Company Registration No. 02833057

KANTONE (UK) LIMITED

Annual Report and Financial Statements

30 June 2014

KANTONE (UK) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2014

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KANTONE (UK) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2014

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Paul Man Lok Kan (Chairman)
Paul M J Kirby

SECRETARY

Philip L Lawrence FCMA CGMA

REGISTERED OFFICE

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BANKERS

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INDEPENDENT AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom

KANTONE (UK) LIMITED

STRATEGIC REPORT

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

This strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Multitone Electronics PLC and its subsidiary undertakings when viewed as a whole.

REVIEW OF THE BUSINESS

Kantone (UK) Limited is the holding company of the Multitone Electronics 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 entity and the results are a reflection of the Mutltione Group position and the investment in that group as the holding company.

The 2013/14 trading year has benefited from both a stronger general economic climate specifically in the United Kingdom and the successful launch of a number of new products, targeted at the critical messaging market.

The Board of Directors has met on a quarterly basis, with a select subset of this meeting once a month in the intervening months, to discuss the performance of the business. Comparisons are made to the five year strategic plan and the one year operational budget with any variances discussed and actions decided upon to ensure that the business continues to achieve or exceed its objectives.

A DESCRIPTION OF THE GROUP'S STRATEGY AND BUSINESS MODEL

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 being the first to market with reliable and robust solutions.

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

Even though the turnover and profit for the year saw healthy positive increases the balance sheet remains showing a negative net worth because of the pension fund.

(a) the 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 2014 are set out in the consolidated profit and loss account on page 9. Turnover for the year was £14,801,000 (2013: £13,543,000) an increase of £1,258,000 or 9.3%, and the profit on ordinary activities before taxation was £1,092,000 (2013: profit of £917,000). The profit for the financial year to 30 June 2014 after taxation and minority interests was £1,074,000 (2013: profit of £922,000) an increase of 16.6%

The group's key measure of effectiveness of its operations is calculating gross margin after direct costs. The group achieved a gross margin after direct costs of 29.8% (2013: 27.6%).

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 increased by a lower proportion because of the performance of bond interest rates. The gap between pension fund assets and liabilities decreased as a result. The group's cash levels have increased by £149,000 from £1,628,000 at the end of financial year 2013 to £1,777,000 at the end of the current financial year.

(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, Kantone is not required to report on its CO2 emissions however they are restricted to our fleet of forty vehicles and the heating and lighting of our premises.

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

(c) Staff - the number of persons of each sex who were employees of the group.

(i) the number of persons of each sex who were directors of the group;
Male 3

(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 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.

THE POSITION OF THE GROUP AT THE YEAR END

The group has net liabilities of £23,214,000 (2013: £23,916,000) however this is due to the group defined benefit pension scheme and when this is ring fenced the company has net liabilities of £15,745,000 (2013: £15,968,000).

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 and professional opinion. It is the Directors' view that there is evidence that a permanent diminution in asset value has taken place on the Basingstoke property and as such an adjustment has been made this time. The King's Lynn property has increased in value.

STRATEGIC REPORT (continued)

THE POSITION OF THE COMPANY AT THE YEAR END (continued)

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.

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 Kantone 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.

THE PRINCIPAL RISKS AND UNCERTAINTIES FACING THE COMPANY

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, and are 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 delays. The reorganisation of key areas of government expenditure continues to generate uncertainty in this area of the marketplace. The emergency services now have a clear direction but the NHS still has to firm up what it is going to do. In the meantime Kantone is continuing to develop an increased 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. In this company's case customers are frequently organisations that are backed by the government of the United Kingdom.

Many of Kantone's customers are within the NHS/Emergency services and accordingly are a very low credit risk.

KANTONE (UK) LIMITED

STRATEGIC REPORT (continued)

CORPORATE GOVERNANCE

The company voluntarily complies with such elements of the Financial Reporting Council's "The UK Corporate Governance Code" (issued in June 2012) as the Directors consider it appropriate for a private company of its size.

The company 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 meets quarterly 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.

Some of the non executive directors have served for more than nine years and are elected annually. In all instances these directors are still seen as independent notwithstanding the existence of relationships or circumstances due to their lack of proximity and involvement in the day to day operation of the business.

There is no internal audit function or audit committee given that 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. L Lawrence FCMA CGMA

Company Secretary

12th November 2014

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 April 2014.

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 Company and 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 financial statements.

DIVIDENDS

The directors do not recommend a dividend to be paid to ordinary shareholders on the register.

DIRECTORS

The present membership of the Board at the year end is set out on page one. Mr. Terry Miller resigned during the year on 30 April 2014

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under 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 (continued)

DIRECTORS' REMUNERATION

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.

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 are unaware; and

The director has taken all steps that they ought to have taken as director to make themselves aware of any relevant audit information and to establish that the company's auditor are aware of that information.

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

Deloitte LLP have expressed their willingness to continue in office as auditor 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

P. L. Lawrence

Mr. P. L. L Lawrence FCMA CGMA

Company Secretary

12th November 2014

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 2014 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 Parent Company Balance Sheets, and the related notes 1 to 23. 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).

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 auditors

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 and 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 (APB'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 and 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

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs and the Parent Company's affairs as at 30 June 2014 and of the profit of the Group 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 matter prescribed by the Companies Act 2006

In our opinion 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.

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 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
21 November 2014

KANTONE (UK) LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 30 June 2014

	Note	2014 £'000	2013 £'000
TURNOVER	2	14,801	13,543
Cost of sales		(10,394)	(9,808)
Gross profit		4,407	3,735
Other operating expenses	3	(3,426)	(2,935)
Other operating income	4	105	55
OPERATING PROFIT	5	1,086	855
Interest receivable and similar income		190	211
Interest payable and similar charges	7	(184)	(149)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,092	917
Tax charge on profit on ordinary activities	8	(18)	(8)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,074	909
Minority interests		-	13
RETAINED PROFIT FOR THE FINANCIAL YEAR	20	1,074	922

All of the activities of the group are classed as continuing.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 30 June 2014

	Note	2014 £'000	2013 £'000
Profit for the financial year	20	1,074	922
Revaluation (deficit) / surplus		(61)	7
Defined pension scheme actuarial (loss) / gain	18	(264)	950
Currency translation differences on foreign currency net investments	20	(46)	4
Total recognised gains and losses relating to the year		703	1,883

RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' DEFICIT
Year ended 30 June 2014

	2014 £'000	2013 £'000
Profit for the financial year	1,074	922
Other recognised gains and losses relating to the year	(371)	961
Net decrease in shareholders' deficit	703	1,883
Opening shareholders' deficit	(23,917)	(25,799)
Closing shareholders' deficit	(23,214)	(23,916)

CONSOLIDATED BALANCE SHEET
30 June 2014

	Note	2014 £'000	2013 £'000
FIXED ASSETS			
Tangible assets	9	1,964	2,109
Intangible assets	10	1,763	1,992
		3,727	4,101
CURRENT ASSETS			
Stocks	12	1,932	2,121
Debtors	13	6,308	5,968
Cash at bank and in hand		1,777	1,628
		10,017	9,717
CREDITORS: amounts falling due within one year	14	(26,870)	(26,778)
NET CURRENT LIABILITIES		(16,853)	(17,061)
TOTAL ASSETS LESS CURRENT LIABILITIES		(13,126)	(12,960)
CREDITORS: amounts falling due after more than one year	15	(2,527)	(2,908)
PROVISIONS FOR LIABILITIES	17	(97)	(106)
MINORITY INTEREST		6	6
NET LIABILITIES EXCLUDING PENSION LIABILITY		(15,744)	(15,968)
PENSION LIABILITY	18	(7,469)	(7,948)
NET LIABILITIES INCLUDING PENSION LIABILITY		(23,213)	(23,916)
CAPITAL AND RESERVES			
Called up share capital	19	5,500	5,500
Revaluation reserve	20	231	307
Profit and loss account deficit	20	(28,944)	(29,723)
SHAREHOLDERS' DEFICIT		(23,213)	(23,916)

The financial statements of Kantone UK Limited, registered no 02833057, set out on pages 9 to 28, were approved and authorised for issue by the board of directors and were signed on its behalf by:

P. L. Lawrence

Mr. P. L. L Lawrence FCMA CGMA

Company Secretary

12th November 2014

KANTONE (UK) LIMITED

COMPANY BALANCE SHEET
30 June 2014

	Note	2014 £'000	2013 £'000
FIXED ASSETS			
Investments	11	9,465	9,465
CURRENT ASSETS			
Debtors	13	100	100
CREDITORS: amounts falling due within one year	14	(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	19	5,500	5,500
Profit and loss account deficit	20	(15,657)	(15,657)
SHAREHOLDERS' DEFICIT		(10,157)	(10,157)

The financial statements of Kantone UK Limited, registered no 02833057, set out on pages 9 to 28, were approved and authorised for issue by the board of directors and were signed on its behalf by:

P. L. Lawrence

Mr. P. L. L Lawrence FCMA CGMA

Company Secretary

12th November 2014

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2014

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.

Going Concern

The accounts have been prepared on the going concern basis. In making this assessment the directors have considered the forecast cash flows and the liabilities of the company for the foreseeable future and the date at which they fall due. They have also received confirmation from M.C. Holdings Limited, an intermediate holding company, that it will not demand repayment of the amount owed to it at the balance sheet date, amounting to £19,722,000, for at least 12 months from the date of signing these financial statements. The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

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 as provided by Section 408 of the Companies Act 2006. Included in the consolidated profit for the financial year is a result of £nil (2013: £nil) which was attributable to the shareholders of Kantone (UK) Limited (see note 20).

Cash flow statement

Under the provisions of Financial Reporting Standard No. 1, the group has not prepared a cash flow statement because the consolidated financial statements of Kantone Holdings Limited, a company incorporated in Bermuda, include the results of the group and present a consolidated cash flow statement.

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.

1. ACCOUNTING POLICIES (continued)

Research and development and intangibles

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 intangible 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.

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.

Interests in joint ventures

The Group has a contractual arrangement with other parties which represent joint ventures. This takes the form of agreements to share control over BEL-Multitone Limited (India). The Group recognises its interest in this entity's assets and liabilities using the equity method of accounting.

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".

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 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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2014

1. ACCOUNTING POLICIES (continued)

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 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 20) 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 employers 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 defined benefit scheme is accounted in accordance with Financial Reporting Standard 17. The service cost of pension provision relating to the period, together with gains and losses on settlements and curtailments and the cost of any benefits relating to past service are charged to the profit and loss account. A charge equal to the increase in the present value of the scheme liabilities (because the benefits are closer to settlement) and a credit equivalent to the company's long term expected return on assets (based on the market value of the scheme assets at the start of the period) are included in the profit and loss account as a net amount under interest payable/receivable.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or liability on the balance sheet. Any difference between the expected return on assets and that actually achieved is recognised in the statement of total recognised gains and losses along with differences which arise from experience or assumption changes.

2. TURNOVER

	2014 £'000	2013 £'000
Analysis of turnover by destination:		
United Kingdom	9,560	8,329
North America	305	253
France and Germany	3,382	3,378
Other European countries	700	1,098
Rest of world	854	485
Total overseas	5,241	5,214
	14,801	13,543

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:

	2014 £'000	2013 £'000
Finance lease sales	2,134	2,021
Income from equipment hire	998	954
	3,132	2,975

Assets acquired in the year for the purpose of sale under finance leases totalled £566,000 (2013: £623,000).

3. OTHER OPERATING EXPENSES

	2014 £'000	2013 £'000
Distribution costs	100	147
Administrative expenses	3,326	2,788
	3,426	2,935

4. OTHER OPERATING INCOME

A payment of £81,000 (2013: £23,000) was received from HMRC in connection to an above the line tax credit for research and development expenses. Of the remaining amount, £24,000 relates to rental income from unused office space (2013 £25,000). In 2013 £7,000 had arisen from income on fixed deposits in Bel Multitone.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2014

5. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2014 £'000	2013 £'000
Research and development expenditure incurred in the year	706	784
Expenditure capitalised in relation to intangible fixed assets	(572)	(657)
Research and development expenditure expensed in the year	134	127
Depreciation and amortisation		
- owned equipment - research and development	801	735
- owned equipment - other	163	165
- revaluation	6	7
Operating lease rentals:		
- plant and equipment	318	324
- land and buildings	138	134
Gain on foreign exchange	(17)	(38)
Loss on revaluation of fixed assets	10	-
Fees payable to the Company's auditors and their associates for the audit of Company's annual accounts	69	69

The auditor's remuneration for the company has been borne by Multitone Electronics Plc in both years. The auditor's remuneration in respect of Kantone (UK) Limited for the year was £5,000 (2013: £5,000). The value of non-audit fees for the year was nil (2013: nil).

6. STAFF COSTS

The group

	2014 £'000	2013 £'000
Staff costs (including directors' emoluments):		
Wages and salaries	5,496	5,319
Social security costs	728	715
Other pension costs	410	100
	6,634	6,134

	No.	No.
The average number of persons employed by the group during the year was:		
Development and manufacture	52	56
Sales and service	80	84
Administration	44	43
	176	183
United Kingdom	105	112
Overseas	71	71
	176	183

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 2014

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2014 £'000	2013 £'000
Interest payable on bank loans and overdrafts	62	53
Interest on pension scheme liabilities (note 18)	122	96
	184	149

8. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax charge on ordinary activities

	2014 £'000	2013 £'000
Corporation tax		
Current year	(18)	(8)
Prior year tax refund	-	-
Deferred tax:		
Deferred tax timing differences, origination and reversal	-	-
Total tax charge for the year	(18)	(8)

Factors affecting the tax charge for the current year

The tax assessed for the year is lower (2013: lower) than that resulting from applying the standard rate of corporation tax in the UK of 22% (2013: 23%). The differences are explained below:

	2014 %	2013 %
Standard tax rate for the year as a percentage of profits	22	23
Expenses not deductible for tax purposes	(9)	(10)
Capital allowances in excess of depreciation	(5)	(5)
Utilisation of tax losses	(6)	(13)
Current tax rate for the year as a percentage of profits	2	(1)

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 £55,000 (2013: £77,000).

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 £1,144,000 (2013: £1,537,000). The asset would be recovered if future taxable profits were available against which the losses could be relieved.

8. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES (continued)

A deferred tax asset to the sum of £888,000 (2013: £1,021,000) 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 £1,494,000 (2013: £1,828,000) has not been recognised in respect of the defined benefit pension scheme liability however £320,000 has been recognised in the balance sheet (Note 13).

The Finance Act 2013, which provides for reductions in the main rate of corporation tax from 23% to 21% effective from 1 April 2014 and to 20% effective from 1 April 2015, was substantively enacted on 2 July 2013. These rate reductions have been reflected in the calculation of deferred tax at the balance sheet date.

9. TANGIBLE FIXED ASSETS

Group	Land and buildings £'000	Equipment on hire £'000	Plant and equipment £'000	Total £'000
Cost or valuation				
At 1 July 2013	1,738	5,837	10,090	17,665
Translation adjustment	-	(14)	(86)	(100)
Revaluation Adjustment	(225)	-	-	(225)
Additions	-	11	106	117
At 30 June 2014	1,513	5,834	10,110	17,457
Accumulated depreciation				
At 1 July 2013	169	5,761	9,626	15,556
Translation adjustment	-	(10)	(69)	(79)
Revaluation Adjustment	(154)	-	-	(154)
Charge for the year	7	25	138	170
At 30 June 2014	22	5,776	9,695	15,493
Net book value				
At 30 June 2014	1,491	58	415	1,964
At 30 June 2013	1,569	76	464	2,109

The net book value of land and buildings comprises:

Group	2014 £'000	2013 £'000
Freehold land and buildings	1,390	1,468
Long leasehold land and buildings	101	101
	1,491	1,569

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2014

9. TANGIBLE FIXED ASSETS (continued)

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 their opinion, the open market value of the properties at that time was as follows:

King's Lynn market value £750,000 compared to a book value of £684,000.

Basingstoke market value £640,000 compared to a book value of £777,000.

Much of the reduction in the value of the Basingstoke property was written off to Revaluation Reserves but there was a residual charge to the profit and loss account in the year (£23,000).

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

	Group 2014 £'000	2013 £'000
Original cost	1,396	1,396
Less: accumulated depreciation	(225)	(214)
Net book value	1,171	1,182

10. INTANGIBLE FIXED ASSETS

Group	£'000
Cost or valuation	
At 1 July 2013	8,809
Additions	572
At 30 June 2014	9,381
Accumulated amortisation	
At 1 July 2013	6,817
Charge for the year	801
At 30 June 2014	7,618
Net book value	
At 30 June 2014	1,763
At 30 June 2013	1,992

Intangible assets includes all costs incurred in respect of producing software, pre-production prototypes and test equipment for new products. These costs are amortised over a period of 5 years which reflects the expected market life of the products in question.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2014

11. INVESTMENTS

	Company 2014 £'000	2013 £'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)**
Non-trading	Multitone Communications Limited * Multitone Communication Systems Limited * Infopage Limited * Paging Systems Limited * Multitone Rentals 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 financial year end of BEL-Multitone Ltd was 31 March 2014.

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

12. STOCKS

Group	2014 £'000	2013 £'000
Raw materials, purchased components and spares	1,290	1,441
Work in progress	82	96
Finished goods	560	584
	1,932	2,121

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 2014

13. DEBTORS

	Group		Company	
	2014	**2013**	**2014**	**2013**
	£'000	**£'000**	**£'000**	**£'000**
Amounts falling due in less than one year:				
Trade debtors	2,161	1,860	-	-
Amounts owed by group undertakings	2,295	2,296	100	100
Deferred tax asset	320	320	-	-
Other debtors	159	142	-	-
Prepayments and accrued income	164	155	-	-
	5,099	4,773	100	100
Amounts falling due after more than one year:				
Corporation tax recoverable	-	-	-	-
Amounts receivable under finance leases	1,209	1,195	-	-
	6,308	5,968	100	100

The aggregate rentals receivable under finance leases as at 30 June 2014 was £2,134,000 (2013: £2,021,000).

Deferred taxation

The movement in deferred taxation is as follows:	Group	
	2014	**2013**
	£'000	**£'000**
At 1 July	320	320
At 30 June	320	320

Analysis of deferred taxation:	Group	
	2014	**2013**
	£'000	**£'000**
Tax losses and timing differences	320	320

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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2014

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2014	2013	2014	2013
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (note 16)	360	400	-	-
Trade creditors	806	876	-	-
Amounts owed to group undertakings	21,589	21,450	19,722	19,722
Corporation tax	27	8	-	-
VAT and other sales taxes	374	316	-	-
Payroll taxes and social security	161	142	-	-
Other creditors	1,457	1,087	-	-
Accruals and deferred income	2,096	2,499	-	-
	26,870	26,778	19,722	19,722

The external borrowings of Kantone (UK) Limited and its subsidiary companies are guaranteed by Kantone Holdings Limited, an intermediate holding company.

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

Group	2014	2013
	£'000	£'000
Bank loans	1,080	1,440
Overseas pensions	347	368
Amounts due to group undertakings	1,100	1,100
	2,527	2,908

16. BORROWINGS

Group	2014	2013
	£'000	£'000
Bank loans and overdrafts	1,440	1,840
Amounts owed to group undertakings	17,099	17,099
	18,539	18,939
Due within one year	17,459	17,499
Between one and two years	360	360
Between two and five years	720	1,080
	18,539	18,939

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2014

17. PROVISIONS FOR LIABILITIES

Warranty provision

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

	Group 2014 £'000	Group 2013 £'000
At 1 July	106	103
Translation adjustment	(6)	5
Provided in year	87	88
Utilised in year	(90)	(90)
At 30 June	97	106

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

18. 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 2013. The valuation used the projected unit method and was carried out by a professionally qualified actuary. The 31 December 2013 valuation was updated by the actuary on an approximate basis to calculate the FRS17 valuation as at 30 June 2014.

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

Group	2014 Long term rate of return expected	2014 Value £'000	2013 Long term rate of return expected	2013 Value £'000	2011 Long term rate of return expected	2011 Value £'000
Equities	6.40%	23,849	6.50%	21,679	5.90%	20,804
Bonds	3.40%	2,783	3.50%	2,662	2.90%	2,669
Cash	0.50%	338	0.50%	233	0.50%	94
Total market value of assets		26,970		24,574		23,567
Present value of scheme liabilities		(34,439)		(32,522)		(32,723)
Deficit in scheme		(7,469)		(7,948)		(9,156)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2014

18. PENSION LIABILITY (continued)

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

		2014	2013	2011
Discount rate		4.30%	4.60%	4.30%
Rate of increase in salaries		3.50%	3.40%	2.90%
Rate of increase in pensions in payment:	Pre 1997	0.00%	0.00%	0.00%
	Post 1998 GMP	2.30%	2.20%	1.80%
	Post 1997	3.30%	3.20%	2.80%
Inflation assumption		3.50%	3.40%	2.90%

The contribution rate for 2014 was 23.90% of pensionable earnings and the agreed contribution rates for the next 15 years is 23.90% of pensionable earnings.

Analysis of the movement in the scheme deficit during the year:	2014 £'000	2013 £'000
Opening deficit in the scheme	(7,948)	(9,156)
Current service cost	(193)	(164)
Contributions	1,058	518
Other finance costs	(122)	(96)
Actuarial (loss)/gain	(264)	950
Closing deficit in the scheme	(7,469)	(7,948)

Defined Contribution Pension Scheme

During the year contributions of £47k were made by the Multitone Electronics into the scheme (2013: £40k). There was an unpaid contribution of £5.5k outstanding at 30th June 2014. This amount is showing in Other Creditors and was paid fully in July.

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

Amounts included within operating profit:	2014 £'000	2013 £'000
Current service cost	(193)	(164)

Amounts included as other finance costs:	2014 £'000	2013 £'000
Expected return on scheme assets	1,352	1,294
Interest discount on scheme liabilities	(1,474)	(1,390)
Net finance costs (note 7)	(122)	(96)

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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2014

18. PENSION LIABILITY (continued)

	2014 £'000	2014 %	2013 £'000	2013 %	2012 £'000	2012 %	2011 £'000	2011 %	2010 £'000	2010 %
Difference between actual and expected return on scheme assets (i)	1,135	4%	128	1%	112	0%	1,686	8%	1,310	7%
Effects of changes in assumptions underlying the present value of scheme liabilities (ii)	(1,399)	(4%)	822	3%	(3,519)	(11%)	365	1%	(3,288)	(12%)
Total actuarial (losses)/gains recognised in the STRGL (ii)	(264)	(1%)	950	4%	(3,407)	(14%)	2,051	9%	(1,978)	(10%)

Impact of changes in Assumptions:

Assumption	Change in assumption	Indicative effect on scheme liabilities
Discount rate	Increase / decrease by 0.5%	Decrease / increase by 8%
Rate of inflation	Increase / decrease by 0.5%	Increase / decrease by 4%
Longevity	Increase by 1 year	Increase by 2%

The cumulative amount of actuarial losses recognised in the statement of total recognised gains and losses since the adoption of FRS17 is £4,841,000 (2013: £4,576,000).

Defined Contribution Pension Scheme

During the year contributions of £47k were made by the Multitone Electronics into the scheme (2013: £40k). There was an unpaid contribution of £5.5k outstanding at 30 June 2014. This amount is showing in Other Creditors and was paid fully in July.

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 £347,000 (2013: £368,000).

19. CALLED UP SHARE CAPITAL

	2014 £'000	2013 £'000
Called up, allotted and fully paid:		
5,500,000 (2013:5,500,000) ordinary shares of £1 each	5,500	5,500

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2014

20. STATEMENT OF MOVEMENT ON RESERVES

	Revaluation reserve £'000	Profit and loss account £'000
Group		
At 1 July 2013	307	(29,723)
Translation adjustment	(15)	(31)
Revaluation deficit	(55)	-
Amortisation of revaluation surplus	(6)	
Retained profit for the year	-	1,074
Defined pension scheme actuarial loss	-	(264)
At 30 June 2014	231	28,944
Company		
At 1 July 2013 and 30 June 2014		(15,657)

The revaluation reserve is not distributable. The cumulative amount of goodwill written off against reserves is £14,805,000 (2013: £14,805,000). Goodwill will be charged to the profit and loss account on disposal of the business to which it relates.

21. OPERATING LEASE COMMITMENTS

At 30 June 2014 the group was committed to making the following payments during the next year in respect of operating leases:

Group	2014 Land and buildings £'000	2014 Plant and equipment £'000	2013 Land and buildings £'000	2013 Plant and equipment £'000
Operating leases which expire:				
Within one year	13	36	13	27
In two to five years	94	23	95	23
	107	59	108	50

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 (2013: £1,000).

22. 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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2014

23. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The company is a subsidiary undertaking of Kantone Holdings Limited, a company incorporated in Bermuda 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 Kantone (UK) Limited.