

Photon Kinetics Limited

**Directors' report and financial
statements**

Registered number 4486025

31 December 2006

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Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2006

Principal activities

The principal activity of the company is that of a sales agent of fibre optic testing equipment on behalf of Photon Kinetics Inc

Business review

The company was incorporated on 15 July 2002 as MM & S (2917) Limited and changed its name to Photon Kinetics Limited on 14 February 2003 from when it commenced to trade. The company will continue to develop the UK business with the support of its parent company in the US

Proposed dividend

The company made a profit for the year of £14,645 (*2005: loss of £39,571*). Retained losses carried forward at 31 December 2006 are £24,288 (*2005: £38,933*).

The directors do not recommend the payment of a dividend (*2005: £Nil*).

Directors and directors' interests

The directors who held office during the year were as follows:

D Blaskowsky	(US Citizen)
W Hill	(US Citizen)
C Shaat	(US Citizen)
F Sladen	(US Citizen)

Company Secretary

D Blaskowsky	(US Citizen)
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No director who held office at the end of the financial year had any disclosable interest in the shares of the company or any of the group companies.

Political and charitable contributions

The company made no political or charitable contributions during the year.

Directors' report *(continued)*

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board



D Blaskowsky
Secretary

1 London Wall
London
EC2Y 5AB

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements the directors are required to

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

Dukes Keep
Marsh Lane
Southampton
SO14 3EX
United Kingdom

Independent auditors' report to the members of Photon Kinetics Limited

We have audited the financial statements of Photon Kinetics Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. 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 auditor's report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed 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. 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 Photon Kinetics Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

KPMG LLP

Chartered Accountants

Registered Auditor

29th October 2007

Profit and loss account
for the year ended 31 December 2006

	<i>Note</i>	2006 £	2005 £
Turnover	<i>1</i>	313,899	228,424
Cost of sales		(111,487)	(100,217)
Gross profit		202,412	128,207
Administrative expenses		(187,767)	(167,778)
Profit/(loss) on ordinary activities before taxation	<i>2</i>	14,645	(39,571)
Tax on result on ordinary activities	<i>5</i>	-	-
Profit/(loss) on ordinary activities after taxation		14,645	(39,571)

The results all relate to continuing activities

There are no recognised gains or losses other than the result for the year as reported above

There is also no difference between the profit/(loss) on ordinary activities before taxation and the retained profit/(loss) for the year stated above and their historical cost equivalents

Balance sheet
as at 31 December 2006

	<i>Note</i>	2006 £	2005 £
Current assets			
Debtors	6	2,841	4,605
Creditors amounts falling due within one year	7	(27,127)	(43,536)
		<hr/>	<hr/>
Net liabilities		(24,286)	(38,931)
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	8	2	2
Profit and loss account	9	(24,288)	(38,933)
		<hr/>	<hr/>
Equity shareholders' deficit	9	(24,286)	(38,931)
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 24 Oct 2007 and were signed on its behalf by



D Blaskowsky
Secretary

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

FRS 20 'Share based payments' has been adopted for the first time in the year and has no impact on the current or prior year.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own consolidated financial statements.

Going concern

The financial statements have been prepared on a going concern basis. The company is dependent on the financial support of its holding company. The Board of Directors of Photon Kinetics Inc has agreed that it is the policy of Photon Kinetics Inc and its present intention to provide financial support to the company to enable it to continue to trade for the foreseeable future and at least for 12 months from the date of the audit report.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to other group companies in the United States.

Pension

Pension costs, which all relate to employees' personal pension plans, are charged to the profit and loss account in the year incurred and any outstanding contributions at the period end are included within creditors.

Notes (continued)

2 Profit/(loss) on ordinary activities before taxation

	2006 £	2005 £
<i>Profit/(loss) on ordinary activities before taxation is stated after charging</i>		
Foreign exchange (gains)/losses	(2,790)	780
Auditors' remuneration		
Audit	6,000	5,000
Fees receivable by the auditors and their associates in respect of other services	3,448	2,750

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

3 Remuneration of directors

	2006 £	2005 £
Directors' emoluments as executives	-	-
Company contributions to personal pension plans	-	-

The directors are paid by the parent company.

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows

	Number of employees 2006	Number of employees 2005
Service	2	2
Sales	1	1
Engineering	1	1
	<hr/>	<hr/>
	4	4
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows

	2006 £	2005 £
Wages and salaries	189,683	175,422
Social security costs	20,345	18,450
Other pension costs	10,927	11,594
	<hr/>	<hr/>
	220,955	205,466
	<hr/>	<hr/>

5 Taxation

Analysis of charge in year

	2006 £	2005 £
<i>UK corporation tax</i>		
Current tax on profit/(loss) for the year	-	-
Prior year adjustments	-	-
	<hr/>	<hr/>
Total current tax	-	-
Deferred tax	-	-
	<hr/>	<hr/>
Tax on result on ordinary activities	-	-
	<hr/>	<hr/>

Notes (continued)

5 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2005 higher) than the standard rate of corporation tax in the UK of 19%. The differences are explained below

	2006 £	2005 £
<i>Current tax reconciliation</i>		
Profit/(loss) profit on ordinary activities before tax	14,645	(39,571)
	<hr/>	<hr/>
Current tax at 19%	2,783	(7,518)
<i>Effects of</i>		
Unutilised trading losses	(2,783)	7,518
Prior year adjustments	-	-
	<hr/>	<hr/>
Total current tax charge (see above)	-	-
	<hr/>	<hr/>

The Company has trading losses carried forward of £20,287 (2006 £43,255). No deferred tax asset has been recognised on this balance due to uncertainty of the timing of crystallisation.

See note 12 for details of the post balance sheet event affecting the tax reconciliation.

6 Debtors

	2006 £	2005 £
Amounts owed by group undertakings	-	-
Prepayments and accrued income	2,841	4,605
	<hr/>	<hr/>
	2,841	4,605
	<hr/>	<hr/>

7 Creditors – amounts falling due within one year

	2006 £	2005 £
Amounts owed to group undertakings	4,052	31,585
Other creditors including taxation and social security	5,761	6,493
Corporation tax	-	-
Accruals	17,314	5,458
	<hr/>	<hr/>
	27,127	43,536
	<hr/>	<hr/>

Notes (continued)

8 Called up share capital

	2006 £	2005 £
<i>Authorised</i>		
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>
<i>Allotted, called up and fully paid</i>		
2 Ordinary shares of £1 each	<u>2</u>	<u>2</u>

9 Reconciliation of movements in shareholders' funds

	Share capital £	Profit and loss account £	2006 Total shareholders' funds £	2005 Total shareholders' funds £
At 1 January	2	(38 933)	(38 931)	640
Retained profit/(loss) for the year	-	14 645	14 645	(39 571)
At 31 December	<u>2</u>	<u>(24,288)</u>	<u>(24,286)</u>	<u>(38,931)</u>

10 Related party disclosures

As the company is wholly owned by Photon Kinetics Inc, it has taken advantage of the exemption contained in Financial Reporting Standard No 8 and has therefore not disclosed transactions or balances with entities which form part of the group headed by Photon Kinetics Inc. The trading results of Photon Kinetics Limited for the year are included in the consolidated financial statements of Photon Kinetics Inc, the registered address of which is given in note 11.

11 Ultimate parent undertaking

The company's ultimate parent undertaking is Photon Kinetics Inc, a company incorporated in the United States of America.

The only group in which the results of the company are consolidated is that headed by Photon Kinetics Inc. The registered address of Photon Kinetics Inc is 9305 SW Gemini Drive, Beaverton, OR 97008, USA.

12 Post balance sheet event

FRS 21, Events after the balance sheet date, requires the disclosure of changes in tax rates either enacted or announced after the balance sheet date that significantly affect current and deferred tax assets and liabilities. The announcement of a change in tax rate from 19% to 21% effective from 1 April 2008 will impact the deferred tax balances set out in these accounts. This change is a non-adjusting event.