

**FILTRONIC PLC****HALF-YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 NOVEMBER 2007**

Filtronic plc (“Filtronic”) announces its Half-Yearly Financial Report for the six months ended 30 November 2007.

**Financial Summary**

- Revenue from continuing operations up 51% to £27.2m (2006: £18.0m)
- Operating profit before exceptional items from continuing operations £2.3m (2006: loss £1.7m)
- Loss from discontinued operations £3.2m (2006: profit £70.2m) including Compound Semiconductors impairment of £6.3m
- Profit for the period of £0.9m (2006: £75.8m)
- Cash of £117.4m (2006: £64.0m)
- £0.8m net cash outflow from operating activities excluding the enhanced transfer value exercise payment

**Highlights**

- Point to Point increased revenue substantially by 91% and operating profit increased to £3.3m from £1.0m
- Defence Electronics improved margins on slightly lower revenue
- US Defence business sale completed in October 2007
- Surplus properties sold generating £6.1m cash
- Enhanced transfer value exercise for pension scheme completed and discussions commenced on restructuring the scheme
- Agreement signed on 20 December 2007 with RF Micro Devices for the sale of the Compound Semiconductors business for £12.5m cash, due to complete on 29 February 2008
- Board intention to return cash to shareholders by way of special dividend by the end of this financial year, subject to completion of court approval

**Filtronic Chairman, John Poulter, said:**

“Looking into the second half of this financial year, Defence has made progress in its order intake and is expected to demonstrate some improvement in trading. Point to Point, having seen exceptional growth in the first half, is expected to trade at a lower level although substantially ahead of the equivalent period in the prior year.

In the second half year, the conclusion of the pension scheme discussions, return of cash and maximising shareholder value in the continuing businesses remain priorities.”

**Enquiries****Filtronic plc**

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## **Interim Management Report**

### **Chairman's Statement**

Revenue from continuing operations was £27.2m for the six months ended 30 November 2007 (£18.0m for the six months ended 30 November 2006), a growth of 51%, with operating profit before exceptional items of £2.3m compared with an operating loss of £1.7m for the prior period. Profit before tax from continuing operations was £4.1m (£5.6m for the prior period). Discontinued operations generated a loss of £3.2m (£70.2m profit for the prior period). Overall net profit was £0.9m (£75.8m for the prior period). Cash at 30 November 2007 was £117.4m compared with £118.3m at year end.

The period has been marked by a number of events which are set out below. More detail on the operating performance of the continuing businesses is contained in the Chief Executive's report that follows.

The sale of the US Defence business to TRU Holdings, Inc. was completed for a maximum consideration of \$5.1m, of which \$3.4m was received on completion.

Disposal of surplus properties was completed with the sale of the former headquarters in Saltaire for proceeds of £5.8m.

During the period and concluding in December, the enhanced transfer value offer to deferred members of the defined benefit pension scheme has been completed. This has resulted in a reduction in the liabilities of the scheme by 38% and required £6.2m funding by the company.

It is intended to change the funding of past service liabilities to an external annuity basis at a currently estimated additional funding of £30m. The company has also opened discussions with trustees with a view to restructuring the scheme, including the possibility of its closure.

In anticipation of resolving these pension scheme matters, the Board is initiating the necessary steps to obtain approvals from shareholders and the court to enable cancellation of the share premium account and creation of distributable reserves so that cash may be returned to shareholders. The Board's intention is to return cash, by way of a special dividend, by the end of this financial year, subject to court timescales.

The current lack of distributable reserves precludes the Board from declaring an interim dividend.

Shortly after the end of the period, a definitive agreement was signed with RF Micro Devices, Inc. for the sale of the whole share capital of Filtronic Compound Semiconductors Limited for £12.5m cash. This transaction is expected to complete on 29 February 2008. The agreement provides for ongoing supply to Filtronic's Point to Point business for at least three years and for it remaining at its current site at Newton Aycliffe. In the period to 30 November 2007, the Compound Semiconductor business generated an operating profit before exceptional items of £1.6m and was cash positive. Following an impairment review at 30 November 2007, a non-cash impairment charge of £6.3m has been incurred.

### **Outlook**

Looking into the second half of this financial year, Defence has made progress in its order intake and is expected to demonstrate some improvement in trading. Point to Point, having seen exceptional growth in the first half, is expected to trade at a lower level although substantially ahead of the equivalent period in the prior year.

In the second half year, the conclusion of the pension scheme discussions, return of cash and maximising shareholder value in the continuing businesses remain priorities.

John Poulter  
Chairman  
21 January 2008

## Interim Management Report

### Chief Executive's Review

#### Half-yearly financial results

Revenue arising from continuing operations for the six months ended 30 November 2007 was £27.2m (2006: £18.0m), a growth of 51% compared with the prior period. Operating profit before exceptional items was £2.3m compared with an operating loss of £1.7m for the prior period in 2006. Exceptional items of £1.9m represented costs relating to the enhanced transfer value pension exercise. Discontinued operations generated a loss of £3.2m, made up of £2.9m profit on Wireless Infrastructure, £1.2m loss on US Defence and £4.9m loss on Compound Semiconductors including an impairment charge of £6.3m.

#### Continuing operations

The segmental analysis of the operating results before exceptional items for continuing operations is as follows:

Six months ended 30 November	Revenue		Operating profit/(loss) before exceptional items	
	2007 £m	2006 £m	2007 £m	2006 £m
Point to Point	20.1	10.5	3.3	1.0
Defence Electronics	7.1	7.5	0.6	0.1
Central Services	-	-	(1.3)	(2.6)
Unallocated pension charge	-	-	(0.3)	(0.2)
	-----	-----	-----	-----
	27.2	18.0	2.3	(1.7)
	-----	-----	-----	-----

Continuing operations revenue for the six months ended 30 November 2007 grew by 51% to £27.2m (2006: £18.0m).

Operating result for the period showed a significant improvement with both continuing businesses in profit. Excluding exceptional items, the underlying operating profit of £2.3m compared with the prior period operating loss of £1.7m.

#### Point to Point

The Point to Point business's focus is transceiver modules and filters for backhaul microwave radios linking mobile base stations. Revenue increased very substantially from £10.5m in the prior period to £20.1m in the current period (up by 91%), producing an operating profit of £3.3m in the current period compared with an operating profit of £1.0m in the prior period. This step up in the level of activity, which reflects high short term demand from the principal customer together with increased supply to Point to Point's other customers.

#### Defence Electronics

The sale of the US Defence business to TRU Holdings Inc was completed in October 2007 and is treated as a discontinued operation in these results.

The remaining UK Defence Electronics business is involved in the supply of complex components and subsystems for electronic warfare applications including signal generation, detection and jamming.

Overall, revenue in Defence Electronics has declined from £7.5m in the prior period to £7.1m for the current period, reflecting a slower than expected order intake. However, margins have improved resulting in an operating profit of £0.6m compared with £0.1m in the prior period.

## **Discontinued operations**

### **Wireless Infrastructure**

An additional profit of £2.9m was generated principally from the resolution of a number of working capital matters associated with the Wireless Infrastructure disposal to Powerwave Technologies, Inc.

### **US Defence**

The US Defence business made an operating loss of £1.0m in the period.

The sale of the US Defence business was completed in October 2007 generating a loss of £0.2m excluding any potential contingent consideration.

### **Compound Semiconductors**

Compound Semiconductors achieved 11% growth in revenue to £16.7m in the period compared with £15.1m in the prior period. This also represents a growth of 10% compared with the preceding six months ended 31 May 2007. This growth has been generated primarily by the extension of the increase in short term demand for switch products by the main US customer.

Underlying operating profit was £1.6m compared with an underlying loss of £1.4m in the prior period.

As announced on 20 December 2007, a definitive agreement has been signed for the sale of Filtronic Compound Semiconductors Limited ("FCSL") to RF Micro Devices, Inc. for £12.5m cash, with an expected completion date of 29 February 2008. Following completion, Filtronic will cease its activities in compound semiconductor manufacture and supply. FCSL will enter into a supply contract and lease, including provision of support services, to the Point to Point business. As Compound Semiconductors was held for sale at the balance sheet date it is treated as a discontinued operation.

## **Group matters**

### **Property disposals**

During November, the freehold property at the Waterfront, Saltaire was sold to GMI Waterside Shipley Limited for proceeds of £5.8m, resulting in a £0.1m loss on disposal.

In addition during the period, the surplus freehold property at Stewarton was sold for £0.3m equivalent to its book value.

### **Pension matters**

The enhanced transfer value pension exercise was completed in December reducing the scheme liabilities by 38% requiring £6.2m funding by the company. As at 30 November 2007 the defined benefit pension liability, on the IAS19 basis, was £3.3m compared with £7.0m at 31 May 2007.

Within the current estimate of £30m to change the funding of past service liabilities to an external annuity basis, around half of this is associated with the businesses that have left or are leaving the group.

## **Finance**

Net finance income was £3.7m (2006: £0.9m cost) reflecting the interest received on the cash deposits held through the period.

### **Capital expenditure**

Capital expenditure in the six months to 30 November 2007 was £1.4m (2006: £9.4m).

**Cash flow and closing cash**

Net cash used in operating activities was £6.3m (2006: £13.3m) including £5.5m relating to the pension scheme enhanced transfer value exercise. Sale of the US Defence business, other discontinued business adjustments including the settlement of the Wireless Infrastructure product liability claim of £5.8m and surplus properties generated £3.3m. Net capital expenditure on operating assets, mainly in Point to Point, was £1.4m which, together with interest received of £3.3m and exchange movements of £0.2m, resulted in a closing cash balance of £117.4m.

Charles Hindson  
Chief Executive  
21 January 2008

## **Responsibility Statement of the Directors**

### **Responsibility statement of the directors in respect of the half-yearly financial report**

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union;
- the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board  
21 January 2008

### **The Board**

The directors that served during the six months ended 30 November 2007 and their respective responsibilities are set out in the Annual Report 2007.

Iain Gibson resigned as a director on 21 September 2007.

Hemant Mardia was appointed a director on 18 October 2007. He continues in his role as Managing Director of the Point to Point business.

## **Independent Review Report to Filtronic plc**

### **Introduction**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 November 2007, which comprises the condensed consolidated income statement, the condensed consolidated statement of recognised income and expense, the condensed consolidated balance sheet, condensed consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report, and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules (“the DTR”) of the UK’s Financial Services Authority (“the UK FSA”). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

### **Directors’ responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 November 2007 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union and the DTR of the UK FSA.

KPMG Audit Plc  
Chartered Accountants  
Leeds  
21 January 2008

## Condensed Consolidated Income Statement

		<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006	Year ended 31 May 2007 £000
<b>Continuing operations</b>	note		£000	£000
<b>Revenue</b>	5, 6	<b>27,179</b>	18,033	38,434
		=====	=====	=====
<b>Operating profit/(loss) before exceptional items</b>		<b>2,322</b>	(1,673)	(1,853)
Exceptional items	7	<b>(1,874)</b>	8,160	7,748
		-----	-----	-----
<b>Operating profit</b>	5, 6	<b>448</b>	6,487	5,895
Loss on sale of property		<b>(93)</b>	-	(415)
Loss of sale of investments	13	-	-	(6,518)
Finance income	14	<b>4,875</b>	1,610	5,221
Finance costs	15	<b>(1,131)</b>	(2,467)	(3,839)
		-----	-----	-----
<b>Profit before taxation</b>		<b>4,099</b>	5,630	344
Taxation		-	-	1,491
		-----	-----	-----
<b>Profit for the period from continuing operations</b>		<b>4,099</b>	5,630	1,835
(Loss)/profit for the period from discontinued operations	16	<b>(3,225)</b>	70,197	43,160
		-----	-----	-----
<b>Profit for the period</b>		<b>874</b>	75,827	44,995
		=====	=====	=====
<b>Basic and diluted earnings/(loss) per share</b>				
Continuing operations	29	<b>5.52 p</b>	7.53 p	2.46 p
Discontinued operations	29	<b>(4.34) p</b>	93.89 p	57.90 p
		-----	-----	-----
<b>Basic and diluted earnings per share</b>	29	<b>1.18 p</b>	101.42 p	60.36 p
		=====	=====	=====

The profit for the period is attributable to the equity shareholders of the parent company Filtronic plc.

**Condensed Consolidated Statement of Recognised Income and Expense**

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
<b>Profit for the period</b>	<b>874</b>	75,827	44,995
	-----	-----	-----
Actuarial (loss)/gain on defined benefit pension scheme	<b>(38)</b>	(5,521)	562
Loss on investments	-	(2,322)	-
Transfer to income from translation reserve related to business disposal	<b>(438)</b>	61	61
Currency translation movement arising on consolidation	<b>(76)</b>	115	47
	-----	-----	-----
	<b>(552)</b>	(7,667)	670
	-----	-----	-----
	-----	-----	-----
<b>Total recognised income and expense for the period</b>	<b>322</b>	68,160	45,665
	=====	=====	=====

The total recognised income and expense for the period is attributable to the equity shareholders of the parent company Filtronic plc.

## Condensed Consolidated Balance Sheet

		<b>30 November</b>	30 November	31 May
		<b>2007</b>	2006	2007
	note	<b>£000</b>	£000	£000
<b>Non-current assets</b>				
Property, plant and equipment	30	<b>3,821</b>	50,031	26,089
		-----	-----	-----
<b>Current assets</b>				
Inventories		<b>6,494</b>	12,685	10,625
Trade and other receivables		<b>12,974</b>	20,675	16,268
Investments		-	57,587	-
Cash and cash equivalents		<b>117,442</b>	63,983	118,267
Asset classified as held for sale	31	<b>16,570</b>	-	-
		-----	-----	-----
		<b>153,480</b>	154,930	145,160
		-----	-----	-----
<b>Total assets</b>				
		<b>157,301</b>	204,961	171,249
		-----	-----	-----
<b>Current liabilities</b>				
Trade and other payables		<b>11,448</b>	26,184	23,944
Income tax payable		-	1,482	-
Liabilities classified as held for sale	31	<b>4,033</b>	-	-
		-----	-----	-----
		<b>15,481</b>	27,666	23,944
		-----	-----	-----
<b>Non-current liabilities</b>				
Defined benefit pension		<b>3,287</b>	13,281	6,954
Deferred income		-	3,308	2,140
		-----	-----	-----
		<b>3,287</b>	16,589	9,094
		-----	-----	-----
<b>Total liabilities</b>				
		<b>18,768</b>	44,255	33,038
		-----	-----	-----
<b>Net assets</b>				
		<b>138,533</b>	160,706	138,211
		=====	=====	=====
<b>Equity</b>				
Share capital		<b>7,432</b>	7,432	7,432
Share premium		<b>139,253</b>	139,253	139,253
Capital redemption reserve		<b>58</b>	58	58
Translation reserve		<b>146</b>	727	660
(Accumulated losses)/retained earnings		<b>(8,356)</b>	13,236	(9,192)
		-----	-----	-----
<b>Total equity</b>		<b>138,533</b>	160,706	138,211
		=====	=====	=====

The total equity is attributable to the equity shareholders of the parent company Filtronic plc.

## Condensed Consolidated Cash Flow Statement

		<b>6 months ended 30 November 2007</b>	6 months ended 30 November 2006	Year ended 31 May 2006
	note	<b>£000</b>	£000	£000
<b>Cash flows from operating activities</b>				
<b>Profit for the period</b>		<b>874</b>	75,827	44,995
Gain on sale of discontinued operations		<b>(2,667)</b>	(86,001)	(80,139)
Taxation		-	631	(860)
Finance costs		<b>1,131</b>	2,706	4,078
Finance income		<b>(4,875)</b>	(1,610)	(5,221)
Loss on sale of investments		-	-	6,518
Loss on sale of property		<b>93</b>	-	415
		-----	-----	-----
<b>Operating loss</b>	34	<b>(5,444)</b>	(8,447)	(30,214)
Defined benefit pension charge/(credit)		<b>2,331</b>	(7,032)	(5,649)
Defined benefit pension contributions paid		<b>(5,745)</b>	(5,944)	(7,695)
Share-based payments		-	567	567
Goodwill impairment		-	2,716	2,653
Property, plant and equipment impairment		<b>6,300</b>	-	17,511
Depreciation		<b>1,221</b>	5,121	8,252
Loss on sale of plant and equipment		<b>86</b>	144	7,316
Licence fee released to income		<b>(1,167)</b>	(1,167)	(2,335)
Movement in inventories		<b>(524)</b>	(5,271)	(3,201)
Movement in trade and other receivables		<b>(1,572)</b>	(3,222)	381
Movement in trade and other payables		<b>(1,756)</b>	9,171	1,719
		-----	-----	-----
<b>Cash flow from operations</b>		<b>(6,270)</b>	(13,364)	(10,695)
Taxation received		-	79	88
		-----	-----	-----
<b>Net cash used in operating activities</b>	34	<b>(6,270)</b>	(13,285)	(10,607)
		-----	-----	-----

## Condensed Consolidated Cash Flow Statement

		<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
<b>Net cash used in operating activities</b>	34	<b>(6,270)</b>	(13,285)	(10,607)
<b>Cash flows from investing activities</b>				
Proceeds from sale of property		<b>6,066</b>	-	2,750
Proceeds from sale of plant and equipment		<b>27</b>	78	334
Interest received		<b>3,303</b>	449	2,850
Acquisition of property, plant and equipment		<b>(1,363)</b>	(9,391)	(16,605)
Sale of discontinued operations		<b>(2,794)</b>	105,107	105,252
Proceeds from sale of investments		-	-	53,391
<b>Net cash from investing activities</b>	34	<b>5,239</b>	96,243	147,972
<b>Cash flows from financing activities</b>				
Bank revolving credit repaid		-	(18,000)	(18,000)
Bank loan renewal fee paid		-	(508)	(508)
Interest paid		-	(573)	(575)
Shares issued		-	87	87
Shares bought back		-	(1,137)	(1,137)
Dividends paid		-	(1,348)	(1,348)
<b>Net cash used in financing activities</b>	34	<b>-</b>	(21,479)	(21,481)
<b>Movement in cash and cash equivalents</b>				
Currency exchange loss on sale of discontinued operations		<b>(1,031)</b>	61,479	115,884
Currency exchange movement		-	(2,784)	(2,784)
Opening cash and cash equivalents		<b>206</b>	(5)	(126)
<b>Closing cash and cash equivalents</b>		<b>118,267</b>	5,293	5,293
		<b>117,442</b>	63,983	118,267

## Notes to the Condensed Financial Statements

### 1 Company information

Filtronic plc is a company registered in England and Wales, domiciled in the United Kingdom, and is listed on the London Stock Exchange. The company's registered number is 2891064. The address of the company's registered office is Filtronic plc, Airedale House, Acorn Park, Charlestown, Shipley, West Yorkshire, BD17 7SW.

Copies of the company's annual report and half-yearly financial report are available from the company's registered office or the company's website at [www.filtronic.com](http://www.filtronic.com).

### 2 Basis of preparation

The half-yearly financial report, including the condensed consolidated financial statements for the six months ended 30 November 2007, has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority and the requirements of IAS 34 Interim Financial Reporting as adopted by the European Union.

The half-yearly financial report for the six months ended 30 November 2007 was approved by the Board on 21 January 2008.

The condensed consolidated financial statements for the six months ended 30 November 2007 consolidate the financial statements of the company and all of its subsidiaries.

The condensed consolidated financial statements for the six months ended 30 November 2007 have not been audited.

The half-yearly financial report for the six months ended 30 November 2007 does not constitute financial statements as defined in section 240 of the Companies Act 1985, and does not include all of the information and disclosures required for annual financial statements. The half-yearly report should be read in conjunction with the annual report 2007, which includes annual financial statements for the year ended 31 May 2007.

The financial information for the year ended 31 May 2007 has been extracted from the annual financial statements included in the annual report 2007, which has been filed with the Registrar of Companies. The report of the auditors on those financial statements was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The condensed consolidated financial statements for the six months ended 30 November 2007 have been prepared using the accounting policies set out in the annual financial statements for the year ended 31 May 2007 included in the annual report 2007. Those annual financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The annual financial statements for the year ending 31 May 2008 will be impacted by IFRS 7 Financial Instruments: Disclosure and IAS 1 Presentation of Financial Statements – Capital Disclosures. They will increase the amount of disclosure in the annual financial statements. The accounting, income and net assets will remain unchanged.

The risks and uncertainties faced by the company are the same as those disclosed in the annual report 2007, except for those specifically related to the Compound Semiconductors business, which will be eliminated by its expected sale on 29 February 2008.

### 3 Accounting estimates and judgements

The preparation of the financial statements requires the use of accounting estimates and judgements, which affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses.

The estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of the future, which are believed to be reasonable under the circumstances. Actual results may differ from the expected results.

The accounting estimates and judgements that have a significant effect on the financial statements are the same as those applied and disclosed in the annual financial statements for the year ended 31 May 2007.

At 30 November 2007 an impairment review of the Compound Semiconductors property, plant and equipment assets was performed. This resulted in an impairment of the property assets, as disclosed in note 20.

### 4 Discontinued operations

During the six months ended 30 November 2007 the Defence Electronics business in the United States of America was sold, and the Compound Semiconductors business was classified as a disposal group held for sale. Consequently the results of both these businesses have been reclassified as discontinued operations for the current and comparative periods.

Notes to the Condensed Financial Statements

5 Business segment analysis continuing operations

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
<b>Revenue</b>			
Point to Point	<b>20,067</b>	10,536	22,364
Defence Electronics	<b>7,112</b>	7,497	16,070
	-----	-----	-----
	<b>27,179</b>	18,033	38,434
	=====	=====	=====
<b>Operating profit</b>			
Point to Point	<b>3,287</b>	1,002	2,234
Defence Electronics	<b>563</b>	61	1,125
Central Services	<b>(1,537)</b>	(2,952)	(5,208)
Unallocated pension (charge)/credit	<b>(1,865)</b>	8,376	7,744
	-----	-----	-----
Operating profit	<b>448</b>	6,487	5,895
Loss on sale of property	<b>(93)</b>	-	(415)
Loss on sale of investments	-	-	(6,518)
Finance income	<b>4,875</b>	1,610	5,221
Finance costs	<b>(1,131)</b>	(2,467)	(3,839)
	-----	-----	-----
Profit before taxation	<b>4,099</b>	5,630	344
Taxation	-	-	1,491
	-----	-----	-----
Profit for the period from continuing operations	<b>4,099</b>	5,630	1,835
	=====	=====	=====

Notes to the Condensed Financial Statements

6 Geographical origin segment analysis continuing operations

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
<b>Revenue</b>			
United Kingdom	<b>26,671</b>	18,033	37,815
Australia	<b>508</b>	-	619
	-----	-----	-----
	<b>27,179</b>	18,033	38,434
	-----	-----	-----
<b>Operating profit</b>			
United Kingdom	<b>328</b>	6,487	5,721
Australia	<b>120</b>	-	174
	-----	-----	-----
Operating profit	<b>448</b>	6,487	5,895
Loss on sale of property	<b>(93)</b>	-	(415)
Loss on sale of investments	-	-	(6,518)
Finance income	<b>4,875</b>	1,610	5,221
Finance costs	<b>(1,131)</b>	(2,467)	(3,839)
	-----	-----	-----
Profit before taxation	<b>4,099</b>	5,630	344
Taxation	-	-	1,491
	-----	-----	-----
Profit for the period from continuing operations	<b>4,099</b>	5,630	1,835
	=====	=====	=====

## Notes to the Condensed Financial Statements

### 7 Exceptional items continuing operations

Operating profit is stated after charging/(crediting) exceptional items as follows:

		<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
	note			
Redundancy costs	8	-	217	389
Share-based payments	9	-	178	178
Enhanced pension transfer value offer costs	10	<b>270</b>	-	-
Pension settlement charge	11	<b>1,604</b>	-	-
Pension past service credit	12	-	(8,555)	(8,315)
		----- <b>1,874</b> =====	----- (8,160) =====	----- (7,748) =====

### 8 Redundancy costs continuing operations

		<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Defence Electronics		-	-	158
Central Services		-	217	231
		----- -	----- 217	----- 389
		=====	=====	=====

### 9 Share-based payments continuing operations

		<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Share option expense:				
Central Services		-	178	178
		=====	=====	=====

All outstanding share options vested on the completion of the sale of the Wireless Infrastructure business on 16 October 2006. Consequently all the remaining share-based payment cost was charged in the six months ended 30 November 2006.

## Notes to the Condensed Financial Statements

### 10 Enhanced pension transfer value offer costs continuing operations

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Enhanced pension transfer value offer costs:			
Central Services	<b>270</b>	-	-
	=====	=====	=====

Professional fees were incurred in connection with the enhanced pension transfer value offer made during the period ended 30 November 2007.

### 11 Pension settlement charge continuing operations

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Pension settlement charge	<b>1,604</b>	-	-
	=====	=====	=====

The pension settlement charge resulted from the settlement of the enhanced transfer values paid out during the period ended 30 November 2007. The company paid £5,279,000 of additional contributions to the pension scheme to fund the settlement of the enhanced transfer values.

### 12 Pension past service credit continuing operations

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Pension past service credit	-	(8,555)	(8,315)
	=====	=====	=====

In August 2006 the defined benefits pension scheme was changed from a final salary basis to a career average revalued earnings basis. This resulted in a past service credit due to a reduction in the past service pension liabilities.

## Notes to the Condensed Financial Statements

### 13 Loss on sale of investments continuing operations

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Proceeds from sale of Powerwave shares	-	-	53,391
Value of Powerwave shares consideration at completion of the sale of Wireless Infrastructure business	-	-	(59,909)
	-----	-----	-----
	-	-	(6,518)
	=====	=====	=====

On 16 October 2006 the company received 17,700,000 shares in Powerwave Technologies, Inc. common stock, as part of the consideration for the sale of the Wireless Infrastructure business. All the shares were sold in the six months ended 31 May 2007.

Notes to the Condensed Financial Statements

14 Finance income continuing operations

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Interest income	3,303	449	2,850
Expected return on pension scheme assets	1,422	1,161	2,371
Currency exchange gains	150	-	-
	-----	-----	-----
	<b>4,875</b>	1,610	5,221
	=====	=====	=====

15 Finance costs continuing operations

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Interest expense	-	573	575
Bank loan renewal fee	-	508	508
Interest on pension scheme liabilities	1,131	1,312	2,646
Currency exchange losses	-	74	110
	-----	-----	-----
	<b>1,131</b>	2,467	3,839
	=====	=====	=====

Notes to the Condensed Financial Statements

16 (Loss)/Profit for the period from discontinued operations

		<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006	Year ended 31 May 2007 £000
<b>Discontinued operations</b>	note			
<b>Revenue</b>	17, 18	<b>19,157</b>	77,233	96,521
		=====	=====	=====
<b>Operating profit/(loss) before exceptional items</b>		<b>583</b>	(4,829)	(5,767)
Exceptional items	19	<b>(6,475)</b>	(10,105)	(30,342)
		-----	-----	-----
<b>Operating loss</b>	17, 18	<b>(5,892)</b>	(14,934)	(36,109)
Finance costs	25	-	(239)	(239)
		-----	-----	-----
<b>Loss before taxation</b>		<b>(5,892)</b>	(15,173)	(36,348)
Taxation		-	(631)	(631)
		-----	-----	-----
<b>Loss after taxation</b>		<b>(5,892)</b>	(15,804)	(36,979)
Gain of sale of discontinued operations	26	<b>2,667</b>	86,001	80,139
		-----	-----	-----
<b>(Loss)/profit for the period from discontinued operations</b>		<b>(3,225)</b>	70,197	43,160
		=====	=====	=====

Notes to the Condensed Financial Statements

17 Business segment analysis discontinued operations

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
<b>Revenue</b>			
Wireless Infrastructure	-	58,039	58,039
Defence Electronics	<b>2,430</b>	4,121	8,159
Compound Semiconductors	<b>16,727</b>	15,073	30,323
	-----	-----	-----
	<b>19,157</b>	77,233	96,521
	=====	=====	=====
<b>Operating loss</b>			
Wireless Infrastructure	-	(2,554)	(2,554)
Defence Electronics	<b>(959)</b>	(3,855)	(4,556)
Compound Semiconductors	<b>(4,933)</b>	(8,525)	(28,999)
	-----	-----	-----
Operating loss	<b>(5,892)</b>	(14,934)	(36,109)
Finance costs	-	(239)	(239)
	-----	-----	-----
Loss before taxation	<b>(5,892)</b>	(15,173)	(36,348)
Taxation	-	(631)	(631)
	-----	-----	-----
Loss after taxation	<b>(5,892)</b>	(15,804)	(36,979)
	=====	=====	=====
The operating loss is stated after crediting the release of deferred income as follows:			
Compound Semiconductors licence fee	<b>1,167</b>	1,167	2,335
	=====	=====	=====

Notes to the Condensed Financial Statements

18 Geographical origin segment analysis discontinued operations

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
<b>Revenue</b>			
United Kingdom	<b>16,727</b>	39,243	54,493
Finland	-	8,654	8,654
Hungary	-	7,427	7,427
United States of America	<b>2,430</b>	18,937	22,975
China	-	22,720	22,720
Inter segment	-	(19,748)	(19,748)
	-----	-----	-----
	<b>19,157</b>	77,233	96,521
	=====	=====	=====
<b>Operating loss</b>			
United Kingdom	<b>(4,933)</b>	(12,856)	(33,330)
Finland	-	(1,201)	(1,201)
Hungary	-	2,206	2,206
United States of America	<b>(959)</b>	(3,117)	(3,818)
China	-	34	34
	-----	-----	-----
Operating loss	<b>(5,892)</b>	(14,934)	(36,109)
Finance costs	-	(239)	(239)
	-----	-----	-----
Loss before taxation	<b>(5,892)</b>	(15,173)	(36,348)
Taxation		(631)	(631)
	-----	-----	-----
Loss after taxation	<b>(5,892)</b>	(15,804)	(36,979)
	=====	=====	=====

## Notes to the Condensed Financial Statements

### 19 Exceptional items discontinued operations

Operating loss is stated after charging exceptional items as follows:

		<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Compound Semiconductors assets impairment	20	<b>6,300</b>	-	20,111
Capital charges/Loss on disposal of plant and equipment	21	-	7,000	7,057
Redundancy costs	22	<b>175</b>	-	132
Goodwill impairment	23	-	2,716	2,653
Share-based payments	24	-	389	389
		----- <b>6,475</b> =====	----- 10,105 =====	----- 30,342 =====

### 20 Compound Semiconductors assets impairment discontinued operations

		<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Property, plant and equipment impairment		<b>6,300</b>	-	17,511
Inventory impairment		-	-	2,600
		----- <b>6,300</b> =====	----- - =====	----- 20,111 =====

Following an impairment review at 31 May 2007, the plant and equipment and inventory at the Compound Semiconductors facility was impaired. The impairment resulted from the reduction in the scale of the business, due to the decision of the principal customer to in-source its switch production from September 2007.

Following a further impairment review at 30 November 2007 the property at the Compound Semiconductors facility was impaired.

## Notes to the Condensed Financial Statements

### 21 Capital charges/Loss on disposal of plant and equipment discontinued operations

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Capital charges/Loss on disposal of plant and equipment discontinued operations	-	7,000	7,057
	=====	=====	=====

The capital charges/loss on disposal of plant and equipment at the Compound Semiconductors facility was incurred as a result of the curtailment of the expansion plan at the facility.

### 22 Redundancy costs discontinued operations

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Compound Semiconductors	175	-	132
	=====	=====	=====

### 23 Goodwill impairment discontinued operations

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Goodwill impairment	-	2,716	2,653
	=====	=====	=====

Following an impairment review at 30 November 2006 the goodwill related to Sage Laboratories, Inc. was impaired. Sage Laboratories, Inc. was located in the United States of America and formed part of the Defence Electronics division.

**Notes to the Condensed Financial Statements**

**24 Share-based payments discontinued operations**

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Share options expense:			
Wireless Infrastructure	-	234	234
Compound Semiconductors	-	155	155
	-----	-----	-----
	-	389	389
	=====	=====	=====

All outstanding share options vested on the completion of the sale of the Wireless Infrastructure business on 16 October 2006. Consequently all the remaining share-based payment cost was charged in the six months ended 30 November 2006.

**25 Finance costs discontinued operations**

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Currency exchange losses	-	239	239
	=====	=====	=====

Notes to the Condensed Financial Statements

26 Gain on sale of discontinued operations

		<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Gain/(loss) on sale of:				
Wireless Infrastructure business	27	<b>2,867</b>	86,001	80,139
Defence Electronics business	28	<b>(200)</b>	-	-
		-----	-----	-----
		<b>2,667</b>	86,001	80,139
		=====	=====	=====

27 Gain on sale of the Wireless Infrastructure business

	<b>6 months ended 30 November 2007 £000</b>
Additional consideration	<b>2,675</b>
Adjustment to sale costs	<b>192</b>
	-----
	<b>2,867</b>
	=====

The Wireless Infrastructure business was sold on 16 October 2006. The sale was analysed in the financial statements for the year ended 31 May 2007. Additional consideration was received in the period ended 30 November 2007, which had not been recognised in the year ended 31 May 2007. An adjustment was made for sale costs overprovided in the year ended 31 May 2007.

## Notes to the Condensed Financial Statements

### 28 Loss on sale of the Defence Electronics business

On 12 October 2007 the Defence Electronics business of Sage Laboratories, Inc. in the United States of America was sold. The initial consideration was \$3,556,000 and a further \$1,000,000 of deferred consideration is due in January 2009. Also there may be a further \$500,000 of contingent consideration due in January 2009, depending on the revenue performance of the business, which has not yet been recognised. The sale is analysed as follows.

	<b>6 months ended 30 November 2007 £000</b>
<b>Consideration and costs</b>	
Initial consideration	1,712
Deferred consideration	481
Sale costs	(210)
Currency translation adjustment	438
	-----
	<b>2,421</b>
	=====
<b>Assets and liabilities sold</b>	
Property, plant and equipment	1,130
Inventories	1,240
Trade and other receivables	803
Trade and other payables	(552)
	-----
<b>Net assets sold</b>	<b>2,621</b>
<b>Loss on sale of the Defence Electronics business</b>	<b>(200)</b>
	-----
	<b>2,421</b>
	=====

Notes to the Condensed Financial Statements

29 Basic and diluted earnings/(loss) per share

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
<b>Profit/(loss) for the period</b>			
Continuing operations	<b>4,099</b>	5,630	1,835
Discontinued operations	<b>(3,225)</b>	70,197	43,160
	-----	-----	-----
<b>Profit for the period</b>	<b>874</b>	75,827	44,995
	=====	=====	=====
	<b>000</b>	000	000
<b>Basic and diluted weighted average number of shares</b>	<b>74,323</b>	74,762	74,543
	=====	=====	=====
<b>Basic and diluted earnings/(loss) per share</b>			
Continuing operations	<b>5.52 p</b>	7.53 p	2.46 p
Discontinued operations	<b>(4.34) p</b>	93.89 p	57.90 p
	-----	-----	-----
<b>Basic and diluted earnings per share</b>	<b>1.18 p</b>	101.42 p	60.36 p
	=====	=====	=====

Notes to the Condensed Financial Statements

30 Property, plant and equipment

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
<b>Carrying amount</b>			
Opening balance	<b>26,089</b>	69,248	69,248
Additions	<b>1,363</b>	9,391	16,605
Transfers to held for sale	<b>(8,646)</b>	-	-
Disposals	<b>(6,272)</b>	(222)	(10,815)
Disposals through sale of business	<b>(1,130)</b>	(23,082)	(23,082)
Depreciation	<b>(1,221)</b>	(5,121)	(8,252)
Impairment	<b>(6,300)</b>	-	(17,511)
Currency translation movement	<b>(62)</b>	(183)	(104)
	-----	-----	-----
<b>Closing balance</b>	<b>3,821</b>	50,031	26,089
	=====	=====	=====

## Notes to the Condensed Financial Statements

### 31 Assets and liabilities classified as held for sale

On 30 November 2007 the decision was taken to sell the Compound Semiconductors business. Consequently the Compound Semiconductors business has been classified as a disposal group held for sale and a discontinued operation.

On 20 December 2007 the company entered into an agreement to sell the Compound Semiconductors business for £12,500,000. The sale is expected to complete on 29 February 2008.

The assets and liabilities classified as held for sale are as follows.

	<b>30 November</b>	30 November	31 May
	<b>2007</b>	2006	2007
	<b>£000</b>	£000	£000
Property, plant and equipment	<b>8,646</b>	-	-
Inventories	<b>3,358</b>	-	-
Trade and other receivables	<b>4,566</b>	-	-
	-----	-----	-----
Assets classified as held for sale	<b>16,570</b>	-	-
	=====	=====	=====
Trade and other payables	<b>3,060</b>	-	-
Deferred income	<b>973</b>	-	-
	-----	-----	-----
Liabilities classified as held for sale	<b>4,033</b>	-	-
	=====	=====	=====
	-----	-----	-----
Net assets of the Compound Semiconductors business	<b>12,537</b>	-	-
	=====	=====	=====

## Notes to the Condensed Financial Statements

### 32 Dividends

The dividends recognised in equity and paid during the period were as follows:

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Final dividend year ended 31 May 2006	1.80p	-	1,348
	=====	=====	=====

### 33 Reconciliation of movements in total equity

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Opening total equity	<b>138,211</b>	94,377	94,377
Total recognised income and expense for the period	<b>322</b>	68,160	45,665
Share-based payments	-	567	567
Dividends	-	(1,348)	(1,348)
Shares issued	-	87	87
Shares bought back	-	(1,137)	(1,137)
	-----	-----	-----
<b>Closing total equity</b>	<b>138,533</b>	160,706	138,211
	=====	=====	=====

## Notes to the Condensed Financial Statements

### 34 Note to the condensed consolidated cash flow statement

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
<b>Operating loss</b>			
Continuing operations	<b>448</b>	6,487	5,895
Discontinued operations	<b>(5,892)</b>	(14,934)	(36,109)
	-----	-----	-----
	<b>(5,444)</b>	(8,447)	(30,214)
	=====	=====	=====
<b>Net cash used in operating activities</b>			
Continuing operations	<b>(6,381)</b>	(4,752)	(7,144)
Discontinued operations	<b>111</b>	(8,533)	(3,463)
	-----	-----	-----
	<b>(6,270)</b>	(13,285)	(10,607)
	=====	=====	=====
<b>Net cash from investing activities</b>			
Continuing operations	<b>8,238</b>	(164)	58,097
Discontinued operations	<b>(205)</b>	(8,700)	(15,377)
Sale of discontinued operations	35 <b>(2,794)</b>	105,107	105,252
	-----	-----	-----
	<b>5,239</b>	96,243	147,972
	=====	=====	=====
<b>Net cash used in financing activities</b>			
Continuing operations	-	(21,479)	(21,481)
	=====	=====	=====

### 35 Net cash from sale of discontinued operations

	<b>6 months ended 30 November 2007 £000</b>	6 months ended 30 November 2006 £000	Year ended 31 May 2007 £000
Consideration received	<b>4,324</b>	109,810	110,622
Sale costs paid	<b>(1,368)</b>	(4,703)	(5,370)
Product liability costs paid	<b>(5,750)</b>	-	-
	-----	-----	-----
	<b>(2,794)</b>	105,107	105,252
	=====	=====	=====