

Filtronic Components Limited

**Directors' report and financial
statements**

Registered number 1659830

31 May 2005



Contents

Company information	1
Directors' report	2
Statement of directors' responsibilities	4
Report of the independent auditors to the members of Filtronic Components Limited	5
Profit and loss account	6
Statement of total recognised gains and losses	6
Balance sheet	7
Notes	8

Company information

Directors

Professor JD Rhodes CBE FRS FREng – Chairman
Professor CM Snowden (appointed 1 June 2004, resigned 6 April 2005)
Professor JF Roulston (appointed 25 March 2005)
C Hindson (appointed 25 March 2005)
Dr KW Ferguson
H Roe

Secretary

M Moynihan

Auditors

KPMG Audit Plc
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

Bankers

Barclays Bank plc
10 Market Street
Bradford
BD1 1NR

Registered Office

The Waterfront
Salts Mill Road
Saltaire
Shipley
BD18 3TT

Directors' report

The directors present their report and the audited financial statements for the year ended 31 May 2005.

Principal activities and review of the business

The company's principal activity during the year was the design and manufacture of microwave components and subsystems for the military market.

The results were satisfactory for the year, and the directors remain confident of the long term prospects for the company.

Results and dividends

The results for the year are set out in the profit and loss account on page 6. The position at the end of the year is shown in the balance sheet on page 7. The directors do not recommend a dividend for the year.

Research and development

During the year the company expended £1,656,078 (2004: £1,908,232) on research and development, all of which was charged to the profit and loss account.

Directors and directors' interests

The directors of the company during the year were those listed on page 1.

None of the directors had any interest in the shares of the company during the year.

The interests of Professor JD Rhodes, Professor JF Roulston and C Hindson in the share capital of the ultimate parent undertaking, Filtronic plc, are given in that company's financial statements.

The following directors had interests in the ordinary shares of 10p each in the ultimate parent undertaking, Filtronic plc:

	Ordinary shares of 10p each	
	31 May 2005	31 May 2004
Dr KW Ferguson	82,624	82,624
H Roe	6,420	6,420

The following directors had interests in share options in the ordinary shares of 10p each in the ultimate parent undertaking, Filtronic plc:

	Exercise period	Exercise price	31 May 2004 No.	Exercised during the year No.	31 May 2005 No.
Executive Share Option Scheme					
Dr KW Ferguson	01.10.1999-03.08.2008	414p	40,000	-	40,000
H Roe	01.10.2000-04.03.2009	805p	15,000	-	15,000
	01.10.2001-01.12.2010	346p	25,000	-	25,000

Directors' report *(continued)*

Directors and their interests *(continued)*

Political and charitable contributions

No contributions were made for political purposes. A total of £90 (2004: £30) was donated to various charities.

Employees

The company is conscious of its obligations towards disabled persons and tries to ensure that they receive equal opportunities. So far as particular disabilities permit, the company will continue to provide employment for any existing employee who becomes disabled. The company will also provide relevant training, career development and promotion for disabled employees where this is appropriate.

The company believes in keeping employees fully informed on matters which affect them, through communications procedures including staff meetings, a company-wide newsletter and a culture which encourages openness and interaction between all members of staff.

Supplier payment policy

It is the company's policy to abide by terms of payment agreed with suppliers in respect of all goods and services properly invoiced to the company. At 31 May 2005 trade creditors of £2,247,628 represented 67 days purchases, calculated in accordance with the Companies Act 1985.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



M Moynihan
Secretary

1 August 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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 Audit Plc

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Neville Street
Leeds
LS1 4DW
United Kingdom

Report of the independent auditors to the members of Filtronic Components Limited

We have audited the financial statements on pages 6 to 14.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's 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 auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 May 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

1 August 2005

Profit and loss account
for the year ended 31 May 2005

	<i>Note</i>	2005 £	2004 £
Sales	2	20,301,807	17,746,525
Operating profit	3	2,229,973	948,914
Interest receivable		86	129
Currency (loss)/exchange gain		(1,674)	15,989
Profit on ordinary activities before taxation		2,228,385	965,032
Taxation	7	-	-
Profit for the financial year		2,228,385	965,032

All the results relate to continuing operations.

Statement of total recognised gains and losses
for the year ended 31 May 2005

	2005 £	2004 £
Profit for the financial year	2,228,385	965,032
Total recognised gains relating to the year	2,228,385	965,032

Balance sheet
at 31 May 2005

	<i>Note</i>	2005 £	2004 £
Fixed assets			
Tangible assets	8	1,740,473	2,596,318
Current assets			
Stocks	9	2,662,827	3,504,468
Debtors	10	7,526,394	5,894,728
Cash at bank and in hand		17,832	30,067
		10,207,053	9,429,263
Creditors: amounts falling due within one year	11	12,719,156	15,025,596
Net current liabilities		(2,512,103)	(5,596,333)
Net liabilities		(771,630)	(3,000,015)
Capital and reserves			
Called up share capital	12	2,250,000	2,250,000
Profit and loss account	13	(3,021,630)	(5,250,015)
Equity shareholders' deficit		(771,630)	(3,000,015)

These financial statements were approved by the board of directors on 1 August 2005 and were signed on its behalf by:

Professor JD Rhodes CBE FRS FREng
 Director



Notes

(forming part of the financial statements)

1 Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

The company is dependent upon the continued financial support of its ultimate parent undertaking. The following disclosure has been made in Filtronic plc group financial statements:

"The group is currently experiencing increases in demand across its operating divisions, from both existing and new customers in the Wireless Infrastructure division, arising from new product allocations from the principal customer in the Handset Products division and from the new defence contract and active ramp up of volume semiconductors supply within the Integrated Products divisions, as discussed in the Group CEO's Operating Review.

Global markets, particularly the technology and telecoms sector, continue to experience a high degree of volatility. It remains difficult to predict total volumes and timing with certainty. Securing lower costs of production, through greater output from the group's Chinese facility and commencement of activities in Hungary and other cost reduction programmes remain important areas. In addition, the Newton Aycliffe foundry is required to operate successfully to meet the substantial increases in the volume of semiconductor wafers it is expected to produce to meet current and ongoing customer demand. This is critical to ensuring its expected contribution to the group.

The Board has built all of these circumstances into their working capital forecasts and has modelled various business scenarios, including both retention and disposal of the Handset Products division. The Board has recognised the uncertainties referred to above and taken into account the support received from the banks providing the renegotiated debt facilities, including the renewal of the group's overdraft facility of £9,000,000 until 31 July 2006.

Thus the Board has concluded, based on these scenarios, that the group's funding remains adequate and therefore that it is appropriate for the financial statements to be prepared on a going concern basis."

The directors of the company have considered the group position and made appropriate enquiries and have concluded that it is appropriate for these financial statements to be prepared on a going concern basis.

Cash flow statement

The company has taken advantage of the exemption allowed by FRS1 (revised) for wholly owned subsidiary undertakings and has not prepared a statement of cash flows.

Sales

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

Foreign currency transactions

Sales and purchases in foreign currencies are translated at the rate of exchange ruling at the time of the transaction. Monetary assets and liabilities outstanding at the period end are translated at the rate of exchange applicable at that date. All currency exchange movements are included in the profit and loss account for the year.

Tangible fixed assets

Fixed assets are included 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.

Notes (continued)

1 Accounting policies (continued)

Depreciation

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 machinery	2-10 years
Fixtures and fittings	2-10 years

Operating leases

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

Research and development expenditure

Research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and estimated net realisable value. Cost comprises the purchase price of raw materials and components together with direct labour and attributable overheads. Estimated net realisable value consists of the expected sales value less all costs required to bring stock to its sales condition and location.

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.

Retirement and death benefits scheme

The group operates a contracted in Retirement and Death Benefits Scheme for eligible employees including directors. The scheme, which provides defined benefits based on length of pensionable salary at retirement, is administered by trustees and its funds are independent of the group's finances. Contributions to the scheme are charged to the profit and loss account so as to spread the costs of pensions over the employees' working lives with the group.

2 Sales

The company's sales and profit before taxation were all derived from its principal activity.

An analysis of sales by geographical market is given below:

	2005 £	2004 £
United Kingdom	4,319,637	5,399,821
Other Europe	13,983,044	10,029,978
Americas	172,740	181,842
Asia Pacific	1,826,386	2,134,884
	<hr/> 20,301,807 <hr/>	<hr/> 17,746,525 <hr/>

Notes (continued)

3 Operating profit

	2005 £	2004 £
Income:		
Sales	20,301,807	17,746,525
Increase in stocks of finished goods and work in progress	16,686	182,896
	<u>20,318,493</u>	<u>17,929,421</u>
Costs:		
Raw materials and consumables	6,753,014	5,590,990
Staff costs:		
Wages and salaries	5,902,885	6,102,523
Social security costs	459,878	490,834
Other pension costs	452,795	553,016
	<u>6,815,558</u>	<u>7,146,373</u>
Depreciation	932,092	1,079,478
Other operating charges	3,587,856	3,163,666
	<u>18,088,520</u>	<u>16,980,507</u>
Operating profit	<u><u>2,229,973</u></u>	<u><u>948,914</u></u>

4 Profit and loss account items

	2005 £	2004 £
Operating profit is stated after charging/(crediting)		
Operating lease rentals:		
- land and buildings	272,338	289,716
- other	163,686	144,954
Research and development expenditure	1,656,078	1,908,232
Profit on disposal of tangible fixed assets	(160,843)	-
Auditors' remuneration – audit services	17,000	16,000
	<u><u>17,000</u></u>	<u><u>16,000</u></u>

5 Employees

	2005 Number	2004 Number
Manufacturing	166	180
Research and development	42	53
Sales	5	4
Administration	34	36
Average number of employees	<u><u>247</u></u>	<u><u>273</u></u>

Notes (continued)

6 Directors' emoluments

	2005 £	2004 £
Aggregate emoluments (excluding pension contributions)	<u>158,628</u>	<u>278,753</u>
Retirement benefits are accruing to 4 directors under a defined benefits scheme.		
<i>Highest paid director</i>	2005 £	2004 £
Aggregate emoluments (excluding pension contributions)	<u>98,165</u>	<u>89,443</u>
Defined benefits pension scheme: Accrued pension at 31 May	<u>28,183</u>	<u>24,318</u>

7 Taxation

Factors affecting the tax charge for the period

The current tax charged for the period is lower than the standard rate of corporation tax in the UK. The difference is analysed below:

	2005 £	2004 £
Profit on ordinary activities before taxation	<u>2,228,385</u>	<u>965,032</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003: 30%)	<u>668,516</u>	<u>289,510</u>
<i>Effects of:</i>		
Disallowed expenses	13,268	16,357
Depreciation in advance of capital allowances	230,144	322,373
Other timing differences	934	26,088
Tax losses brought forward	-	(442,456)
Group relief	<u>(912,862)</u>	<u>(211,872)</u>
Current tax charge for the period	<u>-</u>	<u>-</u>
Deferred tax assets which have not been recognised:		
	2005 £	2004 £
Depreciation in advance of capital allowances	<u>1,732,000</u>	<u>1,502,000</u>

Factors affecting the future tax charge

It is expected that there will be no significant current tax charge in the foreseeable future because of the availability of group relief. There are deferred tax assets which are not expected to reverse in the foreseeable future that have not been recognised.

Notes (continued)

8 Tangible fixed assets

	Plant and machinery £	Fixtures & fittings £	Total £
<i>Cost</i>			
At 31 May 2004	12,207,912	421,437	12,629,349
Additions	239,403	-	239,403
Disposals	(1,384,301)	(24,931)	(1,409,232)
	<hr/>	<hr/>	<hr/>
At 31 May 2005	11,063,014	396,506	11,459,520
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At 31 May 2004	9,754,480	278,551	10,033,031
Charge for the year	902,401	29,691	932,092
Disposals	(1,237,414)	(8,662)	(1,246,076)
	<hr/>	<hr/>	<hr/>
At 31 May 2005	9,419,467	299,580	9,719,047
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 May 2005	1,643,547	96,926	1,740,473
	<hr/>	<hr/>	<hr/>
At 31 May 2004	2,453,432	142,886	2,596,318
	<hr/>	<hr/>	<hr/>

9 Stocks

	2005 £	2004 £
Raw materials	1,792,624	2,650,951
Work in progress	870,203	853,517
	<hr/>	<hr/>
	2,662,827	3,504,468
	<hr/>	<hr/>

Notes (continued)

10 Debtors

	2005 £	2004 £
Trade debtors	6,574,904	5,499,417
Amounts due from group companies	78,602	994
Other taxes and social security	24,384	131,147
Prepayments and accrued income	848,504	263,170
	<u>7,526,394</u>	<u>5,894,728</u>

11 Creditors: amounts falling due within one year

	2005 £	2004 £
Trade creditors	2,247,628	1,319,189
Amounts due to group companies	8,056,143	10,226,264
Accruals and deferred income	2,415,385	3,480,143
	<u>12,719,156</u>	<u>15,025,596</u>

12 Share capital

	Authorised 2005 £	2004 £	Allotted, called up and fully paid 2005 £	2004 £
Ordinary shares of £1 each	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,250,000</u>	<u>2,250,000</u>

13 Reconciliation of shareholders' funds and movements on reserves

	Share capital £	Profit and loss account £	Total shareholders' funds £
At 31 May 2003	2,250,000	(6,215,047)	(3,965,047)
Loss for the financial year	-	965,032	965,032
	<u>2,250,000</u>	<u>(5,250,015)</u>	<u>(3,000,015)</u>
At 31 May 2004	2,250,000	(5,250,015)	(3,000,015)
Profit for the financial year	-	2,228,385	2,228,385
	<u>2,250,000</u>	<u>(3,021,630)</u>	<u>(771,630)</u>
At 31 May 2005	<u>2,250,000</u>	<u>(3,021,630)</u>	<u>(771,630)</u>

Notes (continued)

14 Capital commitments

	2005 £	2004 £
Capital expenditure contracted for but not provided in the financial statements	-	77,035

15 Operating leases

Annual commitments under non-cancellable leases were as follows:

	Land and buildings		Other	
	2005 £	2004 £	2005 £	2004 £
Operating leases which expire:				
Up to one year	-	-	20,944	12,121
Within two to five years	18,540	36,900	120,619	136,286
Over five years	98,846	98,846	-	-

16 Contingent liabilities

The company has given guarantees in respect of certain bank borrowings of other group companies. There were contingent liabilities of £50,022,000 at 31 May 2005 (2004: £53,643,000) in respect of these guarantees.

17 Pension commitments

The company participates in a funded group defined benefits pension scheme which is operated for the employees of Filtronic plc and its UK subsidiaries. The scheme provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company and the group. The contributions are advised upon by a qualified actuary on the basis of biennial valuations. The most recent valuation was at 1 July 2003 and the details of this actuarial valuation are disclosed in the financial statements of Filtronic plc.

Contributions to the defined benefit scheme amounted to £452,795 (2004: £461,333).

In accordance with the actuary's recommendations, contributions to the scheme were increased with effect from 1 July 2005. Employer's contributions were increased from 10.0% to 10.5% of pensionable salaries and employees' contributions were increased from 5.0% to 6.0% of pensionable salaries.

FRS 17 'Retirement Benefits' disclosures

The company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis. The company will account for pension costs as if it was a defined contribution scheme, as permitted by FRS 17 'Retirement Benefits'. The deficit in the group scheme at 31 May 2005 was £16,149,000 (2004: £11,381,000).

18 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, The Waterfront, Salts Mill Road, Saltaire, Shipley, BD18 3TT.