

KANTONE (UK) LIMITED

Annual Report and Financial Statements

For the year ended 30 June 2016

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KANTONE (UK) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2016

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KANTONE (UK) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2016

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Paul Man Lok Kan (Chairman)
Paul M J Kirby

SECRETARY

Philip L Lawrence

REGISTERED OFFICE

Multitone House
Shortwood Copse Lane
Kempshott
Basingstoke
United Kingdom
RG23 7NL

BANKERS

HSBC Bank plc
8 London Street
Basingstoke
Hampshire
RG21 7NU

SOLICITORS

Olswang
Apex Plaza
Forbury Road
Reading
RG1 1AX

INDEPENDENT AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge
United Kingdom

KANTONE (UK) LIMITED

STRATEGIC REPORT

This strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Kantone (UK) Limited and its subsidiary undertakings when viewed as a whole. The directors in preparing the strategic report have complied with section 414c of the Companies Act 2006.

REVIEW OF THE BUSINESS

Kantone (UK) Limited is the holding company of the Multitone Group whose principal activity is the design, manufacture and supply of integrated wireless communication systems and solutions for sale and lease. Kantone (UK) Limited does not trade as an independent activity and the results are a reflection of the Multitone Group position and the investment in that group as the holding company. The 2015/16 trading year has benefited from both a continuing strong general economic climate specifically in the United Kingdom and the successful launch of a number of new products, targeted at the critical messaging market. While turnover dropped by 0.6%, profitability from the newly released products and services more than compensated for this.

A DESCRIPTION OF THE STRATEGY AND FUTURE DEVELOPMENTS

Kantone's objectives are ones of sustainable growth within its current and new markets. Kantone will continue to invest in new product and market development, capitalising on its current position as the market leader in critical messaging. Kantone will continue to adapt and adopt emerging technologies as well as developing its own innovative products, aiming to be the first to market with reliable and robust solutions.

THE DEVELOPMENT AND PERFORMANCE OF THE GROUP'S BUSINESS DURING THE YEAR

Even though the profit for the year saw a healthy positive number, the company's defined benefit pension scheme still presents a challenge due to the continued deficit on the defined benefit pension fund and therefore the directors cannot recommend the payment of a dividend (2015: £nil). As a result, the profit for the year is transferred to reserves.

- a) Main trends and factors likely to affect the future development, performance and position of the company's business

The detailed results for the year ended 30 June 2016 are set out in the consolidated profit and loss account on page 10. Turnover for the year was £13,816,000 (2015: £13,899,000) a decrease of £83,000 or 0.6%, and the profit on ordinary activities before taxation was £1,289,000 (2015: profit of £1,042,000) or 23.7% increase. The profit for the financial year to 30 June 2016 after taxation was £1,268,000 (2015: profit of £1,023,000), an increase of 23.9%

One of the Group's key measures of effectiveness of its operations is calculating gross margin after direct cost of sales. The Group achieved a gross margin after direct costs of 28.9% (2015: 30.7%). The most prominent reason for the drop in gross margin was the increase in the cost of electronic components from the Far East.

The Group's cash levels have increased by £79,000 from £2,864,000 at the 2015 year-end, to £2,943,000 at the end of the current financial year. Income is generated from the turnover of the business and expenditures made on its' operation, research and development and the pension scheme.

- b) Environmental matters (including the impact of the company's business on the environment), and carbon footprint

The company and its products comply with The Producer Responsibility Obligations (Packaging Waste) Regulations, The Waste Batteries and Accumulators Regulations, Restriction of Hazardous Substances (RoHS) requirements, Waste Electrical and Electronic Equipment (WEEE), and Control of Substances Hazardous to Health (CoSHH). As an SME, Multitone is not required to report on its CO2 emissions however they are restricted to our fleet of just over forty vehicles and the heating and lighting of our premises.

KANTONE (UK) LTD

STRATEGIC REPORT (continued)

THE DEVELOPMENT AND PERFORMANCE OF THE GROUP'S BUSINESS DURING THE YEAR (continued)

- c) Staff, including the number of persons of each sex who were employees of the company
 - (i) the number of persons of each sex who were directors of the company;
Male 10 Female 1
 - (ii) the number of persons of each sex who were senior managers of the company (other than persons falling within sub-paragraph (i)).
Male 8 Female 1

In the employment, training and advancement of disabled persons, Kantone is an equal opportunities employer that complies with the requirements of the Equality Act 2010. Disabled individuals are treated to the same rights and opportunities as able bodied ones in every aspect of the company, recognising that it also has to comply with the Health and Safety at Work Act and not put any of its employees at risk.

Involvement of employees in the affairs, policy and performance of the company:

Employees, supervisors, managers, senior managers and directors all work towards the sustainable growth of the business. Participation in the setting of annual budgets and making sure that they are achieved or exceeded is expected from all of Kantone's Group staff.

- d) Social, community and human rights issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies
 - (i) Kantone (UK) Limited upholds the highest standards of human rights.
 - (ii) Kantone (UK) Limited always obeys the laws and requirements of the countries in which it operates and follows the UK Foreign Office advice on permitted nations in which we can trade.
 - (iii) Kantone (UK) Limited also follows their advice on protecting our staff by not putting them at risk in countries that the Foreign Office has classified as unsafe for travel.
 - (iv) Kantone (UK) Limited complies with all of the current statutory and regulatory requirements in relation to the environment.
 - (v) Kantone (UK) Limited does not enter into any agreement with customers, suppliers, partners, dealerships or any other organisation that requires bribes, solicitation or extortion.
 - (vi) Kantone (UK) Limited will always comply with the taxation law of the country it is operating in.
 - (vii) Kantone (UK) Limited complies with the Modern Slavery Act 2015 and has included anti-slavery terms into its supply chain agreements.

THE POSITION OF THE GROUP AT THE YEAR END

The directors have carried out an impairment review of its assets at the end of the financial year. It has examined the carrying value of the major tangible and intangible assets and made references to open market valuations, market prices, economic indexes, professional opinion and ongoing profit generation. It is the Directors' view that there is no evidence that a permanent diminution in asset value has taken place and as such no adjustment has been made at this time. The last formal valuation of the property owned by Kantone was at the 2013/14 year end and is scheduled to be completed every five years in line with FRS102. An interim valuation was completed at the year-end as part of the impairment review that indicated there was no material change in the property value.

The Group's own pension fund continues to influence the balance sheet as the world markets fluctuate. This saw values of investment portfolios increase during this financial year and liabilities increase by a lower proportion because of the strategies employed in the available markets. The gap between pension fund assets and liabilities decreased due to the positive performance of investments, the continued monthly injection of cash as per the Pension Regulator approved repayment plan and the implementation of an asset backed contribution scheme. The group entered into an asset backed contribution arrangement using a Scottish Limited Partnership (SLP) which increased the pension scheme assets by £4,765,000 but has not been recognised in the financial statements under

KANTONE (UK) LTD

STRATEGIC REPORT (continued)

THE POSITION OF THE GROUP AT THE YEAR END (CONTINUED)

FRS102 due to a restriction imposed by that standard. The Net liability is now £5,661,000 compared to £6,661,000 as it was at the end of June 2015. It is the group's intention to continue supporting the pension fund and eliminate the deficit entirely. There is a new Pension Regulator approved formal plan to do this.

The gap in the pension fund between its assets and liabilities is covered by UK Government rules which require the implementation of an officially approved repayment plan and a payment of an annual Pension Protection Levy where should the company become genuinely insolvent, the Protection Fund steps in to cover the majority of the deficit. Due to both of these factors, the repayment of this liability is long term and is protected from diverting the company's assets towards covering its other liabilities.

It is noticeable that credit rating agencies frequently fail to understand this distinction between a valuation of the balance with and without the pension in it and the protected status that this liability enjoys.

The detailed five year plan continues to be implemented effectively and continues to be refined and developed as the business environment changes but the main objectives remain and are still on target. During the financial year the board undertook a review of the main targets of the business to ensure that they match the expectations of the markets, shareholders and other interested parties. It confirmed that research and development remains key to the future of the business with new products and innovations being rolled out on a regular basis each year.

The Group has considerable financial resources therefore the directors believe that the Group is well placed to manage its business risks successfully. It is still the Directors' intention to exercise a cautious, risk adverse approach for the foreseeable future.

In addition the Directors are in receipt of a letter of support from the ultimate parent company, Champion Technology Holdings Ltd, which confirms the parent company's intention to provide such support as is required by the Group to enable it to meet its liabilities as they fall due for a period of not less than 12 months from the approval of the financial statements. As a result we continue to adopt the going concern basis in preparing the annual report and financial statements.

Since the year end, our ultimate parent company Champion Technology Holdings Limited has announced that the Chairman Mr. Paul Kan and the CEO Mr Leo Kan are retiring. They have sold their shareholding in Champion via Lawnside International Ltd to Advanced City Investments Limited and this has been announced on the Hong Kong stock exchange.

THE PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group operates in a competitive market which is a continuing risk to the Group and could result in losing sales to 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, and therefore the Group is exposed to movements in the Euro and US Dollar to pound 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 one five year variable rate loan which has just two years left to run, and is therefore exposed to adverse movements in interest rates. This is monitored on a monthly basis and with the current stable low interest environment, expected to be as budgeted.

The other area of risk is the extent of public sector expenditure. The NHS is under constant pressure from the government to cut spending and the Fire Brigades to seek economies of scale by joining their operations together. In the meantime Kantone is continuing to gain market share in non-government areas of business that are showing an increased appetite for its products, especially the latest innovations.

Credit risk is managed by ensuring that transactions are only undertaken with businesses of good standing and have an appropriate credit rating along with references that are verified. The Group's customers are frequently organisations that are backed by the government of the United Kingdom and are therefore a low credit risk. Bad debts are very rare.

KANTONE (UK) LTD

STRATEGIC REPORT (continued)

THE PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP (CONTINUED)

Corporate Governance

The Group voluntarily complies with such elements of the Financial Reporting Council's "The UK Corporate Governance Code" ('the Code') (issued in April 2016) as the Directors consider it appropriate for a private company of its size.

The Group has a written policy statement that applies the Code to Kantone (UK) Limited and explains in detail what systems, processes and documentation exists to ensure that the Code's recommendations are applied in a consistent way.

The full board meet half yearly and the executive board monthly in the interim. The board's role is to constructively challenge and help develop proposals on strategy, tactical and operational performance of the Group. They also agree operational budgets and capital expenditure whilst monitoring the reporting of the financial performance against these and satisfying themselves of the integrity of the information. They are also responsible for making sure that the financial controls are robust, defensible and are suitable for controlling risk. They are responsible through the remuneration committee for the setting of the appropriate levels of remuneration of the executive and non-executive directors and have a prime role in the appointment and where necessary, the removal of directors.

There is no internal audit function or audit committee given the limited complexity of operations the directors believe appropriate review procedures are already in place.

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

P. L. Lawrence

Mr. P. L. Lawrence

Company Secretary

1st March 2017

KANTONE (UK) LIMITED

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with FRS102, "the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland". Under United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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

The directors present their annual report and the audited financial statements for the year ended 30 June 2016.

The directors have included in the strategic report such of the matters otherwise required by regulations made under section 416(4) to be disclosed in the directors' report as the directors consider are of strategic importance to the company. The matters which have been included in the strategic report are:

- Financial risk management objectives and policies
- Future developments
- Research and development

GOING CONCERN

The directors have a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the Statement of accounting policies in the notes to the financial statements.

DIVIDENDS

The directors do not recommend a dividend to be paid to ordinary shareholders on the register (2015: £nil).

POLITICAL DONATIONS

The board made a donation of £10,000 (2015: £5,000) to The Conservative Party.

DIRECTORS

The present membership of the Board at the year end is set out on page one. There were no changes to the Board membership during the year. Multitone complies with the Companies Act 2006 requirement that prohibits a UK company from indemnifying a director against his liability for negligence, default, breach of duty or breach of trust in relation to the company or an associated company.

KANTONE (UK) LIMITED

DIRECTORS' REPORT DIRECTORS' REMUNERATION

Only Multitone executive directors receive salaried remuneration apart from one non executive who gets a token fixed monthly payment. All other directors receive no remuneration from the Group. Part of the contractual remuneration package is related to company performance and varies accordingly.

AUDITOR

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 auditor is unaware; and
- the director has taken all steps that they ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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

P. L. Lawrence

Mr. P. L. Lawrence

Company Secretary

1st March 2017

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

We have audited the financial statements of Kantone (UK) Limited for the year ended 30 June 2016 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2016 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF KANTONE UK LIMITED (CONTINUED)

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Julian Rae (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom

22 March 2017

KANTONE (UK) LTD

CONSOLIDATED BALANCE SHEET At 30 June 2016

	Note	2016 £'000	2015 £'000
TURNOVER	3	13,816	13,899
Cost of sales		(9,825)	(9,638)
GROSS PROFIT		3,991	4,261
Other operating expenses	4	(2,815)	(3,479)
Other operating income	5	126	145
OPERATING PROFIT	6	1,302	927
Interest receivable and similar income		179	172
Interest payable and similar charges	8	(192)	(57)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,289	1,042
Tax charge on profit on ordinary activities	9	(21)	(19)
RETAINED PROFIT FOR THE FINANCIAL YEAR		1,268	1,023

All the activities relate to continuing operations.



P Kirby
Director

1st March 2017

KANTONE (UK) LTD

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME Year ended 30 June 2016

	Note	2016 £'000	2015 £'000
Profit for the financial year		1,268	1,023
Revaluation deficit		(10)	(10)
Defined pension scheme actuarial Gain/(loss)	19	399	161
Gains Arising on revaluation of tangible fixed assets	10	242	-
Gains on disposal of investments		65	-
Currency translation differences on foreign currency net investments Gain/(loss)		1	(19)
Total comprehensive income relating to the year		<u>1,965</u>	<u>1,155</u>

KANTONE (UK) LTD

CONSOLIDATED BALANCE SHEET At 30 June 2016

	Note	2016 £'000	2015 £'000
FIXED ASSETS			
Tangible assets	10	2,194	1,954
Intangible assets	11	1,634	1,632
		<u>3,828</u>	<u>3,586</u>
CURRENT ASSETS			
Stocks	13	1,838	1,754
Debtors	14	4,899	4,411
Cash at bank and in hand		2,943	2,864
		<u>9,680</u>	<u>9,029</u>
Debtors due after one year	14	<u>1,060</u>	<u>1,096</u>
Total Assets		10,740	10,125
CREDITORS: amounts falling due within one year	15	<u>(27,084)</u>	<u>(26,881)</u>
NET CURRENT LIABILITIES		<u>(16,344)</u>	<u>(16,756)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(12,516)</u>	<u>(13,170)</u>
CREDITORS: amounts falling due after more than one year	16	(1,827)	(2,138)
PROVISIONS FOR LIABILITIES	18	<u>(103)</u>	<u>(89)</u>
NET ASSETS EXCLUDING PENSION LIABILITY		<u>(14,446)</u>	<u>(15,397)</u>
PENSION LIABILITY	19	<u>(5,661)</u>	<u>(6,661)</u>
NET LIABILITIES INCLUDING PENSION LIABILITY		<u><u>(20,107)</u></u>	<u><u>(22,058)</u></u>
CAPITAL AND RESERVES			
Called up share capital	20	5,500	5,500
Revaluation reserve		177	212
Profit and loss account deficit		<u>(25,784)</u>	<u>(27,770)</u>
SHAREHOLDERS' DEFICIT		<u><u>(20,107)</u></u>	<u><u>(22,058)</u></u>

The financial statements of Kantone (UK) Limited, registered no 02833057, set out on pages 10 to 35, were approved and authorised for issue by the board of directors and were signed on its behalf by:


P Kirby
Director

1st March 2017

KANTONE (UK) LTD**COMPANY BALANCE SHEET**
At 30 June 2016

	Note	2016 £'000	2015 £'000
FIXED ASSETS			
Tangible assets			
Intangible assets			
Investments	12	9,465	9,465
		<u>9,465</u>	<u>9,465</u>
CURRENT ASSETS			
Stocks			
Debtors	14	100	100
Cash at bank and in hand			
		<u>100</u>	<u>100</u>
Debtors due after one year			
Total Assets		9,565	9,565
CREDITORS: amounts falling due within one year	15	(19,722)	(19,722)
NET CURRENT LIABILITIES		<u>(19,622)</u>	<u>(19,622)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		(10,157)	(10,157)
CREDITORS: amounts falling due after more than one year			
PROVISIONS FOR LIABILITIES			
NET ASSETS EXCLUDING PENSION LIABILITY		(10,157)	(10,157)
PENSION LIABILITY			
NET LIABILITIES INCLUDING PENSION LIABILITY		<u>(10,157)</u>	<u>(10,157)</u>
CAPITAL AND RESERVES			
Called up share capital	20	5,500	5,500
Revaluation reserve			
Profit and loss account deficit		(15,657)	(15,657)
SHAREHOLDERS' FUNDS/(DEFICIT)		<u>(10,157)</u>	<u>(10,157)</u>



P Kirby
Director

1st March 2017

KANTONE (UK) LTD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 30 June 2016

Year ended 30 June 2015

	Share Capital £'000	Revaluation Reserve £'000	Retained Earnings £'000	Total Equity £'000
At 1 July 2014	5,500	231	(28,944)	(23,213)
Profit for the year	-	-	1,023	1,023
Currency translation difference on foreign currency net investments	-	(9)	(10)	(19)
Actuarial losses on pension scheme	-	-	161	161
Transfer to Profit and Loss	-	(10)	-	(10)
At 30 June 2015	<u>5,500</u>	<u>212</u>	<u>(27,770)</u>	<u>(22,058)</u>

Year ended 30 June 2016

	Share Capital £'000	Revaluation Reserve £'000	Retained Earnings £'000	Total Equity £'000
At 1 July 2015	5,500	212	(27,770)	(22,058)
Profit for the year	-	-	1,268	1,268
Currency translation difference on foreign currency net investments	-	-	1	1
Actuarial gains on pension scheme	-	-	399	399
Gains arising on revaluation of tangible fixed assets	-	229	-	229
Realised on disposal of tangible fixed assets	-	(253)	253	-
Gain arising on disposal of investments	-	-	65	65
Transfer to Profit and Loss	-	(10)	-	(10)
At 30 June 2016	<u>5,500</u>	<u>178</u>	<u>(25,784)</u>	<u>(20,107)</u>

KANTONE (UK) LTD

COMPANY STATEMENT OF CHANGES IN EQUITY

30 June 2016

Year ended 30 June 2015

	Share Capital £'000	Revaluation Reserve £'000	Retained Earnings £'000	Total Equity £'000
At 1 July 2014	5,500	-	(15,657)	(10,157)
Profit for the year	-	-	-	-
Currency translation difference on foreign currency net investments	-	-	-	-
Actuarial losses on pension scheme	-	-	-	-
Transfer to Profit and Loss	-	-	-	-
At 30 June 2015	<u>5,500</u>	<u>-</u>	<u>(15,657)</u>	<u>(10,157)</u>

Year ended 30 June 2016

	Share Capital £'000	Revaluation Reserve £'000	Retained Earnings £'000	Total Equity £'000
At 1 July 2015	5,500	-	(15,657)	(10,157)
Profit for the year	-	-	-	-
Currency translation difference on foreign currency net investments	-	-	-	-
Actuarial gains on pension scheme	-	-	-	-
Gains arising on revaluation of tangible fixed assets	-	-	-	-
Realised on disposal of tangible fixed assets	-	-	-	-
Gain arising on disposal of investments	-	-	-	-
Transfer to Profit and Loss	-	-	-	-
At 30 June 2016	<u>5,500</u>	<u>-</u>	<u>(15,657)</u>	<u>(10,157)</u>

KANTONE (UK) LTD

CONSOLIDATED CASH FLOW 30 June 2016

	2016 £'000	2015 £'000
Cash flows from operating activities		
Profit for the financial year	1,268	1,236
Adjustments for:		
Amortisation of intangible assets	691	748
Depreciation of tangible assets	200	171
Interest paid	191	57
Interest received	(179)	(172)
Taxation	21	20
Pension Contributions	(675)	(691)
(Increase) / decrease in trade and other debtors	(452)	801
(Increase) / decrease in stocks	(84)	178
Increase / (decrease) in trade creditors	250	(13)
Net cash generated from operating activities	1,231	2,335
Cash flows from investing activities		
Proceeds from sale of tangible assets	39	-
Purchase of tangible assets	(170)	(189)
Purchase of intangible assets	(693)	(617)
Interest received	179	172
Net cash from investing activities	(645)	(634)
Cash flows from financing activities		
Repayment of bank loans	(390)	(360)
Interest paid	(191)	(172)
Net cash used in financing activities	(581)	(532)
Net increase / decrease in cash and cash equivalents	5	1,169
Foreign exchange translation adjustments	74	(82)
Cash and Cash equivalents at the beginning of the year	2,864	1,777
Cash and cash equivalents at the end of the year	2,943	2,864

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance FRS102, the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland and the Companies Act 2006. The date of transition to FRS102 is 1 July 2014.

Information on the impact of first-time adoption of FRS102 is given in note 24.

The preparation of financial statements in compliance with FRS102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Company's accounting policies (see note 2).

The company is exempt from preparing company only cash flow statements under FRS102 when the parent company has published a consolidated one.

Going Concern

The gap in the pension fund between its assets and liabilities is covered by UK Government rules which require the implementation of an officially approved repayment plan and a payment of a Pension Protection Levy where should the company become genuinely insolvent the Protection Fund steps in to cover the majority of the deficit. Due to both of these factors, the repayment of this liability is long term and is protected from diverting the company's assets towards covering its other liabilities. It is noticeable that credit rating agencies frequently fail to understand this distinction between a valuation of the balance with and without the pension in it and the protected status that this liability enjoys.

The detailed five year plan continues to be implemented effectively and continues to be refined and developed as the business environment changes but the main objectives remain and are still on target. This last financial year the board undertook a review of the main targets of the business to ensure that they match the expectations of the markets, shareholders and other interested parties. It confirmed that research and development remains key to the future of the business with new products and innovations being rolled out on a regular basis each year.

As previously stated in the strategic report, the company has considerable financial resources therefore the directors believe that the company is well placed to manage its business risks successfully. There is an even more positive outlook than there has been during the last year and there is a lot of interest and even orders for our new i-message product plus Ekotek but it is still the Directors' intention to exercise a cautious, risk adverse approach for the foreseeable future.

In addition the Directors are in receipt of a letter of support from the ultimate parent company, which confirms the parent company's intention to provide such support as is required by the Group to enable it to meet its liabilities as they fall due for a period of not less than 12 months from the approval of the financial statements. As a result we continue to adopt the going concern basis in preparing the annual report and financial statements.

Accounting convention

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

Basis of consolidation

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

No profit and loss account is presented for Kantone (UK) Limited, the company as provided by Section 408 of the Companies Act 2006. Included in the consolidated profit for the financial year is a result of £nil (2015: £nil) which was attributable to the shareholders of Kantone (UK) Limited.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2016

1. ACCOUNTING POLICIES (CONTINUED)

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 cost of open contracts less accumulated amortisation.

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.

Research and development and intangibles

All expenditure on research and development is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of the individual projects. Any such identifiable expenditure is capitalised as an intangible asset. Such assets are amortised over their estimated useful life up to a maximum of five years, subject to any provision for impairment. Amortisation of research and development is charged to operating expenses. No book value is attributable to patents. Development costs have been capitalised in accordance with FRS102 section 18 and are therefore not treated, for dividend purposes, as a realised loss.

Tangible Fixed Assets

Land and buildings are stated at revaluation. Other fixed assets are stated at cost less depreciation and provision for any impairment. Equipment on hire is leased to customers under finance 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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

1. ACCOUNTING POLICIES (CONTINUED)

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. These are shown under Tangible Fixed Assets under "Equipment on Hire"

The Group as a lessor

Rental income received is recognised on a straight line basis over the term of the relevant lease. Initial costs incurred in negotiating and arranging a lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

Stocks

Stocks, including work in progress, are stated 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.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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 those 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.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Investments

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2016

1. ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

The Group recognises a provision for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

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 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.

Pension costs

In the United Kingdom the group operates a defined contribution pension scheme; the employer's contributions 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.

The cost of defined benefit pension plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

1. ACCOUNTING POLICIES (CONTINUED)

Financial Instruments

FRS102.12.7 When a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value, which is normally the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit or loss).

FRS 102.12.8 At the end of each reporting period, an entity shall measure all financial instruments within the scope of Section 12 at fair value and recognise changes in the fair value in profit or loss.

FRS 102.12.9 If a reliable measure of fair value is no longer available for an equity instrument (or a contract linked to such an instrument) that is not publicly traded but is measured at fair value through profit or loss, its fair value at the last date the instrument was reliably measurable is treated as the cost of the instrument. The entity shall measure the instrument at this cost amount less impairment until a reliable measure of fair value becomes available.

FRS102.11.8 Kantone shall account for the following financial instruments as basic financial instruments in accordance with Section 11:

- (a) cash;
- (b) a debt instrument (such as an account, note, or loan receivable or payable) that meets the conditions in paragraph 11.9 and is not a financial instrument described in paragraph 11.6(b);
- (c) commitments to receive or make a loan to another entity that:
 - (i) cannot be settled net in cash; and
 - (ii) when the commitment is executed, are expected to meet the conditions in paragraph 11.9; and
- (d) an investment in non-convertible preference shares and non-puttable ordinary shares or preference shares.

FRS102.11.21 At the end of each reporting period, Kantone shall assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, the company shall recognise an impairment loss in profit or loss immediately.

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets:

An asset is impaired where there is objective evidence that as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Financial assets:

For financial assets carried at amortised cost the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounts at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

2. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of the estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Pensions and other post-employment benefits

The cost of defined benefit pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about the discount rates, future salary increases, mortality rates and the future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for the quality, and those having excessive credit spreads are removed from the population bonds on with the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables. Future salary increases and the pension increases are based on expected future inflation rates. Further details are given in Note 19.

Inventory provisioning

When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of the goods and future usage. See note 13 for the net carrying amount of the inventory and associated provision.

Impairment of debtors

The Group makes an assessment of the recoverability of trade and other debtors. When assessing impairment management considers factors including current credit ratings, the ageing profile of debtors and historical experience. It is the decision of management that no impairment or provision is necessary.

Provisions

The Group has not recognised provisions for post year-end credit notes and returns in respect of revenue, as based on historical evidence these are not material.

3. TURNOVER

	2016	2015
	£'000	£'000
Analysis of turnover by destination:		
United Kingdom	7,749	7,567
North America	473	428
France and Germany	3,803	3,774
Other European countries	1,239	1,361
Rest of world	552	769
Total overseas	6,067	6,332
	<u>13,816</u>	<u>13,899</u>

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

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

KANTONE (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

3. TURNOVER (CONTINUED)

	2016 £'000	2015 £'000
Finance lease sales	2,241	2,154
Income from equipment hire	997	999
	<u>3,238</u>	<u>3,153</u>

Assets acquired in the year for the purpose of sale under finance leases totalled £515,000 (2015: £473,000).

4. OTHER OPERATING EXPENSES

	2016 £'000	2015 £'000
Distribution costs	16	10
Administrative expenses	2,800	3,469
	<u>2,816</u>	<u>3,479</u>

5. OTHER OPERATING INCOME

A payment of £103,000 (2015: £109,000) was received from HMRC in connection to an above the line tax credit for research and development expenses. Of the remaining amount in 2016, £24,000 relates to rental income from unused office space (2015: £24,000).

6. OPERATING PROFIT

	2016 £'000	2015 £'000
Operating profit is stated after charging/(crediting):		
Research and development expenditure incurred in the year	785	775
Expenditure capitalised in relation to tangible fixed assets	(693)	(617)
	<u>92</u>	<u>158</u>
Research and development expenditure expensed in the year	92	158
Cost of Stock recognised as an expense	4,910	4,813
Depreciation:		
- owned equipment - other	209	172
- revaluation	10	10
Amortisation:	691	748
Operating leases:		
- plant and equipment	319	291
- land and buildings	112	122
(Gain)/Loss on foreign exchange	(136)	297
Gain on sale of fixed assets	39	-
Fees payable to the Group's auditor and their associates for the audit of Company's annual accounts	79	69
	<u>79</u>	<u>69</u>

The auditor's remuneration borne by the company was £63,000 (2015: £51,000). Included in this amount is auditor's remuneration paid on behalf of Kantone (UK) Limited of £5,000 (2015: £5,000). The value of non-audit fees for the year was £nil (2015: £nil).

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NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

7. STAFF COSTS

The remuneration of the directors of Kantone (UK) Limited was as follows:

	2016 £'000	2015 £'000
Directors' remuneration:		
Emoluments	675	672
Pension contributions	55	57
	<u>730</u>	<u>729</u>
Highest paid director:		
Emoluments	161	166
Pension contributions	10	9
	<u>171</u>	<u>175</u>

There were 2 directors (2015: 2) who served during the year and who are members of the defined benefit pension scheme.

The Group	2016 £'000	2015 £'000
Staff costs (including directors' emoluments):		
Wages and salaries	5,514	5,482
Social security costs	717	711
Other pension costs	331	363
	<u>6,562</u>	<u>6,556</u>
	No.	No.
The average number of persons employed monthly by the Group during the year was:		
Development and manufacture	50	50
Sales and service	78	78
Administration	50	50
	<u>178</u>	<u>178</u>
United Kingdom	106	107
Overseas	72	71
	<u>178</u>	<u>178</u>

The company

Kantone (UK) Limited had no employees and the directors received no remuneration from the company in either year, although they did receive remuneration from the parent company for their services. It is not practicable to allocate this remuneration between their services as directors of Kantone (UK) Limited and other Group companies.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2016 £'000	2015 £'000
Interest payable on bank loans and overdrafts	28	33
Interest on Defined Benefit pension scheme liabilities (note 19)	146	303
Interest on overseas pension scheme liabilities	18	-
	<u>192</u>	<u>336</u>

The interest charge in 2015 includes amounts in respect of the defined benefit pension scheme of £279k, included within Other Operating Expenses in Note 24 and the P&L.

9. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax charge on ordinary activities

	2016 £'000	2015 £'000
Corporation tax		
Current year	(21)	(22)
Prior Year Adjustment	-	3
Deferred tax:		
Deferred tax timing differences, origination and reversal	-	-
Total tax charge for the year	<u>(21)</u>	<u>(19)</u>

Factors affecting the tax charge for the current year

The tax assessed for the year is lower (2015: lower) than that resulting from applying the standard rate of corporation tax in the UK of 20% (2015: 20%). The differences are explained below:

	2016 £'000	2015 £'000
Standard tax rate for the year as a percentage of profits	20%	20%
Income arising on equitable trade contract assignment	680	-
Expenses not deductible for tax purposes	-	(9)
Capital allowances in excess of depreciation	(6)	(9)
Adjustment in R&D Tax Credit	2	2
Increase/(Utilisation) of tax losses	(657)	(3)
Movements in Short term Timing Differences	(40)	-
Group Tax charge for the period	<u>(21)</u>	<u>(19)</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

9. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

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 £nil (2015: £55,000).

A deferred tax asset has been recognised in respect of timing differences relating to trading losses and depreciation in excess of capital allowances as it is considered as more likely than not that there will be suitable taxable profits available for the losses to be relieved and for the asset to be recovered. The amount of the asset not recognised is £1,527,000 (2015: £1,157,000). 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 £908,000 (2015: £877,000) 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 £1,132,000 (2015: £1,332,000) has not been recognised in respect of the defined benefit pension scheme liability as it cannot be determined with reasonable certainty that there will be suitable taxable profits available for this to be relieved and for the asset to be recovered.

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted in July 2013 now standing at 20% with effect from 1 April 2016. The closing deferred tax assets and liabilities have been calculated at 20% in accordance with the rates enacted at the balance sheet date.

In the Budget on 8 July 2016, the UK Government proposed, amongst other things, to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. Existing temporary differences may therefore unwind in periods subject to these reduced rates. These rate changes are to be included in the Finance Bill 2016 but this has not yet been substantively enacted.

10. TANGIBLE FIXED ASSETS

Group	Land and buildings £'000	Equipment on hire £'000	Plant and equipment £'000	Total £'000
Cost or valuation				
At 1 July 2015	1,513	5,800	10,099	17,412
Revaluations in the year	193	-	-	193
Translation adjustment	31	-	62	93
Disposals	(1,391)	-	(138)	(1,529)
Additions	1,391	-	170	1,561
At 30 June 2016	1,737	5,800	10,193	17,730
Accumulated depreciation				
At 1 July 2015	69	5,760	9,629	15,458
Revaluations in the year	(49)	-	-	(49)
Translation adjustment	-	-	95	95
Disposals	(39)	-	(138)	(177)
Charge for the year	35	-	174	209
At 30 June 2016	16	5,760	9,760	15,536
Net book value				
At 30 June 2016	1,721	40	433	2,194
At 30 June 2015	1,444	40	470	1,954

KANTONE (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2016

10. TANGIBLE FIXED ASSETS (CONTINUED)

The net book value of land and buildings comprises:

	Group	
	2016	2015
	£'000	£'000
Freehold land and buildings	1,620	1,343
Long leasehold land and buildings	101	101
	<u>1,721</u>	<u>1,444</u>

Land and buildings are held at a valuation. The Group's freehold properties in the United Kingdom were revalued in June 2014 on the basis of open market value for existing use, by Woodford and Company, Chartered Surveyors. In accordance with accounting standards no valuation has been performed at this year-end.

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

	Group	
	2016	2015
	£'000	£'000
Original cost	1,396	1,396
Less: accumulated depreciation	(241)	(237)
Net book value	<u>1,155</u>	<u>1,159</u>

11. INTANGIBLE FIXED ASSETS

Group	£'000
Cost	
At 1 July 2015	9,998
Additions	693
At 30 June 2016	<u>10,691</u>
Accumulated depreciation	
At 1 July 2015	8,366
Charge for the year	691
At 30 June 2016	<u>9,057</u>
Net book value	
At 30 June 2016	<u>1,634</u>
At 30 June 2015	<u>1,632</u>

Intangible assets comprise costs incurred in respect of producing software, pre-production prototypes and test equipment for new products. Intangible assets are recognised at cost. These costs are amortised on a straight line basis over a period of 5 years which reflects the expected commercial life of the products in question.

KANTONE (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

12. INVESTMENTS

	Company	
	2016	2015
	£'000	£'000
Cost of investment	22,395	22,395
Less: Provisions for impairment	(12,930)	(12,930)
Net book value	<u>9,465</u>	<u>9,465</u>

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 at the year-end 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.

Sales Multiton Elektronik GmbH (Germany)
 Multitone General Partner Ltd
 Multitone Retirement Benefits Plan Trustee Ltd
 Multitone Scottish Limited Partnership

Manufacturing Multitone Electronics Sdn Bhd (Malaysia)*

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

* Owned by Multitone Communications Limited.

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

13. STOCKS

	Group	
	2016	2015
	£'000	£'000
Raw materials, purchased components and spares	1,023	1,131
Work in progress	68	134
Finished goods	747	489
	<u>1,838</u>	<u>1,754</u>

There is no material difference between the balance sheet value of stocks and their replacement cost.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

14. DEBTORS

	Group		Company	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Amounts falling due in less than one year:				
Trade debtors	1,996	1,426	-	-
Amounts owed by Group undertakings	2,252	2,273	100	100
Deferred tax asset	320	320	-	-
Other debtors	173	222	-	-
Prepayments and accrued income	158	171	-	-
	<u>4,899</u>	<u>4,412</u>	<u>100</u>	<u>100</u>
Amounts falling due after more than one year:				
Amounts receivable under finance leases	1,060	1,096	-	-
	<u>5,959</u>	<u>5,508</u>	<u>100</u>	<u>100</u>
Amounts receivable under finance leases				
Later than one year and not later than five years			963	756
Later than five years			97	340
			<u>1,060</u>	<u>1,096</u>

The aggregate rentals receivable under finance leases in the year was £2,241,000 (2015: £2,154,000).

The Group operates a number of intercompany loans to its subsidiaries, these are all interest free and all repayable on demand.

Deferred taxation

The movement in deferred taxation is as follows:

	Group	
	2016	2015
	£'000	£'000
At 1 July 2015	320	320
At 30 June 2016	<u>320</u>	<u>320</u>

Analysis of deferred taxation:

	Group	
	2016	2015
	£'000	£'000
Tax losses and timing differences	<u>320</u>	<u>320</u>

In assessing the recognition of the deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realised. The ultimate realisation of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred tax assets considered realisable, however, could change in the near term if future estimates of projected taxable income during the carry forward period are revised.

KANTONE (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (note 17)	360	390	-	-
Trade creditors	735	674	-	-
Amounts owed to Group undertakings	21,889	21,840	19,722	19,722
Corporation tax	21	23	-	-
VAT and other sales taxes	481	382	-	-
Payroll taxes and social security	148	155	-	-
Other creditors	1,001	1,048	-	-
Accruals and deferred income	2,449	2,369	-	-
	<u>27,084</u>	<u>26,881</u>	<u>19,722</u>	<u>19,722</u>

The bank borrowings of Kantone (UK) Limited and its subsidiary companies are guaranteed by Champion Technology Holdings Limited, the ultimate holding company.

The Group operates a number of intercompany loans from its subsidiaries, these are all interest free and all repayable on demand.

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

	Group	
	2016	2015
	£'000	£'000
Bank loans (note 17)	360	720
Amounts owed to Group undertakings	1,100	1,100
Overseas pensions	367	318
	<u>1,827</u>	<u>2,138</u>

FRS102.11.42 The Group has two loans with Kantone Asia of £500k each. The loan is for ten years until 2025 at which point it is repayable. Interest is at 2.25% over the bank of England base rate commencing in the financial year commencing July 2016.

17. BORROWINGS

	Group	
	2016	2015
	£'000	£'000
Bank loans and overdrafts	720	1,110
Amounts owed to Group undertakings	17,099	17,099
	<u>17,819</u>	<u>18,209</u>
Due within one year	17,459	17,489
Between one and two years	360	360
Between two and five years	-	360
	<u>17,819</u>	<u>18,209</u>

KANTONE (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

18. PROVISIONS FOR LIABILITIES

Warranty provision

Set aside to cover costs in respect of goods supplied under warranty:

	Group	
	2016	2015
	£'000	£'000
At 1 July	89	97
Translation adjustment	12	(9)
Provided in year	2	80
Utilised in year	-	(79)
	<hr/>	<hr/>
At 30 June	103	89
	<hr/>	<hr/>

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

19. PENSION LIABILITY

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 most recent actuarial valuation of the scheme was at 31 December 2015. The valuation used the projected unit method and was carried out by a professionally qualified actuary. The 31 December 2015 valuation was updated by the actuary on an approximate basis to calculate the FRS102 valuation as at 30 June 2016.

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

Group

	2016	2015
	Value	Value
	£'000	£'000
Alternatives	1,927	1,556
Currency Hedge	(113)	82
Swaps Hedging the liabilities	2,176	1,527
Multi Asset Growth Fund	24,913	23,837
Fixed Interest Gilts	1,745	1,615
Indexed Linked Gilts	1,614	1,583
Value of Insured Members	303	257
Cash	1,556	544
	<hr/>	<hr/>
Total market value of assets	34,121	31,001
	<hr/>	<hr/>
Present value of scheme liabilities	(39,782)	(37,662)
	<hr/>	<hr/>
Deficit in scheme	(5,661)	(6,661)
	<hr/>	<hr/>

Assumptions as at 30 June 2016 for the expected rate of return of the scheme's assets are not required for periods beginning on or after 1 January 2016.

*An additional asset of £4,765k is shown within the company only pension scheme resulting in a deficit of £896k as per the directors report.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

19. PENSION LIABILITY (CONTINUED)

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

	2016	2015	2014
Discount rate	3.00%	3.80%	4.30%
Rate of increase in salaries	3.10%	3.40%	3.50%
Rate of increase in pensions in payment: Pre 1997	0.00%	0.00%	0.00%
Post 1998 GMP	2.00%	2.20%	2.30%
Post 1997	2.95%	3.20%	3.30%
Inflation assumption	3.10%	3.40%	3.50%

The contribution rate for 2016 was 23.90% of pensionable earnings and the agreed contribution rates for the next 15 years is 23.90% of pensionable earnings.

Assumed life expectancies on retirement at age 65 are:

	2016	2015
Retiring Today – Males	22.00	22.40
Retiring Today – Females	24.20	24.40
Retiring in 20 years – Males	23.90	24.00
Retiring in 20 years – Females	26.10	26.30

Reconciliation of movement in plan liabilities	2016 £'000	2015 £'000
At the beginning of the year	37,662	34,679
Interest Cost	1,391	1,471
Actuarial Gains/Losses	2,828	2,427
Benefits Paid	(2,136)	(1,328)
Contributions by participants	11	130
Service Cost	26	283
At the end of the year	39,782	37,662

Reconciliation of movement in plan assets	2016 £'000	2015 £'000
At the beginning of the year	31,001	27,210
Interest Income	1,245	1,168
Return on plan assets	3,227	2,848
Benefits Paid	(2,136)	(1,328)
Contributions by employers	917	1,087
Contributions by participants	11	130
Service Cost	(144)	(114)
At the end of the year	34,121	31,001

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

19. PENSION LIABILITY (CONTINUED)

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

	2016	2015
	£'000	£'000
Amounts included within operating profit:		
Current service cost	(26)	(203)
Interest on Defined benefit liabilities	146	303
Curtailments	-	(79)
	<u>120</u>	<u>21</u>
Amounts included within other comprehensive income:	<u>399</u>	<u>161</u>
Total Cost relating to the defined benefit scheme:	<u><u>519</u></u>	<u><u>182</u></u>

Defined Contribution Pension Scheme

During the year contributions of £150,000 were made by Multitone Electronics into the scheme (2015: £70,000). There was an unpaid contribution of £16,000 outstanding at 30 June 2016. This amount is showing in Other Creditors and was paid fully in July 2016.

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 £367,000 (2015: £318,000).

The asset backed contribution made by the company through the Multitone Scottish Limited Partnership has a clause requiring cash contributions up to £500,000 should the rental contract assignment pool fall below the required threshold. As this is deemed very improbable no provision has been made in the financial statements.

20. CALLED UP SHARE CAPITAL

	2016	2015
	£'000	£'000
Called up, allotted and fully paid:		
5,500,000 (2014:5,500,000) ordinary shares of £1 each	<u>5,500</u>	<u>5,500</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

21. OPERATING LEASE COMMITMENTS

At 30 June 2016 the Group and the company were committed to making the following minimum payments in respect of operating leases:

Group	2016 Land and buildings £'000	2016 Plant and equipment £'000	2015 Land and buildings £'000	2015 Plant and equipment £'000
Operating leases which expire:				
Within one year	60	197	10	202
In two to five years	-	312	122	174
	<u>60</u>	<u>509</u>	<u>132</u>	<u>376</u>

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 (2015: £1,000).

22. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption provided by FRS102 paragraph 1.12 not to disclose key management personnel compensation.

The Group and Company have taken advantage of the exemption provided by FRS102 paragraph 33.1A to not disclose transactions with other wholly-owned Group undertakings.

23. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

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 Bermuda 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 the immediate parent company Kantone (UK) Limited, a company incorporated in the United Kingdom. The consolidated financial statements for Kantone (UK) Limited are available to the public and may be obtained from Companies House, Crown Way, Cardiff CF4 3UZ.

24. FIRST TIME ADOPTION OF FRS102

This is the first year that the Group has presented its financial statements under Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 30 June 2015 and the date of transition to FRS102 was therefore 1 July 2015. As a consequence of adopting FRS102 there was a change to an accounting policy.

Defined Benefit Pension

There is a presentation change under FRS102 whereby interest charges on the scheme which were previously charged to OCI and Reserves under UK GAAP are now charged directly to the P&L. As a result the prior year comparative figures have altered.

There is no change to either the opening or closing Equity position.

KANTONE (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2016

FIRST TIME ADOPTION OF FRS102 (CONTINUED)

Explanation of changes to previously reported consolidated profit.

	As Previously stated 30 June 2015 £'000	Effect of Transition 30 June 2015 £'000	FRS102 (as restated) 30 June 2015 £'000
TURNOVER	13,899	-	13,899
Cost of sales	(9,638)	-	(9,638)
GROSS PROFIT	4,261	-	4,261
Other operating expenses	(3,266)	(213)	(3,479)
Other operating income	145	-	145
OPERATING PROFIT	1,140	(213)	927
Interest receivable and similar income	172	-	172
Interest payable and similar charges	(57)	-	(57)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,255	(213)	1,042
Tax charge on profit on ordinary activities	(19)	-	(19)
RETAINED PROFIT FOR THE FINANCIAL YEAR	1,236	(213)	1,023

There was no impact to the parent company financial statements on applying FRS102.

25. GENERAL INFORMATION

Kantone (UK) Limited is public limited company incorporated in England and Wales, the company's principal place of business and registered office is Multitone House, Shortwood Copse Lane, Kempshott, Basingstoke, RG23 7NL

The financial Statements are presented in Sterling, which is also the functional currency.