

KANTONE (UK) LIMITED

Report and Financial Statements

30 June 2001

Deloitte & Touche
Mounbatten House
1 Grosvenor Square
Southampton
Hampshire
SO15 2BZ



KANTONE (UK) LIMITED

REPORT AND FINANCIAL STATEMENTS 2001

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KANTONE (UK) LIMITED

REPORT AND FINANCIAL STATEMENTS 2001

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Paul Kan Man Lok (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
Chartered Accountants
Mountbatten House
1 Grosvenor Square
Southampton
Hampshire
SO15 2BZ

KANTONE (UK) LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2001.

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 saw the Kantone group consolidating on the previous year's result. While several market leaders in the telecoms sector saw their fortunes decline, the Kantone group continued to improve bottom-line growth. In addition to this, the Kantone group has protected itself against the risks encountered by the industry giants, developing itself into a niche solution provider. It is against this backdrop that the group has developed the management and strong customer base to address these markets and the directors look forward to the future with confidence.

The detailed results for the year ended 30 June 2001 are set out in the consolidated profit and loss account on page 6. Turnover for the year was £19,329,000 (2000 - £18,430,000) and the profit on ordinary activities before taxation was £812,000 (2000 - £105,000). The profit for the financial year to 30 June 2001 after taxation and minority interests was £796,000 (2000 - £100,000).

Details of post balance sheet events are given in note 24.

DIVIDENDS

The directors do not recommend the payment of a dividend (2000 - £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

Expenditure on research and development continues at a high level so that the group may consistently update and expand its product range and hence improve its competitive position. The expenditure is expected to continue at broadly the same real level in 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 59 days (2000 - 69 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.

KANTONE (UK) LIMITED

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 of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the 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

A handwritten signature in black ink, appearing to be 'Terry J Miller', written over a horizontal line.

Terry J Miller
Director

27 March 2002

KANTONE (UK) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements of Kantone (UK) Limited for the year ended 30 June 2001, which comprise the profit and loss account, the balance sheets, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the cash flow statement and the related notes 1 to 24. 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.

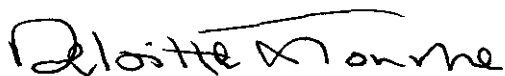
However, the evidence available to us was limited in relation to the investment in Multitone Electronics plc. Under Financial Reporting Standard no. 11, 'Impairment of fixed assets and goodwill', an impairment review is required to be performed on the investment in Multitone Electronics plc, with a book 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 2001 were £2,209,000 and £3,555,000 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 2001 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

Chartered Accountants and Registered Auditors

27 March 2002

KANTONE (UK) LIMITED**CONSOLIDATED PROFIT AND LOSS ACCOUNT**
Year ended 30 June 2001

	Note	2001 £'000	2000 £'000
TURNOVER: continuing operations	2	19,329	18,430
Cost of sales		(14,088)	(14,217)
GROSS PROFIT		5,241	4,213
Other operating expenses	3	(3,484)	(3,099)
OPERATING PROFIT: continuing operations		1,757	1,114
Interest payable and similar charges	6	(945)	(1,009)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	812	105
Tax on profit on ordinary activities	7	(29)	(15)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		783	90
Equity minority interests		13	10
RETAINED PROFIT FOR THE FINANCIAL YEAR	17	796	100

KANTONE (UK) LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES Year ended 30 June 2001

	2001 £'000	2000 £'000
Profit for the financial year	796	100
Currency translation differences on foreign currency net investments	(19)	(10)
Total recognised gains and losses relating to the year	<u>777</u>	<u>90</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS Year ended 30 June 2001

	2001 £'000	2000 £'000
Profit for the financial year	796	100
Other recognised gains and losses relating to the year	(19)	(10)
Net increase in shareholders' funds	<u>777</u>	<u>90</u>
Opening shareholders' funds	(18,071)	(18,161)
Closing shareholders' funds	<u>(17,294)</u>	<u>(18,071)</u>

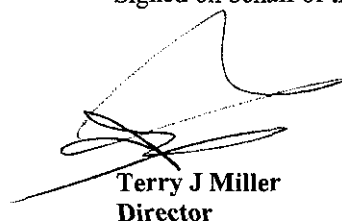
KANTONE (UK) LIMITED

CONSOLIDATED BALANCE SHEET 30 June 2001

	Note	2001 £'000	2000 £'000
FIXED ASSETS			
Tangible assets	8	7,087	8,348
Investments	9	471	-
		<u>7,558</u>	<u>8,348</u>
CURRENT ASSETS			
Stocks	10	4,506	4,446
Debtors due in less than one year	11	5,823	5,903
Debtors due after one year	11	1,054	790
Cash at bank and in hand		903	1,129
		<u>12,286</u>	<u>12,268</u>
CREDITORS: amounts falling due within one year	12	<u>(34,117)</u>	<u>(35,758)</u>
NET CURRENT LIABILITIES		<u>(21,831)</u>	<u>(23,490)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		(14,273)	(15,142)
CREDITORS: amounts falling due after more than one year	13	(2,865)	(2,600)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(174)	(329)
EQUITY MINORITY INTEREST		18	-
NET LIABILITIES		<u>(17,294)</u>	<u>(18,071)</u>
CAPITAL AND RESERVES			
Called up share capital	16	5,500	5,500
Profit and loss account	17	<u>(22,794)</u>	<u>(23,571)</u>
EQUITY SHAREHOLDERS' FUNDS		<u>(17,294)</u>	<u>(18,071)</u>

These financial statements were approved by the Board of Directors on 27 March 2002.

Signed on behalf of the Board of Directors


Terry J Miller
Director

KANTONE (UK) LIMITED

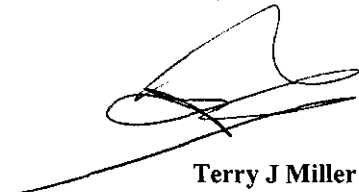
BALANCE SHEET

30 June 2001

	Note	2001 £'000	2000 £'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	17	(2,727)	(2,727)
EQUITY SHAREHOLDERS' FUNDS		2,773	2,773

These financial statements were approved by the Board of Directors on 27 March 2002.

Signed on behalf of the Board of Directors



Terry J Miller
Director

KANTONE (UK) LIMITED

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2001

	Note	2001 £'000	2000 £'000
Net cash inflow from operating activities	18	2,750	4,511
Returns on investments and servicing of finance			
Interest paid		(903)	(981)
Interest element of finance lease rentals		(42)	(28)
Net cash outflow from returns on investments and servicing of finance		(945)	(1,009)
Taxation			
Tax paid		(4)	(6)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(1,207)	(3,179)
Sale of tangible fixed assets		78	29
Loans to group undertakings		(471)	29
Net cash outflow from capital expenditure		(1,600)	(3,150)
Net cash inflow before financing		201	346
Financing			
Repayment of other loans		(147)	(1,255)
Capital element of finance lease repayments		(138)	(82)
Net cash outflow from financing		(285)	(1,337)
Decrease in cash in the year	19	(84)	(991)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Note	2001 £'000	2000 £'000
Decrease in cash in the year		(84)	(991)
Cash outflow from decrease in debt and lease financing		285	1,337
Change in net debt resulting from cash flows		201	346
New finance leases		-	(215)
Movement in net debt in the period	19	201	131
Opening net debt	19	(26,089)	(26,220)
Closing net debt	19	(25,888)	(26,089)

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

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 and on a going concern basis, which the directors consider 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 prepared for Kantone (UK) Limited as provided by Section 230 of the Companies Act 1985. Included in the consolidated profit for the financial year is a result of £nil (2000 - £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; 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

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.

Equipment on hire

Equipment hired to customers under operating lease rental contracts is included 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 costs. The profit and loss account is credited with the rental income due for the period under the terms of the contracts. To the extent that billings are recorded in advance of the relevant turnover, these are included in deferred income.

NOTES TO THE ACCOUNTS
Year ended 30 June 2001

1. ACCOUNTING POLICIES (CONTINUED)

Tangible fixed assets

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 out 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. 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 the lease term, this being its estimated useful economic life. 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 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.

Goodwill

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.

Taxation

Corporation tax is provided on taxable profits at the current rate. The tax liabilities of certain group companies may be reduced wholly or in part by the surrender of losses by fellow group companies. The tax benefits arising from group relief are recognised in the financial statements of the recipient companies.

Deferred tax, which arises from differences in the timing of the recognition of items, principally depreciation, in the financial statements and by the tax authorities, has been calculated on the liability method. Deferred tax is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of reversal. No provision is made for taxation which might be payable in the event of either a distribution of reserves of overseas subsidiaries or the sale of revalued property as no such event is envisaged in the foreseeable future which will give rise to a material liability.

KANTONE (UK) LIMITED

NOTES TO THE ACCOUNTS Year ended 30 June 2001

2. TURNOVER

	2001 £'000	2000 £'000
Analysis by geographical market:		
United Kingdom	11,594	9,567
North America	169	238
France and Germany	4,574	5,009
Other European countries	1,907	2,355
Rest of world	1,085	1,261
Total overseas	7,735	8,863
	19,329	18,430

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:

	2001 £'000	2000 £'000
Finance lease sales	956	-
Income from equipment hire	2,994	3,071
	3,950	3,071

Assets acquired in the year for the purpose of sale under finance leases totalled £1,128,000 (2000 – £nil).

3. OTHER OPERATING EXPENSES

	2001 £'000	2000 £'000
Distribution costs	89	139
Administrative expenses	3,395	2,960
	3,484	3,099

KANTONE (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

4. OPERATING PROFIT

Operating profit is stated after charging the following:

	2001 £'000	2001 £'000	2000 £'000	2000 £'000
Research and development expenditure incurred in the year	1,674		1,632	
Expenditure capitalised in relation to tangible fixed assets	(880)		(948)	
Research and development expenditure expensed in the year		794		684
Depreciation:				
- land and buildings		32		24
- owned equipment – research and development		828		555
- owned equipment – other		1,577		1,891
- under finance leases		87		66
Operating lease rentals:				
- plant and equipment		435		400
- other		180		227
Auditors' remuneration:				
- audit services – group		88		82
- other services		30		13

5. STAFF COSTS

	2001 £'000	2000 £'000
Staff costs:		
Wages and salaries	6,578	6,221
Social security costs	803	793
Other pension costs	258	242
	<u>7,639</u>	<u>7,256</u>
The average number of persons employed by the group during the year was:	No.	No.
Development and manufacture	131	160
Sales and service	107	105
Administration	63	55
	<u>301</u>	<u>320</u>
United Kingdom	190	208
Overseas	111	112
	<u>301</u>	<u>320</u>

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 commencing this year.

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

5. STAFF COSTS (continued)

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 £168,000 (2000 – £165,000).

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.

The most recent actuarial valuation showed that the market value of the scheme's assets were £11,398,000 and that the actuarial value of these assets represented 98% of the benefits that had accrued to members. The shortfall of £209,000 is being spread over the remaining estimated service period of the current membership of 11 years.

The pension charge for the year for the scheme was £258,000 (2000 – £242,000).

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 full actuarial valuation at 1 January 1999 was updated to 1 July 2001 and showed that the market value of the scheme's assets was £15,294,000 and that the actuarial value of these assets represented 97% of the benefits that had accrued to members.

The assets in the scheme and the expected rates of return at 30 June 2001 were:

	Long term rate of return expected £'000	Value £'000
Equities	6.25% - 7.75%	11,715
Bonds	5.25%	2,294
Other	5.25%	1,285
		<hr/>
Total market value of assets		15,294
Present value of scheme liabilities		(15,800)
		<hr/>
Deficit in scheme		(506)
Related deferred tax asset		152
		<hr/>
Net pension liability		<u>(354)</u>

KANTONE (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

5. STAFF COSTS (continued)

If the above pension liability were recognised in the financial statements at 30 June 2001, the group's profit and loss reserve would be as follows:

	2001 £'000
Profit and loss reserve excluding pension liability deficiency	(22,794)
Pension provision	(354)
	<hr/>
Profit and loss reserve deficiency	(23,148)
	<hr/>

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

Discount rate	6.25%
Rate of increase in salaries	3.5%
Rate of increase in deferred pensions	2.5%
Rate of increase in pensions in payment	2.5%
Inflation assumption	2.5%
	<hr/>

The agreed contribution rate for future years is 11.3%.

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £'000	2000 £'000
Interest payable on bank loans and overdrafts	463	440
Interest payable on finance leases	42	28
Interest payable on other loans	440	541
	<hr/>	<hr/>
	945	1,009
	<hr/>	<hr/>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge comprises:

	2001 £'000	2000 £'000
Overseas taxation	29	15
	<hr/>	<hr/>

The tax charge is lower than expected due to the utilisation of brought forward losses not recognised in the accounts. The group has approximately £2,000,000 of United Kingdom tax losses to carry forward which may be used to offset against future taxable profits.

KANTONE (UK) LIMITED

NOTES TO THE ACCOUNTS Year ended 30 June 2001

8. TANGIBLE FIXED ASSETS

Group	Land and buildings £'000	Equipment on hire £'000	Plant and equipment £'000	Total £'000
Cost				
At 1 July 2000	1,576	9,243	12,654	23,473
Translation adjustment	11	(26)	(13)	(28)
Additions	6	41	1,160	1,207
Disposals	-	(391)	(129)	(520)
At 30 June 2001	1,593	8,867	13,672	24,132
Depreciation				
At 1 July 2000	260	6,294	8,571	15,125
Translation adjustment	3	(16)	(13)	(26)
Depreciation for year	32	1,128	1,364	2,524
Disposals	-	(449)	(129)	(578)
At 30 June 2001	295	6,957	9,793	17,045
Net book value				
At 30 June 2001	1,298	1,910	3,879	7,087
At 30 June 2000	1,316	2,949	4,083	8,348
Assets held on finance leases included above:				
Net book value at 30 June 2001	-	-	1,180	1,180
Net book value at 30 June 2000	-	-	1,001	1,001

The cost of plant and equipment includes labour and overhead costs with a net book value of £2,089,000 (2000 - £2,037,000) 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. Depreciation on disposals exceeds the related cost due to revisions in the estimate of unrealised profit and the related depreciation in disposals and continuing assets.

Refer to note 24 for details of post balance sheet events.

	Freehold		Leasehold		2001	2000
	Land	Buildings	Long	Short	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Land and buildings comprise:						
Cost at end of year	347	1,077	169	-	1,593	1,576

KANTONE (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

9. INVESTMENTS

	Group		Company	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Shares in group undertakings	-	-	22,395	22,395
Loans to group undertakings	471	-	-	-
	<u>471</u>	<u>-</u>	<u>22,395</u>	<u>22,395</u>

The investment in subsidiary undertakings consists of 100% of the ordinary share capital of Multitone Electronics plc, a company incorporated in Great Britain and registered in England and Wales. An impairment review has not been carried out.

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 Elektronik GmbH (Germany)* Multiton Elektronik 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 Elektronik 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 Electronics plc in previous periods in Multitone Electronica Limitada, a group undertaking in Brazil. The directors consider that this is now more appropriately classified as a fixed asset investment rather than as a long term trade debtor.

10. STOCKS

Group	2001	2000
	£'000	£'000
Raw materials, purchased components and spares	1,453	1,530
Work in progress	1,214	1,206
Finished goods	1,839	1,710
	<u>4,506</u>	<u>4,446</u>

Refer to note 24 for details of post balance sheet events.

KANTONE (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

11. DEBTORS

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Amounts falling due in less than one year:				
Trade debtors	3,392	4,017	-	-
Amounts owed by group undertakings	1,334	1,181	100	100
Amounts receivable under finance leases	235	-	-	-
Other debtors	40	140	-	-
Prepayments and accrued income	822	565	-	-
	<u>5,823</u>	<u>5,903</u>	<u>100</u>	<u>100</u>

	Group	
	2001 £'000	2000 £'000
Amounts falling due after more than one year:		
Trade debtors	-	400
Amounts receivable under finance leases	588	-
Prepayments and accrued income	466	390
	<u>1,054</u>	<u>790</u>

The aggregate rentals receivable under finance leases in the year was £823,000 (2000 – £nil).

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Bank overdrafts (note 14)	6,783	6,924	-	-
Other loans (note 14)	644	1,164	-	-
Obligations under finance leases (note 14)	136	161	-	-
Trade creditors	1,507	2,068	-	-
Amounts due to other group undertakings	21,652	21,590	19,722	19,722
Corporation tax	36	11	-	-
VAT and other sales taxes	46	116	-	-
Payroll taxes and social security	199	209	-	-
Other creditors and accruals	1,359	1,621	-	-
Deferred income	1,755	1,894	-	-
	<u>34,117</u>	<u>35,758</u>	<u>19,722</u>	<u>19,722</u>

The borrowings of Multitone Electronics plc and its subsidiary companies are guaranteed by Kantone Holdings Limited.

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

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

Group	2001 £'000	2000 £'000
Other loans (note 14)	2,107	1,734
Obligations under finance leases (note 14)	24	137
Amounts owed to group undertakings	566	564
Overseas pensions	168	165
	<u>2,865</u>	<u>2,600</u>

14. BORROWINGS

Group	2001 £'000	2000 £'000
Bank overdrafts	6,783	6,924
Other loans	2,751	2,898
Obligations under finance leases	160	298
Amounts owed to group undertakings	17,098	-
	<u>26,792</u>	<u>10,120</u>
Due within one year	24,661	8,249
Due after more than one year	2,131	1,871
	<u>26,792</u>	<u>10,120</u>

Other loans

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'.

KANTONE (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

14. BORROWINGS (continued)

	Group	
	2001	2000
	£'000	£'000
Analysis of loan repayments		
Due within one year	644	1,164
Due in one to two years	786	1,048
Due in two to five years	1,162	461
Due in more than five years	159	225
	<u>2,751</u>	<u>2,898</u>

	Group	
	2001	2000
	£'000	£'000
Obligations under finance leases		
Minimum lease payments payable:		
Within one year	136	161
In one to two years	16	120
In two to five years	8	17
	<u>160</u>	<u>298</u>

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

15. PROVISIONS FOR LIABILITIES AND CHARGES

	Group	
	2001	2000
	£'000	£'000
Provisions for liabilities and charges comprise:		
Warranty provision	171	326
Deferred taxation	3	3
	<u>174</u>	<u>329</u>
Warranty provision (set aside to cover costs in respect of goods supplied under warranty):		
At 1 July	326	295
Translation adjustment	(4)	(4)
Provided in year	122	371
Utilised in year	(273)	(336)
	<u>171</u>	<u>326</u>
At 30 June		

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

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

15. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Deferred taxation

The amounts of deferred tax provided in the financial statements for the current year and the preceding year relate to capital allowances in excess of depreciation. No provision is made for deferred tax assets, the realisation of which is not reasonably certain. The amounts of deferred tax assets not provided in the financial statements for the group are:

	Group Not provided 2001 £'000	Not provided 2000 £'000
Capital allowances in excess of depreciation	(1,480)	(1,416)
Revenue losses	(589)	(676)
Other timing differences	(81)	(265)
	<u>(2,150)</u>	<u>(2,357)</u>

There is no provided or unprovided deferred tax in respect of the company.

16. CALLED UP SHARE CAPITAL

Group and Company	2001 £'000	2000 £'000
Authorised:		
10,000,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Allotted and fully paid:		
5,500,000 ordinary shares of £1 each	<u>5,500</u>	<u>5,500</u>

17. STATEMENT OF MOVEMENT ON RESERVES

	Group profit and loss account £'000	Company profit and loss account £'000
At 1 July 2000	(23,571)	(2,727)
Translation adjustment	(19)	-
Retained profit for year	796	-
At 30 June 2001	<u>(22,794)</u>	<u>(2,727)</u>

The translation adjustment of £19,000 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 2001

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

	2001 £'000	2000 £'000
Operating profit	1,757	1,114
Depreciation charges	2,524	2,536
Increase in stocks	(60)	(698)
(Increase)/decrease in debtors	(184)	229
(Decrease)/increase in creditors	(977)	1,285
(Decrease)/increase in provisions	(155)	31
(Profit)/loss on sale of fixed assets	(36)	24
Release of previously unrealised profit on sale of fixed assets	(100)	-
Exchange differences	(19)	(10)
Net cash inflow from operating activities	<u>2,750</u>	<u>4,511</u>

19. ANALYSIS OF NET DEBT

	At 1 July 2000 £'000	Cash flow £'000	Other non-cash changes £'000	At 30 June 2001 £'000
Cash at bank and in hand	1,129	(226)	-	903
Overdrafts	(6,924)	142	-	(6,782)
	<u>(5,795)</u>	<u>(84)</u>	<u>-</u>	<u>(5,879)</u>
Debt due within one year				
Intercompany loans	(17,098)	-	-	(17,098)
Other loans	(1,164)	1,655	(1,135)	(644)
Debt due after one year				
Other loans	(1,734)	(1,508)	1,135	(2,107)
Other debt				
Finance leases	(298)	138	-	(160)
Net debt	<u>(26,089)</u>	<u>201</u>	<u>-</u>	<u>(25,888)</u>

20. CAPITAL COMMITMENTS

	Group 2001 £'000	2000 £'000
Contracted for but not provided	<u>74</u>	<u>88</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

21. OPERATING LEASE COMMITMENTS

At 30 June 2001 the group was committed to making the following payments during the next year in respect of operating leases:

Group	2001 Land and buildings £'000	2001 Plant and equipment £'000	2000 Land and buildings £'000	2000 Plant and equipment £'000
Operating leases which expire:				
Within one year	15	27	14	57
In two to five years	99	298	133	221
	<u>114</u>	<u>325</u>	<u>147</u>	<u>278</u>

The rentals payable under the operating leases included above relating to certain office and light industrial premises are subject to re-negotiation at various intervals in the leases. In addition, there is a long lease expiring in 2072 at a current annual ground rental of approximately £1,000 (2000 - £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.

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.

24. POST BALANCE SHEET EVENTS

Included in tangible fixed assets and stocks are assets with a carrying value of £273,000 (2000: £nil), which are the subject of a claim against the supplier. Subsequent to the year end, the relevant company has been placed in receivership. The directors are assessing the position in respect of the claim, including the possibility of pursuing it against the parent company of the supplier, which is not in receivership. At this stage the directors consider that it is still too early to reach a conclusion as to the outcome of the case, given the options still available to them, or to quantify the level of any provision which might be required.