Company Registration No. 2833057

KANTONE (UK) LIMITED

Report and Financial Statements

30 June 2002

Deloitte & Touche
Southampton

REPORT AND FINANCIAL STATEMENTS 2002

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REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

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

SECRETARY

Anthony Herman

REGISTERED OFFICE

11 Church Road
Tunbridge Wells
Kent TN1 1JA

AUDITORS

Deloitte & Touche
Southampton

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2002.

PRINCIPAL ACTIVITY

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

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The financial year was difficult for the Kantone UK group with global economic decline, political uncertainty and continued depression in the telecoms sector. The outcome of this was that many companies chose to defer capital spending on major systems, particularly in Western economies. Consequently the Kantone group had two major customer contracts significantly delayed resulting in a fall in factory volume. Whilst the Kantone group has responded with some cost-saving measures, the directors feel that the drop in volume is only temporary, as the contracts deferred during the financial year have now been started. The directors will continue to explore new opportunities in traditionally strong markets and ensure proper cost control is maintained whilst current market conditions prevail.

The detailed results for the year ended 30 June 2002 are set out in the consolidated profit and loss account on page 6. Turnover for the year was £16,023,000 (2001: £19,329,000) and the loss on ordinary activities before taxation was £2,706,000 (2001: profit of £812,000). The loss for the financial year to 30 June 2002 after taxation and minority interests was £2,706,000 (2001: profit of £796,000).

DIVIDENDS

The directors do not recommend the payment of a dividend (2001: £nil).

DIRECTORS AND THEIR INTERESTS

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

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

RESEARCH AND DEVELOPMENT

The company continues to invest in research and development but the level has been reduced in light of the results for the year. The expenditure is expected to continue at the lower level for the foreseeable future.

PAYMENTS TO SUPPLIERS

The group agrees terms and conditions for its business transactions when orders for goods and services are placed, ensuring that suppliers are aware of the terms of payment, and also by including the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by the supplier. The number of outstanding creditors days at the year end stood at 54 days (2001: 59 days).

DISABLED PERSONS

The group pursues a policy of providing, wherever possible, the same employment opportunities to disabled persons as to others.

EMPLOYEE INVOLVEMENT

The group places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors influencing the performance of the group.

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

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

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

Terry J Miller
Director

20 December 2002

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

We have audited the financial statements of Kantone (UK) Limited for the year ended 30 June 2002, which comprise the consolidated profit and loss account, the statement of total recognised gains and losses, the reconciliation of movements in consolidated shareholders' funds, the balance sheets, the consolidated cash flow statement, the reconciliation of net cash flow to movement in net debt and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board, except that the scope of our work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

However, the evidence available to us was limited in relation to the investment in Multitone Electronics Plc. Under Financial Reporting Standard no. 11, 'Impairment of fixed assets and goodwill', an impairment review is required to be performed on the investment in Multitone Electronics Plc, with a book value of £22,395,000, as there are indications that the carrying amount of the fixed asset investment may not be recoverable. These indications relate to the net current liabilities and the deficit on the profit and loss reserve recorded by the subsidiary, which as at 30 June 2002 were £3,647,000 and £6,184,000 respectively. The directors of Kantone (UK) Limited have not performed such a review for impairment. In the absence of an impairment review, there were no other satisfactory procedures that we could adopt to determine the carrying value of the investment.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from limitation in audit scope

Except for any adjustments to the financial statements that might have been found to be necessary had we been able to obtain sufficient evidence concerning the carrying value of the above mentioned subsidiary in the company's balance sheet, in our opinion, the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 June 2002 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

In respect alone of the limitation on our work relating to investments held in the company's balance sheet, we have not obtained all the information and explanations that we considered necessary for the purposes of our audit.

Deloitte & Touche

DELOITTE & TOUCHE
Chartered Accountants and Registered Auditors
Southampton

7 January 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 30 June 2002

	Note	2002 £'000	2001 £'000
TURNOVER: continuing operations	2	16,023	19,329
Cost of sales		(13,528)	(14,088)
GROSS PROFIT		2,495	5,241
Other operating expenses	3	(4,457)	(3,484)
OPERATING (LOSS)/ PROFIT: continuing operations		(1,962)	1,757
Interest receivable and similar income		120	-
Interest payable and similar charges	6	(864)	(945)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	(2,706)	812
Tax on (loss)/profit on ordinary activities	7	8	(29)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(2,698)	783
Equity minority interests		(8)	13
RETAINED (LOSS)/ PROFIT FOR THE FINANCIAL YEAR	17	(2,706)	796

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 30 June 2002

	Note	2002 £'000	2001 £'000
(Loss)/profit for the financial year	17	(2,706)	796
Surplus arising on revaluation of fixed assets	17	319	-
Currency translation differences on foreign currency net investments	17	61	(19)
Total recognised gains and losses relating to the year		(2,326)	777

RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS
Year ended 30 June 2002

	2002 £'000	2001 £'000
(Loss)/profit for the financial year	(2,706)	796
Other recognised gains and losses relating to the year	380	(19)
Net (reduction)/increase in shareholders' funds	(2,326)	777
Opening shareholders' funds	(17,294)	(18,071)
Closing shareholders' funds	(19,620)	(17,294)

CONSOLIDATED BALANCE SHEET
30 June 2002

	Note	2002 £'000	2001 £'000
FIXED ASSETS			
Tangible assets	8	5,965	7,087
Investments	9	471	471
		6,436	7,558
CURRENT ASSETS			
Stocks	10	3,762	4,506
Debtors due in less than one year	11	5,282	5,492
Debtors due after more than one year	11	1,074	680
Cash at bank and in hand		1,521	903
		11,639	11,581
CREDITORS: amounts falling due within one year	12	(35,168)	(33,786)
NET CURRENT LIABILITIES		(23,529)	(22,205)
TOTAL ASSETS LESS CURRENT LIABILITIES		(17,093)	(14,647)
CREDITORS: amounts falling due after more than one year	13	(2,355)	(2,491)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(181)	(174)
EQUITY MINORITY INTEREST		9	18
NET LIABILITIES		(19,620)	(17,294)
CAPITAL AND RESERVES			
Called up share capital	16	5,500	5,500
Revaluation reserve	17	319	-
Profit and loss account deficit	17	(25,439)	(22,794)
EQUITY SHAREHOLDERS' DEFICIT		(19,620)	(17,294)

These financial statements were approved by the Board of Directors on 20 December 2002.

Signed on behalf of the Board of Directors

Terry J Miller
Director

COMPANY BALANCE SHEET
30 June 2002

	Note	2002 £'000	2001 £'000
FIXED ASSETS			
Investments	9	22,395	22,395
CURRENT ASSETS			
Debtors	11	100	100
CREDITORS: amounts falling due within one year	12	(19,722)	(19,722)
NET CURRENT LIABILITIES		(19,622)	(19,622)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,773	2,773
CAPITAL AND RESERVES			
Called up share capital	16	5,500	5,500
Profit and loss account deficit	17	(2,727)	(2,727)
EQUITY SHAREHOLDERS' FUNDS		2,773	2,773

These financial statements were approved by the Board of Directors on 20 December 2002.

Signed on behalf of the Board of Directors

Terry J Miller
Director

CONSOLIDATED CASH FLOW STATEMENT
Year ended 30 June 2002

	Note	£'000	2002 £'000	£'000	2001 £'000
Net cash inflow from operating activities	18		1,259		2,750
Returns on investments and servicing of finance					
Interest received		120		-	
Interest paid		(826)		(903)	
Interest element of finance lease rentals		(38)		(42)	
Net cash outflow from returns on investments and servicing of finance			(744)		(945)
Taxation					
Tax paid			(28)		(4)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(708)		(1,207)	
Sale of tangible fixed assets		30		78	
Loans to group undertakings		-		(471)	
Net cash outflow from capital expenditure			(678)		(1,600)
Net cash (outflow)/inflow before financing			(191)		201
Financing					
Repayment of other loans		(450)		(147)	
New loans due within one year		122		-	
New loans due after more than one year		549		-	
Capital element of finance lease repayments		(203)		(138)	
Net cash inflow/(outflow) from financing			18		(285)
Decrease in cash in the year	19		(173)		(84)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Note	2002 £'000	2001 £'000
Decrease in cash in the year		(173)	(84)
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing		(18)	285
Change in net debt resulting from cash flows		(191)	201
New finance leases		(182)	-
Movement in net debt in the period	19	(373)	201
Opening net debt	19	(25,184)	(25,385)
Closing net debt	19	(25,557)	(25,184)

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on a going concern basis. The directors consider this basis to be appropriate in the light of confirmation received from the group's parent undertaking, Kantone Holdings Limited, that it will continue to provide adequate financial support to enable the company and the group to continue as an ongoing business.

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 as provided by Section 230 of the Companies Act 1985. Included in the consolidated loss for the financial year is a result of £nil (2001: £nil) which was attributable to the shareholders of Kantone (UK) Limited (see note 17).

Foreign currencies

In the financial statements of individual companies, transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rate ruling at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported 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. To the extent that the billings are recorded in advance of the relevant turnover, these are included in deferred income.

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. 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.

Pension costs

In the United Kingdom the group operates a defined benefit pension scheme. Pension costs comprise the regular pension cost less the amortisation of any pension surplus and other pension cost variations, as advised by external actuaries (see note 5). Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. Contributions are made to some employees' own pension schemes and are accounted for as paid.

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

1. ACCOUNTING POLICIES (continued)

Tangible fixed assets

Land and buildings are shown at original historical cost or at a subsequent revaluation. Other fixed assets are shown at cost. 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	50 years
Short leasehold property	Unexpired term
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. Dividend income is included (together with the related tax credit) in the consolidated financial statements of the year in which it is receivable for both fixed and current asset investments.

Leases

The group enters into operating and finance leases.

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

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

Stocks

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

Research and development

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

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

1. ACCOUNTING POLICIES (continued)

Deferred taxation

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

Revaluation reserve

Surpluses arising on the revaluation of individual tangible fixed assets are credited to the revaluation reserve (see note 17) 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. 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.

2. TURNOVER

	2002 £'000	2001 £'000
Analysis by geographical market:		
United Kingdom	8,678	11,594
North America	292	169
France and Germany	4,506	4,574
Other European countries	1,483	1,907
Rest of world	1,064	1,085
Total overseas	7,345	7,735
	16,023	19,329

All the group's turnover arises 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:

	2002 £'000	2001 £'000
Finance lease sales	831	1,128
Income from equipment hire	2,363	2,822
	3,194	3,950

Assets acquired in the year for the purpose of sale under finance leases totalled £831,000 (2001: £1,128,000).

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

3. OTHER OPERATING EXPENSES

	2002 £'000	2001 £'000
Distribution costs	95	89
Administrative expenses	4,362	3,395
	4,457	3,484

4. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging/(crediting):

	2002 £'000	2002 £'000	2001 £'000	2001 £'000
Research and development expenditure incurred in the year	1,837		1,674	
Expenditure capitalised in relation to tangible fixed assets	(501)		(880)	
Research and development expenditure expensed in the year		1,336		794
Depreciation:				
- owned equipment – research and development		920		828
- owned equipment – other		1,304		1,609
- under finance leases		83		87
Operating lease rentals:				
- plant and equipment		519		435
- land and buildings		178		180
Loss/(gain) on foreign exchange		98		(59)
Auditors' remuneration:				
- audit services – group		88		88
- other services		30		30

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

5. STAFF COSTS

	2002	2001
	£'000	£'000
Staff costs (including directors' emoluments):		
Wages and salaries	6,185	6,578
Social security costs	789	803
Other pension costs	372	258
	7,346	7,639

	No.	No.
The average number of persons employed by the group during the year was:		
Development and manufacture	128	131
Sales and service	113	107
Administration	58	63
	299	301
United Kingdom	185	190
Overseas	114	111
	299	301

Pensions arrangements

The pension cost figures used in these accounts comply with the current accounting standard SSAP 24 *Accounting for pension costs*. A new accounting standard, FRS 17 *Retirement benefits*, has been issued and applies to accounting periods ending on or after 22 June 2003, with transitional requirements applying this year.

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 aged over 21 years.

The group also operates an insured scheme in an overseas company for certain senior management of that company. The liability to the group at the year end in respect of this pension scheme was £186,000 (2001: £168,000).

SSAP 24 ***Accounting for pension costs***

Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 January 1999. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries, pensions and share dividends. It was assumed that the investment returns would be 7.5% per annum, that the guaranteed minimum pensions accruing after 5 April 1997 would increase at the rate of 3% per annum, that share dividends would increase at 4.25% per annum, and that price inflation would average 3.5% per annum.

An actuarial valuation carried out for SSAP 24 purposes as at 1 January 2002 has been started, but is not yet finalised. This actuarial valuation was updated to 30 June 2002 by a qualified actuary and shows that the market value of the scheme's assets was £13,529,000 and that the actuarial value of these assets represented 69% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The employer's contribution rate over the average remaining service lives of the members of the scheme takes account of the deficit disclosed by the valuation.

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

5. STAFF COSTS (continued)

The pension charge for the year for the scheme was £372,000 (2001: £258,000).

FRS 17 *Retirement benefits*

Under the transitional arrangements of FRS 17, the group is required to disclose the following information about the scheme and the figures that would have been shown in the group balance sheet if FRS 17 applied in full today.

The draft actuarial valuation referred to above, which was carried out as at 1 January 2002 and updated to 30 June 2002, is applicable to the FRS 17 disclosures given below.

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

	2002 Long term rate of return expected	2002 Value £'000	2001 Long term rate of return expected	2001 Value £'000
Equities	7.25%	10,882	6.25%-7.75%	11,715
Bonds	4.75%	2,647	5.25%	2,294
Other	4.75%	-	5.25%	1,285
Total market value of assets		13,529		15,294
Present value of scheme liabilities		(19,551)		(15,800)
Deficit in scheme		(6,022)		(506)
Related deferred tax asset		1,807		152
Net pension liability		(4,215)		(354)

If the above pension liability were recognised in the financial statements at 30 June, the group's profit and loss reserve would be as follows:

	2002 £'000	2001 £'000
Profit and loss reserve excluding pension liability deficiency	(25,439)	(22,794)
Pension provision	(4,215)	(354)
Profit and loss reserve deficiency	(29,654)	(23,148)

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

	2002	2001
Discount rate	5.75%	6.25%
Rate of increase in salaries	4.25%	3.50%
Rate of increase in deferred pensions	2.75%	2.50%
Rate of increase in pensions in payment	2.75%	2.50%
Inflation assumption	2.75%	2.50%

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

5. **STAFF COSTS (continued)**

The agreed contribution rate for future years is 17.3%.

Analysis of the movement in the scheme deficit during the year	**2002 £'000**
Opening deficit in the scheme	(506)
Current service cost	(324)
Contributions	327
Other finance income	50
Actuarial losses	(5,569)
Closing deficit in the scheme	(6,022)

Amounts that would have been included within the financial statements for the year ended 30 June 2002 had FRS 17 been applied are as follows:

Amounts included within operating loss:	**2002 £'000**
Current service cost	324
Total included within operating loss	324

Amounts included as other finance costs:	**2002 £'000**
Expected return on scheme assets	1,035
Interest discount on scheme liabilities	(985)
Net finance return	50

Amounts that would have been included within the statement of total recognised gains and losses in the year to 30 June 2002 had FRS 17 been applied are shown below, expressed in monetary amounts and as a percentage of:

(i) scheme assets at the balance sheet date;

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

	2002 £'000	**2002 %**
Difference between actual and expected return on scheme assets (i)	(2,728)	20%
Experience losses arising on scheme liabilities (ii)	(327)	2%
Effects of changes in assumptions underlying the present value of scheme liabilities (ii)	(2,514)	13%
Total actuarial losses recognised in the STRGL (ii)	(5,569)	28%

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £'000	2001 £'000
Interest payable on bank loans and overdrafts	440	463
Interest payable on finance leases	38	42
Interest payable on other loans	386	440
	864	945

7. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

Analysis of tax credit/(charge) on ordinary activities

	2002 £'000	2001 £'000
Current tax		
Foreign tax	(10)	(29)
Adjustment in respect of prior years	18	-
Total current tax	8	(29)

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

There is no deferred tax in respect of the current or preceding financial years.

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2001: 30%). The differences are explained below:

	2002 %	2001 %
Standard tax rate for the year as a percentage of profits	30	30
Expenses not deductible for tax purposes	(1)	6
Capital allowances in excess of depreciation	7	(45)
Utilisation of tax losses	(36)	35
Movement in short term timing differences	(1)	(20)
Other deferred tax movements	2	(2)
Prior year adjustments	(1)	-
Current tax rate for the year as a percentage of profits	-	4

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 £154,000.

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 cannot be determined with reasonable certainty when the deferred tax asset will be recovered. The amount of the asset not recognised is £2,545,000 (2001: £2,150,000). 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 £1,332,000 has not been recognised in respect of capital losses. The asset would be recovered if future gains arise on the sale of chargeable assets.

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

8. TANGIBLE FIXED ASSETS

Group	Land and buildings £'000	Equipment on hire £'000	Plant and equipment £'000	Total £'000
Cost				
At 1 July 2001	1,593	8,867	13,672	24,132
Revaluation	61	-	-	61
Translation adjustment	(12)	34	25	47
Additions	-	80	810	890
Disposals	-	(1,152)	(155)	(1,307)
At 30 June 2002	1,642	7,829	14,352	23,823
Depreciation				
At 1 July 2001	295	6,957	9,793	17,045
Revaluation	(258)	-	-	(258)
Translation adjustment	(4)	23	25	44
Depreciation for year	32	764	1,511	2,307
Disposals	-	(1,125)	(155)	(1,280)
At 30 June 2002	65	6,619	11,174	17,858
Net book value				
At 30 June 2002	1,577	1,210	3,178	5,965
At 30 June 2001	1,298	1,910	3,879	7,087
Assets held on finance leases included above:				
Net book value at 30 June 2002	-	-	344	344
Net book value at 30 June 2001	-	-	1,180	1,180

The cost of plant and equipment includes labour and overhead costs with a net book value of £1,670,000 (2001: £2,089,000) incurred in respect of producing software, pre-production prototypes and test equipment for new products.

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

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

8. TANGIBLE FIXED ASSETS (continued)

The net book value of land and buildings comprises:

Group	2002 £'000	2001 £'000
Freehold land and buildings	1,485	1,195
Long leasehold land and buildings	92	103
	1,577	1,298

Land and buildings are held at a valuation. The group's freehold properties in the United Kingdom were given a full revaluation on 10 June 2002 on the basis of open market value for existing use, by Woodford and Company, Chartered Surveyors. In their opinion, the open market value of the properties at that time was £1,485,000. This compared with an existing net book value of £1,166,000. The valuation has been reflected in the balance sheet and the surplus of £319,000 has been credited to the revaluation reserve (see note 17). No depreciation has been recorded, as the valuation was carried out at the end of the financial year.

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

	Group 2002 £'000	2001 £'000
Original cost	1,427	1,427
Less: accumulated depreciation	(129)	(129)
Net book value	1,298	1,298

9. INVESTMENTS

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Shares in group undertakings	-	-	22,395	22,395
Loans to group undertakings	471	471	-	-
	471	471	22,395	22,395

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 has not been carried out.

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

9. INVESTMENTS (continued)

The 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)* Multiton Electronik GmbH (Austria)*** 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*

* Owned by Multitone Electronics Plc.

** Owned by Multitone Communications Limited.

*** Owned by Multiton Electronik GmbH (Germany)

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

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

Loans to group undertakings represent amounts invested by Multitone Electonics Plc in previous periods in Multitone Eletronica Limitada, a group undertaking in Brazil.

10. STOCKS

Group	2002 £'000	2001 £'000
Raw materials, purchased components and spares	2,158	1,453
Work in progress	329	1,214
Finished goods	1,275	1,839
	3,762	4,506

11. DEBTORS

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Amounts falling due in less than one year:				
Trade debtors	2,831	3,392	-	-
Amounts owed by group undertakings	1,453	1,334	100	100
Amounts receivable under finance leases	456	235	-	-
Amounts recoverable on long term contracts	112	-	-	-
Other debtors	97	40	-	-
Prepayments and accrued income	333	491	-	-
	5,282	5,492	100	100

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

11. DEBTORS (continued)

	Group 2002 £'000	Group 2001 £'000
Amounts falling due after more than one year:		
Amounts receivable under finance leases	970	588
Prepayments and accrued income	104	92
	1,074	680

The aggregate rentals receivable under finance leases in the year was £1,426,080 (2001: £823,000).

In the financial statements for the year ended 30 June 2001, future interest payable on other loans was classified under both debtors and creditors. To comply with the disclosure requirements of FRS 4, this interest has now been offset against the related loan.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Bank overdrafts (note 14)	7,574	6,783	-	-
Other loans (note 14)	720	313	-	-
Obligations under finance leases (note 14)	76	136	-	-
Trade creditors	1,420	1,507	-	-
Amounts owed to group undertakings	21,664	21,652	19,722	19,722
Corporation tax	-	36	-	-
VAT and other sales taxes	149	46	-	-
Payroll taxes and social security	195	199	-	-
Other creditors and accruals	1,571	1,359	-	-
Accruals and deferred income	1,799	1,755	-	-
	35,168	33,786	19,722	19,722

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

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

Group	2002 £'000	2001 £'000
Other loans (note 14)	1,547	1,733
Obligations under finance leases (note 14)	63	24
Amounts owed to group undertakings	559	566
Overseas pensions	186	168
	2,355	2,491

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

14. BORROWINGS

Group	2002 £'000	2001 £'000
Bank loans and overdrafts	7,574	6,783
Other loans	2,267	2,046
Obligations under finance leases	139	160
Amounts owed to group undertakings	17,098	17,098
	27,078	26,087
Due within one year	25,468	24,330
Due after more than one year	1,610	1,757
	27,078	26,087

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

Other loans

On 1 October 1998, the group entered into a block discounting facility. On 25 July 2000, the group entered into a new loan arrangement. Advances under these facilities are included in notes 12 and 13 as "other loans." The loans are secured on current and future receivables under fixed asset rental agreements and finance lease sale agreements. A parent company guarantee has also been given in respect of the loan.

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

	Group	
	2002 £'000	2001 £'000
Analysis of other loan repayments		
Due within one year	720	313
Due in one to two years	689	636
Due in two to five years	743	954
Due in more than five years	115	143
	2,267	2,046

	Group	
Obligations under finance leases	2002 £'000	2001 £'000
Minimum lease payments payable:		
Due within one year	76	136
Due in one to two years	48	16
Due in two to five years	15	8
	139	160

Obligations under finance leases and hire purchase contracts are secured over the related assets.

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

15. PROVISIONS FOR LIABILITIES AND CHARGES

	Group 2002 £'000	Group 2001 £'000
Provisions for liabilities and charges comprise:		
Warranty provision	178	171
Deferred taxation	3	3
	181	174

Warranty provision

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

	2002 £'000	2001 £'000
At 1 July	171	326
Translation adjustment	4	(4)
Provided in year	313	122
Utilised in year	(310)	(273)
At 30 June	178	171

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

Deferred taxation

There has been no movement in the deferred tax balance in the year. An analysis of the deferred tax balance is as follows:

	Group 2002 £'000	Group 2001 £'000
Capital allowances in excess of depreciation	3	3

16. CALLED UP SHARE CAPITAL

Group and Company	2002 £'000	2001 £'000
Authorised:		
10,000,000 ordinary shares of £1 each	10,000	10,000
Called up, allotted and fully paid:		
5,500,000 ordinary shares of £1 each	5,500	5,500

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

17. STATEMENT OF MOVEMENT ON RESERVES

	Revaluation reserve £'000	Profit and loss account £'000
Group		
At 1 July 2001	-	(22,794)
Translation adjustment	-	61
Revaluation	319	-
Retained loss for the year	-	(2,706)
At 30 June 2002	319	(25,439)
Company		
At 1 July 2001		(2,727)
Retained result for the year		-
At 30 June 2002		(2,727)

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

The translation adjustment of £61,000 represents an unrealised loss arising on the translation of the net assets of the overseas subsidiaries into sterling at the year end.

18. RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002 £'000	2001 £'000
Operating (loss)/profit	(1,962)	1,757
Depreciation charges	2,307	2,524
Decrease/(increase)in stocks	744	(60)
Increase in debtors	(184)	(184)
Increase/(decrease) in creditors	289	(977)
Increase/(decrease) in provisions	7	(155)
Profit on sale of fixed assets	(3)	(36)
Release of previously unrealised profit on sale of fixed assets	-	(100)
Exchange differences	61	(19)
Net cash inflow from operating activities	1,259	2,750

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

19. ANALYSIS OF NET DEBT

	At 1 July 2001 £'000	Cash flow £'000	Other non-cash changes £'000	At 30 June 2002 £'000
Cash at bank and in hand	903	618	-	1,521
Overdrafts	(6,783)	(791)	-	(7,574)
	(5,880)	(173)	-	(6,053)
Debt due within one year				
Intercompany loans	(17,098)	-	-	(17,098)
Other loans	(313)	328	(735)	(720)
Debt due after one year				
Other loans	(1,733)	(549)	735	(1,547)
Other debt				
Finance leases	(160)	203	(182)	(139)
Net debt	(25,184)	(191)	(182)	(25,557)

20. CAPITAL COMMITMENTS

Group	2002 £'000	2001 £'000
Contracted for but not provided	39	74

21. OPERATING LEASE COMMITMENTS

At 30 June 2002 the group and the company were committed to making the following payments during the next year in respect of operating leases:

Group	2002 Land and buildings £'000	2002 Plant and equipment £'000	2001 Land and buildings £'000	2001 Plant and equipment £'000
Operating leases which expire:				
Within one year	19	72	15	27
In two to five years	192	479	99	298
	211	551	114	325

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 (2001: £1,000).

22. RELATED PARTY TRANSACTIONS

In accordance with paragraph 3(c) of Financial Reporting Standard No. 8 "Related Party Disclosures", transactions with other undertakings, and investee related parties of, the Kantone Holdings Limited group of companies have not been disclosed in these financial statements.

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

23. ULTIMATE PARENT COMPANY

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

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

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

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