

Filtronic Components Limited

**Directors' report and financial
statements**

Registered number 1659830

31 May 2006

THURSDAY



A32

ANL5RO24

22/03/2007

COMPANIES HOUSE

271

Contents

Company information	1
Directors' report	2
Statement of directors' responsibilities in respect of the directors' report and the financial statements	5
Independent auditors' report to the members of Filtronic Components Limited	6
Profit and loss account	8
Statement of total recognised gains and losses	8
Balance sheet	9
Notes	10

Company information

Directors

Professor JD Rhodes CBE FRS FREng – Chairman
JF Roulston (resigned 29 January 2006)
RC Hindson
Dr KW Ferguson
H Rolls

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 2006.

Principal activities

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

Results and dividends

The results for the year are set out in the profit and loss account on page 8. The position at the end of the year is shown in the balance sheet on page 9. The directors do not recommend a dividend for the year.

Business review

The company continued its activities across a range of programmes including the supply of subsystem assemblies for the Eurofighter Defensive Aids System to Elettronica of Italy and EADS of Germany.

For over twenty five years the company has supplied complex electromagnetic components and subsystems for use in the field of electronic warfare. The customers are defence equipment prime contractors from around the world.

The company has its main development and manufacturing operation in Shipley, West Yorkshire and another manufacturing operation in Newton Aycliffe, County Durham.

During the year one of the company's larger contracts, for the supply of subsystems for the Eurofighter project drew to a close. Consequently, additional focus has been applied to securing new business for future years.

Sales declined 8% to £18,747,599 (2005: £20,301,807) resulting in a lower operating profit of £1,019,457 (2005: £2,229,973).

In light of the decline in sales the average numbers of employees was reduced to 211 (2005: 247).

With the Eurofighter contract substantially completed during the year, the focus is to secure new business to generate replacement sales over the coming financial year and provide a platform for future growth. Opportunities have been identified and are being supported by appropriate product development activities.

Research and development

During the year the company expended £1,485,248 (2005: £1,656,078) on research and development, all of which was charged to the profit and loss account.

Capital expenditure

Capital expenditure was only £21,327 (2005: £239,403) in light of the declining size of the operations.

Payments on accounts

During the year payments on account increased to £3,642,553 (2005: £324,348). The money received from these advanced customer payments was used to reduce the amount owed to group companies.

Directors' report *(continued)*

Assessment of risk

The company designs and manufactures very complex subsystems and components for use in electronic warfare applications. The specifications for the performance of these products are very demanding. This complexity coupled with the demanding performance can result in delays in the design and manufacture of the products and consequently delays in making sales. Therefore there is a risk that sales are not achieved when expected due to technical difficulties in the design and manufacture phases of the products lifecycle.

The company needs to secure new business to replace contacts that have been completed. There is risk that the company may not secure sufficient new business to maintain the scale of its business and its profitability.

The company is party to a cross guarantee banking arrangement with its ultimate parent undertaking, Filtronic plc (see note 1 to the financial statements). The financial facilities of Filtronic plc are considered sufficient for the Filtronics plc's group operations. However a substantial variation in operating performance and working capital outside the usual levels of activities may not be covered within the level of the currently agreed borrowing facilities.

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 and RC 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 2006	31 May 2005
Dr KW Ferguson	82,624	82,624
H Rolls	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 2005 No.	Exercised during the year No.	31 May 2006 No.
Executive Share Option Scheme					
Dr KW Ferguson	01.10.1999-03.08.2008	414p	40,000	-	40,000
H Rolls	01.10.2000-04.03.2009	805p	15,000	-	15,000
	01.10.2001-01.12.2010	346p	25,000	-	25,000

Political and charitable contributions

No contributions were made for political purposes. A total of £536 (2005: £90) was donated to various charities.

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 2006 trade creditors of £1,704,319 represented 48 days purchases, calculated in accordance with the Companies Act 1985.

Directors' report *(continued)*

Directors Indemnity

Certain directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Disclosure of information to auditors

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 auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

31 July 2006

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing 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.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss 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 judgments 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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

1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

Independent auditors' report to the members of Filtronic Components Limited

We have audited the financial statements of Filtronic Components Limited for the year ended 31 May 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

As described in the Statement of Directors Responsibilities on page 5, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK accounting standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

Independent auditors' report to the members of Filtronic Components Limited
(continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 May 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

31 July 2006

Profit and loss account
for the year ended 31 May 2006

	<i>Note</i>	2006 £	2005 £
Sales	2	18,747,599	20,301,807
Operating profit	3	1,019,457	2,229,973
Interest receivable		56	86
Currency exchange gain/(loss)		(1,109)	(1,674)
Profit on ordinary activities before taxation		1,018,404	2,228,385
Taxation	7	-	-
Profit for the financial year	13	1,018,404	2,228,385

All the results relate to continuing operations.

Statement of total recognised gains and losses
for the year ended 31 May 2006

	2006 £	2005 £
Profit for the financial year	1,018,404	2,228,385
Total recognised gains relating to the year	1,018,404	2,228,385

Balance sheet
at 31 May 2006

	<i>Note</i>	2006 £	2005 £
Fixed assets			
Tangible assets	8	965,304	1,740,473
Current assets			
Stocks	9	1,955,091	2,662,827
Debtors	10	7,304,495	7,526,394
Cash at bank and in hand		64,368	17,832
		<u>9,323,954</u>	<u>10,207,053</u>
Creditors: amounts falling due within one year	11	10,042,484	12,719,156
		<u>(718,530)</u>	<u>(2,512,103)</u>
Net current liabilities			
		<u>246,774</u>	<u>(771,630)</u>
Net assets/(liabilities)			
Capital and reserves			
Called up share capital	12	2,250,000	2,250,000
Profit and loss account	13	(2,003,226)	(3,021,630)
		<u>246,774</u>	<u>(771,630)</u>
Shareholders' funds/(deficit)	14		

These financial statements were approved by the board of directors on 31 July 2006 and were signed on its behalf by:


RC Hindson
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below. In these financial statements FRS 28 'Corresponding amounts' has been adopted for the first time. FRS 28 has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The recognition and measurement requirements of FRS 17 'Retirement benefits' have also been adopted, previously the transitional disclosures of that standard have been followed. As explained in note 16 the Company has taken the multi employer exemption.

Basis of preparation

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

The company is party to a cross guarantee banking arrangement with other UK group companies including the holding company, Filtronic plc. In preparing these financial statements on a going concern basis, the directors have therefore considered the financial position of the company and Filtronic plc. The following has been extracted from the Filtronic plc group financial statements:

"The group currently has agreed facilities of £35m with its bankers consisting of a term loan of £15m, a revolving multicurrency facility of £18m and an overdraft of £2m. Unless previously repaid, the term loan is required to be repaid by 30 November 2006 and the revolving facility is required to be repaid by 31 August 2008.

These existing facility arrangements also require that, in the event that the proposed disposal of the Wireless Infrastructure business to Powerwave Technologies Inc ("Powerwave") (as referred to below) does not complete, the group is required to agree revised financial covenants in relation to its facilities by 30 September 2006.

The group has signed an agreement with Powerwave for the disposal of its Wireless Infrastructure business for a consideration of \$150m (approximately £81m) cash and 20.7m shares of Powerwave's common stock, due for completion before 30 September 2006. This has not been completed. On the assumption this completion occurs by 30 September 2006, the cash consideration received would be utilised to repay existing bank facilities and provide additional capital for the remaining group. The directors have prepared business plans and forecasts for the remaining group on this basis and believe there to be sufficient working capital for the foreseeable future.

In the event that a sale does not complete as envisaged, the group would continue with its existing business plans incorporating the Wireless Infrastructure business.

The group currently benefits from sustained demand profiles for its volume product divisions that are providing good visibility of key customers' forecast demand well into the second half of the financial year ending 31 May 2007. The phased rate of increase in Compound Semiconductors' production capacity, along with its current demand continuing to be greater than the growth in its output, as capacity utilisation is increased, limits the uncertainty of the financial support required for this activity.

The group though operates in fast-changing, demand-led markets with a limited number of sophisticated customers who demand consistent high quality product. Thus the group remains exposed to changes in demand and issues arising from its complex operating environment including achievement of target cost reduction plans.

As part of their assessment of the appropriateness of the preparation of the financial statements on the going concern basis, the directors have modelled various scenarios reflecting the dynamics referred to above. They are therefore confident that the group's current facility arrangements would be adequate and that revised financial covenants would be agreed with the company's bankers.

On the bases above, the directors believe that the group will have sufficient working capital for the foreseeable future and therefore that it is appropriate for the financial statements to be prepared on the 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.

Notes (continued)

1 Accounting policies (continued)

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. 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.

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	3-10 years
Fixtures and fittings	3-10 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.

Notes (continued)

1 Accounting policies (continued)

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:

	2006 £	2005 £
United Kingdom	4,624,529	4,319,637
Other Europe	8,989,332	13,983,044
Americas	79,482	172,740
Asia Pacific	5,054,256	1,826,386
	<hr/>	<hr/>
	18,747,599	20,301,807
	<hr/>	<hr/>

Notes (continued)

3 Operating profit

	2006 £	2005 £
Income:		
Sales	18,747,599	20,301,807
(Decrease)/increase in stocks of finished goods and work in progress	(271,073)	16,686
	<u>18,476,526</u>	<u>20,318,493</u>
Costs:		
Raw materials and consumables	7,402,050	6,753,014
Staff costs:		
Wages and salaries	5,007,723	5,902,885
Social security costs	389,745	459,878
Other pension costs	395,230	452,795
	<u>5,792,698</u>	<u>6,815,558</u>
Depreciation	796,496	932,092
Other operating charges	3,465,825	3,587,856
	<u>17,457,069</u>	<u>18,088,520</u>
Operating profit	<u><u>1,019,457</u></u>	<u><u>2,229,973</u></u>

4 Profit and loss account items

	2006 £	2005 £
Operating profit is stated after charging/(crediting)		
Operating lease rentals:		
- land and buildings	224,972	272,338
- other	153,584	163,686
Research and development expenditure	1,485,248	1,656,078
Profit on disposal of tangible fixed assets	(4,500)	(160,843)
Auditors' remuneration – audit services	17,000	17,000
	<u><u>17,000</u></u>	<u><u>17,000</u></u>

5 Employees

	2006 Number	2005 Number
Manufacturing	143	166
Research and development	36	42
Sales	5	5
Administration	27	34
Average number of employees	<u><u>211</u></u>	<u><u>247</u></u>

Notes (continued)

6 Directors' emoluments

	2006 £	2005 £
Aggregate emoluments (excluding pension contributions)	<u>163,127</u>	<u>158,628</u>
Retirement benefits are accruing to 5 directors under a defined benefits scheme.		
<i>Highest paid director</i>	2006 £	2005 £
Aggregate emoluments (excluding pension contributions)	<u>101,738</u>	<u>98,165</u>
Defined benefits pension scheme:		
Accrued pension at 31 May	<u>32,328</u>	<u>28,183</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:

	2006 £	2005 £
Profit on ordinary activities before taxation	<u>1,018,404</u>	<u>2,228,385</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%)	<u>305,521</u>	<u>668,516</u>
<i>Effects of:</i>		
Disallowed expenses	15,217	13,268
Depreciation in advance of capital allowances	236,368	230,144
Other timing differences	(473)	934
Group relief	<u>(556,633)</u>	<u>(912,862)</u>
Current tax charge for the period	<u>-</u>	<u>-</u>
Deferred tax assets which have not been recognised:		
	2006 £	2005 £
Depreciation in advance of capital allowances	<u>1,968,000</u>	<u>1,732,000</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 and fittings £	Total £
<i>Cost</i>			
At 31 May 2005	11,063,014	396,506	11,459,520
Additions	21,327	-	21,327
	<hr/>	<hr/>	<hr/>
At 31 May 2006	11,084,341	396,506	11,480,847
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At 31 May 2005	9,419,467	299,580	9,719,047
Charge for the year	770,422	26,074	796,496
	<hr/>	<hr/>	<hr/>
At 31 May 2006	10,189,889	325,654	10,515,543
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 May 2006	894,452	70,852	965,304
	<hr/>	<hr/>	<hr/>
At 31 May 2005	1,643,547	96,926	1,740,473
	<hr/>	<hr/>	<hr/>

9 Stocks

	2006 £	2005 £
Raw materials	1,355,961	1,792,624
Work in progress	599,130	870,203
	<hr/>	<hr/>
	1,955,091	2,662,827
	<hr/>	<hr/>

10 Debtors

	2006 £	2005 £
Trade debtors	6,842,239	6,574,904
Amounts due from group companies	127,753	78,602
Other taxes and social security	41,973	24,384
Prepayments and accrued income	292,530	848,504
	<hr/>	<hr/>
	7,304,495	7,526,394
	<hr/>	<hr/>

Notes (continued)

11 Creditors: amounts falling due within one year

	2006 £	2005 £
Trade creditors	1,704,319	2,247,628
Amounts due to group companies	2,127,570	8,056,143
Payments on account	3,642,553	324,348
Accruals and deferred income	2,568,042	2,091,037
	<u>10,042,484</u>	<u>12,719,156</u>

12 Share capital

	Authorised 2006 £	2005 £	Allotted, called up and fully paid 2006 £	2005 £
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 Reserves

	Profit and loss account £
At 31 May 2005	(3,021,630)
Profit for the financial year	1,018,404
	<u> </u>
At 31 May 2006	<u>(2,003,226)</u>

14 Reconciliation of movement in shareholders' funds/(deficit)

	2006 £	2005 £
Profit for the financial year	1,018,404	2,228,385
	<u> </u>	<u> </u>
Net addition to shareholders' funds	1,018,404	2,228,385
Opening shareholders' deficit	(771,630)	(3,000,015)
	<u> </u>	<u> </u>
Closing shareholders' funds/(deficit)	<u>246,774</u>	<u>(771,630)</u>

Notes (continued)

15 Operating leases

Annual commitments under non-cancellable leases were as follows:

	Land and buildings		Other	
	2006	2005	2006	2005
	£	£	£	£
Operating leases which expire:				
Up to one year	1,538	-	41,074	20,944
Within two to five years	-	18,540	89,431	120,619
Over five years	98,846	98,846	-	-

16 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 2005 and the details of this actuarial valuation are disclosed in the financial statements of Filtronic plc.

Contributions to the defined benefit scheme amounted to £395,230 (2005: £452,795).

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' multi employer exemption

The company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis. The company accounts 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 2006 was £20,585,000 (2005: £16,149,000).

17 Contingent liabilities

The company has given guarantees in respect of certain bank borrowings of other group companies. There were contingent liabilities of £18,000,000 at 31 May 2006 (2005: £50,022,000) in respect of these guarantees.

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.