the ultra-wide band integrated antennas from a major European OEM. The fourth quarter saw the commencement of volume shipments to fulfil these orders which accounts for the bulk of the revenue in the year. These revenues represent a fraction of the overall production orders received with the remainder expected to be fulfilled in the next financial year. The increase in turnover from the prior financial year is 43% to £5,170,692 (2015: £3,603,817) resulting in an operating loss of £2,592,628 (2015: £3,123,273 operating loss) being –50% of turnover (2015: -87%). The increased revenues have not correlated to gross profit as the margins on these sales were initially low due to initial production start-up yields and lower margins as we transitioned to lower cost cast parts. Action taken to reduce overheads in the previous financial year and the year under review has meant the operating cost base is ~£700k lower when compared against the 2015 operating cost base. This has enabled the business to reduce the operating loss despite a lower gross profit.

Strategic Report *(continued)*

Research and Development

Filtronic Wireless Limited operates in a fast moving, technology-driven market place where generating our own proprietary technology is key to maintaining our competitive advantage. The Company therefore continues to invest in research and development and where appropriate obtains patents to protect our intellectual property. During the year research and development expenditure was £1,738,143 (2015: £2,558,935) of which £186,109 (2015: £nil) was capitalised and the remainder charged to the income statement.

Key performance indicators

	FY2016	FY2015
Operating loss per employee Filtronic recognises that employees are a critical asset in our business and we monitor the profit per employee to monitor productivity.	(£144,035)	(£94,645)
Research and development to sales per cent The Directors' recognises that the Company needs to invest in new products, capabilities and technologies to participate in a technology driven market and monitors the investment made in research and development as a proportion of sales.	33.6%	71%
Operating loss to sales per cent The Directors' monitor profitability to ensure that an acceptable return is being made on operating activities in the year.	(50%)	(87%)
Inventory turns Inventory is maintained so that it can meet customer demand for scarce and long-lead time items and to fulfil customer orders where deliveries are scheduled over a number of months or years	250.9	43.3
Trade receivable days In line with other customers in the sector the group extends credit facilities to customers that have an acceptable credit rating	90	88
Trade payable days The Company receives credit from a number of suppliers and recognises the importance of paying it's suppliers on time.	105	132

Assessment of risk

Introduction

The Company develops and markets leading-edge telecommunications products for a range of wireless telecoms applications. The business is in a fast-changing sector with demanding performance standards and international competition; all of which pose risks to the business.

Market

We supply a niche range of products to both a small number of large OEM customers and a larger group of mobile phone operators is becoming addressable. With the rapid evolution of product technology and other corporate decisions the size of our addressable market may be affected. We may also fail to forecast market movements correctly therefore missing opportunities or wrongly predicting product longevity.

Strategic Report *(continued)*

Assessment of risk *(continued)*

Manufacturing

In most of the products, production is demand-led and customers may vary their requirements from the business at short notice, which also impacts inventory and production management. Customers in these businesses expect consistent high quality product, hence we depend on control of our operating environment, including management of security of supply in our supply chain, and the provision of correctly designed technological solutions including the achievement of target cost reduction plans. Non-performance in these areas risks a diminished market position.

All our products are provided to customers after detailed qualification testing. However, this may not test all aspects of the product's design and manufacturing process or may not ensure that the product is viewed as fit for purpose in its intended use. Identification of these types of problem after release of product to customers creates the risk of being required to rectify such product defects. Historically such work has not had a substantial impact on the financial performance of the business, although a major defect, leading to a field recall, could do so in future.

Customers

The Company relies on a concentrated customer base for the majority of its revenues and the loss of any one of those customers, or a significant reduction in orders from any of these customers may have a material effect on its business, results of operations and financial condition.

Suppliers

The Company relies on a small number of suppliers and in common with other telecoms entities relies for the manufacture of its products on a large Chinese turnkey manufacturer that provides favourable supply and financing terms. The loss of this manufacturer or of other key suppliers, or a material change to supply terms, would have a material effect on the business, results of operations and financial condition.

Intellectual property

The Company has a significant intellectual property portfolio, with patent applications having been filed in a number of jurisdictions across the world, including, but not limited to, the UK, the United States, India and China.

Whilst the Company does not believe that any of its products infringe the valid intellectual property rights of third parties, it may be unaware of intellectual property rights of others that may cover some of its technology, products and services and as a result it could suffer litigation expenses or could be prevented from selling certain products as a result of third party infringement claims being made.

Technology

Our product competitiveness is strongly influenced by technology choices at product concept stage and throughout execution of design to product launch. For products in the production cycle, technology insertion is often required as a means of achieving price reductions, which underpin turnover. The market is time sensitive and opportunities may be lost if the technology we develop is not appropriate or ready for exploitation to match market demand, so having an adverse effect on business performance.

Our ability to remain competitive in terms of technology and product design is also underpinned by retaining key staff, the loss of whom could seriously impact the rate of introduction of new products and technologies.

Financial management

It is expected that future revenues will generate a surplus of US dollars. The nature of the business means there is limited visibility of future revenues. Therefore, when forward exchange contracts are used to reduce currency risk on the surplus currency expected to be generated, they are usually only for short term periods of no more than 6 months.

M Tyerman
Director

8 February 2017

Directors' report

The principal risks and uncertainties, an indication of future developments in the Company and details of the research and development activities carried out have been discussed within the Strategic Report.

Financial instruments

- **Foreign currency risk:** The Company is predominantly exposed on US dollars as the majority of sales are denominated in this currency. Where possible the Directors aim to mitigate this through natural hedging by buying key raw materials in the same currency but where an exposure remains the Company makes use of forward exchange contracts to create certainty.
- **Liquidity risk:** The Company aims to mitigate liquidity risk by managing cash generated from its operations and accessing its invoice discount facility with Barclays bank as well as parental support from Filtronic plc.
- **Credit risk:** The Company undertakes an assessment of all new customers prior to issuing credit facilities. Due to the nature of the industry our main customers are large multinational OEMs which present a minimal level of risk.

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors

The directors who held office during the year were as follows:

R Smith
D Lynch (appointed 15 July 2015)
M Tyerman (appointed 3 May 2016)

Employees

The Company had 14 employees at 31 May 2016.

Political contributions

The Company made no political donations or incurred any political expenditure during the year.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Other information

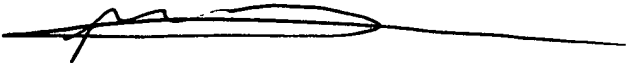
An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 1-4.

Directors' report *(continued)*

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

A handwritten signature in black ink, appearing to be 'M Tyerman', written over a horizontal line.

M Tyerman
Director

8 February 2017

Statement of Directors' Responsibilities in Respect of the Strategic report, Directors' Report and the financial statements

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the income statement of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



KPMG LLP

1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
United Kingdom

Independent auditor's report to the members of Filtronic Wireless Limited

We have audited the financial statements of Filtronic Wireless Limited for the year ended 31 May 2016 set out on pages 9 to 22. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 May 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

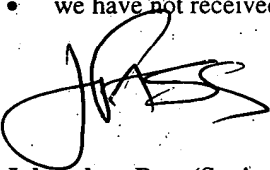
- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Filtronic Wireless Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or



**Johnathan Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

15 February 2017

Income statement and other comprehensive income
for the year ended 31 May 2016

	<i>Note</i>	2016 £	2015 £
Turnover	2	5,170,692	3,603,817
Cost of sales		(4,086,996)	(2,348,408)
Gross profit		1,083,696	1,255,409
Distribution costs		(76,781)	(54,610)
Administrative expenses		(3,410,179)	(4,211,713)
Operating loss before exceptional items		(2,403,264)	(3,010,914)
Exceptional items		189,364	112,359
Operating loss		(2,592,628)	(3,123,273)
Finance income	8	449,090	528,097
Loss before taxation		(2,143,538)	(2,595,176)
Taxation	7	1,617,993	(222,865)
Loss for the financial year		(525,545)	(2,818,041)

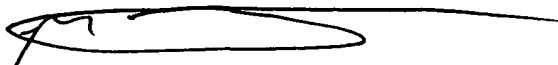
There were no recognised gains and losses for 2016 and 2015 other than included in the income statement.

The above results are all as a result of continuing operations.

Balance sheet
at 31 May 2016

	<i>Note</i>	2016 £	2015 £
Fixed assets			
Intangible assets	9	186,109	-
Tangible fixed assets	10	212,962	329,385
Deferred tax	11	834,000	-
		<hr/> 1,233,071 <hr/>	<hr/> 329,385 <hr/>
Current assets			
Inventories	12	83,378	101,167
Trade and other receivables	13	15,909,497	9,502,610
Cash and cash equivalents	14	13,327	252,079
		<hr/> 16,006,202 <hr/>	<hr/> 9,855,856 <hr/>
Current liabilities			
Trade and other payables	15	(12,980,895)	(6,021,249)
Deferred income	16	(114,075)	-
Provision	17	(86,375)	(9,904)
Interest bearing borrowings	14	(538,232)	(116,005)
		<hr/> 2,286,625 <hr/>	<hr/> 3,708,698 <hr/>
Net current assets		<hr/> 2,286,625 <hr/>	<hr/> 3,708,698 <hr/>
Total assets less current liabilities		<hr/> 3,519,696 <hr/>	<hr/> 4,038,083 <hr/>
Net assets		<hr/> 3,519,696 <hr/>	<hr/> 4,038,083 <hr/>
Capital and reserves			
Share capital	18	117	117
Retained earnings	19	3,519,579	4,037,966
		<hr/> 3,519,696 <hr/>	<hr/> 4,038,083 <hr/>
Total equity		<hr/> 3,519,696 <hr/>	<hr/> 4,038,083 <hr/>

These financial statements were approved by the board of directors on 8 February 2017 and were signed on its behalf by:



M Tyerman
Director

Registered Number: 01360332

Statement of Changes in Equity

	Share capital £	Retained earnings £	Total equity £
Balance at 1 June 2014	117	6,815,413	6,815,530
Loss for the period	-	(2,818,041)	(2,818,041)
Share based payments	-	40,594	40,594
Balance at 31 May 2015	117	4,037,966	4,038,083
Loss for the period	-	(525,545)	(525,545)
Share based payments	-	7,158	7,158
Balance at 31 May 2016	117	3,519,579	3,519,696

Notes

(forming part of the financial statements)

1 Accounting policies

Filtronic Wireless Limited is a company incorporated and domiciled in the UK.

The Company's ultimate parent undertaking, Filtronic Plc includes the Company in its consolidated financial statements. The consolidated financial statements of Filtronic Plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Filtronic plc, Filtronic House, Unit 3, Airport West, Yeadon, West Yorkshire, LS19 7ZA.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and financial performance of the Company is provided in note 22.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the company.
- As the consolidated financial statements of ultimate parent undertaking include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:
- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

Notes (continued)

1 Accounting policies (continued)

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the Strategic Report.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: liabilities for cash-settled share-based payments.

Going concern

The financial statements have been prepared on a going concern basis, as Filtronic plc have indicated that they will give continued financial support to the Company for the next twelve months and for the foreseeable future and the Directors have confirmed they have the financial resources to do so.

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Turnover

Turnover represents amounts receivable, excluding value added tax, in respect of goods provided in the ordinary course of business.

Capitalisation of development costs

In line with the requirements of IFRS, the Group's policy is to capitalise development expenditure as intangible assets when all the following criteria are met:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the asset and use or sell it;
- the ability to use or sell the asset;
- the asset will generate probable future economic benefits and demonstrate the existence of a market or the usefulness of the asset if it is to be used internally;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell it; and the ability to measure reliably the expenditure attributable to the intangible asset.

This process is continually reviewed to ascertain whether any development costs meet the criteria for capitalisation. This requires various judgements by management as to whether the various criteria have been met. The period over which development costs are amortised are reviewed on a case by case basis in line with the expected product life.

Tangible fixed assets

Fixed assets are stated at cost less accumulated depreciation. The carrying values of tangible fixed assets are reviewed for impairment if there are indications that the carrying values may not be recoverable.

Depreciation is provided in order to write off the cost of tangible fixed assets in equal instalments over their estimated useful lives as follows:

Plant and equipment 2 – 7 years

Notes (continued)

Tangible fixed assets

Fixed assets are stated at cost less accumulated depreciation. The carrying values of tangible fixed assets are reviewed for impairment if there are indications that the carrying values may not be recoverable.

Depreciation is provided in order to write off the cost of tangible fixed assets in equal instalments over their estimated useful lives as follows:

Plant and equipment 2 – 7 years

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

Inventories

Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Warranty provision

A provision is recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, and it is probably that an outflow of economic benefits will be required to settle the obligation.

A warranty provision is recognised when products are sold. The provision is based on historical warranty data. The level of warranty provision required is reviewed on a product by product basis and adjusted accordingly in light of actual experience.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using the rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised as a liability or asset if the transaction or events that give rise to an obligation to pay more tax in the future or a right to pay less tax in the future have occurred by the balance sheet date.

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes (continued)

1 Accounting policies (continued)

Share-based payments

The Filtronic plc group operates share option schemes, under which share options are granted to certain employees of Filtronic Wireless Limited. The granting of the share options is a share-based payment.

The fair value of the share options at the date of grant is calculated using an option pricing model, taking into account the terms and conditions applicable to the option grant. The fair value of the number of share options expected to vest is expensed in the income statement on a straight line basis over the expected vesting period. Each reporting period these vesting expectations are revised as appropriate.

A credit is made to equity, equal to the share-based payment expense in the period.

2 Turnover

An analysis of continuing operations turnover by geographical market is given below:

	2016 £	2015 £
United Kingdom	49,755	458,482
Europe	4,740,005	2,390,483
Americas	380,932	754,852
	<u>5,170,692</u>	<u>3,603,817</u>

3 Operating items

Operating loss is stated after charging/(crediting):	2016 £	2015 £
Research and development costs before capitalization of development costs	1,738,143	2,558,935
Development costs capitalized	(186,109)	-
Operating lease rentals	83,896	90,981
Foreign exchange (gains)/losses	(11,867)	19,348
Net gain on disposal of tangible fixed assets	-	(1,358)
	<u></u>	<u></u>

Notes (continued)

4 Auditor's remuneration

	2016 £	2015 £
Audit of financial statements	<u>11,313</u>	<u>10,983</u>

5 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	2016 No.	2015 No.
Manufacturing	3	9
Research and development	14	22
Administration	-	-
Sales	1	2
	<u>18</u>	<u>33</u>
Average number of employees	<u>18</u>	<u>33</u>

The aggregate payroll costs of these persons were as follows:

	2016 £	2015 £
Wages and salaries	870,953	1,401,707
Social security costs	102,501	160,592
Contributions to defined contribution plans	58,253	91,174
Expenses related to share option plans	7,158	40,594
	<u>1,038,865</u>	<u>1,694,067</u>

6 Exceptional items

Operating loss is stated after charging exceptional items as follows:

	2016 £	2015 £
Redundancy costs	<u>189,364</u>	<u>112,359</u>

Filtronic Wireless Limited completed a restructure of its operational cost base during the year to implement cost savings. The cost to implement this was £189,364.

7 Directors' emoluments

Directors' emoluments are paid through the parent company, Filtronic plc.

Notes (continued)

8 Taxation

Recognised in the profit and loss account

	2016 £	2015 £
UK corporation tax		
Adjustments in respect of prior year – R&D tax credit	(818,185)	-
Foreign tax		
Tax on income for the periods	34,192	29,865
Total current tax	(783,993)	29,865
Deferred tax (Origination) and reversal of temporary differences	(834,000)	193,000
Total deferred tax	(834,000)	193,000
Taxation	(1,617,993)	222,865

Reconciliation of effective tax rate

	2016 £000		2015 £000
Loss before taxation	(2,143,538)		(2,595,176)
Loss before taxation multiplied by rate of corporation tax (20%)	(428,708)	(21%)	(540,575)
Non-deductible expenses	(106,292)		139,517
Foreign tax not at UK rate	34,192		29,865
Adjustment in respect of prior year R&D tax credit	(818,185)		-
Recognition of previously unrecognised tax losses	(299,000)		193,000
Current year losses for which no deferred tax asset was recognised	-		401,058
Taxation	(1,617,993)		222,865

Notes (continued)

9 Finance income

	2016 £	2015 £
Revaluation of intercompany balance denominated in USD	<u>449,090</u>	<u>528,097</u>

10 Intangible assets

	Research and development £
<i>Cost</i>	
At 31 May 2015	-
Additions	186,109
	<u>186,109</u>
At 31 May 2016	<u>186,109</u>
<i>Amortisation</i>	
At 31 May 2015	-
Charge for the year	-
	<u>-</u>
At 31 May 2016	<u>-</u>
<i>Net book value</i>	
At 31 May 2016	<u>186,109</u>
At 31 May 2015	<u>-</u>

Notes (continued)

11 Tangible fixed assets

	Plant and equipment £
<i>Cost</i>	
At 31 May 2015	837,992
Disposals	(270,262)
	<hr/>
At 31 May 2016	567,730
	<hr/>
<i>Depreciation</i>	
At 31 May 2015	508,607
Charge for the year	70,703
Disposals	(224,542)
	<hr/>
At 31 May 2016	354,768
	<hr/>
<i>Net book value</i>	
At 31 May 2016	212,962
	<hr/>
At 31 May 2015	329,385
	<hr/>

12 Deferred tax

Deferred tax assets are attributable to the following:

	2016 £000	2015 £000
Opening balance	-	-
Tax losses recognised	834,000	-
	<hr/>	<hr/>
	834,000	-
	<hr/>	<hr/>

Deferred tax assets have been recognised as the Directors consider that the business will return to profitability in the next year.

Notes (continued)

13 Inventories

	2016 £	2015 £
Raw materials	83,378	101,167
	<u>83,378</u>	<u>101,167</u>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £4,086,996 (2015: £2,348,408). The write-down of stocks to net realisable value amounted to £nil (2015: £234,000). The reversal of write-downs amounted to £ nil as discussed below (2015: £ nil). The write-down and reversal are included in cost of sales.

14 Trade and other receivables

	2016 £	2015 £
Trade debtors	4,172,909	564,523
Prepayments and accrued income	894,833	106,909
Amounts owed by group undertakings	10,786,436	8,812,111
Taxation/VAT	55,319	19,067
	<u>15,909,497</u>	<u>9,502,610</u>

15 Cash and cash equivalents/interest bearing borrowings

	2016 £	2015 £
Cash and cash equivalents	13,327	252,079
Interest bearing borrowings	(538,232)	(116,005)
	<u>(524,905)</u>	<u>136,074</u>

The interest bearing borrowings relate to an invoice discounting facility provided by Barclays Bank that enables the Company to borrow up to £2m against trade debtors.

Notes (continued)

16 Trade and other payables

	2016 £	2015 £
Trade creditors	3,645,187	975,573
Amounts due to group companies	9,231,534	4,953,719
Accruals	104,174	91,957
	<u>12,980,895</u>	<u>6,021,249</u>

17 Deferred income

Deferred income consisted of contributions from customers towards tooling costs. These costs will be released to the income statement over the coming year.

18 Provision

	Warranty provision £
At 31 May 2015	9,904
Amounts released unused	(4,564)
Used during the year	-
Charge for the year	81,035
At 31 May 2016	<u>86,375</u>

The provision for warranty relates to the units sold during the last two financial years. The provision is based on estimates made from historical warranty data.

19 Share capital

	Allotted, called up and fully paid 2016 £	2015 £
11,760 ordinary shares of 1p each	<u>117</u>	<u>117</u>

Notes (continued)

20 Retained earnings

	£
At 31 May 2015	4,037,966
Loss for the financial year	(525,545)
Share based payments charge for the year	7,158
	<hr/>
At 31 May 2016	3,519,579
	<hr/>

21 Capital commitments

	2016 £	2015 £
Capital expenditure contracted for but not provided in the financial statements	-	-
	<hr/>	<hr/>

22 Operating leases

Annual commitments under non-cancellable leases were as follows:

	Land and buildings 2016 £	2015 £	Other 2016 £	2015 £
Operating leases which expire:				
Less than one year	65,000	65,000	-	434
Between one year and five years	260,000	260,000	-	-
More than five years	92,083	157,083	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

The company leases a facility in Yeadon, West Yorkshire where the business is operational.

23 Explanation of transition to FRS 101

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 May 2016, the comparative information presented in these financial statements for the year ended 31 May 2015.

In preparing its FRS 101 balance sheet, the Company has not made any transition adjustments.

24 Ultimate parent undertaking

The Company's ultimate parent undertaking is Filtronic plc, a company registered in England and Wales.

Copies of the financial statements of Filtronic plc, which include the Company, can be obtained from Filtronic plc, Filtronic House, Unit 3, Airport West, Yeadon, West Yorkshire, LS19 7ZA.