

REGISTERED

Filtronic Components Limited

Report and Financial Statements

31 May 1998



Filtronic Components Limited

Registered No. 1659830

DIRECTORS

Professor J D Rhodes OBE F Eng FRS - Chairman

M Vaux

Dr K W Ferguson

S Z Fripp

D J Gotch (resigned 20 March 1998)

Dr R Parry

B M Rhodes (resigned 24 January 1998)

Dr M J Thornton (appointed 20 June 1997)

Dr J E Dean (appointed 20 June 1997)

P D Convey (appointed 20 June 1997)

A P Clegg (resigned 9 June 1997)

SECRETARY

C E Schofield

AUDITORS

Ernst & Young

PO Box 61

Cloth Hall Court

14 King Street

Leeds

LS1 2JN

BANKERS

Barclays Bank PLC

10 Market Street

Bradford

BD1 1NR

REGISTERED OFFICE

The Waterfront

Salts Mill Road

Saltaire

Shipley

West Yorkshire

BD18 3TT

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 May 1998.

PRINCIPAL ACTIVITY

The company is engaged in the design and manufacture of microwave components and subsystems for the military market.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

Although the company again incurred a loss for the year, trading performance was much improved when compared to the two prior years. The directors remain confident of a return to profitability in the short term and of the long term prospects for the company.

During the year the company and its immediate parent undertaking Filtronic (Holdings) Limited were acquired by Filtronic plc.

FINANCIAL RESULTS

The results of 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.

DIVIDENDS

The directors do not recommend a dividend for the year.

RESEARCH AND DEVELOPMENT

During the year the company expended £1,631,597 (1997 - £1,393,559) on research and development, all of which was charged to the profit and loss account.

DIRECTORS AND THEIR INTERESTS

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

None of the directors had interests in the shares of the company during the year.

The interests of Professor J D Rhodes 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, as follows:

	<i>Ordinary shares of 10p each at 31 May 1998</i>
M Vaux	15,000
Dr K W Ferguson	159,050
S Z Fripp	595,952
Dr R Parry	90,039
Dr M J Thornton	207,128
Dr J E Dean	316,870
P D Convey	11,005

DIRECTORS' REPORT

POLITICAL AND CHARITABLE DONATIONS

No contributions were made for political purposes. A total of £2,640 (1997 - £ nil) was donated to various charities.

YEAR 2000 COMPLIANCE

As has been widely reported, many computer systems express dates using only the last two digits of the year, and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers.

A company-wide programme to address the impact of the Year 2000 on our business, is underway, and actions have been and are being taken to address the key risks in advance of critical dates and without disruption to the underlying business.

The programme also considers the impact on our business of Year 2000 related failures by our significant suppliers and customers.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will remain. However, the directors are satisfied that the company will achieve an acceptable state of readiness.

Much of the cost of implementing the action plans will be absorbed into the recurring activities of the departments involved. Very little external cost is expected which would not have been incurred in the ongoing upgrade of computer systems.


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 1998 trade creditors of £548,515 represented 33 days purchases, calculated in accordance with the Companies Act 1985.

AUDITORS

Ernst & Young were appointed as auditors on 8 April 1998 filling a casual vacancy following the resignation of the company's previous auditors, Baker Tilly. Accordingly, Ernst & Young will retire at the conclusion of the annual general meeting. A resolution to re-appoint Ernst & Young as auditors will be put to the members at the annual general meeting.

By order of the board


C E Schofield
Secretary

31 July 1998

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial period which 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 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; 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 confirm that they have complied with the above requirements.

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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS

to the members of Filtronic Components Limited

We have audited the financial statements on pages 6 to 16 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

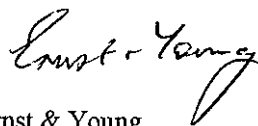
Basis of opinion

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 affairs of the company as at 31 May 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
Leeds

31 July 1998

Filtronic Components Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 May 1998

	<i>Notes</i>	<i>1998</i> £	<i>1997</i> £
SALES	2	9,882,426	6,822,700
OPERATING LOSS	3	(185,452)	(2,575,865)
Interest payable	7	(169,956)	(193,096)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(355,408)	(2,768,961)
Taxation	8	-	-
LOSS FOR THE FINANCIAL YEAR		(355,408)	(2,768,961)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 May 1998

	<i>1998</i> £	<i>1997</i> £
Loss for the financial year	(355,408)	(2,768,961)
TOTAL RECOGNISED LOSSES RELATING TO THE YEAR	(355,408)	(2,768,961)

Filtronic Components Limited

BALANCE SHEET

at 31 May 1998

	Notes	1998 £	1997 £
FIXED ASSETS			
Tangible assets	9	1,281,660	1,155,225
CURRENT ASSETS			
Stocks	10	1,600,749	1,173,564
Debtors	11	3,107,274	2,152,079
Cash at bank and in hand		29,234	-
		4,737,257	3,325,643
CREDITORS: amounts falling due within one year	12	7,902,948	4,329,154
NET CURRENT LIABILITIES		(3,165,691)	(1,003,511)
TOTAL ASSETS LESS CURRENT LIABILITIES		(1,884,031)	151,714
CREDITORS: amounts falling due after more than one year	13	655,714	836,051
SUBORDINATED LOAN		-	1,500,000
NET LIABILITIES		(2,539,745)	(2,184,337)
CAPITAL AND RESERVES			
Called up share capital	14	2,250,000	2,250,000
Profit and loss account	15	(4,789,745)	(4,434,337)
SHAREHOLDERS' FUNDS		(2,539,745)	(2,184,337)

Prof. J D Rhodes OBE FEng FRS - Director

31 July 1998

NOTES TO THE FINANCIAL STATEMENTS

at 31 May 1998

1. ACCOUNTING POLICIES

Basis of accounting

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 directors believe that adequate support will be available for the foreseeable future. On this basis, the directors consider it appropriate to prepare the financial statements on a going concern basis.

Sales

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

Foreign currency transactions

Sales in foreign currencies are hedged against exchange differences by taking out a foreign currency overdraft for each contract and determining a fixed rate of exchange for that contract ("the contract rate"). This overdraft is matched by a sterling deposit of equal value. Sales and the related debtors at the period end are translated at the contract rate.

Purchases in foreign currencies are translated at an average rate of exchange for the accounting period. Liabilities outstanding at the period end are translated at the rate of exchange applicable at that date. Exchange differences are included in the profit and loss account for the year.

Tangible fixed assets

Fixed assets are included in the financial statements at cost less accumulated depreciation.

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	7 - 10 years
Motor vehicles	3 - 5 years

Leasing commitments

Where assets are financed by finance agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright and the corresponding liability to the finance company is included as an obligation under finance leases.

Depreciation on financed assets is charged to the profit and loss account in accordance with the accounting policy above.

Finance payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account.

All other leases are regarded as operating leases and the relevant annual 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.

NOTES TO THE FINANCIAL STATEMENTS

at 31 May 1998

1. ACCOUNTING POLICIES (continued)

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.

Long term contracts

Long term work in progress is valued at the lower of cost incurred to date and estimated net realisable value less progress payments receivable.

In the course of a long term contract sales invoices are raised at stages agreed with the customer, and appropriate proportions of profit are taken at that time.

Deferred taxation

Deferred taxation is provided using the liability method in respect of all timing differences which are expected to crystallise in the foreseeable future.

Retirement and death benefits scheme

The company 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 service and pensionable salary at retirement, is administered by trustees and its funds are independent of the group and company'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 company.

2. SALES

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

An analysis of sales by geographical market is given below:

	1998 £	1997 £
United Kingdom	3,096,632	2,282,890
Europe	2,523,242	2,574,773
North America	2,015,539	1,190,206
Asia Pacific	2,247,013	774,831
	<u>9,882,426</u>	<u>6,822,700</u>

Filtronic Components Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 May 1998

3. OPERATING LOSS

	1998 £	1997 £
Income:		
Sales	9,882,426	6,822,700
Increase/(decrease) in stocks of finished goods and work in progress	244,334	(780,282)
	<u>10,126,760</u>	<u>6,042,418</u>
Costs:		
Raw materials and consumables	<u>2,794,918</u>	<u>1,579,386</u>
Staff costs:		
Wages and salaries	3,835,252	3,466,230
Social security costs	374,660	348,341
Other pension costs	257,516	251,232
	<u>4,467,428</u>	<u>4,065,803</u>
Depreciation:		
Assets held under finance leases	179,763	156,198
Owned assets	308,093	439,910
	<u>487,856</u>	<u>596,108</u>
Other operating charges	<u>2,562,010</u>	<u>2,376,986</u>
	<u>10,312,212</u>	<u>8,618,283</u>
Operating loss	<u>(185,452)</u>	<u>(2,575,865)</u>

4. OPERATING LOSS

Operating loss is stated after charging/(crediting):

	1998 £	1997 £
Operating lease rentals:		
Land and buildings	291,928	300,008
Other	45,249	27,044
Research and development expenditure	1,631,597	1,393,559
Profit on disposal of tangible fixed assets	(14,382)	-
Auditors' remuneration - audit services	10,000	15,000
- other services	-	3,588
	<u></u>	<u></u>

Filtronic Components Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 May 1998

5. EMPLOYEES

	1998 No.	1997 No.
Category of employment:		
Manufacturing	114	106
Research and development	62	60
Sales	9	9
Administration	22	22
Average number of employees	207	197

6. DIRECTORS' EMOLUMENTS

Directors

	1998 £	1997 £
Aggregate emoluments (excluding pension contributions)	417,232	297,194
Compensation for loss of office	-	42,697
	417,232	339,891

As at 31 May 1998 retirement benefits are accruing to 8 directors under a defined benefits scheme.

During the year 2 directors exercised options over shares in the immediate parent undertaking, Filtronic (Holdings) Limited.

Highest paid director

	1998 £	1997 £
Aggregate emoluments (excluding pension contributions)	84,469	51,658
Defined benefit pension scheme:		
Accrued pension at 31 May	1,167	10,706

During the year the highest paid director exercised options over shares in the immediate parent undertaking, Filtronic (Holdings) Limited.

7. INTEREST PAYABLE

	1998 £	1997 £
Interest on bank loans and overdrafts	127,474	137,817
Finance lease interest	42,482	55,279
	169,956	193,096

Filtronic Components Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 May 1998

8. TAXATION

The company has trading losses available for relief against future trading profits of approximately £4,100,000 (1997 - £3,900,000).

9. TANGIBLE FIXED ASSETS

	<i>Plant and machinery</i> £	<i>Fixtures and fittings</i> £	<i>Motor vehicles</i> £	<i>Total</i> £
Cost:				
At 1 June 1997	4,876,830	195,431	177,627	5,249,888
Additions	617,315	13,178	-	630,493
Disposals	(9,005)	-	(99,592)	(108,597)
At 31 May 1998	5,485,140	208,609	78,035	5,771,784
Depreciation:				
At 1 June 1997	3,841,468	116,323	136,872	4,094,663
Charge for the year	453,203	14,542	20,111	487,856
Disposals	(4,770)	-	(87,625)	(92,395)
At 31 May 1998	4,289,901	130,865	69,358	4,490,124
Net book value:				
At 31 May 1998	1,195,239	77,744	8,677	1,281,660
At 31 May 1997	1,035,362	79,108	40,755	1,155,225

The net book value of fixed assets held under finance leases was as follows:

	1998 £	1997 £
Plant and machinery	195,189	302,717
Motor vehicles	8,677	10,845

Filtronic Components Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 May 1998

10. STOCKS

	1998 £	1997 £
Raw materials	619,227	436,376
Work in progress	981,522	737,188
	<u>1,600,749</u>	<u>1,173,564</u>

11. DEBTORS

	1998 £	1997 £
Trade debtors	2,801,767	1,856,369
Amounts due from group companies	9,903	14,294
Corporation tax	-	179,779
Other taxes	147,241	-
Prepayments and accrued income	148,363	101,637
	<u>3,107,274</u>	<u>2,152,079</u>

12. CREDITORS: amounts falling due within one year

	1998 £	1997 £
Bank overdraft	3,505,269	1,841,230
Loans	83,333	83,332
Finance leases	120,241	168,545
Trade creditors	548,515	556,519
Amounts due to group companies	1,975,738	328,990
Other taxes and social security costs	128,924	168,594
Accruals and deferred income	1,540,928	1,181,944
	<u>7,902,948</u>	<u>4,329,154</u>

Filtronic Components Limited

NOTES TO THE FINANCIAL STATEMENTS

at 31 May 1998

13. CREDITORS: amounts falling due after more than one year

	1998 £	1997 £
Repayable by instalments:		
Loans: between 1 and 2 years	83,333	83,332
Loans: between 2 and 5 years	249,999	249,996
Loans: over 5 years	187,502	270,840
Loans due after more than one year	520,834	604,168
Finance leases: between 1 and 5 years	134,880	156,883
Deferred payment	-	75,000
	655,714	836,051

The loan is repayable by quarterly instalments of £20,833 until 2005. Interest is payable at 1% above LIBOR.

14. SHARE CAPITAL

	1998 No.	Authorised 1997 No.	Allotted, called up and fully paid 1998 £	1997 £
Ordinary shares of £1 each	2,500,000	2,500,000	2,250,000	2,250,000

15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £	Profit and loss account £	Total shareholders funds £
At 1 June 1996	2,250,000	(1,665,376)	584,624
Loss for the financial year	-	(2,768,961)	(2,768,961)
At 31 May 1997	2,250,000	(4,434,337)	(2,184,337)
Loss for the financial year	-	(355,408)	(355,408)
At 31 May 1998	2,250,000	(4,789,745)	(2,539,745)

Filtronic Components Limited

NOTES TO THE FINANCIAL STATEMENTS at 31 May 1998

16. CAPITAL COMMITMENTS

	1998 £	1997 £
Capital expenditure contracted for but not provided in the financial statements	361,693	10,400

17. CONTINGENT LIABILITIES

The company has given guarantees in respect of certain bank borrowings of other group companies. There were contingent liabilities of £2,044,000 at 31 May 1998 (1997 - £1,272,000) in respect of these guarantees.

18. PENSION COMMITMENTS

The company contributed to the Filtronic Components Limited Retirements and Death Benefits Scheme for eligible employees including directors.

The scheme, which provides defined benefits based on length of pensionable service and pensionable salary at retirement, is administered by trustees and its funds are independent of the company's finances.

Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the employee's working lives with the company.

Contributions to the scheme are determined by a qualified actuary on the basis of a periodic valuation using the projected unit method. The most recent valuation was at 1 July 1997. The major actuarial assumptions used were that the return on the scheme's investments would be 9% per annum, that the pensionable earnings would increase at the rate of 7% per annum, and that present and future pensions would increase at the following rates:

Category A members	5% per annum
Category B members	For pensions earned after 1 July 1995, 5% per annum (or the RPI if less), subject to a minimum increase in the total pension of 3%.

The valuation showed that the scheme's assets were valued at £2,608,500 and that the actuarial value of those assets represented 110% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

19. OPERATING LEASES

Annual commitments under non-cancellable leases were as follows:

	<i>Land and buildings</i>		<i>Other</i>	
	1998	1997	1998	1997
	£	£	£	£
Operating leases which expire within two to five years	-	-	58,737	12,900
over five years	148,116	155,941	-	-

NOTES TO THE FINANCIAL STATEMENTS
at 31 May 1998

20. RELATED PARTY TRANSACTIONS

The following related party transactions occurred during the year, and were all on an arm's length basis.

The company incurred professional charges, including certain fees and disbursements, totalling £20,000 with Schofield Sweeney, a firm of solicitors, in which C E Schofield, company secretary of Filtronic Plc, is a partner.

The company subleases premises to Techcaram Limited, a company in which Professor J D Rhodes and his family have a 42% shareholding. Rents charged amounted to £28,000. At 31 May 1998 £10,000 was outstanding.

The company made sales of £8,000 to Isotek Limited, a company which is controlled by Professor J D Rhodes. At 31 May 1998 £1,000 was outstanding.

The company incurred costs of £23,000 for the rental of an executive box and match sponsorship with Bradford City AFC (1985) Limited, a company which is wholly owned by Bradford City (Holdings) Limited, in which Professor J D Rhodes and his son Julian Rhodes have a 49.5% shareholding.

The company received royalties of £3,000 from Photarc Surveys Limited, a company in which J Samuel has a 29.5% shareholding.

21. ULTIMATE PARENT UNDERTAKING

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

Copies of the financial statements of Filtronic plc can be obtained from Filtronic plc, The Waterfront, Salts Mill Road, Saltaire, Shipley, West Yorkshire, BD18 3TT.