

FILTRONIC BROADBAND LIMITED

Report and Financial Statements

31 May 2002



# Filtronic Broadband Limited

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Registered No. 3398105

## **DIRECTORS**

Professor J D Rhodes CBE FRS FREng - Chairman

Dr H K Mardia

Dr M J Thornton

## **SECRETARY**

C E Schofield

## **AUDITORS**

Ernst & Young LLP

Cloth Hall Court

14 King Street

Leeds

LS1 2JN

## **BANKERS**

Barclays Bank PLC

10 Market Street

Bradford

BD1 1NR

## **REGISTERED OFFICE**

The Waterfront

Salts Mill Road

Saltaire

Shipley

West Yorkshire

BD18 3TT

# Filtronic Broadband Limited

## DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 May 2002.

### PRINCIPAL ACTIVITY

The company is engaged in the design and manufacture of microwave products for use in broadband communications systems.

### REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

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

### FINANCIAL RESULTS

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.

### DIVIDENDS

The directors do not recommend a dividend for the year.

### RESEARCH AND DEVELOPMENT

During the year the company expended £1,329,837 (2000 - £537,419) on research and development, all of which was charged to the profit and loss account.

### DIRECTORS AND THEIR INTERESTS

The directors of the company during year 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 Professor J D Rhodes in the share capital of the ultimate parent undertaking, Filtronic plc, are given in that company's financial statements.

The following directors had interests in the ordinary shares of 10p in the ultimate parent undertaking Filtronic plc.

	<i>Ordinary shares of 10p each</i>	
	<i>31 May 2002</i>	<i>31 May 2001</i>
Dr H K Mardia	39,971	46,327
Dr M J Thornton	129,566	129,566

DIRECTORS' REPORT

**DIRECTORS AND THEIR INTERESTS** (continued)

The following directors held options over the ordinary shares of 10p each of the ultimate parent undertaking Filtronic plc.

	<i>Exercise Period</i>	<i>Exercise Price</i>	<i>31 May 2001 No.</i>	<i>Exercised during the year No.</i>	<i>31 May 2002 No.</i>
Executive Share Option Scheme					
Dr H K Mardia	1.10.1999 - 3.8.2008	414p	60,000	-	60,000
	1.10.2003 - 14.3.2012	404p	-	15,000	15,000
Dr M J Thornton	1.10.1999 - 3.8.2008	414p	40,000	-	40,000

**POLITICAL AND CHARITABLE DONATIONS**

No contributions were made for political purposes or to charities.

**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 2002 trade creditors of £404,552 represented 56 days purchases, calculated in accordance with the Companies Act 1985.

**AUDITORS**

A resolution to reappoint Ernst & Young LLP as the company's auditors will be put to the forthcoming annual general meeting.

By order of the board



C E Schofield  
Secretary

26 July 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN THE RESPECT OF THE  
FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm they have complied with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF FILTRONIC BROADBAND LIMITED**

We have audited the company's financial statements for the year ended 31 May 2002 which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses and the related notes 1 to 20. These financial statements have been prepared on the basis of the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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.

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 United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 May 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young LLP*  
Ernst & Young LLP  
Registered Auditor  
Leeds

26 July 2002

# Filtronic Broadband Limited

## PROFIT AND LOSS ACCOUNT for the year ended 31 May 2002

	Notes	2002 £	2001 £
SALES	2	5,593,559	2,732,882
OPERATING LOSS	3	(3,058,184)	(2,454,874)
Interest receivable/(payable)		474	(11)
Currency loss on cash balances		(67,989)	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(3,125,699)	(2,454,885)
Taxation	7	-	-
LOSS FOR THE FINANCIAL YEAR		(3,125,699)	(2,454,885)

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 May 2002


	2002 £	2001 £
Loss for the financial year	(3,125,699)	(2,454,885)
TOTAL RECOGNISED LOSSES RELATING TO THE YEAR	(3,125,699)	(2,454,885)

# Filtronic Broadband Limited

## BALANCE SHEET

at 31 May 2002

	Notes	2002 £	2001 £
<b>FIXED ASSETS</b>			
Tangible assets	8	2,025,248	1,846,820
Investments	9	68,140	68,140
		<u>2,093,388</u>	<u>1,914,960</u>
<b>CURRENT ASSETS</b>			
Stocks	10	2,870,682	1,163,684
Debtors	11	1,120,714	1,342,863
Cash at bank and in hand		26,830	32,128
		<u>4,018,226</u>	<u>2,538,675</u>
<b>CREDITORS: amounts falling due within one year</b>	12	<u>11,624,058</u>	<u>6,840,380</u>
<b>NET CURRENT LIABILITIES</b>		<u>(7,605,832)</u>	<u>(4,301,705)</u>
<b>NET LIABILITIES</b>		<u>(5,512,444)</u>	<u>(2,386,745)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	68,140	68,140
Profit and loss account	14	(5,580,584)	(2,454,885)
<b>SHAREHOLDERS' FUNDS</b>		<u>(5,512,444)</u>	<u>(2,386,745)</u>

  
 Prof. J D Rhodes CBE FRS FREng  
 Director

26 July 2002



NOTES TO THE FINANCIAL STATEMENTS  
at 31 May 2002

1. ACCOUNTING POLICIES

***Basis of accounting***

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

The company is dependant 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.

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.

***Consolidated financial statements***

The company has taken advantage of Section 228 of the Companies Act 1985 not to prepare consolidated financial statements.

***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 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.

***Investments***

Investments are included at cost, less any provision for diminution in value.

***Depreciation***

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

Plant and Machinery	-	3 – 10 years
Fixtures and fittings	-	7 – 10 years
Motor vehicles	-	3 – 5 years

***Operating lease***

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

NOTES TO THE FINANCIAL STATEMENTS

at 31 May 2002

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.

*Stocks and work in progress*

Stocks and work in progress are stated at the lower of cost and estimated net realisable value. Cost comprises the purchase price of raw materials and components together with direct labour and attributable overheads. Estimated net realisable value consists of the expected sales value less all costs required to bring stock to its sale condition and location.

*Deferred taxation*

Deferred taxation 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 a pensionable salary at retirement, is administered by the 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 within 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:

	2002	2001
	£	£
United Kingdom	15,650	-
Other Europe	5,577,909	2,732,882
	<u>5,593,559</u>	<u>2,732,882</u>

# Filtronic Broadband Limited

## NOTES TO THE FINANCIAL STATEMENTS at 31 May 2002

### 3. OPERATING LOSS

	2002	2001
	£	£
Income:		
Sales	5,593,559	2,732,882
(Decrease)/ increase in stocks of finished goods and work in progress	(74,176)	719,966
	<u>5,519,383</u>	<u>3,452,848</u>
Costs:		
Raw materials and consumables	3,981,354	2,477,053
Staff costs:		
Wages and salaries	2,326,257	1,269,305
Social security costs	181,936	117,918
Other pension costs	142,017	67,465
	<u>2,650,210</u>	<u>1,454,688</u>
Depreciation	555,935	266,181
Other operating charges	1,390,068	1,709,800
	<u>(8,577,567)</u>	<u>(5,907,722)</u>
Operating loss	<u>(3,058,184)</u>	<u>(2,454,874)</u>

### 4. PROFIT AND LOSS ACCOUNT ITEMS

Operating loss is stated after charging:

	2002	2001
	£	£
Operating lease rentals:		
- Land and buildings	20,462	20,373
- Other	18,537	16,920
Research and development expenditure	1,329,837	537,419
Auditors' remuneration – audit services	4,000	3,500

# Filtronic Broadband Limited

## NOTES TO THE FINANCIAL STATEMENTS at 31 May 2002

### 5. EMPLOYEES

	2002 No.	2001 No.
Manufacturing	88	52
Research and development	18	12
Sales	2	2
Administration	10	7
Average number of employees	118	73

### 6. DIRECTORS' EMOLUMENTS

<i>Directors</i>	2002 £	2001 £
Aggregate emoluments (excluding pension contributions)	148,677	175,901
Retirement benefits are accruing to 3 directors under a defined benefits scheme.		
<i>Highest paid director</i>	2002 £	2001 £
Aggregate emoluments (excluding pension contributions)	84,232	79,180
Defined benefits pension scheme:		
Accrued pension at 31 May	19,275	16,479

# Filtronic Broadband Limited

## NOTES TO THE FINANCIAL STATEMENTS

at 31 May 2002

### 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:

	2002 £	2001 £
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	<b>(3,125,699)</b>	<b>(2,454,885)</b>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001 – 30%)	(937,710)	(736,466)
Effect of:		
Disallowed expenses	8,232	3,324
Depreciation in advance of capital allowances	166,049	(77,783)
Group relief	763,429	810,925
<b>CURRENT TAX CHARGE FOR THE PERIOD</b>	<b>-</b>	<b>-</b>
Deferred tax assets which have not been recognised:		
	2002 £	2001 £
Depreciation in advance of capital allowances	88,266	-

#### *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.

# Filtronic Broadband Limited

## NOTES TO THE FINANCIAL STATEMENTS at 31 May 2002

### 8. TANGIBLE FIXED ASSETS

	<i>Plant and machinery</i>	<i>Fixtures and fittings</i>	<i>Total</i>
	£	£	£
Cost:			
At 1 June 2001	1,966,214	283,112	2,249,326
Additions	725,324	37,554	762,878
Disposals	(48,747)	-	(48,747)
At 31 May 2002	2,642,791	320,666	2,963,457
Depreciation:			
At 1 June 2001	362,837	39,669	402,506
Charge for the year	498,150	57,785	555,935
Disposals	(20,232)	-	(20,232)
At 31 May 2002	840,755	97,454	938,209
Net book value:			
At 31 May 2002	1,802,036	223,212	2,025,248
At 31 May 2001	1,603,377	243,443	1,846,820

### 9. INVESTMENTS

	<i>Subsidiary</i>
	£
Shares at cost:	
At 31 May 2002 and 31 May 2001	68,140

#### *Subsidiary*

<i>Name of company</i>	<i>Country incorporation or registration</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Activity</i>
Filtronic Cable Communications Limited	England and Wales	1p ordinary shares	100%	Design and manufacture of microwave products

# Filtronic Broadband Limited

## NOTES TO THE FINANCIAL STATEMENTS at 31 May 2002

### 10. STOCKS

	2002	2001
	£	£
Raw materials	2,224,892	443,718
Work in progress	501,109	719,966
Finished goods	144,681	-
	<u>2,870,682</u>	<u>1,163,684</u>

### 11. DEBTORS

	2002	2001
	£	£
Trade debtors	888,345	1,059,059
Other taxation	183,790	95,229
Prepayments and accrued income	48,579	188,575
	<u>1,120,714</u>	<u>1,342,863</u>

### 12. CREDITORS: amounts falling due within one year

	2002	2001
	£	£
Trade creditors	404,552	294,978
Amounts due to group companies	11,053,554	6,508,621
Accruals and deferred income	165,952	36,781
	<u>11,624,058</u>	<u>6,840,380</u>

### 13. SHARE CAPITAL

	2002	Authorised	Allotted, called up and fully paid	
	No.	No.	2002	2001
			£	£
Ordinary shares of 1p each	15,000,000	15,000,000	68,140	68,140

NOTES TO THE FINANCIAL STATEMENTS  
at 31 May 2002

14. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share Capital £</i>	<i>Profit and loss account £</i>	<i>Total shareholders' funds £</i>
At 31 May 2000	68,140	-	68,140
Loss for the financial year	-	(2,454,885)	(2,454,885)
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)

15. CAPITAL COMMITMENTS

	<i>2002 £</i>	<i>2001 £</i>
Capital expenditure contracted for but not provided in the financial statements	38,523	40,307

16. CONTINGENT LIABILITIES

The company has given guarantees in respect of certain loans and bank borrowings of other group companies. There were contingent liabilities of £96,139,275 at 31 May 2002 (2001 - £134,397,000) in respect of these guarantees.



NOTES TO THE FINANCIAL STATEMENTS

at 31 May 2002

17. 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 were advised upon by a qualified actuary on the basis of annual valuations. The most recent valuation was at 1 July 2001 and the details of this actuarial valuation are disclosed in the financial statements of Filtronic plc.

The company is unable to identify its share of the underlying assets and liabilities of the scheme. Contributions to the defined benefit scheme amounted to £142,017 (2001 - £67,465).

The most recent actuarial valuation of the group defined benefit scheme was 1 July 2001. 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.

*Group defined benefit scheme FRS 17 disclosures*

The calculations have been based on the findings of the actuarial valuation carried out with effect from 1 July 2001. The results of that valuation have been projected to 31 May 2002 and then recalculated based on the following assumptions, which the directors consider to be appropriate.

Rate of inflation	
Salary increase rate	4¼%
LPI Increases for post April 1997 pensions in payment	2½%
Revaluation of deferred pensions	2¾%
Liability discount rate	6%

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, are set out below:

	Value At 31 May 2002 £'000	Expected return for year ending 31 May 2003
Equities	10,793	7%
Bonds	1,837	5%
Property	308	7%
Cash	695	5%
Total scheme assets	13,633	
Present value of scheme liabilities	18,500	
Deficit in the scheme	4,867	

# Filtronic Broadband Limited

## NOTES TO THE FINANCIAL STATEMENTS at 31 May 2002

### 18. OPERATING LEASES

Annual commitments under non-cancellable leases were as follows:

	2002	Other
	£	2001
		£
Operating leases which expire: within two to five years	21,548	16,920

### 19. RELATED PARTY TRANSACTIONS

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

The company incurred professional charges, totalling £482 with Schofield Sweeney, a firm of solicitors, in which C E Schofield, executive director of Filtronic plc, is a partner.

The company has taken advantage of the exemption in FRS 8 from disclosing transactions with related parties that are part of the Filtronic plc group or investees of the group.

### 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, The Waterfront, Salts Mill Road, Saltaire, Shipley, West Yorkshire, BD18 3TT.