

Filtronic Comtek (UK) Limited

**Directors' report and financial
statements**

Registered number 2700306

31 May 2003



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Company information

Directors

Professor JD Rhodes CBE FRS FREng – Chairman
AR Needle
Dr M Perkins
PD Sleigh
RD Young Resigned 22 August 2002
Dr DS Cannell

Secretary

CE Schofield

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
Saltair
Shipley
West Yorkshire
BD18 3TT

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 May 2003.

Principal activities and review of the business

The company's principal activity during the year was the design and manufacture of microwave products for the mobile telecommunications and wireless local loop network markets.

The company has had a successful trading year. The directors remain confident that the company is well placed to take advantage of the growth in its markets.

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 recommend a dividend for the year of £20,000,000 (2002: £14,000,000).

Research and development

During the year the company expended £6,324,536 (2002: £5,935,537) 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 interests in the shares of the company during the year.

The interest of Professor JD Rhodes and AR Needle in the share capital of the ultimate parent undertaking, Filtronic plc, are given in that company's financial statements.

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

	Ordinary shares of 10p each	
	31 May 2003	31 May 2002
PD Sleigh	468,604	468,604
Dr M Perkins	38,958	38,958
Dr DS Cannell	4,700	1,500

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 2002 No.	Exercised during the year No.	31 May 2003 No.
Save As You Earn Option Scheme						
Dr DS Cannell	01.10.2004-01.04.2005		354p	2,754	-	2,754
Executive Share Option Scheme						
PD Sleigh	01.10.2003-14.03.2012		404p	30,000	-	30,000
Dr M Perkins	01.10.2003-14.03.2012		404p	30,000	-	30,000
Dr DS Cannell	04.08.2000-04.08.2007		375p	20,000	-	20,000

Directors' report *(continued)*

Political and charitable contributions

No contributions were made for political purposes. A total of £3,828 (2002: £2,437) 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 2003 trade creditors of £6,293,796 represented 42 days purchases, calculated in accordance with the Companies Act 1985.

Auditors

During the year Ernst & Young LLP resigned as auditors and the directors appointed KPMG Audit Plc in their place. *A resolution to reappoint KPMG Audit Plc as auditors will be put to the members at the Annual General Meeting.*

By order of the board

C. Schofield

CE Schofield
Secretary

25 July 2003

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

1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

Report of the independent auditors to the members of Filtronic Comtek (UK) Limited

We have audited the financial statements on pages 6 to 16.

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 2003 and of its profit for year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

25 July 2003

Profit and loss account
for the year ended 31 May 2003

	<i>Note</i>	2003 £	2002 £
Sales	2	80,649,999	87,749,242
Operating profit	3	15,449,218	13,949,758
Interest receivable		-	4,548
Currency exchange gain on cash balances		31,734	104,946
Profit on ordinary activities before taxation		15,480,952	14,059,252
Taxation	7	-	-
Profit for the financial year		15,480,952	14,059,252
Dividends	8	20,000,000	14,000,000
(Deficit)/retained profit for the year		(4,519,048)	59,252

Statement of total recognised gains and losses
for the year ended 31 May 2003

	2003 £	2002 £
Profit for the financial year	15,480,952	14,059,252
Total recognised gains relating to the year	15,480,952	14,059,252

Balance sheet
at 31 May 2003

	<i>Note</i>	2003 £	2002 £
Fixed assets	9	7,296,592	9,030,410
Current assets			
Stocks	10	8,185,831	12,485,616
Debtors	11	16,133,378	12,704,452
Cash at bank and in hand		156,903	224,096
		24,476,112	25,414,164
Creditors: amounts falling due within one year	12	21,274,329	19,364,139
Net current assets		3,201,783	6,050,025
Total assets less current liabilities		10,498,375	15,080,435
Deferred income	13	691,648	754,660
Net assets		9,806,727	14,325,775
Capital and reserves			
Called up share capital	14	210,492	210,492
Share premium accounts	15	1,938,146	1,938,146
Revaluation reserve	15	106,010	106,010
Profit and loss account	15	7,552,079	12,071,127
Equity shareholders' funds		9,806,727	14,325,775

These financial statements were approved by the board of directors on 25 July 2003 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.

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	-	7 – 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.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income amounts and are released to profit over the expected useful lives of the relevant assets by equal annual instalments. Revenue grants are released to profit over the life of the project to which they relate.

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 (continued)

1 Accounting policies (continued)

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.

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:

	2003 £	2002 £
United Kingdom	5,014,626	7,010,285
Other Europe	66,739,540	57,471,870
North America	1,701,847	4,584,216
Asia Pacific	7,193,986	18,682,871
	<hr/>	<hr/>
	80,649,999	87,749,242
	<hr/>	<hr/>

Notes (continued)

3 Operating profit

	2003 £	2002 £
Income		
Sales	80,649,999	87,749,242
Decrease in stocks of finished goods and work in progress	(1,680,015)	(1,994,379)
	<u>78,969,984</u>	<u>85,754,863</u>
Costs		
Raw materials and consumables	38,250,132	40,851,660
Staff costs		
Wages and salaries	13,700,681	15,025,633
Social security costs	1,053,747	1,186,527
Other pension costs	662,085	699,634
	<u>15,416,513</u>	<u>16,911,794</u>
Depreciation	2,211,154	3,131,233
Other operating charges	7,642,967	10,910,418
	<u>63,520,766</u>	<u>71,805,105</u>
Operating profit	<u><u>15,449,218</u></u>	<u><u>13,949,758</u></u>

4 Profit and loss account items

Operating profit is stated after charging/(crediting):

	2003 £	2002 £
Operating lease rentals		
- land and buildings	112,308	47,704
- other	212,130	233,263
Government grant released	(63,012)	(62,912)
Research and development expenditure	6,324,536	5,935,537
Profit on disposal of tangible fixed assets	(64,200)	(10,824)
Auditors' remuneration – audit services	24,000	21,300
	<u><u>6,324,536</u></u>	<u><u>5,935,537</u></u>

Notes (continued)

5 Employees

	2003 No.	2002 No.
Manufacturing	559	640
Research and development	115	138
Sales	5	8
Administration	52	61
Average number of employees	731	847

6 Directors' emoluments

	2003 £	2002 £
Aggregate emoluments (excluding pension contributions)	197,635	296,955

Retirement benefits are accruing to 5 directors under a defined benefits scheme.

Highest paid director

	2003 £	2002 £
Aggregate emoluments (excluding pension contributions)	80,962	83,616
Defined benefits pension scheme: Accrued pension at 31 May	26,165	33,733

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:

	2003 £	2002 £
Profit on ordinary activities before taxation	15,480,952	14,059,252
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	4,644,286	4,217,776
Effect of:		
Disallowed expenses	30,172	61,500
Depreciation in advance of capital allowances	610,225	901,844
Group relief	(5,284,683)	(5,181,120)
Current tax charge for the period	-	-

Deferred tax assets which have not been recognised:

	2003 £	2002 £
Depreciation in advance of capital allowances	2,267,000	1,657,289

Deferred tax liabilities which have not been provided:
 Revaluation of fixed assets and capital gains

	2003 £	2002 £
	35,000	35,000

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.

8 Dividends

	2003 £	2002 £
Final dividend of 1166.6658p (2002 – 816.6661p) per ordinary share	20,000,000	14,000,000

Notes (continued)

9 Tangible fixed assets

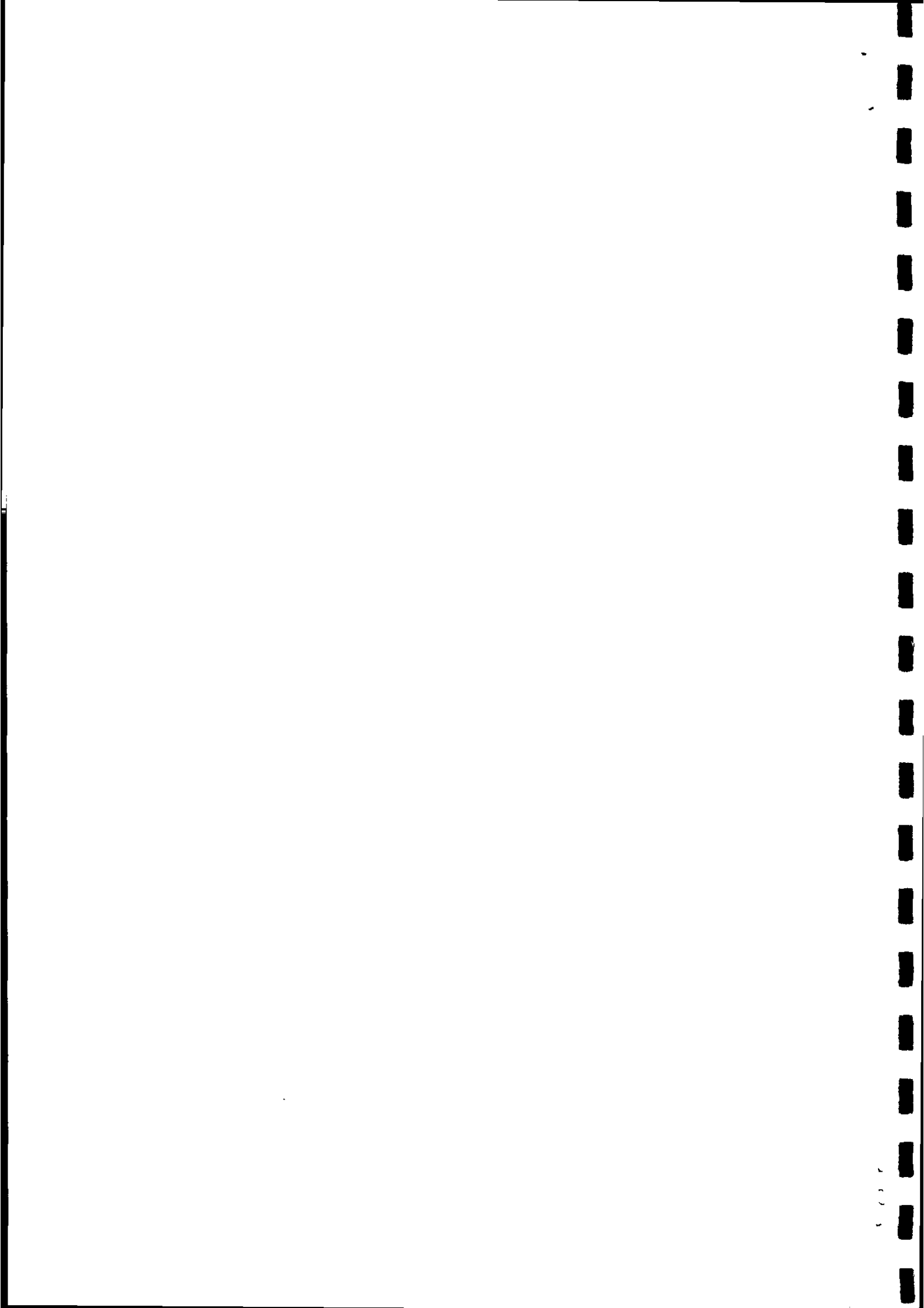
	Freehold land and buildings £	Plant and machinery £	Fixtures and fittings £	Total £
Cost				
At 1 June 2002	1,658,449	18,788,751	1,461,699	21,908,899
Additions	-	495,564	21,667	517,231
Group transfers	-	(33,300)	-	(33,300)
Disposals	-	(388,008)	-	(388,008)
At 31 May 2003	1,658,449	18,863,007	1,483,366	22,004,822
Depreciation				
At 1 June 2002	219,896	12,046,177	612,416	12,878,489
Charge for the year	61,292	2,005,552	144,310	2,211,154
Group transfers	-	(22,161)	-	(22,161)
Disposals	-	(359,252)	-	(359,252)
At 31 May 2003	281,188	13,670,316	756,726	14,708,230
Net book value				
At 31 May 2003	1,377,261	5,192,691	726,640	7,296,592
At 31 May 2002	1,438,553	6,742,574	849,283	9,030,410

10 Stocks

	2003 £	2002 £
Raw materials	5,924,550	8,544,320
Work in progress	1,548,185	1,428,720
Finished goods	713,096	2,512,576
	8,185,831	12,485,616

11 Debtors

	2003 £	2002 £
Trade debtors	14,877,956	10,896,134
Other taxes	637,244	1,155,452
Prepayments and accrued income	618,178	652,866
	16,133,378	12,704,452



Notes *(continued)*

12 Creditors: amounts falling due within one year

	2003 £	2002 £
Trade creditors	6,293,796	7,317,568
Amounts due to group companies	14,368,566	11,257,620
Accruals	611,967	788,951
	<u>21,274,329</u>	<u>19,364,139</u>

13 Deferred income

	Deferred government grants £
At 1 June 2002	754,660
Released during the year	(63,012)
At 31 May 2003	<u>691,648</u>

14 Share capital

	2003 No.	2002 No.	2003 £	Authorised 2002 £
Ordinary shares of 12.2787p each	<u>16,288,369</u>	<u>16,288,369</u>	<u>2,000,000</u>	<u>2,000,000</u>

	2003 No.	2002 No.	2003 £	2002 £
Ordinary shares of 12.2787p each	<u>1,714,287</u>	<u>1,714,287</u>	<u>210,492</u>	<u>210,492</u>

Notes (continued)

15 Reconciliation of shareholders' funds and movements on reserves

	Share capital	Share premium account	Revaluation reserve	Profit and loss account	Total shareholders' funds
	£	£	£	£	£
At 31 May 2001	210,492	1,938,146	106,010	12,011,875	14,266,523
Profit for the financial year	-	-	-	14,059,252	14,059,252
Dividends	-	-	-	(14,000,000)	(14,000,000)
At 31 May 2002	210,492	1,938,146	106,010	12,071,127	14,325,775
Profit for the financial year	-	-	-	15,480,952	15,480,952
Dividends	-	-	-	(20,000,000)	(20,000,000)
At 31 May 2003	210,492	1,938,146	106,010	7,552,079	9,806,727

16 Capital commitments

	2003 £	2002 £
Capital expenditure contracted for but not provided in the financial statements	36,030	184,000

17 Operating leases

Annual commitments under non-cancellable leases were as follows:

	Land and buildings		Other	
	2003 £	2002 £	2003 £	2002 £
Operating leases which expire: within two to five years	132,000	109,344	171,831	187,929

18 Contingent liabilities

The company has given guarantees in respect of certain loans and bank borrowings of other group companies. There were contingent liabilities of £63,215,942 at 31 May 2003 (2002: £96,139,275) in respect of these guarantees.

Notes (continued)

19 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 2002 and the details of this actuarial valuation are disclosed in the financial statements of Filtronic plc.

Contributions to the defined benefit scheme amounted to £622,085 (2002: £669,634).

The company has continued to pay contributions at a rate of 10% of pensionable earnings. It is the intention that total employee and employer contributions will be 15% of pensionable salaries and these rates will be reviewed at future actuarial valuations.

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 2003 was £11,550,000 (2002: £4,867,000).

20 Related party transactions

The following related party transactions occurred during the year on an arm's length basis:

The company incurred professional charges, totalling £nil (2002: £1,300) with Schofield Sweeney, a firm of solicitors, in which CE Schofield, executive director of Filtronic plc, is a partner.

The company incurred costs of £20,477 (2002: £13,561) for rental of an executive box, and provision of refreshments with Bradford City AFC (1983) Limited, a company which is wholly owned by Bradford City (Holdings) Limited, in which Professor JD Rhodes and his family have a material interest.

The company has taken advantage of the exemption in FRS8 from disclosing transactions with related parties that are part of the Filtronic plc group or investees of the group.

21 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, West Yorkshire, BD18 3TT.