

FILTRONIC PLC
PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MAY 2006
Growth of continuing operations; Handset Products division sale earn-out of £11m;
Foundry met break even objective; Net debt reduced; Dividend maintained

Filtronic plc ("Filtronic"), a leading global designer and manufacturer of customised microwave electronic subsystems for the wireless telecommunications and defence industries, announces its Preliminary Results for the year ended 31 May 2006. Worldwide sites are in the UK (Yorkshire, County Durham, Midlands and Scotland), USA, Finland, Hungary and China.

Filtronic is the world's leading independent supplier of transmit/receive modules for base stations and a leading manufacturer of semiconductor switches for mobile handsets. The contribution to sales for continuing operations is: Wireless Infrastructure (78 %), Defence Electronics (14%); Compound Semiconductors (8%).

Financial Highlights

- Revenue from continuing operations of £221.0 m (2005 £212.9m)
- Operating loss from continuing operations of £4.2m (2005 profit £5.6m)
- Gain on sale of property of £0.5m (2005 gain £2.4m)
- Net finance cost of £3.2m (2005 £4.0m)
- Pre-tax loss of £6.7m (2005 profit: £9.5m)
- Gain on sale of discontinued operation £14.1m (2005 £nil)
- Final dividend maintained at 1.80p (2005 1.80p), payable 31 October 2006
- Total dividend 2.70p (2005 2.70p)
- Net debt of £12.7m (2005 £43.4m), with bank borrowing facilities of £35.0m

Operational Highlights

- *Wireless Infrastructure:*
 - Maintaining market leading position supplying all Western OEMs
 - Second half year performance suffered unseasonally low demand in Q3 (December 2005, January and February 2006) and Q4 suffered negative impact of Powerwave Technologies, Inc. negotiation announcement
 - Market changed fundamentally in recent months with key customer pursuing volume growth strategy.
- *Compound Semiconductors:*
 - Met objective of run rate break even over Q4 FY06
 - Market leader for 4-way and above pHEMT mobile phone switches supplying some 20% of overall handset market with around 80% share of addressable market
- Defence Electronics – three large contracts substantially completed in the year
- Handset Products division sold in September 2005 for £45.4m plus earn-out of £11.3m, due in August 2006
- Capital expenditure of £14.4m (2005 £13.0m)

Summary of outlook for the Group

- Continuing upswing in activity for Wireless Infrastructure division with revenue expected to increase by more than 25% compared with the preceding half year for the first half of the current financial year and customer demand supporting growth for second half
- The financing plan for Compound Semiconductors requires less than £15m of additional cash for this financial year, after which the business is targeted to be self-financing
- Agreed change of final salary pension scheme to career average revalued earnings basis
- Board is continuing with the preparation of the shareholder circular for the Wireless Infrastructure transaction with completion of the sale due by 30 September 2006

Enquiries

Filtronic plc:

Professor J David Rhodes, Group Chief Executive Tel: 01274 530622 / Mob: 07850 827 280
Charles Hindson, Group Finance Director Tel: 01274 530622 / Mob: 07800 706 319

Parkgreen Communications Ltd:

Paul McManus Tel: 020 7493 3713 / Mob: 07980 541 893

Chairman's Statement

These are the first full year results prepared on the basis of International Financial Reporting Standards adopted by the EU.

Filtronic has again achieved growth for the continuing activities of the group, with revenue for the year ended 31 May 2006 increased by 3.8% to £221.0m (2005 £212.9m). The operating result for continuing operations was a loss of £4.2m (2005 £5.6m profit). The profit for the period was £6.0m (2005 £9.3m).

The Board therefore proposes to maintain a final dividend of 1.80p (2005 1.80p) payable on 31 October 2006 to shareholders on the register on 29 September 2006.

This has been an eventful year for the group. The Handset Products division was sold in September 2005 for £56.7m, including the earn-out. The composition of the Board changed in January 2006 with the resignation of John Roulston as Group Chief Executive. The Board requested David Rhodes to move from Chairman to take on this role so that he would bring his knowledge and experience of the business and staff to put the group on a stable footing. I took on the role of non-executive Chairman on an interim basis whilst the Board seeks my long term successor.

On 5 May 2006 we announced that we had entered into exclusive negotiations with Powerwave Technologies, Inc. ("Powerwave") for the sale of the major activities within our Wireless Infrastructure division, resulting in the formal agreement of this transaction which was announced on 12 June 2006. The consideration due is \$150m (approximately £81m) cash and 20.7m shares of Powerwave's common stock, and the shareholder circular for this transaction is in preparation, with completion of the sale due by 30 September 2006.

For the other activities of the group, the highlight for the year has been the GaAs semiconductor fabrication facility at Newton Aycliffe reaching its target of breakeven by the financial year end for the fourth quarter of the financial year. The Defence Electronics activities opened their new manufacturing facility in New Hampshire, USA in September 2005 which provides the base for medium term growth. Also, we are retaining the point to point radio backhaul activity which is showing strong growth.

The cash proceeds from the sale to Powerwave will be used to repay outstanding bank debt and to fund continuing investment in the Newton Aycliffe semiconductor facility, along with other corporate working capital requirements. The net proceeds from the sale of the Powerwave shares are expected to be returned to shareholders as cash, once they are sold.

This year also saw the retirement of Alan Needle from the role of Managing Director of the Wireless Infrastructure division in December 2005. He initiated the commercial application of the defence technology that created the current Wireless Infrastructure activity. As Managing Director, he took the business to flotation in 1994 and, under his leadership, Filtronic became the world's leading independent supplier of transmit/receive modules for mobile base stations. We thank him for this considerable contribution.

Reg Gott joined the Board as a non-executive director on 13 July 2006 and brings his extensive background in the machinery, automation and controls segments of the capital goods market across Europe and North America to strengthen the Board.

I also expect that the Board will continue its active search for my long term replacement, who will be responsible for organising the evolution of the management team and completion of the refresh of the members of the Board.

In supporting us through this eventful year, I would like to thank all of our employees for their dedication to the growth of the business as the group continues to evolve and John Roulston for his dedication and contribution. The Board is continuing its drive to have the intrinsic value of the group's operations recognised in the company's valuation.

Rhys Williams
Chairman
31 July 2006

Group CEO's Operating Review

Summary

This year has been one of considerable change as I have sought to complete the financial restructuring initiated in September 2004 and to revitalise the market's appreciation of the value inherent in the group.

The Handset Products division was sold in September 2005 to Pulse Electronics (Singapore) PTE Ltd, a subsidiary of Technitrol Inc. ("Pulse") for a total consideration of £56.7m, including the earn-out consideration of £11.3m due in August 2006. The initial consideration of £45.4m was used to repay the £44.0m term loan from Barclays and ABN AMRO, which had been rescheduled over a five year term with revised financial covenants in July 2005.

Defence Electronics opened its new manufacturing site in New Hampshire, USA in September 2005, partly to support the supply of subsystems to ITT. The UK continued its activities across a range of programmes including the supply of subsystem assemblies for the Eurofighter Defensive Aids system to Elettronica of Italy and EADS of Germany.

Compound Semiconductors continued to experience growing demand for its products, so we decided in the first half of the year to increase capacity as its financial performance was on target.

In January 2006, the Board also asked me to move from being Chairman to take the role of Group Chief Executive on John Roulston's resignation. I undertook to carry out the role for a twelve to eighteen month period with the specific aims of providing leadership to the Wireless Infrastructure division following the retirement of its previous Managing Director, Alan Needle, in December 2005, and to support Iain Gibson in setting the direction for the next steps in the growth of the Compound Semiconductor and Defence Electronics activities within the Integrated Products division.

On appointment, I secured the management team of the Wireless Infrastructure division by ensuring the retention of Geoff Fletcher as Managing Director of the division. Subsequently, after a review of the group's strategic options, the Board agreed that the majority of the activities in the Wireless Infrastructure business, covering transmit receive modules, integrated power amplifiers and remote radio head products, would be acquired by Powerwave.

We have subsequently continued to benefit from strengthening growth for the Wireless Infrastructure division arising from operators outside North America commissioning systems from OEMs.

The outlook for the businesses within the group is set out at the end of this report.

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

Year ended 31 May	Revenue		Operating (loss) / profit	
	2006 £m	2005 £m	2006 £m	2005 £m
Wireless Infrastructure	172.7	177.7	5.5	17.5
Defence Electronics	32.1	31.6	0.6	3.1
Compound Semiconductors	20.8	8.6	(5.1)	(11.7)
Central Services	-	-	(4.1)	(5.7)
Inter segment	(4.6)	(5.0)	-	-
Unallocated pension (charge)/ credit	-	-	(1.1)	2.4
	=====	=====	=====	=====
	221.0	212.9	(4.2)	5.6
	=====	=====	=====	=====

Wireless Infrastructure

Wireless Infrastructure designs and manufactures the transmit/receive modules, power amplifiers and remote radio heads for mobile base stations, and point to point backhaul radio products that are primarily used to support mobile phone networks. During the year, the activities generated revenues of £172.7m (2005 £177.7m). The core business maintained its market leading position supplying all Western OEMs, and reflected a static market awaiting the placing of certain large contracts in India, China and the US that have started to be placed during the current year.

The operating profit was £5.5m (2005 £17.5m), reflecting principally pricing pressure that was not able to be fully compensated by product redesign, and a slower than planned move of production on high volume product lines from Finland to Hungary and from the US to China. We closed our Australian operations in August 2005 at a total cost of £1.1m, which is included in this result. During the second half of the financial year, the business suffered unseasonably low demand during the third quarter and the activity for the fourth quarter included the negative impact of the announcement made on 5 May 2006 of discussions with Powerwave. Provision was also made in the second half of the financial year for the finalisation of a commercial agreement in respect of a product liability issue with a customer.

The power amplifier products were manufactured in production quantities for one customer, and we undertook product development for another customer on a product scheduled to start production in the second half of the financial year ending 31 May 2007.

The principal products for the point to point backhaul radio products are radio transceivers assembled in the UK, which use integrated circuits produced by Compound Semiconductors, along with diplex filters which are manufactured in the UK and Hungary. Its customers are leading OEMs in the sector for whom several new products have entered production during the year. Further new designs are in qualification using our more complex multifunction integrated circuits.

Compound Semiconductors

In the past twelve months, the Compound Semiconductors facility at Newton Aycliffe has been undergoing a transition from its prior position as a modest producer of Gallium Arsenide (GaAs) pHEMT wafers to being a volume producer of these products. They are used mainly in switches in mobile telephones, but also have applications in communication equipment and defence applications. While the majority of recent growth stems from expansion in the mobile telephone sector, it has also been pleasing that the year has seen initial volume production orders from Selex as they achieve success with E-Scan radar sales. While there was some disappointment in sales of merchant semiconductors, to a large extent this has been caused by the priority of meeting steep customer demand for switches. One benefit of the additional capacity to be created in the future is to allow Compound Semiconductors to establish a stronger presence in the merchant semiconductors sector.

The global mobile handset market is continuing its growth with approximately 815 million handsets sold in 2005, and forecast to be over 1 billion handsets sold in 2008. Use of GaAs switches is now specified for most new handset designs, and 80% of handsets manufactured in 2008 are expected to be of a design which contains this type of switch. This switch has the advantage that it consumes less power than alternative products for complex switches, and meets demanding low-loss and linearity requirements. Competition is from older technologies that use 3 way pin diode or GaAs switches combined with band defining filters. Furthermore, handsets are becoming more complex with increasing switching requirements offering the possibility that the quantity of GaAs used per handset will increase further over the next two to three years.

Revenue in the year grew 142% (2005 £8.6m to 2006 £20.8m) and the sequential growth rate in revenue comparing half year on half year during the financial year was 45%. Operating losses reduced from £11.7m in 2005 to £5.1m in 2006, including closure costs of our USA West Coast sales office of £0.4m which were incurred in the first half of the year.

It was pleasing that Compound Semiconductors reached its targeted financial performance of an operating break even run rate over the fourth quarter of the financial year to 31 May 2006. This was after absorbing the cost increases associated with commissioning a further capacity in the second half of the year. This was before the recognition of the release of £2.7m of deferred income in the period arising from the renegotiation of arrangements on past government grants. On the basis of this performance and the demand growth mentioned above, the Board has planned further expansion in the capacity of Compound Semiconductors in the coming financial year.

Defence Electronics

For over 25 years Filtronic has supplied complex electromagnetic components and subsystems, most notably for use in the field of electronic warfare, to defence equipment prime contractors around the world. Although the Defence Electronics activities are divided between the UK and the US, the two parts of the company, which are managed as separate entities, operate in similar market sectors, reflecting the original technology base of the UK company.

The UK business (FCL) currently has manufacturing sites in Shipley and at Newton Aycliffe and a small research group in Australia. The past financial year has seen one of FCL's larger contracts, for the supply of subsystems for the Eurofighter project, draw to a close. Consequently, additional focus has been applied to securing new business for future years.

Following a review of the future opportunities for the company in the US defence market, the past year has seen a significant consolidation of the US business. In order to achieve better leverage of the company's competencies and to lay a solid growth path for the company in the US defence market, the Sage manufacturing operation and the Sigtek design centre were combined into a new business, Filtronic Signal Solutions (FSS). A new manufacturing site was opened in Hudson, New Hampshire in September 2005, which consolidated the two previous manufacturing operations in the US, supporting the contract with ITT, following which the management team has been progressively strengthened. A major review of the business following these changes resulted in an inventory write down of £1.5m, which was made in the interim results for the six months to 30 November 2005.

Revenue in the year grew 2% (2005 £31.6m to 2006 £32.1m) and operating profit before the inventory write down of £1.5m in 2006 was £2.1m (2005 £3.1m).

Central Research and Development

Central Research and Development has supported the development of a new power amplifier product for a new customer, based on LDMOS technology, that is scheduled to start production in October 2006. It has also undertaken development work on remote radio heads for 3G and WiMAX applications in support of the Wireless Infrastructure division.

Business disposals

This has been a year of major change in the structure of the group with the sale of the Handset Products division in September 2005, and agreement for the sale of the Wireless Infrastructure business (transmit/receive modules, power amplifiers and remote radio heads activities of the Wireless Infrastructure division).

The Handset Products division is treated as a discontinued operation. The Handset Products division was a market leader in the provision of internal antennas for mobile handsets and was sold to Pulse in September 2005. For the period from 1 June 2005 to the date of its sale on 8 September 2005, it generated revenue of £13.6m and an operating profit of £0.2m. The total consideration, including the earn-out due in August 2006, was £56.7m, resulting in a profit on disposal of £14.1m.

Finance

The group rescheduled its bank facilities with Barclays and ABN AMRO in July 2005 to be a term loan of £44m repayable over five years and an overdraft of £9m. The term loan was repaid on completion of the sale of the Handset Products division in September 2005 and the group's facilities became a revolving credit facility of £18m available until August 2008 and an overdraft of £2m. In May 2006, the group secured an additional facility of £15m from its bankers until 30 November 2006 to fund the expansion of the Compound Semiconductors facility at Newton Aycliffe.

Capital expenditure

The group's capital expenditure for the continuing operations was £13.4m (2005 £8.5m). The capital expenditure was incurred principally to increase capacity in Compound Semiconductors in the light of continued growth in customer demand, and the completion of the move to the new manufacturing facility in the US for Defence Electronics. Capital expenditure in the discontinued Handset Products operation was £1.0m (2005 £4.5m) in the period before disposal. This was for the start-up of the manufacturing facility in Hungary and capacity expansion in China.

Employees

At 31 May 2006, the group employed 3,353 people in its continuing operations, an increase of 20% since May 2005, primarily in Wireless Infrastructure's manufacturing operations in China and Hungary.

Outlook

Wireless Infrastructure

The Wireless Infrastructure division has experienced continuing strengthened demand in its market, that has been reflected in the order book in June being extended out from its usual period of around two weeks to twelve weeks and this has been accompanied by increased visibility in the forecasts received from customers for later in the financial year.

As a result, production capacity has been increased with output for the largest volume product being doubled since January and manufacturing operations in Finland have been restarted to meet demand for a specific product. In addition, demand for point to point backhaul radios has doubled year on year.

With this increase in demand, pricing has been agreed for a longer period than usual with a key customer.

It is also well positioned to support Long Term Evolution GSM with its core OEM customers. This outlook for this division is focused on growth from its traditional customer base.

The planned financial performance for the Wireless Infrastructure division is therefore that revenue for the first half of the current financial year is expected to increase by more than 25% compared with the preceding half year and, with the strength of the current market, customer demand extends well into the second half of the current financial year, supporting expected continued growth going forward.

Compound Semiconductors

For Compound Semiconductors, we are now providing some 20% of the overall mobile handset market with 4-way and above mobile phone pHEMT switches, which is around an 80% share of the addressable market. Continued market adoption of our type of switches is expected to reach 80% of overall mobile phone market over the coming three years.

As a result of a detailed assessment of future wafer requirements, we have phased our plans for capacity increase and we are currently undertaking this expansion in line with forecast demand for the current financial year.

Therefore our financing plan for the growth of Compound Semiconductors requires less than £15m of additional cash for this financial year, after which the business is targeted to be self-financing.

With the profile of capacity deployment, revenue growth of over 25% is therefore expected per sequential half year for the current financial year including initial growth in merchant semiconductors and non-switch volume products and growth in demand to support filter and backhaul radio products.

Defence Electronics

With its three major contracts substantially complete in the financial year ended 31 May 2006, the focus in Defence Electronics is to secure new business which will mostly generate replacement revenues over the financial year and provide a platform for future growth. In both the UK and US, opportunities have been identified and are being supported by appropriate product development activities.

Pension scheme

We are expecting to implement changes to the group's final salary pension scheme at the end of the consultation period on 31 July 2006 to have benefits based on career average revalued earnings.

As part of this change to the scheme, the company has agreed to provide additional funding of £4.6m on implementation of the changes to the scheme to fund the actuarial deficit at the date of change. The existing contribution arrangements remain in place which require that any increases in contribution rates over current levels that are required to fund deficits would be made two thirds by employee members and one third by the company.

Professor J David Rhodes CBE FRS FREng
Group Chief Executive Officer
31 July 2006

Consolidated Income Statement
for the year ended 31 May 2006

		Continuing operations	Discontinued operation	Group
		2006	2006	2006
	note	£000	£000	£000
Revenue		220,963	13,645	234,608
		<u>220,963</u>	<u>13,645</u>	<u>234,608</u>
Operating (loss)/profit	4,5	(4,238)	198	(4,040)
Gain on sale of property		523	–	523
Finance income	6	1,706	–	1,706
Finance costs	7	(4,934)	–	(4,934)
		<u>(6,943)</u>	<u>198</u>	<u>(6,745)</u>
(Loss)/profit before taxation		(6,943)	198	(6,745)
Taxation		(1,390)	–	(1,390)
		<u>(8,333)</u>	<u>198</u>	<u>(8,135)</u>
(Loss)/profit after taxation		(8,333)	198	(8,135)
Gain on sale of discontinued operation	8	–	14,146	14,146
		<u>(8,333)</u>	<u>14,344</u>	<u>6,011</u>
(Loss)/profit for the period		(8,333)	14,344	6,011
		<u>(8,333)</u>	<u>14,344</u>	<u>6,011</u>
(Loss)/earnings per share				
Basic	9	(11.13)p	19.16p	8.03p
Diluted	9	(11.13)p	19.15p	8.02p

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

Consolidated Income Statement
for the year ended 31 May 2005

		Continuing operations 2005 £000	Discontinued operation 2005 £000	Group 2005 £000
	note			
Revenue		212,891	49,974	262,865
		=====	=====	=====
Operating profit	4,5	5,650	5,554	11,204
Gain on sale of property		2,356	–	2,356
Finance income	6	1,988	–	1,988
Finance costs	7	(6,005)	–	(6,005)
		-----	-----	-----
Profit before taxation		3,989	5,554	9,543
Taxation		(241)	–	(241)
		-----	-----	-----
Profit after taxation		3,748	5,554	9,302
Gain on sale of discontinued operation	8	–	–	–
		-----	-----	-----
Profit for the period		3,748	5,554	9,302
		=====	=====	=====
Earnings per share				
Basic	9	5.01p	7.43p	12.44p
Diluted	9	5.00p	7.41p	12.41p

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

Consolidated Statement of Recognised Income and Expense
for the year ended 31 May 2006

	2006	2005
	£000	£000
Profit for the period	6,011	9,302
Actuarial loss on defined benefit pension scheme	(2,849)	(6,784)
Transfer to income from translation reserve related to business disposal	(42)	-
Currency translation movement arising on consolidation	(531)	1,314
	(3,422)	(5,470)
Total recognised income and expense for the period	2,589	3,832

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

Consolidated Balance Sheet
at 31 May 2006

	2006	2005
	£000	£000
Non-current assets		
Goodwill	2,723	31,400
Property, plant and equipment	69,248	79,793
Deferred tax	2,249	2,309
	-----	-----
	74,220	113,502
	-----	-----
Current assets		
Inventories	33,623	34,802
Trade and other receivables	67,615	67,924
Income tax receivable	550	-
Cash and cash equivalents	5,293	6,563
	-----	-----
	107,081	109,289
	-----	-----
Total assets	181,301	222,791
	-----	-----
Current liabilities		
Bank overdraft	-	5,958
Bank revolving credit	18,000	-
Bank loan	-	11,000
Trade and other payables	41,412	49,844
Income tax payable	1,764	1,880
	-----	-----
	61,176	68,682
	-----	-----
Non-current liabilities		
Bank loan	-	33,000
Defined benefit pension	20,585	16,149
Deferred income	4,475	10,730
Deferred tax	688	661
	-----	-----
	25,748	60,540
	-----	-----
Total liabilities	86,924	129,222
	-----	-----
Net assets	94,377	93,569
	=====	=====
Equity		
Share capital	7,484	7,484
Share premium	139,172	139,172
Translation reserve	698	1,302
Other reserve	6,237	5,584
Accumulated losses	(59,214)	(59,973)
	-----	-----
Total equity	94,377	93,569
	=====	=====

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

Consolidated Cash Flow Statement
for the year ended 31 May 2006

	2006	2005
	£000	£000
Cash flows from operating activities		
Profit for the period	6,011	9,302
Gain on sale of discontinued operation	(14,146)	–
Taxation	1,390	241
Finance costs	4,934	6,005
Finance income	(1,706)	(1,988)
Gain on sale of property	(523)	(2,356)
	-----	-----
Operating (loss)/profit	(4,040)	11,204
Defined benefit pension charge/(credit)	3,624	(422)
Defined benefit pension contributions paid	(2,561)	(2,029)
Share-based payment	240	291
Depreciation	11,744	14,572
Loss/(gain) on disposal of plant and equipment	402	(235)
Licence fee released	(2,335)	(2,335)
Government grants released to income	(3,920)	(693)
Government grants received	–	1,000
Government grants repaid	–	(150)
Movement in inventories	(3,215)	2,107
Movement in trade and other receivables	1,490	(13,249)
Movement in trade and other payables	1,086	10,384
	-----	-----
Cash flow from operations	2,515	20,445
Taxation paid	(1,998)	(1,846)
	-----	-----
Net cash from operating activities	517	18,599
	-----	-----

Consolidated Cash Flow Statement
for the year ended 31 May 2006

	note	2006 £000	2005 £000
Net cash from operating activities		517	18,599
<hr/>			
Cash flows from investing activities			
Proceeds from sale of property		3,508	6,349
Proceeds from sale of plant and equipment		348	1,555
Interest received		172	85
Acquisition of property, plant and equipment		(14,422)	(12,963)
Sale of discontinued operation		44,138	–
Net cash from investing activities		33,744	(4,974)
<hr/>			
Cash flows from financing activities			
Bank revolving credit drawn		18,000	–
Bank loan repaid		(44,000)	(6,000)
Bank loan renewal fee paid		(543)	–
Interest paid		(1,841)	(4,189)
Dividends paid		(2,021)	(2,018)
Net cash from financing activities		(30,405)	(12,207)
<hr/>			
Increase in cash and cash equivalents		3,856	1,418
Currency exchange gain on sale of discontinued operation		1,007	–
Currency exchange movement		(175)	486
Opening cash and cash equivalents		605	(1,299)
Closing cash and cash equivalents	10	5,293	605

Notes to the Preliminary Financial Information
for the year ended 31 May 2006

1 Basis of preparation

The financial information set out here does not constitute the company's statutory accounts for the years ended 31 May 2006 or 31 May 2005. Statutory accounts for 2005 have been delivered to the Registrar of Companies, and those for 2006 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

Financial position and market conditions

The group currently has agreed facilities of £35m with its bankers consisting of a term loan of £15m, a revolving multicurrency facility of £18m and an overdraft of £2m. Unless previously repaid, the term loan is required to be repaid by 30 November 2006 and the revolving facility is required to be repaid by 31 August 2008.

These existing facility arrangements also require that, in the event that the proposed disposal of the Wireless Infrastructure business to Powerwave (as referred to below) does not complete, the group is required to agree revised financial covenants in relation to its facilities by 30 September 2006.

The group has signed an agreement with Powerwave for the disposal of its Wireless Infrastructure business for a consideration of \$150m (approximately £81m) cash and 20.7m shares of Powerwave's common stock, due for completion before 30 September 2006. This has not been completed. On the assumption this completion occurs by 30 September 2006, the cash consideration received would be utilised to repay existing bank facilities and provide additional capital for the remaining group. The directors have prepared business plans and forecasts for the remaining group on this basis and believe there to be sufficient working capital for the foreseeable future.

In the event that a sale does not complete as envisaged, the group would continue with its existing business plans incorporating the Wireless Infrastructure business.

The group currently benefits from sustained demand profiles for its volume product divisions that are providing good visibility of key customers' forecast demand well into the second half of the financial year ending 31 May 2007. The phased rate of increase in Compound Semiconductors' production capacity, along with its current demand continuing to be greater than the growth in its output, as capacity utilisation is increased, limits the uncertainty of the financial support required for this activity.

The group though operates in fast-changing, demand-led markets with a limited number of sophisticated customers who demand consistent high quality product. Thus the group remains exposed to changes in demand and issues arising from its complex operating environment including achievement of target cost reduction plans.

As part of their assessment of the appropriateness of the preparation of the financial statements on the going concern basis, the directors have modelled various scenarios reflecting the dynamics referred to above. They are therefore confident that the group's current facility arrangements would be adequate and that revised financial covenants would be agreed with the company's bankers.

On the bases above, the directors believe that the group will have sufficient working capital for the foreseeable future and therefore that it is appropriate for the financial statements to be prepared on the going concern basis.

Notes to the Preliminary Financial Information
for the year ended 31 May 2006

2 Business segment analysis

The business segments were redefined with effect from 1 June 2005. The business segment results for the comparative period have been re-analysed to be consistent with the current period.

	2006	2005
	£000	£000
Revenue		
Wireless Infrastructure	172,700	177,733
Defence Electronics	32,079	31,590
Compound Semiconductors	20,756	8,572
Inter segment	(4,572)	(5,004)
	-----	-----
Continuing operations	220,963	212,891
Handset Products – discontinued operation	13,645	49,974
	-----	-----
	234,608	262,865
	=====	=====
Operating (loss)/profit		
Wireless Infrastructure	5,525	17,524
Defence Electronics	564	3,070
Compound Semiconductors	(5,114)	(11,701)
Central Services	(4,150)	(5,694)
Unallocated pension (charge)/credit	(1,063)	2,451
	-----	-----
Continuing operations	(4,238)	5,650
Handset Products – discontinued operation	198	5,554
	-----	-----
Operating (loss)/profit	(4,040)	11,204
Gain on sale of property	523	2,356
Finance income	1,706	1,988
Finance costs	(4,934)	(6,005)
	-----	-----
(Loss)/profit before taxation	(6,745)	9,543
Taxation	(1,390)	(241)
	-----	-----
(Loss)/profit after taxation	(8,135)	9,302
	=====	=====

The operating (loss)/profit is stated after crediting the release of deferred income as follows:

	2006	2005
	£000	£000
Wireless Infrastructure – government grants	416	62
Defence Electronics – government grants	64	2
Compound Semiconductors – licence fee	2,335	2,335
– government grants	3,440	629
	-----	-----
	6,255	3,028
	=====	=====

Notes to the Preliminary Financial Information
for the year ended 31 May 2006

3 Geographical origin segment analysis

	2006	2005
	£000	£000
Revenue		
United Kingdom	116,266	106,447
Finland	37,651	31,214
Hungary	3,402	–
United States of America	53,026	65,880
China	61,153	57,147
Australia	1,481	4,300
Inter segment	(52,016)	(52,097)
	-----	-----
Continuing operations	220,963	212,891
	-----	-----
Finland	4,405	23,220
China	11,067	29,841
Inter segment	(1,827)	(3,087)
	-----	-----
Discontinued operation	13,645	49,974
	-----	-----
	234,608	262,865
	=====	=====
Operating (loss)/profit		
United Kingdom	(15,659)	(20,798)
Finland	1,439	3,041
Hungary	(412)	–
United States of America	343	9,538
China	11,305	16,198
Australia	(1,254)	(2,329)
	-----	-----
Continuing operations	(4,238)	5,650
	-----	-----
Finland	(3,190)	(2,923)
China	3,388	8,477
	-----	-----
Discontinued operation	198	5,554
	-----	-----
Operating (loss)/profit	(4,040)	11,204
Gain on sale of property	523	2,356
Finance income	1,706	1,988
Finance costs	(4,934)	(6,005)
	-----	-----
(Loss)/profit before taxation	(6,745)	9,543
Taxation	(1,390)	(241)
	-----	-----
(Loss)/profit after taxation	(8,135)	9,302
	=====	=====

Notes to the Preliminary Financial Information
for the year ended 31 May 2006

4 Reorganisation costs

Operating (loss)/profit is stated after charging reorganisation costs:

	2006	2005
	£000	£000
Closure costs of the Wireless Infrastructure facility in Australia	1,080	–
Closure costs of the Compound Semiconductors facility in California, USA	406	–
Inventory write down in the US Defence Electronics business	1,516	–
	-----	-----
	3,002	–
	=====	=====

The write down of the inventory in the US Defence Electronics business has arisen as a result of its strategic repositioning, and after its move to a new facility.

5 Government grants released

During the year £2,717,000 (2005 £nil) of deferred government grants, related to the Compound Semiconductors facility at Newton Aycliffe, County Durham, were released to income following the renegotiation of their arrangements.

6 Finance income

	2006	2005
	£000	£000
Interest income	172	85
Expected return on pension scheme assets	1,534	1,381
Currency exchange gains	-	522
	-----	-----
	1,706	1,988
	=====	=====

7 Finance costs

	2006	2005
	£000	£000
Interest expense	(1,841)	(4,189)
Bank borrowing facilities fees	(543)	–
Interest on pension scheme liabilities	(2,058)	(1,816)
Currency exchange losses	(492)	–
	-----	-----
	(4,934)	(6,005)
	=====	=====

Notes to the Preliminary Financial Information
for the year ended 31 May 2006

8 Gain on sale of discontinued operation

On 8 September 2005 the Handset Products business was sold. The sale is analysed as follows:

	2006	2005
	£000	£000
Consideration and costs		
Cash consideration	47,113	-
Currency exchange gain on consideration	1,007	-
Additional cash consideration receivable in August 2006	11,433	-
Sale costs	(2,881)	-
Currency translation adjustment	42	-
	-----	-----
	56,714	-
	=====	=====
Assets and liabilities sold		
Goodwill	28,466	-
Property, plant and equipment	9,425	-
Inventories	4,064	-
Trade and other receivables	10,110	-
Cash and cash equivalents	208	-
Trade and other payables	(9,667)	-
Income tax payable	(38)	-
	-----	-----
Net assets sold	42,568	-
Gain on sale of discontinued operation	14,146	-
	-----	-----
	56,714	-
	=====	=====

The Handset Products business had the following cash flows:

	2006	2005
	£000	£000
Cash flows from operating activities	(1,567)	10,358
	=====	=====
Cash flows from investing activities	(973)	(4,471)
	=====	=====

Notes to the Preliminary Financial Information
for the year ended 31 May 2006

9 (Loss)/earnings per share

	2006	2005
	£000	£000
(Loss)/profit for the period		
– continuing operations	(8,333)	3,748
– discontinued operation	14,344	5,554
	-----	-----
Profit for the period	6,011	9,302
	=====	=====
	000	000
Weighted average number of shares	74,842	74,797
Dilution effect of share options	93	84
Dilution effect of contingently issuable shares	-	45
	-----	-----
Diluted weighted average number of shares	74,935	74,926
	=====	=====
Basic (loss)/earnings per share		
– continuing operations	(11.13)p	5.01p
– discontinued operation	19.16p	7.43p
	-----	-----
Basic earnings per share	8.03p	12.44p
	=====	=====
Diluted (loss)/earnings per share		
– continuing operations	(11.13)p	5.00p
– discontinued operation	19.15p	7.41p
	-----	-----
Diluted earnings per share	8.02p	12.41p
	=====	=====

Notes to the Preliminary Financial Information
for the year ended 31 May 2006

10 Cash and cash equivalents and net debt

	2006	2005
	£000	£000
Cash and cash equivalents	5,293	6,563
Bank overdraft	–	(5,958)
	-----	-----
Cash and cash equivalents in the cash flow statement	5,293	605
	-----	-----
Bank revolving credit	(18,000)	–
Bank loan – current	–	(11,000)
– non-current	–	(33,000)
	-----	-----
Debt	(18,000)	(44,000)
	-----	-----
Net debt	(12,707)	(43,395)
	=====	=====

11 Dividends

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

	Per share	2006	2005
		£000	£000
Final dividend year ended 31 May 2004	1.80p	–	1,344
Interim dividend year ended 31 May 2005	0.90p	–	674
Final dividend year ended 31 May 2005	1.80p	1,347	–
Interim dividend year ended 31 May 2006	0.90p	674	–
		-----	-----
		2,021	2,018
		=====	=====

The final dividend proposed for the year ended 31 May 2006 is 1.80p per share payable on 31 October 2006 to shareholders on the register on 29 September 2006. The final dividend will amount to £1,348,000 based on the issued share capital of 74,870,956 10p ordinary shares as at 21 July 2006.

Notes to the Preliminary Financial Information
for the year ended 31 May 2006

12 Reconciliation of movements in total equity

	2006	2005
	£000	£000
Opening total equity	93,569	91,464
Total recognised income and expense for the period	2,589	3,832
Share-based payments	240	291
Dividends	(2,021)	(2,018)
	-----	-----
Closing total equity	94,377	93,569
	=====	=====