Company Registration No. 2833057

# KANTONE (UK) LIMITED

## Report and Financial Statements

## 30 June 2004

# REPORT AND FINANCIAL STATEMENTS 2004

## 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

### BANKERS

HSBC Bank plc
8 London Street
Basingstoke
Hampshire
RG21 7NU

### SOLICITORS

Olswang
Apex Plaza
Forbury Road
Reading
RG1 1AX

### AUDITORS

Deloitte & Touche LLP
Southampton

# REPORT AND FINANCIAL STATEMENTS 2004

## CONTENTS

# DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2004.

## 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 detailed results for the year ended 30 June 2004 are set out in the consolidated profit and loss account on page 6. Turnover for the year was £15,893,000 (2003: £16,524,000) and the profit on ordinary activities before taxation was £112,000 (2003: loss of £382,000). The profit for the financial year to 30 June 2004 after taxation and minority interests was £144,000 (2003: loss of £288,000).

The directors are satisfied with the improvements made to the operating performance and anticipate that the group will continue to be profitable in the year ahead.

## DIVIDENDS

The directors do not recommend the payment of a dividend (2003: £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, that are detailed in Note 21.

## RESEARCH AND DEVELOPMENT

The group continues to invest in research and development at a level which is consistent with available resources. Total spend in the year was £566,000 of which £388,000 was capitalised in accordance with the group's accounting policy. The research and development expenditure is expected to continue at this level for the foreseeable future.

## PAYMENTS TO SUPPLIERS

The 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 49 days (2003: 49 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 (continued)

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

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

**Terry J Miller**
**Director**
16 November 2004

# 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 2004, 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 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.

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

**Respective responsibilities of directors and auditors**

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 appropriateness of the carrying value of the investment held by the company 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, which has a book value of £22,395,000, as there are indications that the carrying amount of this fixed asset investment may not be recoverable. These indications relate to the Multitone Electronics Plc group's net profit for the financial year of £144,000 and its net liabilities of £179,000 as at 30 June 2004. 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 appropriateness of the carrying value of the investment. Any adjustment to this figure would have a consequential effect on the result for the year.

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

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

**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 investment in 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 2004 and of the profit 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 LLP

**Deloitte & Touche LLP**
Chartered Accountants and Registered Auditors
Southampton

Date:

## CONSOLIDATED PROFIT AND LOSS ACCOUNT
## Year ended 30 June 2004

| | Note | 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| **TURNOVER: continuing operations** | 2 | 15,893 | 16,524 |
| Cost of sales | | (11,837) | (12,680) |
| **Gross profit** | | 4,056 | 3,844 |
| Other operating expenses | 3 | (3,654) | (3,644) |
| **OPERATING PROFIT: continuing operations** | 4 | 402 | 200 |
| Interest receivable and similar income | | 265 | 204 |
| Interest payable and similar charges | 6 | (555) | (786) |
| **PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION** | | 112 | (382) |
| Tax on profit/(loss) on ordinary activities | 7 | 38 | 103 |
| **PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION** | | 150 | (279) |
| Equity minority interests | | (6) | (9) |
| **RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR** | 17 | 144 | (288) |

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
## Year ended 30 June 2004

| | Note | 2004<br>£'000 | 2003<br>£'000 |
|---|---|---|---|
| Profit/(loss) for the financial year | 17 | 144 | (288) |
| Currency translation differences on foreign currency net investments | 17 | (63) | 26 |
| **Total recognised gains and losses relating to the year** | | 81 | (262) |

## RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' DEFICIT
## Year ended 30 June 2004

| | 2004<br>£'000 | 2003<br>£'000 |
|---|---|---|
| Profit/(loss) for the financial year | 144 | (288) |
| Other recognised gains and losses relating to the year | (63) | 26 |
| **Net increase/(reduction) in shareholders' deficit** | 81 | (262) |
| Opening shareholders' (deficit)/funds | (19,882) | (19,620) |
| **Closing shareholders' deficit** | (19,801) | (19,882) |

## CONSOLIDATED BALANCE SHEET
## 30 June 2004

| | Note | 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Tangible assets | 8 | 3,649 | 4,464 |
| **CURRENT ASSETS** | | | |
| Stocks | 10 | 1,586 | 2,395 |
| Debtors due in less than one year | 11 | 6,422 | 6,050 |
| Debtors due after more than one year | 11 | 1,551 | 1,323 |
| Cash at bank and in hand | | 389 | 650 |
| | | 9,948 | 10,418 |
| **CREDITORS: amounts falling due within one year** | 12 | (31,154) | (31,642) |
| **NET CURRENT LIABILITIES** | | (21,206) | (21,224) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | (17,557) | (16,760) |
| **CREDITORS: amounts falling due after more than one year** | 13 | (2,099) | (2,951) |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | 15 | (138) | (170) |
| **EQUITY MINORITY INTEREST** | | (7) | (1) |
| **NET LIABILITIES** | | (19,801) | (19,882) |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 16 | 5,500 | 5,500 |
| Revaluation reserve | 17 | 144 | 308 |
| Profit and loss account deficit | 17 | (25,445) | (25,690) |
| **EQUITY SHAREHOLDERS' DEFICIT** | | (19,801) | (19,882) |

These financial statements were approved by the Board of Directors on 16 November 2004.

Signed on behalf of the Board of Directors

**T Miller**
**Director**

## COMPANY BALANCE SHEET
## 30 June 2004

| | Note | 2004 £'000 | 2003 £'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 16 November 2004.

Signed on behalf of the Board of Directors

**T Miller**
**Director**

## CONSOLIDATED CASH FLOW STATEMENT
## Year ended 30 June 2004

| | Note | £'000 | 2004 £'000 | £'000 | 2003 £'000 |
|---|---|---|---|---|---|
| **Net cash inflow from operating activities** | 18 | | 2,223 | | 2,376 |
| **Returns on investments and servicing of finance** | | | | | |
| Interest received | | 266 | | 204 | |
| Interest paid | | (546) | | (769) | |
| Interest element of finance lease rentals | | (9) | | (17) | |
| **Net cash outflow from returns on investments and servicing of finance** | | | (289) | | (582) |
| **Taxation** | | | | | |
| Taxation paid | | | 4 | | 103 |
| **Capital expenditure and financial investment** | | | | | |
| Payments to acquire tangible fixed assets | | (482) | | (348) | |
| Sale of tangible fixed assets | | 17 | | 19 | |
| **Net cash outflow from capital expenditure** | | | (465) | | (329) |
| **Net cash inflow before financing** | | | 1,473 | | 1,568 |
| **Financing** | | | | | |
| Repayment of other loans | | (768) | | (134) | |
| New loans due within one year | | 100 | | 85 | |
| New loans due after more than one year | | 126 | | (287) | |
| Capital element of finance lease repayments | | (42) | | (79) | |
| **Net cash outflow from financing** | | | (584) | | (415) |
| **Increase in cash in the year** | 19 | | 889 | | 1,153 |

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT
## Year ended 30 June 2004

| | Note | 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| Increase in cash in the year | | 889 | 1,153 |
| Cash outflow from decrease in debt and lease financing | | 584 | 415 |
| **Change in net debt resulting from cash flows** | | 1,473 | 1,568 |
| New finance leases | | - | (6) |
| **Movement in net debt in the year** | 19 | 1,473 | 1,562 |
| Opening net debt | 19 | (23,996) | (25,558) |
| **Closing net debt** | 19 | (22,523) | (23,996) |

# NOTES TO THE ACCOUNTS
## Year ended 30 June 2004

### 1. ACCOUNTING POLICIES

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

**Accounting convention and basis of preparation**

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets. 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, the company only, as provided by Section 230 of the Companies Act 1985. Included in the consolidated profit for the financial year is a result of £nil (2003: £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 translated into sterling using the actual exchange rate ruling at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end or, where appropriate, at the rate of exchange in related forward exchange contracts. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as a translation gain or loss in the profit and loss account. For the purposes of consolidation the closing rate method is used, under which translation gains or losses are shown as a movement on reserves.

**Turnover**

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

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

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

**Pension costs**

In the United Kingdom the group operates a defined 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. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

# NOTES TO THE ACCOUNTS
## Year ended 30 June 2004

1. **ACCOUNTING POLICIES (continued)**

**Tangible fixed assets**

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

The group has taken advantage of the transitional provisions of FRS 15 "Tangible fixed assets" and retained the book amounts of certain freehold properties which were revalued prior to implementation of that standard. The properties were last revalued in June 2002 and the valuations have not subsequently been updated.

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

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

**Investments**

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

**Leases**

The group enters into operating and finance leases.

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

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

**Stocks**

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

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

**Long-term contracts**

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

## NOTES TO THE ACCOUNTS
## Year ended 30 June 2004

### 1. ACCOUNTING POLICIES (continued)

**Research and development**

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

**Deferred taxation**

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

**Revaluation reserve**

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.

# NOTES TO THE ACCOUNTS
## Year ended 30 June 2004

### 2. TURNOVER

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Analysis by geographical market: | | |
| United Kingdom | 8,618 | 9,452 |
| North America | 1,601 | 665 |
| France and Germany | 4,302 | 4,356 |
| Other European countries | 926 | 1,385 |
| Rest of world | 446 | 666 |
| Total overseas | 7,275 | 7,072 |
| | 15,893 | 16,524 |

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:

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Finance lease sales | 1,200 | 1,062 |
| Income from equipment hire | 1,710 | 1,963 |
| | 2,910 | 3,025 |

Assets acquired in the year for the purpose of sale under finance leases totalled £1,200,000 (2003: £1,062,000).

### 3. OTHER OPERATING EXPENSES

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Distribution costs | 81 | 107 |
| Administrative expenses | 3,573 | 3,537 |
| | 3,654 | 3,644 |

# NOTES TO THE ACCOUNTS
## Year ended 30 June 2004

### 4. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Research and development expenditure incurred in the year | 566 | 553 |
| Expenditure capitalised in relation to tangible fixed assets | (388) | (287) |
| Research and development expenditure expensed in the year | 178 | 266 |
| Depreciation: | | |
| - owned equipment – research and development | 572 | 816 |
| - owned equipment – other | 636 | 1,032 |
| - under finance leases | 115 | 87 |
| Operating lease rentals: | | |
| - plant and equipment | 364 | 442 |
| - land and buildings | 158 | 166 |
| Loss on foreign exchange | 156 | 40 |
| Profit on disposals of fixed assets | (1) | (1) |
| Auditors' remuneration: | | |
| - audit services – group | 73 | 82 |
| - other services | 51 | 46 |

The auditors' remuneration for the company has been borne by Multitone Electronics Plc in both years.

### 5. STAFF COSTS

| | Group 2004 £'000 | Group 2003 £'000 |
|---|---|---|
| Staff costs (including directors' emoluments): | | |
| Wages and salaries | 5,160 | 5,541 |
| Social security costs | 723 | 745 |
| Other pension costs | 761 | 459 |
| | 6,644 | 6,745 |

| | 2004 No. | 2003 No. |
|---|---|---|
| The average number of persons employed by the group during the year was: | | |
| Development and manufacture | 97 | 114 |
| Sales and service | 107 | 106 |
| Administration | 47 | 49 |
| | 251 | 269 |
| United Kingdom | 145 | 161 |
| Overseas | 106 | 108 |
| | 251 | 269 |

# NOTES TO THE ACCOUNTS
## Year ended 30 June 2004

### 5. STAFF COSTS (continued)

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

The aggregate amount of compensation paid by the group to directors in respect of loss of office during the year was £nil (2003: £36,345).

**Pensions arrangements**

The pension cost figures used in these accounts comply with the current accounting standard SSAP 24 *Accounting for pension costs.* Accounting Standard FRS 17, *Retirement benefits* has been issued with transitional requirements applying this year and the prior 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 of the group at the year end in respect of this pension scheme was £213,000 (2003: £209,000).

**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 31 December 2003.

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, and pensions. It was assumed that the investment returns would be 7.30% per annum pre-retirement and 5.55% per annum post-retirement, that the guaranteed minimum pensions accruing after 5 April 1997 would increase at the rate of 3.00% per annum, and that price inflation would average 2.00% per annum.

The most recent actuarial valuation showed that the market value of the scheme's assets were £13,339,000 and that the actuarial value of these assets represented 74% of the benefits that had accrued to members. The shortfall of £4,615,000 is being spread over the remaining estimated service period of the current membership of 15 years. The agreed contribution rate for future years is 30.9% (2003: 17.3%).

The pension charge for the year for the scheme was £743,000 (2003: £459,000). The pension accrual at year end is £658,000 (2003: £144,000).

As required by SSAP 24, the figures included in the accounts in respect of the company pension are based on an actuarial valuation carried out on 31 December 2003. This does not take into account any impact in the fall in general stock market values since that date. Any such impact will be reflected in the next SSAP 24 triennial valuation as at 31 December 2006 based upon which subsequent pension costs will be determined until the adoption of FRS 17.

**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 actuarial valuation carried out as at 31 December 2003 was updated to 30 June 2004 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17and is applicable to the FRS 17 disclosures given below.

# NOTES TO THE ACCOUNTS
# Year ended 30 June 2004

5. **FRS 17 Retirement benefits (continued)**

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

| | 2004 Long term rate of return expected | 2004 Value £'000 | 2003 Long term rate of return expected | 2003 Value £'000 | 2002 Long term rate of return expected | 2002 Value £'000 |
|---|---|---|---|---|---|---|
| Equities | 7.90% | 11,942 | 7.25% | 9,491 | 7.25% | 10,882 |
| Bonds | 4.90% | 1,336 | 4.50% | 2,160 | 4.75% | 2,647 |
| Other | 4.50% | 132 | 4.50% | 630 | 4.75% | - |
| Total market value of assets | | 13,410 | | 12,281 | | 13,529 |
| Present value of scheme liabilities | | (20,785) | | (20,704) | | (19,551) |
| Deficit in scheme | | (7,375) | | (8,423) | | (6,022) |
| Related deferred tax asset | | 2,212 | | 2,527 | | 1,807 |
| Net pension liability | | (5,163) | | (5,896) | | (4,215) |

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:

| | 2004 £'000 | 2003 £'000 | 2002 £'000 |
|---|---|---|---|
| Profit and loss reserve (excluding pension liability) deficiency | (24,787) | (25,546) | (25,439) |
| Pension liability | (5,163) | (5,896) | (4,215) |
| Profit and loss reserve deficiency | (29,950) | (31,442) | (21,224) |

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

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Discount rate | 5.70% | 5.25% | 5.75% |
| Rate of increase in salaries | 3.00% | 3.50% | 4.25% |
| Rate of increase in pensions in payment | 3.00% | 2.50% | 2.75% |
| Inflation assumption | 3.00% | 2.50% | 2.75% |

# NOTES TO THE ACCOUNTS
## Year ended 30 June 2004

5. **STAFF COSTS (continued)**

| **Analysis of the movement in the scheme deficit during the year** | **2004 £'000** | **2003 £'000** | **2002 £'000** |
|---|---|---|---|
| Opening deficit in the scheme | (8,423) | (6,022) | (506) |
| Current service cost | (338) | (416) | (324) |
| Contributions | 249 | 399 | 327 |
| Other finance costs | (279) | (213) | 50 |
| Actuarial profits/(losses) | 1,416 | (2,171) | (5,569) |
| Closing deficit in the scheme | (7,375) | (8,423) | (6,022) |

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

| **Amounts included within operating profit:** | **2004 £'000** | **2003 £'000** |
|---|---|---|
| Current service cost | (338) | (416) |
| **Amounts included as other finance costs:** | | |
| Expected return on scheme assets | 793 | 895 |
| Interest discount on scheme liabilities | (1,072) | (1,108) |
| Net finance costs | (279) | (213) |

Amounts that would have been included within the consolidated statement of total recognised gains and losses 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; and

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

| | **2004 £'000** | **2004 %** | **2003 £'000** | **2003 %** | **2002 £'000** | **2002 %** |
|---|---|---|---|---|---|---|
| Difference between actual and expected return on scheme assets (i) | 960 | 7% | (1,558) | (13%) | (2,728) | (20%) |
| Experience losses arising on scheme liabilities (ii) | (880) | (4%) | (4) | - | (327) | (2%) |
| Effects of changes in assumptions underlying the present value of scheme liabilities (ii) | 1,336 | 6% | (609) | (10%) | (2,514) | (13%) |
| Total actuarial gains/(losses) recognised in the STRGL (ii) | 1,416 | 7% | (2,171) | (10%) | (5,569) | (28%) |

# NOTES TO THE ACCOUNTS
## Year ended 30 June 2004

### 6. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Interest payable on bank loans and overdrafts | 335 | 444 |
| Interest payable on finance leases | 9 | 17 |
| Interest payable on other loans | 211 | 325 |
| | 555 | 786 |

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

**Analysis of tax credit on ordinary activities**

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| **Current tax:** | | |
| Foreign tax charge/(credit) | 4 | (31) |
| **Deferred tax:** | | |
| Deferred tax assets arising in previous periods | - | (4) |
| Deferred tax timing differences, origination and reversal | 34 | 138 |
| | 34 | 134 |
| Total tax credit for the year | 38 | 103 |

**Factors affecting the tax credit for the current year**

The tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below:

| | 2004 % | 2003 % |
|---|---|---|
| Standard tax rate for the year as a percentage of profits/(losses) | 30 | 30 |
| Expenses not deductible for tax purposes | 29 | (25) |
| Capital allowances in excess of depreciation | (181) | 55 |
| Utilisation of tax losses | (36) | (59) |
| Movement in short term timing differences | 31 | 20 |
| Other deferred tax movements | 9 | 4 |
| Overseas tax rate | 9 | 3 |
| Other timing differences | 115 | - |
| Prior year adjustments | - | (36) |
| Current tax rate for the year as a percentage of profits/(losses) | (3) | (8) |

**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 £89,000 (2003: £142,000).

# NOTES TO THE ACCOUNTS
## Year ended 30 June 2004

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

A deferred tax asset has not been recognised in respect of timing differences relating to trading losses and depreciation in excess of capital allowances as it is expected that it will take some time for tax losses to be relieved and for the asset to be recovered. The amount of the asset not recognised is £2,402,000 (2003: £2,768,000). 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 (2003: £1,332,000) has not been recognised in respect of capital losses as in the opinion of the directors there will be no suitable taxable gains in the foreseeable future. The asset would be recovered if future gains arise on the sale of chargeable assets.

### 8. TANGIBLE FIXED ASSETS

| Group | Land and buildings £'000 | Equipment on hire £'000 | Plant and equipment £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 July 2003 | 1,642 | 7,499 | 14,465 | 23,606 |
| Translation adjustment | - | - | (72) | (72) |
| Additions | - | 190 | 482 | 672 |
| Disposals | - | (559) | (142) | (701) |
| At 30 June 2004 | 1,642 | 7,130 | 14,733 | 23,505 |
| **Accumulated depreciation** | | | | |
| At 1 July 2003 | 85 | 6,622 | 12,435 | 19,142 |
| Translation adjustment | - | - | (54) | (54) |
| Depreciation for year | 14 | 274 | 1,035 | 1,323 |
| Disposals | - | (429) | (126) | (555) |
| At 30 June 2004 | 99 | 6,467 | 13,290 | 19,856 |
| **Net book value** | | | | |
| At 30 June 2004 | 1,543 | 663 | 1,443 | 3,649 |
| At 30 June 2003 | 1,557 | 877 | 2,030 | 4,464 |
| **Assets held on finance leases included above:** | | | | |
| Net book value at 30 June 2004 | - | - | 152 | 152 |
| Net book value at 30 June 2003 | - | - | 263 | 263 |

Plant and equipment includes labour and overhead costs with a net book value of £864,000 (2003: £1,142,000) 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 2004

### 8. TANGIBLE FIXED ASSETS (continued)

**The net book value of land and buildings comprises:**

| Group | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Freehold land and buildings | 1,457 | 1,445 |
| Long leasehold land and buildings | 86 | 89 |
| | 1,543 | 1,534 |

Land and buildings are held at a valuation. The group's freehold properties in the United Kingdom were revalued in 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 £1,096,000.

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

| | Group | |
|---|---|---|
| | 2004 £'000 | 2003 £'000 |
| Original cost | 1,427 | 1,427 |
| Less: accumulated depreciation | (200) | (366) |
| Net book value | 1,227 | 1,061 |

### 9. INVESTMENTS

| | Company | |
|---|---|---|
| | 2004 £'000 | 2003 £'000 |
| Shares in group undertakings | 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.

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)*<br>BEL-Multitone Limited (India) *** |
| Rental | Multitone Rentals Limited* |
| Manufacturing | Multitone Electronics Sdn Bhd (Malaysia)** |
| Non-trading | Multitone Communications Limited*<br>Multitone Communication Systems Limited*<br>Infopage Limited*<br>Paging Systems Limited* |

## NOTES TO THE ACCOUNTS
## Year ended 30 June 2004

**9. INVESTMENTS (continued)**

* Owned by Multitone Electronics Plc.

** Owned by Multitone Communications Limited.

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

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

**10. STOCKS**

| Group | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Raw materials, purchased components and spares | 1,015 | 1,158 |
| Work in progress | 155 | 376 |
| Finished goods | 416 | 861 |
| | 1,586 | 2,395 |

**11. DEBTORS**

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 £'000 | 2003 £'000 | 2004 £'000 | 2003 £'000 |
| **Amounts falling due in less than one year:** | | | | |
| Trade debtors | 2,662 | 2,327 | - | - |
| Amounts owed by group undertakings | 2,299 | 2,280 | 100 | 100 |
| Amounts receivable under finance leases | 799 | 654 | - | - |
| Amounts recoverable on long term contracts | 96 | 206 | - | - |
| Corporation tax recoverable | - | 35 | - | - |
| Deferred tax asset | 158 | 131 | - | - |
| Other debtors | 116 | 286 | - | - |
| Prepayments and accrued income | 292 | 131 | - | - |
| | 6,422 | 6,050 | 100 | 100 |

| | Group | |
|---|---|---|
| | 2004 £'000 | 2003 £'000 |
| **Amounts falling due after more than one year:** | | |
| Corporation tax recoverable | 6 | - |
| Amounts receivable under finance leases | 1,431 | 1,204 |
| Prepayments and accrued income | 114 | 119 |
| | 1,551 | 1,323 |

The aggregate rentals receivable under finance leases as at 30 June was £2,230,000 (2003: £1,858,000).

## NOTES TO THE ACCOUNTS
## Year ended 30 June 2004

### 12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group | | Company | |
|---|---|---|---|---|
| | 2004 £'000 | 2003 £'000 | 2004 £'000 | 2003 £'000 |
| Bank loans and overdrafts (note 14) | 4,400 | 5,150 | - | - |
| Other loans (note 14) | 567 | 673 | - | - |
| Obligations under finance leases (note 14) | 14 | 40 | - | - |
| Trade creditors | 870 | 855 | - | - |
| Amounts owed to group undertakings | 21,213 | 21,231 | 19,722 | 19,722 |
| VAT and other sales taxes | 179 | 202 | - | - |
| Payroll taxes and social security | 163 | 173 | - | - |
| Other creditors | 1,674 | 1,291 | - | - |
| Accruals and deferred income | 2,074 | 2,027 | - | - |
| | 31,154 | 31,642 | 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 | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Bank loans and overdrafts (note 14) | - | 400 |
| Other loans (note 14) | 823 | 1,259 |
| Obligations under finance leases (note 14) | 10 | 26 |
| Amounts owed to group undertakings | 1,053 | 1,057 |
| Overseas pensions | 213 | 209 |
| | 2,099 | 2,951 |

### 14. BORROWINGS

| Group | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Bank loans and overdrafts | 4,400 | 5,550 |
| Other loans | 1,390 | 1,932 |
| Obligations under finance leases | 24 | 66 |
| Amounts owed to group undertakings | 17,098 | 17,098 |
| | 22,912 | 24,646 |
| Due within one year | 22,079 | 22,961 |
| Due after more than one year | 833 | 1,685 |
| | 22,912 | 24,646 |

# NOTES TO THE ACCOUNTS
## Year ended 30 June 2004

### 14. BORROWINGS (CONTINUED)

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

**Other loans**

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

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

| | Group | |
|---|---|---|
| | **2004** | **2003** |
| | **£'000** | **£'000** |
| **Analysis of other loan repayments** | | |
| Due within one year | 567 | 673 |
| Due in one to two years | 353 | 575 |
| Due in two to five years | 457 | 645 |
| Due in more than five years | 13 | 39 |
| | 1,390 | 1,932 |

| | Group | |
|---|---|---|
| | **2004** | **2003** |
| | **£'000** | **£'000** |
| **Obligations under finance leases** | | |
| Minimum lease payments payable: | | |
| Due within one year | 14 | 40 |
| Due in one to two years | 4 | 25 |
| Due in two to five years | 6 | 1 |
| | 24 | 66 |

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

# NOTES TO THE ACCOUNTS
## Year ended 30 June 2004

### 15. PROVISIONS FOR LIABILITIES AND CHARGES

**Warranty provision**

| | Group | |
|---|---|---|
| | **2004** | **2003** |
| | **£'000** | **£'000** |
| Set aside to cover costs in respect of goods supplied under warranty: | | |
| At 1 July | 170 | 178 |
| Translation adjustment | (4) | 5 |
| Provided in year | 182 | 190 |
| Utilised in year | (210) | (203) |
| At 30 June | 138 | 170 |

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

### 16. CALLED UP SHARE CAPITAL

| | **2004** | **2003** |
|---|---|---|
| | **£'000** | **£'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 |

### 17. STATEMENT OF MOVEMENT ON RESERVES

| | **Revaluation reserve** | **Profit and loss account** |
|---|---|---|
| | **£'000** | **£'000** |
| **Group** | | |
| At 1 July 2003 | 308 | (25,690) |
| Translation adjustment | (5) | (58) |
| Amortisation of revaluation surplus | (159) | 159 |
| Retained profit for the year | - | 144 |
| At 30 June 2004 | 144 | (25,445) |
| **Company** | | |
| At 1 July 2003 | | (2,727) |
| Retained result for the year | | - |
| At 30 June 2004 | | (2,727) |

The revaluation reserve is not distributable. The cumulative amount of goodwill written off against reserves is £14,805,000 (2003: £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 £63,000 (2003: £26,000) represents an unrealised loss arising on the translation of the net assets of the overseas subsidiaries into sterling at the year end.

# NOTES TO THE ACCOUNTS
## Year ended 30 June 2004

### 18. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Operating profit | 402 | 200 |
| Depreciation charges | 1,323 | 1,935 |
| Decrease in stocks | 809 | 1,367 |
| Increase in debtors | (580) | (546) |
| Increase/(decrease) in creditors | 409 | (495) |
| Decrease in provisions | (32) | (13) |
| Release of previously unrealised profit | (60) | (92) |
| Exchange differences | (48) | 20 |
| Net cash inflow from operating activities | 2,223 | 2,376 |

### 19. ANALYSIS OF NET DEBT

| | At 1 July 2003 £'000 | Cash flow £'000 | Other non-cash changes £'000 | At 30 June 2004 £'000 |
|---|---|---|---|---|
| Cash at bank and in hand | 650 | (261) | - | 389 |
| Overdrafts | (5,550) | 1,150 | - | (4,400) |
| | (4,900) | 889 | - | (4,011) |
| **Debt due within one year** | | | | |
| Intercompany loans | (17,098) | - | - | (17,098) |
| Other loans | (673) | 106 | - | (567) |
| **Debt due after one year** | | | | |
| Other loans | (1,259) | 436 | - | (823) |
| **Other debt** | | | | |
| Finance leases | (66) | 42 | - | (24) |
| **Net debt** | (23,996) | 1,473 | - | (22,523) |

### 20. CAPITAL COMMITMENTS

| **Group** | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Contracted for but not provided | - | 31 |

# NOTES TO THE ACCOUNTS
## Year ended 30 June 2004

### 21. OPERATING LEASE COMMITMENTS

At 30 June 2004 the group and the company were committed to making the following payments during the next year in respect of operating leases:

| Group | 2004 Land and buildings £'000 | 2004 Plant and equipment £'000 | 2003 Land and buildings £'000 | 2003 Plant and equipment £'000 |
|---|---|---|---|---|
| **Operating leases which expire:** | | | | |
| Within one year | 9 | 32 | 18 | 79 |
| In two to five years | 176 | 276 | 289 | 292 |
| | 185 | 308 | 307 | 371 |

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 (2003: £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 investees qualifying as related parties of, the Kantone Holdings Limited group of companies have not been disclosed in these financial statements.

### 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, 9th and 10th Floors, 1 Ning Foo Street, Chai Wan, Hong Kong.

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