

**Filtronic Comtek (UK) Limited**

**Directors' report and financial  
statements**

Registered number 2700306

31 May 2007

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## **Company information**

### **Directors**

Professor JD Rhodes CBE FRS FREng (retired 29 September 2006)

RC Hindson

IA Gibson (appointed 29 September 2006)

Dr CI Mobbs (appointed 29 September 2006, resigned 20 November 2006)

### **Secretary**

M Moynihan

### **Auditors**

KPMG Audit Plc

Chartered Accountants

1 The Embankment

Neville Street

Leeds

LS1 4DW

### **Registered office**

Airedale House

Acorn Park

Charlestown

Shipley

West Yorkshire

BD17 7SW

## **Directors' report**

The directors present their annual report and the audited financial statements for the year ended 31 May 2007

### **Principal activities**

The company's principal activities during the year were the design and manufacture of microwave products for use in mobile telecommunications networks

### **Results and dividends**

The results for the year are set out in the profit and loss account on page 7. The position at the end of the year is shown in the balance sheet on page 8. The directors do not recommend a dividend for the year.

### **Business review**

Filtronic plc entered into an agreement with Powerwave Technologies Inc for the disposal of its Wireless Infrastructure business, including substantially all of the wireless infrastructure business, assets and liabilities of the company, for a consideration of \$185m (approximately £97m) cash and 17.7m shares of Powerwave's common stock, which completed on 16 October 2006.

The company designed and did some manufacturing of transmit/receive modules, power amplifiers and remote radio heads for mobile phone base stations.

The decrease in sales is as a result of the disposal of the wireless infrastructure business to Powerwave UK Limited. Sales were £24,170,142 and the operating loss was £4,387,130.

The remaining freehold property in Stewarton, Ayrshire is expected to be sold in the year ending 31 May 2008.

### **Research and development**

During the year the company expended £3,460,959 (2006: £10,778,081) on research and development, all of which was charged to the profit and loss account.

### **Capital expenditure**

Capital expenditure was £481,525 (2006: £1,459,962).

### **Directors**

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

### **Political and charitable contributions**

No contributions were made for political purposes. A total of £1,960 (2006: £19,057) was donated to various charities.

### **Directors indemnity**

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

## **Directors' report** *(continued)*

### **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*

23 July 2007

## **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 and applicable law (UK Generally Accepted Accounting Practice)

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 Comtek (UK) Limited**

We have audited the financial statements of Filtronic Comtek (UK) Limited for the year ended 31 May 2007 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet 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**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

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.

In addition we 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.

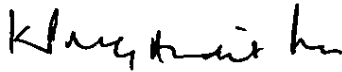
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 member of Filtronic Comtek (UK)  
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 2007 and of its loss 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**  
*Chartered Accountants*  
*Registered Auditor*

23 July 2007



**Profit and loss account**  
*for the year ended 31 May 2007*

	<i>Note</i>	<b>2007</b> <b>£</b>	<b>2006</b> <b>£</b>
<b>Sales</b>	<b>2</b>	<b>24,170,142</b>	<b>68,220,695</b>
<b>Operating loss</b>	<b>3</b>	<b>(4,387,130)</b>	<b>(6,855,852)</b>
Gain on sale of land and buildings		228,018	-
Interest receivable		-	1,769
<b>Loss on ordinary activities before taxation</b>		<b>(4,159,112)</b>	<b>(6,854,083)</b>
<b>Taxation</b>	<b>7</b>	<b>-</b>	<b>-</b>
<b>Loss for the financial year</b>		<b>(4,159,112)</b>	<b>(6,854,083)</b>

All the results relate to discontinued operations

**Statement of total recognised gains and losses**  
*for the year ended 31 May 2007*

	<b>2007</b> <b>£</b>	<b>2006</b> <b>£</b>
Loss for the financial year	(4,159,112)	(6,854,083)
<b>Total recognised losses relating to the year</b>	<b>(4,159,112)</b>	<b>(6,854,083)</b>

**Balance sheet**  
*at 31 May 2007*

	<i>Note</i>	<b>2007</b> <b>£</b>	<b>2006</b> <b>£</b>
<b>Fixed assets</b>	<b>8</b>	<b>270,000</b>	<b>5,794,868</b>
<b>Current assets</b>			
Stocks	9	-	3,992,813
Debtors	10	315,477	17,432,747
Cash at bank and in hand		-	311,540
		<b>315,477</b>	<b>21,737,100</b>
<b>Creditors: amounts falling due within one year</b>	<b>11</b>	<b>585,477</b>	<b>32,096,632</b>
<b>Net current liabilities</b>		<b>(270,000)</b>	<b>(10,359,532)</b>
<b>Net assets/(liabilities)</b>		<b>-</b>	<b>(4,564,664)</b>
<b>Capital and reserves</b>			
Called up share capital	12	210,492	210,492
Share premium account	13	1,938,146	1,938,146
Capital reserve	13	8,520,776	-
Revaluation reserve	13	106,010	106,010
Profit and loss account	13	(10,775,424)	(6,819,312)
<b>Shareholders' funds/(deficit)</b>		<b>-</b>	<b>(4,564,664)</b>

These financial statements were approved by the board of directors on 23 July 2007 and were signed on its behalf by



**RC Hindson**  
 Director

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

#### *Basis of accounting*

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

#### *Cash flow statement*

The company has taken advantage of the exemption allowed by FRS 1 (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.

On adoption of FRS 15, the company followed the transitional provisions to retain the book value of land and buildings, but not to adopt a policy of revaluation in the future.

#### *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:

Freehold buildings	-	50 years
Plant and machinery	-	3 – 10 years
Fixtures and fittings	-	3 – 10 years

No depreciation has been charged in respect of freehold land.

#### *Operating leases*

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

## Notes (continued)

### 1 Accounting policies (continued)

#### *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

#### *Stock 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 transactions 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 employee's working lives with the group.

#### *Share-based payments*

The Filtronic plc group operates share option schemes, under which share options are granted to certain employees. 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.

## Notes (continued)

### 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

	2007 £	2006 £
United Kingdom	21,064	1,379,902
Other Europe	22,281,058	63,559,634
Americas	570,891	1,415,470
Asia Pacific	1,297,129	1,865,689
	<u>24,170,142</u>	<u>68,220,695</u>

### 3 Operating loss

	2007 £	2006 £
<b>Income</b>		
Sales	24,170,142	68,220,695
Decrease in stocks of finished goods and work in progress	(521,535)	(1,029,781)
	<u>23,648,607</u>	<u>67,190,914</u>
<b>Costs</b>		
Raw materials and consumables	19,784,604	51,519,653
<b>Staff costs</b>		
Wages and salaries	3,976,388	9,559,874
Social security costs	361,898	894,721
Other pension costs	247,412	832,529
Share – based payments (note 15)	203,000	(1,000)
	<u>4,788,698</u>	<u>11,286,124</u>
Depreciation	942,697	2,080,732
Other operating charges	2,519,738	9,160,258
	<u>28,035,737</u>	<u>74,046,767</u>
<b>Operating loss</b>	<u>(4,387,130)</u>	<u>(6,855,853)</u>

## Notes (continued)

### 4 Profit and loss account items

Operating loss is stated after charging/(crediting)

	2007 £	2006 £
Operating lease rentals		
- land and buildings	42,452	115,271
- other	55,870	211,246
Government grant released	-	(415,624)
Research and development expenditure	3,460,959	10,778,081
(Profit)/loss on disposal of tangible fixed assets	(6,959)	113,184
Auditors' remuneration - audit services	10,000	24,000
- tax compliance services	2,299	4,967
	<u>          </u>	<u>          </u>

### 5 Employees

	2007 No	2006 No
Manufacturing	28	134
Research and development	48	144
Sales	1	5
Administration	18	52
	<u>          </u>	<u>          </u>
Average number of employees	95	335
	<u>          </u>	<u>          </u>

### 6 Directors' emoluments

	2007 £	2006 £
Aggregate emoluments (excluding pension contributions)	-	134,215
	<u>          </u>	<u>          </u>

#### Highest paid director

	2007 £	2006 £
Aggregate emoluments (excluding pension contributions)	-	134,215
	<u>          </u>	<u>          </u>
Defined benefits pension scheme		
Accrued pension at 31 May	-	60,662
	<u>          </u>	<u>          </u>

## Notes (continued)

### 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

	2007 £	2006 £
Loss on ordinary activities before taxation	(4,159,112)	(6,854,083)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 30%)	(1,247,734)	(2,056,225)
Effect of		
Disallowed expenses	(9,948)	(37,498)
Depreciation in advance of capital allowances	(3,877,884)	516,524
Tax losses carried forward	3,924,356	1,643,799
Share-based payments	60,900	(300)
Other timing differences	10,616	(66,300)
Group relief	1,139,694	-
<b>Current tax charge for the period</b>	<b>-</b>	<b>-</b>

Deferred tax assets which have not been recognised

	2007 £	2006 £
Depreciation in advance of capital allowances	-	3,921,000
Trading losses available for relief against future trading profits	-	3,471,000
	-	7,392,000

	2007 £	2006 £
Deferred tax liabilities which have not been provided		
Revaluation of fixed assets and capital gains	-	31,000

#### *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 and losses brought forward. 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

	Freehold land and buildings £	Plant and machinery £	Fixtures and fittings £	Total £
<b>Cost</b>				
At 31 May 2006	1,673,423	20,376,208	1,548,774	23,598,405
Additions	-	481,525	-	481,525
Disposals	(837,455)	(1,243,127)	(82,375)	(2,162,957)
Disposals through sale of business	(248,763)	(19,614,606)	(1,466,399)	(21,329,768)
<b>At 31 May 2007</b>	<b>587,205</b>	<b>-</b>	<b>-</b>	<b>587,205</b>
<b>Depreciation</b>				
At 31 May 2006	466,077	16,243,278	1,094,182	17,803,537
Charge for the year	255,887	636,938	49,872	942,697
Disposals	(353,106)	(1,220,110)	(58,619)	(1,631,835)
Disposals through sale of business	(51,653)	(15,660,106)	(1,085,435)	(16,797,194)
<b>At 31 May 2007</b>	<b>317,205</b>	<b>-</b>	<b>-</b>	<b>317,205</b>
<b>Net book value</b>				
At 31 May 2007	<b>270,000</b>	<b>-</b>	<b>-</b>	<b>270,000</b>
At 31 May 2006	1,207,346	4,132,930	454,592	5,794,868

### 9 Stocks

	2007 £	2006 £
Raw materials	-	2,128,278
Work in progress	-	425,641
Finished goods	-	1,438,894
	<b>-</b>	<b>3,992,813</b>

### 10 Debtors

	2007 £	2006 £
Trade debtors	-	16,836,637
Other taxes	156,017	286,739
Prepayments and accrued income	159,460	309,371
	<b>315,477</b>	<b>17,432,747</b>



## Notes (continued)

### 11 Creditors: amounts falling due within one year

	2007 £	2006 £
Trade creditors	-	2,888,977
Amounts due to group companies	404,698	28,463,012
Accruals	180,779	744,643
	<u>585,477</u>	<u>32,096,632</u>

### 12 Share capital

	2007 No.	2006 No.	2007 £	Authorised 2006 £
Ordinary shares of 12 2787p each	16,288,369	16,288,369	2,000,000	2,000,000

	2007 No.	2006 No.	Allotted, called up and fully paid 2007 £	2006 £
Ordinary shares of 12 2787p each	1,714,287	1,714,287	210,492	210,492

### 13 Reserves

	Share premium account £	Capital reserve £	Revaluation reserve £	Profit and loss account £
At 31 May 2006	1,938,146	-	106,010	(6,819,312)
Loss for the financial year	-	-	-	(4,159,112)
Share-based payments	-	-	-	203,000
Capital contribution	-	8,520,776	-	-
At 31 May 2007	<u>1,938,146</u>	<u>8,520,776</u>	<u>106,010</u>	<u>(10,775,424)</u>

On 31 May 2007 Filtronic plc made a capital contribution of £8,520,776 to the company by waiving £8,520,776 owed by the company to Filtronic plc

## Notes (continued)

### 14 Reconciliation of movements in shareholders' funds/(deficit)

	2007 £	2006 £
Loss for the financial year	(4,159,112)	(6,854,083)
Share-based payments	203,000	(1,000)
Capital contribution	8,520,776	-
	<hr/>	<hr/>
Net movement in shareholders' funds	4,564,664	(6,855,083)
Opening shareholders' (deficit)/funds	(4,564,664)	2,290,419
	<hr/>	<hr/>
Closing shareholders' funds/(deficit)	-	(4,564,664)
	<hr/>	<hr/>

### 15 Share-based payments

	2007 £	2006 £
Share-based payments	203,000	(1,000)
	<hr/>	<hr/>

Share-based payments expense/(credit) is for share options in Filtronic plc shares granted to employees since 7 November 2002. The share options expense is the fair value of the share options at the date of grant spread over the expected vesting period of the share options. The fair value of the share options at the date of grant is measured using the Black-Sholes model.

All outstanding share options vested on the completion of the sale of the wireless infrastructure business on 16 October 2006. Consequently all the remaining share-based payment cost was expensed in the period.

The inputs to the Black-Sholes model and the weighted average fair value of the share options granted during the year were as follows:

	2007	2006
Number of options granted	-	250,000
Weighted average share price	-	171p
Weighted average exercise price	-	171p
Expected volatility	-	70%
Expected life	-	4 years
Risk free interest rate	-	5%
Weighted average fair value	-	88p

Expected volatility is the estimate of the volatility of the share price over the expected life of the share options.

## Notes (continued)

### 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 2006 and the details of this actuarial valuation are disclosed in the financial statements of Filtronic plc.

Contributions to the defined benefit scheme amounted to £247,412 (2006 £832,529)

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 the 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 2007 was £6,954,000 (2006 £20,575,000).

### 17 Sale of wireless infrastructure business and assets

On 16 October 2006 substantially all the wireless infrastructure business, assets and liabilities were sold to Powerwave UK Limited for a consideration equal to the book value of the net assets.

	Assets and liabilities sold	
	2007	2006
	£	£
Tangible fixed assets	4,532,574	-
Stocks	1,506,469	-
Trade debtors	16,144,560	-
Prepayments	354,754	-
Trade creditors	(2,443,139)	-
Accruals	(876,824)	-
	<hr/>	<hr/>
Net assets sold	19,218,394	-
	<hr/>	<hr/>

### 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, Airedale House, Acorn Park, Charlestown, Shipley, West Yorkshire, BD17 7SW.