

Filtronic Broadband Ltd

**Directors' report and financial
statements**

Registered number 3398105

31 May 2003



Contents

| | |
|--|---|
| Company information | 1 |
| Directors' report | 2 |
| Statement of directors' responsibilities | 4 |
| Report of the independent auditors to the members of Filtronic Broadband Ltd | 5 |
| Profit and loss account | 6 |
| Statement of total recognised gains and losses | 6 |
| Balance sheet | 7 |
| Notes | 8 |

Company information

Directors

Professor JD Rhodes CBE FRS FREng – Chairman
Dr HK Mardia
Dr MJ Thornton

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
Saltaire
Shipley
BD18 3TT

Directors' report

The directors present their 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 use in broadband communication systems.

Despite the results for the year, the directors remain confident of the long term prospects for the company.

On 1 June 2003 the trade, assets and liabilities of Filtronic Cable Communications Limited were transferred to the company at book value (see note 20).

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 do not recommend a dividend for the year.

Research and development

During the year the company expended £1,130,621 (2002: £1,329,837) 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.

The interests of Professor JD 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:

| | Ordinary shares of 10p each | |
|----------------|-----------------------------|-------------|
| | 31 May 2003 | 31 May 2002 |
| Dr HK Mardia | 43,344 | 39,971 |
| Dr MJ Thornton | 129,566 | 129,566 |

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. |
|--------------------------------------|-------------------|----------------|--------------------|-------------------------------------|--------------------|
| Executive Share Option Scheme | | | | | |
| Dr HK Mardia | 1.10.99 – 3.8.08 | 414p | 60,000 | - | 60,000 |
| | 1.10.03 – 14.3.12 | 404p | 15,000 | - | 15,000 |
| Dr MJ Thornton | 1.10.99 – 3.8.08 | 414p | 40,000 | - | 40,000 |

Directors' report *(continued)*

Political and charitable contributions

No contributions were made for political purposes or to charities (2002: £nil).

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 £709,854 represented 52 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 Broadband Ltd

We have audited the financial statements on pages 6 to 15.

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 loss for the 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 | 5,661,724 | 5,593,559 |
| Operating loss | 3 | (2,068,415) | (3,058,184) |
| Interest receivable | | 42 | 474 |
| Currency gain/(loss) on cash balances | | 79,426 | (67,989) |
| Loss on ordinary activities before taxation | | (1,988,947) | (3,125,699) |
| Taxation | 7 | - | - |
| Loss for the financial year | | (1,988,947) | (3,125,699) |

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

| | 2003 £ | 2002 £ |
|---|--------------------|--------------------|
| Loss for the financial year | (1,988,947) | (3,125,699) |
| Total recognised losses relating to the year | (1,988,947) | (3,125,699) |

Balance sheet
at 31 May 2003

| | <i>Note</i> | 2003 £ | 2002 £ |
|---|-------------|-------------------|-------------------|
| Fixed assets | | | |
| Tangible assets | 8 | 990,220 | 2,025,248 |
| Investments | 9 | - | 68,140 |
| | | <hr/> 990,220 | <hr/> 2,093,388 |
| Current assets | | | |
| Stocks | 10 | 1,219,488 | 2,870,682 |
| Debtors | 11 | 867,639 | 1,120,714 |
| Cash at bank and in hand | | 14,138 | 26,830 |
| | | <hr/> 2,101,265 | <hr/> 4,018,226 |
| Creditors: amounts falling due within one year | 12 | 10,592,876 | 11,624,058 |
| | | <hr/> (8,491,611) | <hr/> (7,605,832) |
| Net current liabilities | | | |
| | | <hr/> (7,501,391) | <hr/> (5,512,444) |
| Net liabilities | | | |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Capital and reserves | | | |
| Called up share capital | 13 | 68,140 | 68,140 |
| Profit and loss account | 14 | (7,569,531) | (5,580,584) |
| | | <hr/> (7,501,391) | <hr/> (5,512,444) |
| Equity shareholders' funds | | <hr/> <hr/> | <hr/> <hr/> |

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.

The company is dependent upon the continued financial support of its ultimate parent undertaking. The ultimate parent undertaking has stated 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.

Cash flow statement

The company has taken advantage of the exemption allowed by FRS1 (revised) for wholly owned subsidiary undertakings and has not prepared a statement of cash flows.

Sales

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

Foreign currency transactions

Sales and purchases in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities outstanding at the period end are translated at the rate of exchange ruling at the date. All currency movements are included in the profit and loss account for the year.

Tangible fixed assets

Fixed assets are included at cost less accumulated depreciation. The carrying values of tangible fixed assets are reviewed for impairment if there are indications that the carrying values may not be recoverable.

Depreciation

Depreciation is provided in order to write off the cost of tangible fixed assets in equal instalments over their estimated useful lives as follows:

| | |
|-----------------------|------------|
| Plant and machinery | 3-10 years |
| Fixtures and fittings | 7-10 years |

Operating leases

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

Research and development

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 transaction or events that give rise to an obligation to pay more tax in the future or a right to pay less tax in the future have occurred by the balance sheet date.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Retirement and death benefits scheme

The group operates a contracted in Retirement and Death Benefits Scheme for eligible employees including directors. The scheme, which provides defined benefits based on length of pensionable salary at retirement, is administered by trustees and its funds are independent of the group's finances. Contributions to the scheme are charged to the profit and loss account so as to spread the costs of pensions over the employees' working lives with the group.

2 Sales

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

An analysis of sales by geographical market is given below:

| | 2003 £ | 2002 £ |
|----------------|------------------|------------------|
| United Kingdom | 17,692 | 15,650 |
| Other Europe | 5,644,032 | 5,577,909 |
| | <u>5,661,724</u> | <u>5,593,559</u> |

Notes (continued)

3 Operating loss

| | 2003 £ | 2002 £ |
|---|---------------------------|---------------------------|
| Income: | | |
| Sales | 5,661,724 | 5,593,559 |
| Decrease in stocks of finished goods and work in progress | (228,916) | (74,176) |
| | <u>5,432,808</u> | <u>5,519,383</u> |
| Costs: | | |
| Raw materials and consumables | 3,805,298 | 3,981,354 |
| Staff costs: | | |
| Wages and salaries | 1,973,963 | 2,326,257 |
| Social security costs | 151,337 | 181,936 |
| Other pension costs | 133,910 | 142,017 |
| | <u>2,259,210</u> | <u>2,650,210</u> |
| Depreciation | 493,678 | 555,935 |
| Other operating charges | 943,037 | 1,390,068 |
| | <u>(7,501,223)</u> | <u>(8,577,567)</u> |
| Operating loss | <u><u>(2,068,415)</u></u> | <u><u>(3,058,184)</u></u> |

4 Profit and loss account items

| | 2003 £ | 2002 £ |
|---|-------------------------|-------------------------|
| Operating loss is stated after charging/(crediting) | | |
| Operating lease rentals: | | |
| - land and buildings | 23,046 | 20,462 |
| - other | 36,960 | 18,537 |
| Research and development expenditure | 1,130,621 | 1,329,837 |
| Auditors' remuneration – audit services | 5,000 | 4,000 |
| | <u><u>1,195,627</u></u> | <u><u>1,372,836</u></u> |

5 Employees

| | 2003 No. | 2002 No. |
|--------------------------|------------------|-------------------|
| Manufacturing | 59 | 88 |
| Research and development | 18 | 18 |
| Sales | 3 | 2 |
| Administration | 6 | 10 |
| | <u><u>86</u></u> | <u><u>118</u></u> |

Notes (continued)

6 Directors' emoluments

| | 2003 £ | 2002 £ |
|---|----------------|----------------|
| Aggregate emoluments (excluding pension contributions) | <u>165,259</u> | <u>148,677</u> |
| Retirement benefits are accruing to 3 directors under a defined benefits scheme | | |
| <i>Highest paid director</i> | 2003 £ | 2002 £ |
| Aggregate emoluments (excluding pension contributions) | <u>94,944</u> | <u>84,232</u> |
| Defined benefits pension scheme: | | |
| Accrued pension at 31 May | <u>22,278</u> | <u>19,275</u> |

7 Taxation

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:

| | 2003 £ | 2002 £ |
|---|--------------------|--------------------|
| Loss on ordinary activities before taxation | <u>(1,988,947)</u> | <u>(3,125,699)</u> |
| Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%) | <u>(596,684)</u> | <u>(937,710)</u> |
| Effects of: | | |
| Disallowed expenses | 5,177 | 8,232 |
| Depreciation in advance of capital allowances | 147,426 | 166,049 |
| Group relief | <u>444,081</u> | <u>763,429</u> |
| Current tax charge for the period | <u>-</u> | <u>-</u> |
| Deferred tax assets which have not been recognised: | 2003 £ | 2002 £ |
| Depreciation in advance of capital allowances | <u>236,000</u> | <u>88,266</u> |

Factors affecting the future tax charges

It is expected that there will be no significant current tax charge in the foreseeable future because of the availability of group relief. There are deferred tax assets which are not expected to reverse in the foreseeable future that have not been recognised.

Notes (continued)

8 Tangible fixed assets

| | Plant and machinery £ | Fixtures & fittings £ | Total £ |
|-----------------------|-----------------------------|-----------------------------|-------------|
| <i>Cost</i> | | | |
| At 1 June 2002 | 2,642,791 | 320,666 | 2,963,457 |
| Additions | 143,056 | 117,846 | 260,902 |
| Group transfers | (976,175) | (144,733) | (1,120,908) |
| | <hr/> | <hr/> | <hr/> |
| At 31 May 2003 | 1,809,672 | 293,779 | 2,103,451 |
| | <hr/> | <hr/> | <hr/> |
| <i>Depreciation</i> | | | |
| At 1 June 2002 | 840,755 | 97,454 | 938,209 |
| Charge for the year | 436,763 | 56,915 | 493,678 |
| Group transfers | (268,680) | (49,976) | (318,656) |
| | <hr/> | <hr/> | <hr/> |
| At 31 May 2003 | 1,008,838 | 104,393 | 1,113,231 |
| | <hr/> | <hr/> | <hr/> |
| <i>Net book value</i> | | | |
| At 31 May 2003 | 800,834 | 189,386 | 990,220 |
| | <hr/> | <hr/> | <hr/> |
| At 31 May 2002 | 1,802,036 | 223,212 | 2,025,248 |
| | <hr/> | <hr/> | <hr/> |

9 Investments

| | Subsidiary £ |
|-----------------|-----------------|
| Shares at cost: | |
| At 1 June 2002 | 68,140 |
| Group transfer | (68,140) |
| | <hr/> |
| At 31 May 2003 | - |
| | <hr/> |

10 Stocks

| | 2003 £ | 2002 £ |
|------------------|-----------|-----------|
| Raw materials | 802,614 | 2,224,892 |
| Work in progress | 291,075 | 501,109 |
| Finished goods | 125,799 | 144,681 |
| | <hr/> | <hr/> |
| | 1,219,488 | 2,870,682 |
| | <hr/> | <hr/> |

Notes (continued)

11 Debtors

| | 2003 £ | 2002 £ |
|--------------------------------|----------------|------------------|
| Trade debtors | 707,245 | 888,345 |
| Other taxation | 99,941 | 183,790 |
| Prepayments and accrued income | 60,453 | 48,579 |
| | <u>867,639</u> | <u>1,120,714</u> |

12 Creditors: amounts falling due within one year

| | 2003 £ | 2002 £ |
|--------------------------------|-------------------|-------------------|
| Trade creditors | 709,854 | 404,552 |
| Amounts due to group companies | 9,698,473 | 11,053,554 |
| Accruals and deferred income | 184,549 | 165,952 |
| | <u>10,592,876</u> | <u>11,624,058</u> |

13 Share capital

| | 2003 Number | Authorised 2002 Number | Allotted, called up and fully paid 2003 £ | 2002 £ |
|----------------------------|-------------------|------------------------------|--|---------------|
| Ordinary shares of 1p each | <u>15,000,000</u> | <u>15,000,000</u> | <u>68,140</u> | <u>68,140</u> |

14 Reconciliation of shareholders' funds and movements on reserves

| | Share capital £ | Profit and loss account £ | Total shareholders' funds £ |
|-----------------------------|--------------------|---------------------------------|--------------------------------------|
| At 31 May 2001 | 68,140 | (2,454,885) | (2,386,745) |
| Loss for the financial year | - | (3,125,699) | (3,125,699) |
| At 31 May 2002 | 68,140 | (5,580,584) | (5,512,444) |
| Loss for the financial year | - | (1,988,947) | (1,988,947) |
| At 31 May 2003 | <u>68,140</u> | <u>(7,569,531)</u> | <u>(7,501,391)</u> |

Notes (continued)

15 Capital commitments

| | 2003 £ | 2002 £ |
|---|-----------|-----------|
| Capital expenditure contracted for but not provided in the financial statements | - | 38,523 |

16 Operating leases

Annual commitments under non-cancellable leases were as follows:

| | 2003 £ | Other 2002 £ |
|--|-----------|--------------------|
| Operating leases which expire within two to five years | 69,834 | 21,548 |

17 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.

18 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 £133,910 (2002: £142,017).

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).

Notes (continued)

19 Related party disclosures

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

The company incurred professional charges, totalling £22,971 with Schofield Sweeney, a firm of solicitors, in which CE Schofield, executive director of Filtronic plc, is a partner.

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.

20 Post balance sheet event

On 1 June 2003 the trade, assets and liabilities of Filtronic Cable Communications Limited were transferred to the company at book value.

| | £ |
|---|-------------|
| Tangible fixed assets | 84,234 |
| Debtors | 419,569 |
| Creditors | (51,603) |
| Amounts due to group companies | (2,017,189) |
| | <hr/> |
| Net liabilities transferred in exchange for amount due from group company | (1,564,989) |
| | <hr/> |

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, BD18 3TT.