Company Registration No. 2833057

KANTONE (UK) LIMITED

Report and Financial Statements

30 June 2007

REPORT AND FINANCIAL STATEMENTS 2007

CONTENTS

	Page
Officers and professional advisers	1
Directors' report	2
Independent auditors' report	5
Consolidated profit and loss account	6
Consolidated statement of total recognised gains and losses	7
Reconciliation of movements in consolidated shareholders' deficit	7
Consolidated balance sheet	8
Company balance sheet	9
Consolidated cash flow statement	10
Reconciliation of net cash flow to movement in net debt	10
Notes to the accounts	11

REPORT AND FINANCIAL STATEMENTS 2007

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Paul Man Lok Kan (Chairman)
Terry J Miller
Anthony Herman
Paul M J Kirby

SECRETARY

Anthony Herman

REGISTERED OFFICE

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Kent TN1 1JA

BANKERS

HSBC Bank plc
8 London Street
Basingstoke
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RG21 7NU

SOLICITORS

Olswang
Apex Plaza
Forbury Road
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RG1 1AX

AUDITORS

Deloitte & Touche LLP
Southampton, United Kingdom

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2007.

BUSINESS REVIEW AND PRINCIPAL ACTIVITY

The principal activity of the company is the holding of an investment in Multitone Electronics Plc, a British manufacturer of specialised radio communication systems for sale and lease.

The principal activity of the group is the design and manufacture of specialised radio communication systems for sale and lease. There have not been any significant changes in the group's principal activities in the year under review. The directors are not aware, at the date of this report, of any likely changes in the group's activities in the forthcoming year.

The company continues to invest in research and development which has resulted in a number of updates to the company's existing products. The directors regard such investment as necessary for the continued success in the medium to long term future of the business.

The detailed results for the year ended 30 June 2007 are set out in the consolidated profit and loss account on page 6. Turnover for the year was £13,696,000 (2006: £13,910,000) a reduction of £214,000 or 1.5%, and the profit on ordinary activities before taxation was £628,000 (2006: £404,000). The profit for the financial year to 30 June 2007 after taxation and minority interests was £711,000 (2006: £257,000).

The decline in turnover during the year was a direct result of the US Federal Government's budgetary constraints following the Iraq conflict and hurricane Katrina. It is anticipated that turnover will recover in this market sector during the next twelve months.

The group's key measure of effectiveness of its operations is calculating gross margin after direct costs. The company achieved a gross margin after direct costs of 23.6% (2006 22.6%).

The consolidated balance sheet on page 8 shows an improvement in the solvency of the group. This has mainly been due to the reduction in the pension scheme deficit.

The group's cash levels have decreased by £675,000 from £1,180,000 at the end of 2006 to £505,000 at the end of the current financial year, and there has been a reduction in the group's loans of £792,000 from £21,209,000 at the end of 2006 to £20,417,000 at the end of the current financial year. This reflects the continued improvements in cash collection and management of the business cycle to ensure cash inflow is maximised. This enabled the group to reduce its interest payments on loans and overdrafts by £45,000 in the current year.

FUTURE PROSPECTS

The directors are satisfied with the continued improvements made to the operating performance of the group and it is anticipated that the group will continue to be profitable in the year ahead.

PRINCIPAL RISKS AND UNCERTAINTIES

The group operates in a competitive market which is a continuing risk to the group and could result in losing sales to our key competitors. The group manages this risk by providing value added services to its customers, maintaining strong relationships with customers and providing new and innovative solutions to customer needs.

The group's sales to its customers in Europe are in Euros, and to its customers in other countries in US Dollars, therefore the group is exposed to movements in the Euro and US Dollar to Sterling exchange rate. The group also sources products in Euros and US Dollars and therefore minimises the risk of exchange rate fluctuations by the operation of both Euro and US Dollar currency bank accounts.

The group is financed by a long term variable rate loan, and is therefore exposed to adverse movements in interest rates. This is monitored on a monthly basis; over the past four years the balance on the loan has been reduced so as to reduce the actual interest paid and the risk of adverse movements. The rates are reviewed by the directors on a regular basis and we believe they will not rise above the rate used in the group's annual budget.

DIRECTORS' REPORT (continued)

RESULTS AND DIVIDENDS

The profit for the year after taxation and minority interests was £711,000 (2006: £257,000). The directors do not recommend the payment of a dividend (2006: £nil) and propose that the profit for the year is transferred to reserves.

DIRECTORS AND THEIR INTERESTS

The present membership of the board is set out on page 1. All directors served throughout the year.

The directors do not have any interest, beneficial or otherwise, in the share capital of the company. The directors' interests in the share capital of the immediate and ultimate parent companies are disclosed in the financial statements of those companies, which are detailed in note 24.

RESEARCH AND DEVELOPMENT

The group continues to invest in research and development at a level which is consistent with available resources. Total spending during the year was £544,000 (2006 £479,000) of which £409,000 (2006 £405,000) was capitalised in accordance with the group's accounting policy. The research and development expenditure is expected to continue at this level for the foreseeable future.

PAYMENTS TO SUPPLIERS

The company agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment, and also by including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier. The number of outstanding creditors days at the year end stood at 40 days (2006: 47 days).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the accounts for the company in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare such financial statements for each financial period which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of affairs of the company and of the group and of the profit or loss of the group for that period and comply with UK GAAP and the Companies Act 1985. 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; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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.

DIRECTORS' REPORT (continued)

AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- The director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board

Terry J Miller
Director

9 October 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KANTONE (UK) LIMITED

We have audited the group and individual company financial statements ("the financial statements") of Kantone (UK) Limited for the year ended 30 June 2007, which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the reconciliation of movements in consolidated shareholders' deficit, the consolidated and individual company balance sheets, the consolidated cash flow statement, the reconciliation of net cash flow to movement in net debt and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company and the group have 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the individual company's affairs as at 30 June 2007 and of the group's profit for the year then ended;
- The financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Southampton, United Kingdom

17 October 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 30 June 2007

	Note	2007 £'000	2006 £'000
TURNOVER: continuing operations	2	13,696	13,910
Cost of sales		(10,461)	(10,765)
Gross profit		3,235	3,145
Other operating expenses	3	(2,674)	(2,732)
Other operating income		183	12
OPERATING PROFIT: continuing operations	4	744	425
Interest receivable and similar income		382	312
Interest payable and similar charges	6	(498)	(333)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		628	404
Tax credit/(charge) on profit on ordinary activities	7	67	(134)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		695	270
Minority interests		16	(13)
RETAINED PROFIT FOR THE FINANCIAL YEAR	18	711	257

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 30 June 2007

	Note	2007 £'000	2006 £'000
Profit for the financial year	18	711	257
Defined pension scheme actuarial gain		1,275	1,391
Currency translation differences on foreign currency net investments	18	(20)	16
Total recognised gains and losses relating to the year		1,966	1,664

RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' DEFICIT
Year ended 30 June 2007

	2007 £'000	2006 £'000
Profit for the financial year	711	257
Other recognised gains and losses relating to the year	1,255	1,407
Net increase in shareholders' funds	1,966	1,664
Opening shareholders' deficit	(26,120)	(27,784)
Closing shareholders' deficit	(24,154)	(26,120)

CONSOLIDATED BALANCE SHEET
30 June 2007

	Note	2007 £'000	2006 £'000
FIXED ASSETS			
Tangible assets	8	2,856	3,061
CURRENT ASSETS			
Stocks	10	1,387	1,549
Debtors due in less than one year	11	6,415	5,702
Debtors due after more than one year	11	1,931	1,699
Cash at bank and in hand		505	1,180
		10,238	10,130
CREDITORS: amounts falling due within one year	12	(29,069)	(29,576)
NET CURRENT LIABILITIES		(18,831)	(19,446)
TOTAL ASSETS LESS CURRENT LIABILITIES		(15,975)	(16,385)
CREDITORS: amounts falling due after more than one year	13	(1,315)	(1,534)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(118)	(128)
MINORITY INTEREST		(3)	(19)
DEFINED BENEFIT LIABILITIES	16	(6,743)	(8,054)
NET LIABILITIES		(24,154)	(26,120)
CAPITAL AND RESERVES			
Called up share capital	17	5,500	5,500
Revaluation reserve	18	255	260
Profit and loss account deficit	18	(29,909)	(31,880)
SHAREHOLDERS' DEFICIT		(24,154)	(26,120)

These financial statements were approved by the Board of Directors on 9 October 2007.

Signed on behalf of the Board of Directors

T Miller
Director

COMPANY BALANCE SHEET
30 June 2007

	Note	2007 £'000	2006 £'000
FIXED ASSETS			
Investments	9	9,465	9,465
CURRENT ASSETS			
Debtors	11	100	100
CREDITORS: amounts falling due within one year	12	(19,722)	(19,722)
NET CURRENT LIABILITIES		(19,622)	(19,622)
TOTAL ASSETS LESS CURRENT LIABILITIES		(10,157)	(10,157)
CAPITAL AND RESERVES			
Called up share capital	17	5,500	5,500
Profit and loss account deficit	18	(15,657)	(15,657)
SHAREHOLDERS' DEFICIT		(10,157)	(10,157)

These financial statements were approved by the Board of Directors on 9 October 2007.

Signed on behalf of the Board of Directors

T Miller
Director

CONSOLIDATED CASH FLOW STATEMENT
Year ended 30 June 2007

	Note	£'000	2007 £'000	£'000	2006 £'000
Net cash inflow from operating activities	19		510		1,328
Returns on investments and servicing of finance					
Interest received		382		312	
Interest paid		(498)		(333)	
Net cash outflow from returns on investments and servicing of finance			(116)		(21)
Taxation					
Taxation paid			-		-
Capital expenditure and financial investment					
Development costs capitalised		(409)		(405)	
Payments to acquire tangible fixed assets		(103)		(90)	
Sale of tangible fixed assets		236		27	
Net cash outflow from capital expenditure			(276)		(468)
Net cash inflow before financing			118		839
Financing					
Repayment of other loans		(233)		(352)	
Capital element of finance lease repayments		-		(1)	
Net cash outflow from financing			(233)		(353)
(Decrease)/increase in cash in the year	20		(115)		486

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT
Year ended 30 June 2007

	Note	2007 £'000	2006 £'000
(Decrease)/increase in cash in the year		(115)	486
Cash outflow from decrease in debt and lease financing		233	353
Change in net debt resulting from cash flows		118	839
Opening net debt	20	(20,030)	(20,869)
Closing net debt	20	(19,912)	(20,030)

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

1. **ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted, which have been applied consistently throughout the year and preceding year, are described below.

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

Basis of consolidation

The group financial statements consolidate the financial statements of Kantone (UK) Limited and all of its subsidiaries. The results of subsidiaries acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

No profit and loss account is presented for Kantone (UK) Limited, the company only, as provided by Section 230 of the Companies Act 1985. Included in the consolidated profit for the financial year is a result of £nil (2006: loss of £12,930,000) which was attributable to the shareholders of Kantone (UK) Limited (see note 18).

Foreign currencies

In the financial statements of individual companies, transactions denominated in foreign currencies are translated into sterling using the actual exchange rate ruling at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end or, where appropriate, at the rate of exchange in related forward exchange contracts. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as a translation gain or loss in the profit and loss account. For the purposes of consolidation the closing rate method is used, under which translation gains or losses are shown as a movement on reserves.

Turnover

Turnover principally comprises the invoiced value of goods and services supplied by group companies to third parties and in addition the group makes sales under finance lease terms and receives rental income from equipment hire. Amounts recoverable in respect of finance lease sales are included in the balance sheet on the basis of the net investment in finance leases.

Where the group is engaged in the supply of goods and services under contracts which in total may exceed one year in duration, turnover comprises the invoiced value of work carried out to the accounting date. To the extent that the billings are recorded in advance of the relevant turnover, these are included in deferred income. Turnover is exclusive of VAT and relevant sales taxes and after elimination of all intercompany transactions, and is net of returns, trade discounts and allowances.

Rental income from equipment hire is recognised on a straight line basis over the life of the lease. Interest receivable under finance leases is recognised in the profit and loss account in proportion to the capital amount outstanding.

Pension costs

In the United Kingdom the group operates a defined contribution pension scheme; the employers contribution are charged directly to the profit and loss account.

In the United Kingdom the group also operates a defined benefit pension scheme; pension costs charged to the profit and loss account relate to the current service costs of employees.

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

1. **ACCOUNTING POLICIES (continued)**

Tangible fixed assets

Land and buildings are shown at original historical cost or at a subsequent revaluation. Other fixed assets are shown at cost less depreciation and provision for any impairment. Equipment on hire is leased to customers under operating lease rental contracts for terms ranging from five to ten years. The equipment is initially recorded in fixed assets at the total cost incurred in bringing the equipment to the point of rental. This includes direct manufacturing costs, installation costs plus an allocation of selling and administration costs.

Depreciation is provided at rates calculated to write off the cost or valuation of each asset on a straight line basis over its expected useful life, as follows:

Freehold land	No depreciation
Freehold buildings	50 years
Long leasehold buildings	50 years
Equipment on hire	The term of each contract
Plant and equipment	3-10 years

Investments

Fixed asset investments are shown at cost less provision for any impairment in value.

Leases

The group enters into operating and finance leases.

Assets held under finance leases are initially recorded at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over its useful economic life, which in practice is the lease term. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability and allocated to cost of sales and other operating expenses as appropriate.

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Stocks

Stocks, including work in progress, are valued at the lower of cost and net realisable value. Cost comprises prime costs of materials and direct labour together with a share of overhead expenses relating to manufacture.

Net realisable value is based on estimated selling price, less further costs to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Long-term contracts

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long-term contract balances in stock.

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

1. **ACCOUNTING POLICIES (continued)**

Research and development

All expenditure on research and development is written off as incurred except for the cost of producing software, pre-production prototypes and test equipment for new products, including associated labour costs, which is included within tangible fixed assets. Such assets are amortised over their estimated useful life up to a maximum of five years, subject to any provision for impairment. No book value is attributable to patents.

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Revaluation reserve

Land and buildings are revalued at least every five years. Surpluses arising on the revaluation of individual tangible fixed assets are credited to the revaluation reserve (see note 18) which is a non-distributable reserve. Where depreciation charges are increased following a revaluation, an amount equal to such increase is transferred annually from this reserve to the profit and loss account as a movement on reserves. On the disposal of a revalued fixed asset any remaining revaluation surplus corresponding to the item is also transferred to the profit and loss account.

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

2. TURNOVER

	2007 £'000	2006 £'000
Analysis of turnover by destination:		
United Kingdom	7,390	7,788
North America	124	185
France and Germany	3,753	3,717
Other European countries	1,124	1,179
Rest of world	1,305	1,041
Total overseas	6,306	6,122
	13,696	13,910

The group's turnover arises entirely from its principal activity of providing specialised radio communication systems for sale and lease.

The results and net assets by geographical market have not been disclosed as the directors consider this would be seriously prejudicial to the commercial interests of the group.

Sales in respect of finance leases and rental agreements included in turnover above are as follows:

	2007 £'000	2006 £'000
Finance lease sales	1,380	1,001
Income from equipment hire	1,345	1,421
	2,725	2,422

Assets acquired in the year for the purpose of sale under finance leases totalled £1,380,000 (2006: £1,001,000).

3. OTHER OPERATING EXPENSES

	2007 £'000	2006 £'000
Distribution costs	159	119
Administrative expenses	2,515	2,613
	2,674	2,732

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

4. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2007 £'000	2006 £'000
Research and development expenditure incurred in the year	544	479
Expenditure capitalised in relation to tangible fixed assets	(409)	(405)
Research and development expenditure expensed in the year	135	74
Depreciation:		
- owned equipment – research and development	340	356
- owned equipment – other	315	370
Operating lease rentals:		
- plant and equipment	301	284
- land and buildings	114	114
(Profit)/loss on foreign exchange	(22)	77
(Profit)/loss on disposals of fixed assets	(181)	2
Auditors' remuneration:		
- audit services – group	68	59
- other services	8	(4)

The auditors' remuneration for the company has been borne by Multitone Electronics Plc in both years. The auditors' remuneration for the year was £5,000 (2006: £5,000).

5. STAFF COSTS

The group	2007 £'000	2006 £'000
Staff costs (including directors' emoluments):		
Wages and salaries	5,136	5,000
Social security costs	726	714
Other pension costs	310	487
	6,172	6,201

	No.	No.
The average number of persons employed by the group during the year was:		
Development and manufacture	74	75
Sales and service	93	102
Administration	30	40
	197	217
United Kingdom	119	123
Overseas	78	94
	197	217

Kantone (UK) Limited had no employees and the directors received no remuneration from the company in either year.

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £'000	2006 £'000
Interest payable on bank loans and overdrafts	260	266
Interest on pension scheme liabilities (note 16)	210	-
Interest payable on other loans	28	67
	498	333

7. TAX CREDIT/(CHARGE) ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax credit/(charge) on ordinary activities

	2007 £'000	2006 £'000
Current tax:		
Foreign tax	(2)	(3)
Deferred tax:		
Deferred tax timing differences, origination and reversal	69	(131)
Total tax credit/(charge) for the year	67	(134)

Factors affecting the tax (credit)/charge for the current year

The tax assessed for the year is lower (2006: lower) than that resulting from applying the standard rate of corporation tax in the UK of 30% (2006: 30%). The differences are explained below:

	2007 %	2006 %
Standard tax rate for the year as a percentage of profits	30	30
Expenses not deductible for tax purposes	2	2
Capital allowances in excess of depreciation	(30)	(52)
Movement in short term timing differences	(2)	12
Other deferred tax movements	-	8
Current tax rate for the year as a percentage of profits	-	-

Factors that may affect future tax charges for the group

Deferred tax has not been provided on revaluations of fixed assets. This tax will only become payable if the assets are sold and rollover relief is not obtained. The estimated amount of tax that would become payable in these circumstances is £120,000 (2006: £127,000).

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

7. TAX CREDIT/ (CHARGE) ON PROFIT ON ORDINARY ACTIVITIES (continued)

A deferred tax asset has not been recognised in respect of timing differences relating to trading losses and depreciation in excess of capital allowances as it is expected that it will take some time for tax losses to be relieved and for the asset to be recovered. The amount of the asset not recognised is £1,712,000 (2006: £1,945,00). The asset would be recovered if future taxable profits were available against which the losses could be relieved.

A deferred tax asset to the sum of £1,332,000 (2006: £1,332,000) has not been recognised in respect of capital losses as in the opinion of the directors there will be no suitable taxable gains in the foreseeable future. The asset would be recovered if future gains arise on the sale of chargeable assets.

A deferred tax asset to the sum of £2,405,000 (2006: £2,416,000) has not been recognised in respect of the defined benefit pension scheme liability.

8. TANGIBLE FIXED ASSETS

Group	Land and buildings £'000	Equipment on hire £'000	Plant and equipment £'000	Total £'000
Cost or valuation				
At 1 July 2006	1,689	6,110	14,301	22,100
Translation adjustment	(4)	(8)	(20)	(32)
Additions	-	41	471	512
Disposals	(17)	(621)	(658)	(1,296)
At 30 June 2007	1,668	5,522	14,094	21,284
Accumulated depreciation				
At 1 July 2006	65	5,654	13,320	19,039
Translation adjustment	(2)	(3)	(20)	(25)
Charge for the year	18	41	596	655
Disposals	(4)	(594)	(643)	(1,241)
At 30 June 2007	77	5,098	13,253	18,428
Net book value				
At 30 June 2007	1,591	424	841	2,856
At 30 June 2006	1,624	456	981	3,061

Plant and equipment includes capitalised labour and overhead costs with a net book value of £774,000 (2006: £767,000) incurred in respect of producing software, pre-production prototypes and test equipment for new products.

Equipment on hire is sold by Multitone Electronics Plc to its subsidiary, Multitone Rentals Limited, and the estimated unrealised profit on sale is eliminated on consolidation.

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

8. TANGIBLE FIXED ASSETS (continued)

The net book value of land and buildings comprises:

Group	2007 £'000	2006 £'000
Freehold land and buildings	1,539	1,555
Long leasehold land and buildings	52	69
	1,591	1,624

Land and buildings are held at a valuation. The group's freehold properties in the United Kingdom were revalued in June 2005 on the basis of open market value for existing use, by Woodford and Company, Chartered Surveyors. In their opinion, the open market value of the properties at that time was £1,570,000. This compared with an existing net book value of £1,443,000.

The directors are not aware of any material change in value of the properties and therefore the valuation has not been updated as at 30 June 2007.

The net book value of land and buildings determined according to the historical cost convention is as follows:

	Group	
	2007 £'000	2006 £'000
Original cost	1,351	1,365
Less: accumulated depreciation	(150)	(163)
Net book value	1,201	1,202

9. INVESTMENTS

	Company	
	2007 £'000	2006 £'000
Cost of investment	22,395	22,395
Less: Provisions for impairment	(12,930)	(12,930)
Net book value	9,465	9,465

The investment in subsidiary undertakings consists of 100% of the ordinary share capital of Multitone Electronics Plc, a company incorporated in Great Britain and registered in England and Wales. An impairment review was carried out by the directors and no further impairment has been noted during the current year.

The other subsidiary undertakings are wholly owned and are incorporated in the United Kingdom except where otherwise indicated.

Design, manufacturing & sales	Multitone Electronics Plc
Sales	Multiton Electronik GmbH (Germany)* BEL-Multitone Limited (India) ***
Rental	Multitone Rentals Limited*
Manufacturing	Multitone Electronics Sdn Bhd (Malaysia)**

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

9. INVESTMENTS (continued)

Non-trading	Multitone Communications Limited* Multitone Communication Systems Limited* Infopage Limited* Paging Systems Limited*

* Owned by Multitone Electronics Plc.

** Owned by Multitone Communications Limited.

*** On 26 August 1997, Multitone Electronics Plc entered into a joint venture agreement with a third party to set up BEL-Multitone Limited, of which it owns 51% of the ordinary share capital.

The principal country of operation for all trading subsidiaries is the same as their country of incorporation.

10. STOCKS

Group	2007 £'000	2006 £'000
Raw materials, purchased components and spares	757	897
Work in progress	145	201
Finished goods	485	451
	1,387	1,549

11. DEBTORS

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Amounts falling due in less than one year:				
Trade debtors	2,748	2,152	-	-
Amounts owed by group undertakings	2,337	2,428	100	100
Amounts receivable under finance leases	885	759	-	-
Deferred tax asset	137	66	-	-
Other debtors	85	79	-	-
Prepayments and accrued income	223	218	-	-
	6,415	5,702	100	100

	Group	
	2007 £'000	2006 £'000
Amounts falling due after more than one year:		
Corporation tax recoverable	4	-
Amounts receivable under finance leases	1,803	1,575
Prepayments and accrued income	124	124
	1,931	1,699

The aggregate rentals receivable under finance leases as at 30 June 2007 was £2,688,000 (2006: £2,334,000).

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

11. DEBTORS (continued)

Deferred taxation

The movement in deferred taxation is as follows:

	Group 2007 £'000	Group 2006 £'000
At 1 July	66	197
Translation adjustment	2	-
Credit/(charge)to profit and loss account	69	(131)
At 30 June	137	66

Analysis of deferred taxation:

	Group 2007 £'000	Group 2006 £'000
Capital allowances in excess of depreciation	137	66

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Bank loans and overdrafts (note 14)	3,080	3,640	-	-
Other loans (note 14)	169	233	-	-
Trade creditors	1,057	1,193	-	-
Amounts owed to group undertakings	21,348	21,286	19,722	19,722
VAT and other sales taxes	281	238	-	-
Payroll taxes and social security	131	127	-	-
Other creditors	818	775	-	-
Accruals and deferred income	2,185	2,084	-	-
	29,069	29,576	19,722	19,722

The borrowings of Multitone Electronics Plc and its subsidiary companies are guaranteed by Kantone Holdings Limited, an intermediate holding company.

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Group	2007 £'000	2006 £'000
Other loans (note 14)	69	238
Amounts owed to group undertakings	1,000	1,053
Overseas pensions	246	243
	1,315	1,534

14. BORROWINGS

Group	2007 £'000	2006 £'000
Bank loans and overdrafts	3,080	3,640
Other loans	238	471
Amounts owed to group undertakings	17,099	17,098
	20,417	21,209
Due within one year	20,348	20,971
Due after more than one year	69	238
	20,417	21,209

Amounts owed to group undertakings represent funding provided to the group by its intermediate parent company, Kantone Holdings Limited.

Other loans

Other loans include a loan facility from finance houses. The loans are secured on current and future receivables under fixed asset rental agreements and finance lease sale agreements. A parent company guarantee has also been given by Kantone Holdings Limited in respect of the loans. The interest rate payable on the other loans ranges from 7.5% to 8.5%.

In June 1999, the group entered into a mortgage agreement in order to purchase the freehold property from which it now operates. The mortgage is over a ten year term and interest is payable at a rate of 1.75% over bank base rate. The mortgage is secured on the property and by way of a guarantee from the parent company. The mortgage has been classified within 'other loans'.

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

14. BORROWINGS (continued)

	Group	
	2007	**2006**
	£'000	**£'000**
Analysis of other loan repayments		
Due within one year	169	233
Due in one to two years	56	171
Due in two to five years	13	67
	238	471

15. PROVISIONS FOR LIABILITIES AND CHARGES

Warranty provision	Group	
	2007	**2006**
	£'000	**£'000**
Set aside to cover costs in respect of goods supplied under warranty:		
At 1 July	128	133
Translation adjustment	(2)	1
Provided in year	165	118
Utilised in year	(173)	(124)
At 30 June	118	128

The warranty provision is anticipated to be utilised within one year of the balance sheet date.

16. PENSIONS DEFICIT

In the United Kingdom the group operates a self-administered, funded pension scheme, which is contracted out of the state pension scheme. The scheme provides defined pension benefits related to service, final earnings and capital sums on death. Membership is optional for all staff paid monthly and over the age of 21. The assets of the scheme are held in a separate trustee administered fund.

The group also operates an insured scheme in an overseas company for certain senior management of that company. The liability of the group at the year end in respect of this pension scheme was £246,000 (2006: £243,000).

The most recent actuarial valuation of the scheme was at 31 December 2005. The valuation used the projected unit method and was carried out by a professionally qualified actuary.

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

16. PENSIONS DEFICIT (continued)

The total assets and liabilities of the scheme and the expected rates of return at 30 June were:

Group	2007 Long term rate of return expected	2007 Value £'000	2006 Long term rate of return expected	2006 Value £'000	2005 Long term rate of return expected	2005 Value £'000
Equities	7.90%	11,978	7.30%	11,820	7.30%	10,300
Bonds	4.90%	3,762	4.30%	3,814	4.30%	3,801
Other	5.50%	15	4.75%	382	4.75%	723
Total market value of assets		15,755		16,016		14,824
Present value of scheme liabilities		(22,498)		(24,070)		(24,212)
Deficit in scheme		(6,743)		(8,054)		(9,388)

The figures shown above were calculated on the basis of the following assumptions:

		2007	2006	2005
Discount rate		5.90%	5.30%	5.00%
Rate of increase in salaries		3.10%	2.80%	2.80%
Rate of increase in pensions in payment:	Pre 1997	0.00%	0.00%	0.00%
	Post 1998 GMP	3.00%	2.80%	2.80%
	Post 1997	3.10%	2.80%	2,80%
Inflation assumption		3.10%	2.80%	2.80%

Analysis of the movement in the scheme deficit during the year:	**2007 £'000**	**2006 £'000**
Opening deficit in the scheme	(8,054)	(9,388)
Current service cost	(225)	(255)
Contributions	471	453
Other finance costs	(210)	(255)
Actuarial gains	1,275	1,391
Closing deficit in the scheme	(6,743)	(8,054)

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

16. PENSIONS DEFICIT (continued)

Analysis of the amount charged to the operating profit in respect of defined benefit scheme:

Amounts included within operating profit:	**2007 £'000**	**2006 £'000**
Current service cost	(225)	(255)

Amounts included as other finance costs:	**2007 £'000**	**2006 £'000**
Expected return on scheme assets	1,047	948
Interest discount on scheme liabilities	(1,257)	(1,203)
Net finance costs	(210)	(255)

Amounts included within the consolidated statement of total recognised gains and losses are shown below, expressed in monetary amounts and as a percentage of:

(i) scheme assets at the balance sheet date; and

(ii) present value of the scheme liabilities at the balance sheet date.

	2007 £'000	2007 %	2006 £'000	2006 %	2005 £'000	2005 %	2004 £'000	2004 %	2003 £'000	2003 %
Difference between actual and expected return on scheme assets (i)	(889)	(6%)	301	2%	606	4%	960	7%	(1,558)	(13%)
Experience losses arising on scheme liabilities (ii)	(9)	0%	(210)	(1%)	(511)	(2%)	(880)	(4%)	(4)	0%
Effects of changes in assumptions underlying the present value of scheme liabilities (ii)	2,173	10%	1,300	6%	(2,238)	(9%)	1,336	6%	(609)	(10%)
Total actuarial (losses)/gains recognised in the STRGL (ii)	1,275	6%	1,391	6%	(2,143)	(9%)	1,416	7%	(2,171)	(10%)

17. CALLED UP SHARE CAPITAL

	2007 £'000	**2006 £'000**
Authorised:		
10,000,000 ordinary shares of £1 each	10,000	10,000
Called up, allotted and fully paid:		
5,500,000 ordinary shares of £1 each	5,500	5,500

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

18. STATEMENT OF MOVEMENT ON RESERVES

	Revaluation reserve £'000	Profit and loss account £'000
Group		
At 1 July 2006	260	(31,880)
Translation adjustment	-	(20)
Amortisation of revaluation surplus	(5)	5
Retained profit for the year	-	711
Defined pension scheme actuarial gain	-	1,275
At 30 June 2007	255	(29,909)
Company		
At 1 July 2006		(15,657)
Retained result for the year		-
At 30 June 2007		(15,657)

The revaluation reserve is not distributable. The cumulative amount of goodwill written off against reserves is £14,805,000 (2006: £14,805,000). Goodwill will be charged to the profit and loss account on disposal of the business to which it relates.

The translation adjustment of £20,000 (2006: £9,000) represents an unrealised loss arising on the translation of the net assets of the overseas subsidiaries into sterling at the year end.

19. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2007 £'000	2006 £'000
Operating profit	744	425
Depreciation charges	655	741
Profit on sale of fixed assets	(181)	-
Decrease/(increase) in stocks	162	(82)
(Increase)/decrease in debtors	(863)	689
Increase/(decrease) in creditors	11	(440)
Release of previously unrealised profit	(4)	(14)
Exchange differences	(14)	9
Net cash inflow from operating activities	510	1,328

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

20. ANALYSIS OF NET DEBT

	At 1 July 2006 £'000	Cash flow £'000	Other non-cash changes £'000	At 30 June 2007 £'000
Cash at bank and in hand	1,180	(675)	-	505
Overdrafts	(3,640)	560	-	(3,080)
	(2,460)	(115)	-	(2,575)
Debt due within one year				
Intercompany loans	(17,098)	(1)	-	(17,099)
Other loans	(233)	64	-	(169)
Debt due after one year				
Other loans	(239)	170	-	(69)
Net debt	(20,030)	118	-	(19,912)

21. CAPITAL COMMITMENTS

Group and Company	2007 £'000	2006 £'000
Contracted for but not provided	-	-

22. OPERATING LEASE COMMITMENTS

At 30 June 2006 the group was committed to making the following payments during the next year in respect of operating leases:

Group	2007 Land and buildings £'000	2007 Plant and equipment £'000	2006 Land and buildings £'000	2006 Plant and equipment £'000
Operating leases which expire:				
Within one year	9	30	14	39
In two to five years	164	188	163	244
	173	218	177	283

The rentals payable under the operating leases included above relating to certain office and light industrial premises are subject to re-negotiation at various intervals in the leases. In addition, there is a long lease expiring in 2072 at a current annual ground rental of approximately £1,000 (2006: £1,000).

NOTES TO THE ACCOUNTS
Year ended 30 June 2007

23. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption contained in FRS 8 paragraph 3(c) not to present details of transactions with other group entities as it is a wholly owned subsidiary of Kantone Holdings Limited, whose accounts are publicly available, and such transactions are eliminated on consolidation.

24. ULTIMATE PARENT COMPANY

The company is a subsidiary undertaking of Kantone Holdings Limited, a company incorporated in the Cayman Islands and whose principal place of business is in Hong Kong.

The ultimate parent and controlling company is Champion Technology Holdings Limited, a company incorporated in the Cayman Islands and whose principal place of business is in Hong Kong.

The largest group in which the results of Kantone (UK) Limited and its subsidiary undertakings are consolidated is that headed by Champion Technology Holdings Limited. The consolidated financial statements of Champion Technology Holdings Limited are available to the public and may be obtained from Champion Technology Holdings Limited, 9th and 10th Floors, 1 Ning Foo Street, Chai Wan, Hong Kong.

The smallest group in which they are consolidated is that headed by Kantone Holdings Limited. The consolidated financial statements for Kantone Holdings Limited are available to the public and may be obtained from 9th and 10th floors, 1 Ning Foo Street, Chai Wan, Hong Kong.