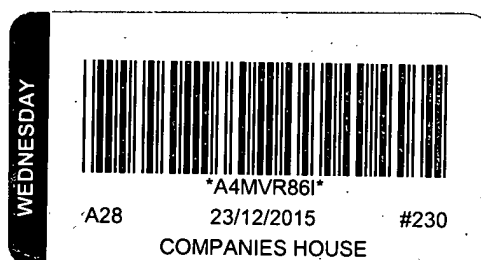


Filtronic Broadband Limited

**Directors' report and financial
statements**

Registered number 3398105

31 May 2015



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Company information

Directors

A Needle (resigned 13 March 2015)
R Smith (appointed 18 June 2014)

Secretary

M Moynihan

Auditor

KPMG LLP
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

Bankers

Barclays Bank plc
10 Market Street
Bradford
BD1 1NR

Registered office

Filtronic House
3 Airport West
Lancaster Way
Yeadon
Leeds
LS19 7ZA

Strategic report

Principal activities

Filtronic Broadband Limited's ("the Company") principal activities during the year were the design and manufacture of microwave products for the Original Equipment Manufacturer ("OEM") mobile backhaul market, E-band and V-band transmit and receive modules. Additionally, the Company supplies modules for phased array radars and offers a build to print, design and test manufacturing service for precision hybrid/surface mount technology at microwave, E-band and V-band.

Business model

Filtronic Broadband Limited is a designer and manufacturer of 60 to 90GHz millimetre-wave products for mobile broadband backhaul, defence applications as well as providing build to print manufacturing at its state of the art, highly automated UK facility.

Our key offerings are:

- Design and manufacture of E-band and V-band transceiver modules.
- Design and manufacture of microwave and millimetre filters and diplexers.
- Design and manufacture of customised MMICs for multi-chip module applications and advanced packaging.
- Build to print and design for cost/manufacture services for precision hybrid/surface mount technology at 60 to 90GHz.

The Company's products support global OEM customers for "carrier grade" mobile backhaul and a number of smaller second tier OEM customers that supply the enterprise mobile backhaul market. Modules for phased array radars and has "build-to-print" and test contracts for complex microwave modules at 4 to 90GHz.

Filtronic Broadband Limited offers a vertically integrated design, manufacture and test capability for E-band and V-band transceivers for the mobile broadband backhaul market. The "carrier grade" transceiver performance results from the use of proprietary MMICs. These MMICs have been designed in-house, for manufacture on the processes of leading foundries, and offer a differentiating capability in the market. The build to print projects involve some element of design for manufacture and rely on the vast experience that has been developed to achieve and support volume manufacture.

Business review and results

The Company supplies OEMs with E-band and V-band, transmit and receive modules, for point to point backhaul solutions. Filtronic Broadband Limited's engineering team is experienced in the design of MMICs. This, coupled with its system design knowledge and capability, has enabled the Company to design the RF transmit and receive modules that are required for "carrier grade" mobile backhaul applications at E-band frequencies. The Company also provides build to print services at V-band and E-band which take advantage of the in-house expertise that has been developed. The build to print product usually has some key component or design feature that creates intellectual property, protects our sourcing position and enables a higher yield manufacture.

During the year, Filtronic Broadband Limited has concentrated on developing and supplying "carrier grade", E-band transceiver modules, for the mobile telecommunications backhaul market. The E-band spectrum offers the market increased capacity and is being licensed for use in a number of important markets. The take up of E-band has been slower than industry analysts had originally predicted and together with commercial challenges affecting our customers who have been supplying the Russian market, we saw a reduction in sales in FY2015. Turnover in the

year decreased 25.6% to £7,241,707 (2014: £9,736,154). FY14 included the recognition of sales revenue of £2.5m in respect of a last time buy to secure materials for a customer programme for legacy product. The customer ordered the material from the Company against their forecast requirement for finished product. No margin was made on the sale of the "last time buy" material and consequently the overall operating loss percentage to sales was reduced last year. With improved margins, better production yields and cost controls we were able to reduce the operating loss in the year to £1,902,719 (2014: operating loss of £2,749,535) being -26% of turnover (2014: -28%).

A concentrated effort has been made to improve the specification of our E-band modules and to reduce the cost of the product. In our latest generation offering, Orpheus, we have met these objectives. Orpheus has demonstrated class leading performance, delivering >4 Gbps at 256 QAM and giving our customers a measurable advantage over their competition. Orpheus is now ramping to volume production and our lead customer is forecasting improved demand as E-band becomes more widely adopted throughout the industry. In addition to our own E-band product, we have won orders to supply E-band products based on an alternate technology and this allows us to bring our knowhow of high frequency module manufacture and test to a wider customer base.

During the year we have increased our engagement with the wider market for high frequency transceivers and along with Selex we have now won a contract to supply modules for a satellite communications project and have an exciting pipeline of opportunities that we are working hard to convert.

Research and Development

The Company operates in a fast moving, technology driven market place where generating our own proprietary technology is key to maintain our competitive advantage. The Company therefore continues to invest in research and development with expenditure of £959,407 (2014: £1,009,868), all of which was charged to the profit and loss account.

Key performance indicators

| | FY2015 | FY2014 |
|--|-----------|-----------|
| Operating loss per employee Filtronic recognises that employees are a critical asset in our business and we monitor the profit per employee to monitor productivity. | (£22,651) | (£30,550) |
| Research and development to sales per cent The directors' recognises that the Company needs to invest in new products, capabilities and technologies to participate in a technology driven market and monitors the investment made in research and development as a proportion of sales. | 13.2% | 10.4% |
| Operating loss to sales per cent The directors' monitor profitability to ensure that an acceptable return is being made on operating activities in the year. | (26.3%) | (28.2%) |
| Inventory turns Inventory is maintained so that it can meet customer demand for scarce and long-lead time items and to fulfil customer orders where deliveries are scheduled over a number of months or years | 12.2 | 1.7 |
| Trade receivable days In line with other customers in the sector the group extends credit facilities to customers that have an acceptable credit rating | 61 | 83 |
| Trade payable days The Company receives credit from a number of suppliers and recognises the importance of paying it's suppliers on time. | 54 | 55 |

Principal risks and uncertainties

Introduction

The Company supplies microwave products for the wireless telecommunications market. The business is in a fast-changing sector with a small number of sophisticated customers, demanding performance standards and international competition; all of which pose risks to the business.

Market

The Company supplies a niche range of products to a small number of large OEM customers. With the rapid evolution of product technology and other corporate decisions the size of our addressable market may be affected. The loss of any of these customers, including or any material reduction in orders from any such customers may have a material adverse effect upon the Company's financial condition. We may also fail to forecast market movements correctly so missing opportunities or wrongly predicting product longevity.

Manufacturing

In most of the products, production is demand led and customers may vary their requirements from the business at short notice, which also impacts inventory management. Customers in these businesses expect consistent high quality product and reducing prices, hence we depend on control of our operating environment, including management of security of supply in our supply chain, and the provision of correctly designed technological solutions including the achievement of target cost reduction plans. Non-performance in these areas risks a diminished market position.

All our products are provided to customers after detailed qualification testing. However, this may not test all aspects of the product's design and manufacturing process or may not ensure that the product is viewed as fit for purpose in its intended use. Identification of these types of problem after release of product to customers creates the risk of being required to rectify such product defects. Historically such work has not had a substantial impact on the financial performance of the business, although a major defect, leading to a field recall could do so in future.

Technology

Our product competitiveness is strongly influenced by technology choices at product concept stage and throughout execution of design to product launch. For products in the production cycle, technology innovation is often required as a means of achieving price reductions, which underpin turnover. The market is time sensitive and opportunities may be lost if the technology we develop is not appropriate or ready for exploitation to match market demand, so having an adverse effect on business performance.

Our ability to remain competitive in terms of technology and product design is also underpinned by retaining key staff, the loss of whom could seriously impact the rate of introduction of new products and technologies.

Financial management

It is expected future revenues will generate a surplus of US dollars. The nature of the business means there is limited visibility of future revenues. Therefore, when forward exchange contracts are used to reduce currency risk on the surplus currency expected to be generated, they are usually only for short term periods of no more than 6 months.

The directors approve budgets and other performance targets, the components of which form the financial objectives. Performance against these targets is reported monthly and concentrates upon key performance indicators identified and updated as part of this budgetary control process. Financial forecasts are updated and reviewed monthly and include cash flow forecasts.



R Smith
Director

17 December 2015

Statement of Directors' Responsibilities in Respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, 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).

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 judgements 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Directors' report

The principal risks and uncertainties, an indication of future developments in the Company and details of the research and development activities carried out have been discussed within the Strategic Report.

Directors

The directors of the company during the period 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 R Smith in the share capital of the ultimate parent undertaking, Filtronic plc, are given in that company's financial statements.

Director's indemnity

Certain directors benefited from qualifying third party indemnity provisions in place during the financial year.

Results and dividends

The results for the year are set out in the profit and loss account on page 9. The position at the end of the year is shown in the balance sheet on page 10. The directors do not recommend a dividend for the year (2014: £nil).

Political and charitable contributions

No contributions were made for political purposes (2014: nil). A total of £nil (2014: nil) was donated to charities.

Employees

The Company had 67 employees at 31 May 2015.

Disclosure of information to auditor

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 auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



R Smith
Director

17 December 2015



KPMG LLP

1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
United Kingdom

Independent auditor's report to the members of Filtronic Broadband Limited

We have audited the financial statements of Filtronic Broadband Limited for the year ended 31 May 2015 set out on pages 9 to 19. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 May 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Filtronic Broadband Limited
(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.



Johnathan Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

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17 December 2015

Profit and loss account
for the year ended 31 May 2015

| | <i>Note</i> | 2015 £ | 2014 £ |
|--|-------------|--------------------|-------------|
| Turnover | 2 | 7,241,707 | 9,736,154 |
| Operating loss | 3 | (1,902,719) | (2,749,535) |
| Finance (costs)/income | | (207,140) | 96,404 |
| Loss on ordinary activities before taxation | | (2,109,859) | (2,653,131) |
| Taxation | 8 | 709,025 | - |
| Loss for the financial year | | (1,400,834) | (2,653,131) |

All the results relate to continuing operations and the principal activity.

Statement of total recognised gains and losses
for the year ended 31 May 2015

| | 2015 £ | 2014 £ |
|---|--------------------|-------------|
| Loss for the financial year | (1,400,834) | (2,653,131) |
| Total recognised losses relating to the year | (1,400,834) | (2,653,131) |

The notes on pages 11 to 19 form part of the financial statements.

Balance sheet
at 31 May 2015

| | <i>Note</i> | 2015 £ | 2014 £ |
|---|-------------|---------------------------|----------------------------|
| Fixed assets | | | |
| Tangible assets | 9 | 1,037,749 | 1,622,672 |
| Current assets | | | |
| Stocks | 10 | 993,104 | 2,449,709 |
| Debtors | 11 | 3,672,691 | 6,503,838 |
| Cash at bank and in hand | | - | 2,069,799 |
| Creditors: amounts falling due within one year | 12 | 4,665,795 (10,578,954) | 11,023,346 (16,130,956) |
| Net current liabilities | | (5,913,159) | (5,107,610) |
| Total assets less current liabilities | | (4,875,410) | (3,484,938) |
| Provisions | 13 | (57,193) | (64,960) |
| Long term liabilities - Deferred income | | (60,053) | (75,137) |
| Net liabilities | | (4,992,656) | (3,625,035) |
| Capital and reserves | | | |
| Called up share capital | 14 | 68,140 | 68,140 |
| Profit and loss account | 15 | (5,060,796) | (3,693,175) |
| Shareholders' deficit | | (4,992,656) | (3,625,035) |

These financial statements were approved by the board of directors on 17 December 2015 and were signed on its behalf by:



R Smith
Director

Registered Number: 3398105

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.

At 31 May 2015 the Company's current liabilities exceeded its current assets by £5,913,159 (2014: *current liabilities exceeded current assets by £5,107,610*). In addition the Company had a net deficit of £4,992,656 at 31 May 2015 (2014: *net deficit £3,625,035*). The directors have reviewed the expected future activities of the Company and believe it will meet its debts as they fall due for the foreseeable future.

On 16 November 2015, the Company's parent company, Filtronic plc, successfully raised £4.5m of equity from existing shareholders. The directors believe that the proceeds from the placing will provide sufficient working capital and that the group has adequate financial resources to continue to trade for the foreseeable future.

The financial statements have been prepared on a going concern basis, as Filtronic plc have indicated that they will give continued financial support to the Company for the next twelve months and for the foreseeable future and the directors have confirmed they have the financial resources to do so.

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.

Turnover

Turnover 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.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using the rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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 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 equipment | 3-10 years |
|---------------------|------------|

Defined contribution pension scheme

A defined contribution pension scheme is operated for employees. Contributions are recognised as an expense in the

profit and loss account as incurred.

Operating leases

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

Research and development

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.

Warranty provision

A provision is recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, and it is probably that an outflow of economic benefits will be required to settle the obligation.

A warranty provision is recognised when products are sold. The provision is based on historical warranty data. The level of warranty provision required is reviewed on a product by product basis and adjusted accordingly in light of actual experience.

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.

Share-based payments

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

An analysis of turnover by geographical market is given below:

| | 2015 £ | 2014 £ |
|----------------|------------------|------------------|
| United Kingdom | 1,225,845 | 2,217,132 |
| Europe | 1,965,024 | 874,070 |
| Americas | 1,476,015 | 3,601,031 |
| Rest of World | 2,574,823 | 3,043,921 |
| | <u>7,241,707</u> | <u>9,736,154</u> |

3 Operating loss

| | 2015 £ | 2014 £ |
|--|--------------------|--------------------|
| Income: | | |
| Turnover | 7,241,707 | 9,736,154 |
| Other operating income | 48,938 | 21,466 |
| (Decrease)/increase in stocks of finished goods and work in progress | (1,174,332) | 778,244 |
| | <u>6,116,313</u> | <u>10,535,864</u> |
| Costs: | | |
| Raw materials and consumables | 3,733,840 | 7,973,898 |
| Staff costs: | | |
| Wages and salaries | 2,281,903 | 2,425,584 |
| Social security costs | 220,806 | 251,111 |
| Other pension costs | 135,357 | 126,191 |
| Redundancy costs | 127,487 | - |
| Share-based payments | 33,213 | 33,028 |
| | <u>2,798,766</u> | <u>2,835,914</u> |
| Depreciation | 481,740 | 604,697 |
| Other operating charges | 1,004,686 | 1,870,890 |
| | <u>8,019,032</u> | <u>13,285,399</u> |
| Operating loss | <u>(1,902,719)</u> | <u>(2,749,535)</u> |

Notes (continued)

4 Profit and loss account items

| | 2015 £ | 2014 £ |
|--|-------------------|-------------------|
| Operating loss is stated after charging: | | |
| Operating lease rentals: | | |
| - land and buildings | 112,000 | 27,982 |
| - other | 42,573 | 42,288 |
| Research and development expenditure | 959,407 | 1,009,868 |
| Auditor's remuneration - audit of the financial statements | 16,262 | 18,000 |
| | <u> </u> | <u> </u> |

5 Employees

| | 2015 No. | 2014 No. |
|-----------------------------|-------------------|-------------------|
| Manufacturing | 58 | 64 |
| Research and development | 17 | 19 |
| Administration | 8 | 7 |
| Sales | 1 | - |
| | <u> </u> | <u> </u> |
| Average number of employees | 84 | 90 |
| | <u> </u> | <u> </u> |

6 Directors' emoluments

Directors' emoluments are paid through Filtronic plc

7 Related party transaction

The company has taken advantage of the exemption to FRS 8 from disclosing transactions with related parties that are subsidiaries of Filtronic plc. Other than transactions with other group entities, there have been no related party transactions (2014: nil).

Notes (continued)

8 Taxation

Analysis of (credit)/charge in the period:

| | 2015 £ | 2014 £ |
|---------------------------------------|------------------|-----------|
| <i>UK corporation tax</i> | | |
| R&D tax credit | (739,923) | - |
| <i>Overseas tax</i> | | |
| Withholding tax charge | 30,898 | - |
| Total tax credit in the period | (709,025) | - |

Factors affecting the tax charge for the period

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

| | 2015 £ | 2014 £ |
|---|--------------------|--------------------|
| Loss on ordinary activities before taxation | (2,109,859) | (2,653,131) |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20.83% (2014: 22.67%) | (439,484) | (601,465) |
| Effects of: | | |
| Disallowed expenses | 47,572 | 8,067 |
| Depreciation in advance of capital allowances | 100,346 | 137,085 |
| Losses carried forward | 291,566 | 486,423 |
| R&D tax credits | - | (530,251) |
| R&D tax credits relating to prior year | (739,923) | - |
| Foreign tax | 30,898 | - |
| Group relief surrendered to other group subsidiary | - | 500,141 |
| Current tax credit for the period | (709,025) | - |
| Deferred tax assets which have not been recognised: | | |
| | 2015 £ | 2014 £ |
| Depreciation in advance of capital allowances | 1,645,098 | 1,445,000 |
| Tax losses | 743,632 | 821,594 |
| | 2,388,730 | 2,266,594 |

Factors affecting the future tax charges

At the balance sheet date deferred tax assets were not recognised as the directors did not consider that it was certain that underlying temporary differences would reverse in the foreseeable future.

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. It is expected that there will be no significant current tax charge in the foreseeable future because of the availability of group relief, losses brought forward and capital allowances.

Notes (continued)

9 Tangible fixed assets

| | Plant and equipment £ |
|-----------------------|--------------------------------------|
| <i>Cost</i> | |
| At 31 May 2014 | 7,459,462 |
| Additions | 5,454 |
| Disposals | (1,400,487) |
| At 31 May 2015 | 6,064,429 |
| <i>Depreciation</i> | |
| At 31 May 2014 | 5,836,790 |
| Charge for the year | 481,740 |
| Disposals | (1,291,850) |
| At 31 May 2015 | 5,026,680 |
| <i>Net book value</i> | |
| At 31 May 2015 | 1,037,749 |
| At 31 May 2014 | 1,622,672 |

10 Stocks

| | 2015 £ | 2014 £ |
|------------------|-------------------|-------------------|
| Raw materials | 566,886 | 849,160 |
| Work in progress | 232,290 | 1,226,549 |
| Finished goods | 193,928 | 374,000 |
| | 993,104 | 2,449,709 |

11 Debtors

| | 2015 £ | 2014 £ |
|----------------------------------|-------------------|-------------------|
| Trade debtors | 1,917,534 | 4,468,127 |
| Amounts due from group companies | 877,911 | 1,841,381 |
| Other taxation/VAT | 82,318 | - |
| Prepayments and accrued income | 794,928 | 194,330 |
| | 3,672,691 | 6,503,838 |

Notes (continued)

12 Creditors: amounts falling due within one year

| | 2015 £ | 2014 £ |
|--------------------------------|-------------------|-------------------|
| Trade creditors | 1,400,875 | 3,346,343 |
| Amounts due to group companies | 8,800,594 | 11,883,008 |
| Overdraft at bank | 146,016 | - |
| Accruals and deferred income | 231,469 | 893,444 |
| Other taxation/VAT | - | 8,161 |
| | <u>10,578,954</u> | <u>16,130,956</u> |

13 Provision

| | Warranty provision £ |
|-------------------------|----------------------------|
| At 31 May 2014 | 64,960 |
| Amounts released unused | (27,000) |
| Used during the year | (11,828) |
| Charge for the year | 31,061 |
| At 31 May 2015 | <u>57,193</u> |

14 Share capital

| | Allotted, called up and fully paid 2015 £ | 2014 £ |
|--------------------------------------|--|---------------|
| 6,814,012 ordinary shares of 1p each | <u>68,140</u> | <u>68,140</u> |

15 Reserves

| | Profit and loss account £ |
|-----------------------------|---------------------------------|
| At 31 May 2014 | (3,693,175) |
| Loss for the financial year | (1,400,834) |
| Share-based payments | 33,213 |
| At 31 May 2015 | <u>(5,060,796)</u> |

Notes (continued)

16 Reconciliation of movement in shareholders' deficit

| | 2015 £ | 2014 £ |
|-------------------------------------|-------------|-------------|
| Loss for the financial year | (1,400,834) | (2,653,131) |
| Share-based payments | 33,213 | 33,028 |
| Net decrease in shareholders' funds | (1,367,621) | (2,620,103) |
| Opening shareholders' funds | (3,625,035) | (1,004,932) |
| Closing shareholders' deficit | (4,992,656) | (3,625,035) |

17 Share-based payments

| | 2015 £ | 2014 £ |
|----------------------|-----------|-----------|
| Share-based payments | 33,213 | 33,028 |

Share-based payments expense is for share options in Filtronic plc shares granted to employees of Filtronic Broadband Limited. 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-Scholes model.

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

| | 2015 | 2014 |
|------------------------------|-----------|------|
| Number of options granted | 495,741 | - |
| Weighted average share price | 31.0p | - |
| Expected volatility | 60% | - |
| Expected life | 3.0 years | - |
| Risk free interest rate | 3% | - |
| Weighted average fair value | 10.0p | - |

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

Notes (continued)

18 Capital commitments

There were no capital commitments contracted for but not provided in the financial statements (2014: nil)

19 Operating leases

Annual commitments under non-cancellable leases were as follows:

| | Land and buildings | | Other | |
|--------------------------------|--------------------|----------------|---------------|---------------|
| | 2015 | 2014 | 2015 | 2014 |
| | £ | £ | £ | £ |
| Operating leases which expire: | | | | |
| Up to one year | - | - | 7,522 | 38,394 |
| Within two to five years | 111,996 | 188,784 | 19,939 | 34,306 |
| | <u>111,996</u> | <u>188,784</u> | <u>19,939</u> | <u>34,306</u> |

20 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, Filtronic House, Unit 3, Airport West, Yeadon, West Yorkshire, LS19 7ZA.