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RADSTONE

TECHNOLOGY PLC



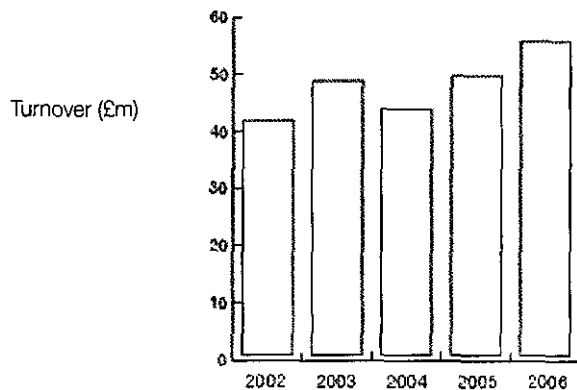
Annual Report and Accounts
for the year ended 31 March 2006

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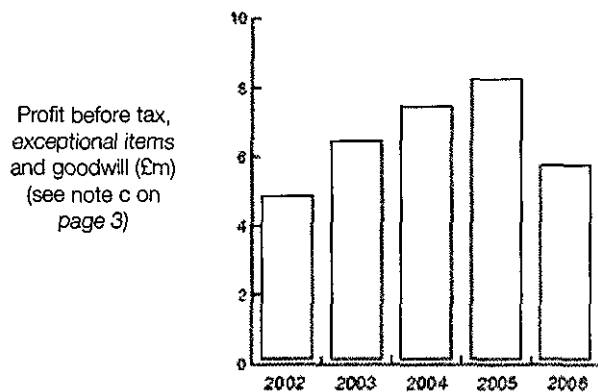
Financial Highlights

for the year ended 31 March 2006



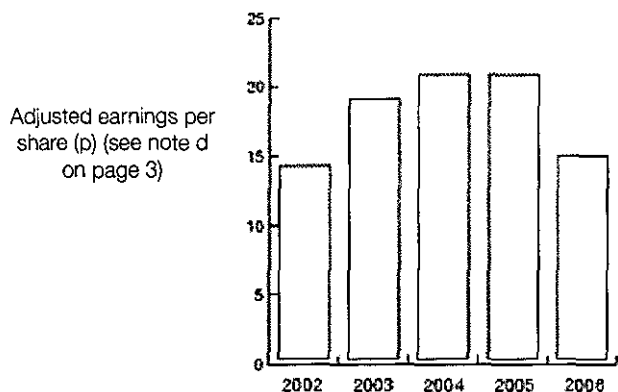
Turnover

10% growth in year.

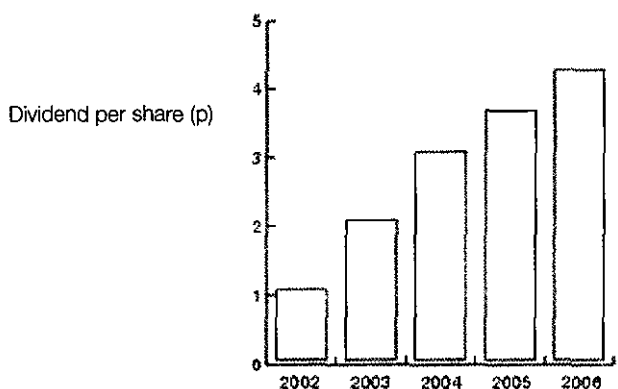


Adjusted profit before tax

Affected by the US\$, mix of product and increased development spend.



Adjusted earnings per share



Dividend per share (paid and proposed)

Financial Summary

for the five year period ended 31 March 2006

	IFRS		UK GAAP		
	2006	2005	2004	2003	2002
Turnover	£54.93m	£49.89m	£43.72m	£48.49m	£41.20m
EBITDA	£9.13m	£11.49m	£9.60m	£8.39m	£6.81m
Adjusted operating profit (a)	£6.96m	£9.47m	£7.77m	£6.64m	£5.26m
Adjusted operating margin (b)	12.7%	19.0%	17.8%	13.7%	12.8%
Profit before tax	£3.98m	£10.29m	£3.06m	£6.13m	£4.58m
Adjusted profit before tax (c)	£5.60m	£8.14m	£7.38m	£6.31m	£4.76m
Adjusted earnings per share (d)	14.68p	20.56p	20.50p	18.77p	13.97p
Dividend per share (paid and proposed)	4.20p	3.60p	3.00p	2.00p	1.00p
Development expenditure (e)	£7.66m	£6.08m	£4.53m	£3.94m	£3.47m
Cash generated by operations	£3.27m	£8.41m	£9.06m	£12.68m	£0.79m
Return on average capital employed (f)	11.4%	18.2%	23.2%	27.8%	22.1%
Average working capital/sales (g)	39.4%	30.9%	27.8%	30.2%	34.8%
Average number of employees	463	430	441	394	395

(a) Operating profit of £5.91m (2005: £11.62m) adjusted for amortisation of intangibles of £1.05m (2005: £0.76m) and exceptional gains of £nil (2005: £2.91m).

(b) Adjusted operating margin is based on the adjusted operating profit as in (a) above.

(c) Profit before tax of £3.98m (2005: £10.29m) adjusted for amortisation of intangibles of £1.05m (2005: £0.76m), movements in valuation of financial instruments of £0.57m (2005: nil), and exceptional gains of £nil (2005: £2.91m).

(d) Adjusted earnings per share is the basic earnings per share before exceptional items, movements in valuation of financial instruments, amortisation of goodwill and amortisation of intangibles as per note 13 to the financial statements.

(e) Development expenditure excludes £1.05m (2005: £0.76m) in respect of amortisation of intangibles arising from acquisitions.

(f) Return is profit after tax of £3.29m (2005: £8.25m) adjusted for movements in valuation of financial instruments after tax of £0.40m (2005: nil) and exceptional gains after tax of £nil (2005: £2.71m).

(g) Working capital excludes all cash, bank and other borrowings but includes long-term debtors and creditors. Average working capital is a simple average of opening and closing working capital.

The amounts disclosed for 2004 and earlier periods are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRSs. The principal differences between UK GAAP and IFRSs are explained in note 36 to the financial statements.

Secretary & Registered Office

N Novakovic BA, ACA
Tove Valley Business Park
Towcester
Northants NN12 6PF
Registered Number 2151516

Auditors

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Solicitors

Shoosmiths
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Nottingham NG2 1AG

Principal Bankers

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Financial Advisers

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Finance Limited
10 Crown Place
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Stockbrokers

Cazenove & Co. Limited
20 Moorgate
London EC2R 6DA

Registrars

Capita Registrars
The Registry
34 Beckenham Road
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Rhys Williams, BSc * (Non-executive Chairman) aged 72, is the non-executive Chairman. He was appointed to this post in 1992. In 1991 he retired from his executive role as a main board director of GEC plc, where his career included managing the telecommunications subsidiaries and the Marconi Group. He is currently Chairman of Filtronic plc.



Jeff Perrin, FCCA (Chief Executive) aged 55, was appointed as Chief Executive in September 2003. He was previously Finance Director of Radstone, a position he held since 1989. Between 1977 and 1989 he held financial positions at Oriflame International SA and GEC plc, latterly as Finance Director of GEC Electrical Projects Limited.



Kevin Boyd, BEng, CEng, FIET, ACA (Group Finance Director) aged 41, is the Group Finance Director and is responsible for the Group's financial controls, treasury and information technology operations. He joined the Board in September 2003 having previously been Finance Director of Siroyan Limited. Prior to this he held a number of senior financial positions with TI Group plc.



Peter Cavill, MSc (Executive Director) aged 59, is the executive director responsible for the Embedded Computing business. He was appointed a director of Radstone in 1993. Previously he was a general manager at Fairchild Semiconductor Inc, a director of Inmos Limited, the Chief Executive of Anamartic Limited and a divisional director of Spider Systems Limited.



Stephen Day * (Non-executive Director) aged 61, became the senior non-executive member of the Board in May 1998, having spent much of his career in the electronics industry. He was Managing Director of Kam Circuits Limited between 1985 and 1989 and Chief Executive of Kode International plc from 1989 to 1999, and is currently a non-executive director of Belgravium Technologies plc.

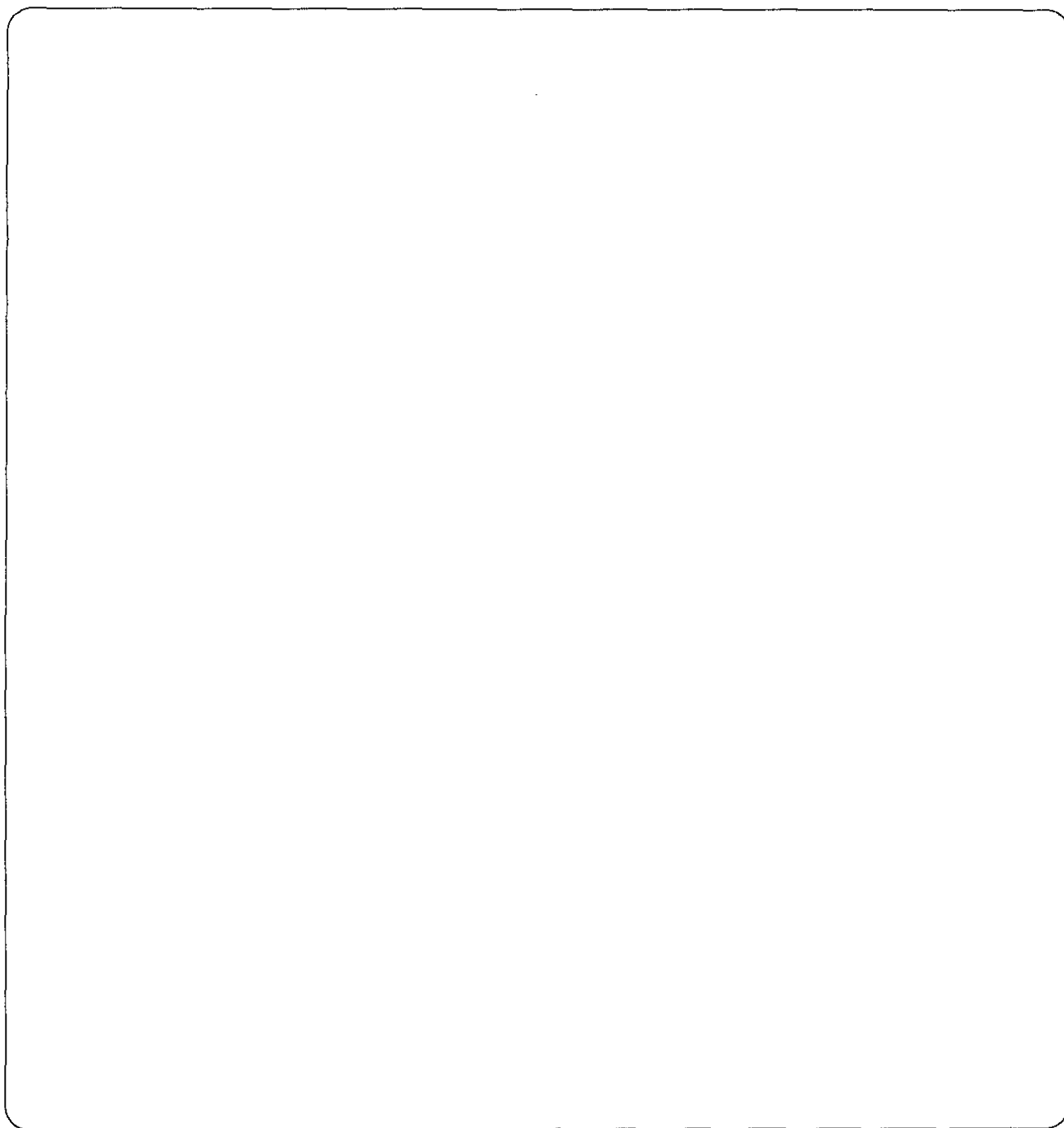


Malcolm Baggott * (Non-executive Director) aged 61, became a non-executive director in December 2005. Formerly Chief Executive of Vitec Group plc, he has also served as a non-executive director of Whessoe, Meyer International, Jarvis Porter and PERA. He is currently Chairman of Innovision Research and Technology plc and a non-executive director of Uren Food Group Limited.

* Member of remuneration and audit committees

Chairman's Statement

for the year ended 31 March 2006



▼ ICS-8552.

▼ ICS-1580.

▲ CP1A.

▲ PPC8A.

This was an exceptionally strong year with 21 new products, including the first from our new US Technology Centre. Together these will form the foundation of our growth over the next few years, enhancing our ability to gain a steady stream of new design-wins on future programmes.

This has been a busy year for the Group with new orders received totalling £62.1m, a 14% increase compared to last year and a closing order book for future delivery of £94.1m, up 9% over last year. Revenue for the year increased by 10% to £54.9m however adjusted profit before tax (see note 8) fell to £5.6m (2005: £8.1m). The causes of the lower adjusted profit were in equal measures, the decline in the US\$ hedged exchange rate, a higher proportion of lower margin product and increased development spend.

Basic earnings per share were 10.91p (2005: 27.97p). Adjusted earnings per share (see note 13) were 14.68p compared to 20.56p last year.

Dividend

Your board is recommending a final dividend of 3.15p per ordinary share that together with the interim dividend of 1.05p represents a 17% increase on last year's total dividend. This will be paid on 27 September 2006 to shareholders on the register on 8 September 2006.

New Product Development

This was an exceptionally strong year with 21 new products, including the first from our new US Technology Centre. Together these will form the foundation of our growth over the next few years, enhancing our ability to gain a steady stream of new design-wins on future programmes. Spending on development reached a record level of £7.7m, a 26% increase over last year, and represented 13.9% (2005: 12.2%) of revenue.

Acquisition

During March 2006, we purchased, through DaqScribe Technology Inc. (our subsidiary specialising in mechanical test and measurement), the assets of Sonoran Microsystems Inc. for a consideration of \$630k.

We remain committed to expanding the Group both organically and through selective acquisitions that broaden our core competencies and extend our market reach.

Board and Management

At this year's AGM I will retire from the board and the office of Chairman, a position I have held for almost 14 years. Malcolm Baggott, who joined the Company as a non-executive director in December 2005 will take over as Chairman and I wish him every success in the role.

Sir Alan Thomas resigned as a non-executive director of the Company in January 2006 and we would like to thank him for his contribution.

As previously announced in May of this year, Kevin Boyd our Group Finance Director will be leaving the Company in August 2006 to take up a role as Group Finance Director of another listed company; we wish him well in his new position and thank him for his contribution to the development of the Company. We are currently in the process of recruiting his replacement.

Outlook

The record level of product introductions ensures that we will retain our competitive advantage. This enables us to benefit from the strong prospects within the worldwide military market, particularly in the USA where the recently published Quadrennial Defense Review underlines the opportunities for growth in our largest market.

We are confident that the military market will continue to provide a solid and growing base for the strategic development of the Group.

Rhys Williams
Chairman

▼ StarSwitch.

▼ PPCM2.

▲ ICS-8554.

▲ ICS-8550.

Radstone Group Strategy

Radstone is a technology company dedicated to supporting the needs of system integrators.

The Radstone Group has two core businesses:

The Embedded Computing Business operates internationally and trades under the names 'Radstone Technology', 'ICS', 'Octec', and 'Daqscribe Technology'.

It specialises in the computing subsystem needs of the defence community and, in particular, in the design of subsystems adapted to survive the most extreme stresses of the tactical military environment.

The Embedded Computing Business uses Integrated Product Teams to anticipate the requirements of its customers by creating products that express the full capabilities of the electronic component industry at any given time.

It promotes Open System Standards, both in hardware and software, so that products may be understood and used worldwide, wherever such standards are recognised.

Our target market is among technically astute, professional system designers who aim to achieve higher performance, lower cost and shorter time-to-market by outsourcing significant elements of their designs to an external specialist.

We appreciate the high degree of trust from our customers and recognise the obligation to support them which this implies.

Often, we work with them in long-duration partnerships, in which we expect to provide in-depth technical support. In return, we gain valuable insights into their future needs, which inform the detailed specification of future generations of products.

We rarely have direct contact with end-users and work almost exclusively with Original Equipment Manufacturers (OEMs). We have a strong algorithm and software development capability, which we maintain solely to support and enhance the functionality of our subsystem products.

We respect the right of our OEM customers to add value through

their own special understanding of the end-user application; it is not our strategy to develop, or threaten to develop, end-user applications that compete with our customers.

Radstone operates internationally, wherever there is an industrial economy with a viable system integration capability.

The Electronic Manufacturing Services Business (EMS) trades under the name Foundation Technology, serving the Embedded Computing business, as well as a growing list of mainly UK-based external customers.

Its focus is on the needs of OEMs who seek to outsource the manufacture of small to medium size batches of complex electronic products, frequently on short lead times. Complete or partial manufacturing solutions are available, including component procurement, assembly and test.

Foundation Technology is accustomed to working closely with its customers during product development, providing manufacturing inputs to their design review processes.

It has direct access to the technology resources of the Radstone Group, enabling it to deploy new processes, materials and test techniques at an early stage in the technology cycle.

With a modern factory location at Milton Keynes in Buckinghamshire, Foundation Technology is now among the best-equipped UK EMS operations in its market sector.

Embedded Computing

	2006 £'000	2005 £'000
Total revenue (all external)	46,032	41,822
Gross profit	23,090	23,676
Result before amortisation and unallocated costs	8,849	11,481

As in previous years revenue was heavily weighted towards the second half of the year, with 63% of deliveries made during quarters 3 and 4, compared with 70% last year.

In our main US market, deliveries of £28.8m represented 63% of Embedded Computing sales and 52% of Group revenue. Major US deliveries made during the year were to General Dynamics on the M1A2 tank, Raytheon on the MK-48 and MK-54 torpedo upgrade programmes and on the Advanced Targeting Forward-Looking Infra-red pod for the F/A-18 Hornet fighter aircraft.

Gross profit at £23.1m was a similar level to last year, with

Radstone has a strong record of developing leading edge products and our highly focused product development programme differentiates us from the competition and makes us the preferred supplier to leading military and aerospace companies.

Operations Review

for the year ended 31 March 2006

Major US deliveries made during the year were to General Dynamics on the M1A2 tank, Raytheon on the MK-48 and MK-54 torpedo upgrade programmes and on the Advanced Targeting Forward-Looking Infra-red pod for the F/A-18 Hornet fighter aircraft.

margins decreasing from 56.6% to 50.2%. This was mainly due to the decline in our US\$ hedged exchange rates and a greater proportion of sales of lower margin products.

The result before amortisation and unallocated costs decreased to 19.2% of sales (2005: 27.5%) due to the gross margin reduction mentioned in the above paragraph and the increased development expenditure which was 26% above last year.

In order to enhance DaqScribe, our Test & Measurement business, we acquired the assets of Sonoran Microsystems Inc. based in Tucson, Arizona. Sonoran designs advanced custom signal conditioning products for use in mechanical test and measurement applications.

This addition, following on from the acquisition of Savvy Corp in the previous year, will further enhance DaqScribe's product portfolio. This will enable DaqScribe to offer turnkey solutions for transient, dynamic and static test applications. Within the next twelve months we will integrate Sonoran with DaqScribe's existing facility in Centennial, Colorado.

*Radstone Technology Corporation
Billerica, Massachusetts.*

▼ CPX24.

In June 2005 we relocated our US headquarters from New Jersey to our technology centre near Boston, Massachusetts. Since opening the centre in November 2004 three software products have been introduced which provide a software environment designed to accelerate the development and deployment of complex signal processing applications requiring multiprocessor systems.

Radstone has a strong record of developing leading edge products and our highly focused product development programme differentiates us from the competition and makes us the preferred supplier to leading military and aerospace companies. Our investment in development in the year amounted to £7.7m (2005: £6.1m) representing 16.6% (2005: 14.5%) of Embedded Computing sales.

▼ GS16.

This year has been an exceptionally productive period with 21 new product introductions; among these was the CPX24 rugged gigabit ethernet switch designed to exploit the growing use of this technology as the networking infrastructure in military systems.

Also introduced was the ICS-8145, a rugged data acquisition board for sonar applications. We also launched a Pentium M-based graphics processor, designed for the most demanding simulation, embedded training and war-gaming applications, transferring this capability from training rooms into an operational system.

A product of our development programme from the previous year, the GS16 Ethernet Switch, was selected by Boeing to take part in a F-15E1 test mission to demonstrate the capabilities of DARPA's Tactical Targeting Network Technology Program.

The mission was successfully completed in September 2005. DARPA is the Defense Advanced Research Projects Agency, a US government body which manages and directs selected basic and applied research and development projects for the Department of Defense. It pursues research and technology where risk and payoff are both very high and where success may provide dramatic advances for traditional military roles and missions.

► ICS-8145.

Operations Review

for the year ended 31 March 2006

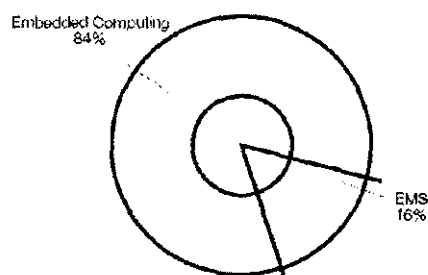
Electronic Manufacturing Services (EMS)

	2006 £'000	2005 £'000
Total revenue	9,589	8,800
Sales to Embedded Computing	(695)	(735)
External revenue	8,894	8,065
Gross profit	2,272	1,873
Result before amortisation and unallocated costs	2,106	1,644

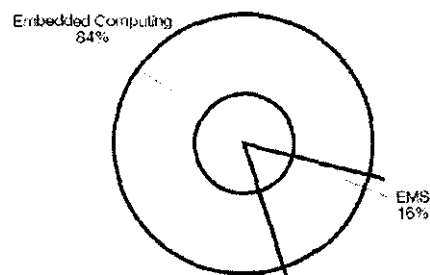
An excellent year for our EMS business. The result before amortisation and unallocated costs represented a margin of 22.0%, compared to 18.7% last year. Approximately 80% of the external revenue in the year was for commercial customers involved in areas such as test & measurement, industrial control, electronic displays and electronics for motor sports.

With an order book of £4.4m for short term delivery, the first half of financial year 2007 will be an extremely active period for the EMS business, but as one or two specific contracts are due for completion by August the second half is likely to be somewhat quieter.

Turnover by class of business



year ended 31 March 2005



year ended 31 March 2006

Group Orders

New orders booked totalled £62.1m, compared with £54.4m in 2005, producing a book to bill ratio of 1.13 for the Group.

Orders received from the USA were £38.5m (2005: £30.2m) including two major multi-year production contracts. The first of these, for \$12.5m, was received from Raytheon in September 2005 for the Advanced Targeting Forward Looking Infra-red pod programme for the F/A-18 Hornet fighter aircraft; this is in addition to over \$10m received on this contract in earlier years. During the second half of the year an order was received from Harris for \$13m on the upgrade to the Universal Fire Control System programme for the High Mobility Artillery Rocket System.

UK orders for the Group totalled £13.8m (2005: £18.3m) including a £2.5m order for Octec to supply the ballistics predictor and auto tracker for a small calibre gun system to be fitted to the Royal Navy Type 23 Frigates. Order intake for the UK includes £9.0m for the EMS business, which is all UK based. This compares to £8.4m last year.

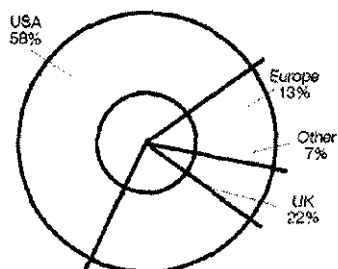
We begin the financial year 2007 in a strong position, with the Group order book at £94.1m, an increase of 9% from the same period last year.

Orders from mainland Europe of £6.5m (2005: £4.6m) and the Far East of £2.1m (2005: £0.8m) increased for the second consecutive year. With a number of identified opportunities and increased investment in these territories, further progress is expected in 2007. Orders from rest of the world were £1.2m (2005: £0.5m), with the majority originating from Israel.

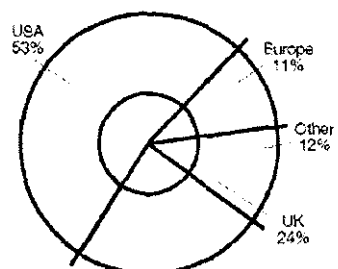
We begin the financial year 2007 in a strong position, with the Group order book at £94.1m, an increase of 9% from the same period last year. From this order book, £32.4m is deliverable by 31 March 2007 compared to £28.0m last year.

Jeff Perrin
Chief Executive

Geographical analysis



year ended 31 March 2005



year ended 31 March 2006

Financial Review

for the year ended 31 March 2006

Overview

Total Group sales increased by 10.1% to £54.9m with the percentage growth being identical in both divisions. Underlying growth in Embedded Computing was 9.0% after adjusting for the effect of the US dollar and the acquisitions and disposals made in the prior year.

Reported gross margins in Embedded Computing fell to 50.2% from 56.6%. Stripping out the effects of currency hedging, margins in constant dollars dropped 3.2 percentage points, a reflection of the change in the mix of products shipped during the year.

The EMS business improved on last year's impressive result, lifting gross margins from 21.3% to 23.7% as they continue to benefit from operational efficiencies and successfully targeting high added value contracts. In this year in particular we saw an increased proportion of "free issue" business which results in a better percentage gross margin.

Expenditure on operating expenses (Distribution costs, Development costs and Administrative expenses) increased by £2.6m, the majority of the increase being in Development costs (£1.9m). Under the new IFRS accounting standards, the "Amortisation of intangible assets arising from acquisitions" is included under Development costs. Under UK GAAP this was reported as "Goodwill amortisation". Excluding the movement in amortisation, the increase in Development costs was £1.6m. The majority of this was due to the establishment of our US software centre, increased investment in our test and measurement subsidiary and additional costs due to the full year of ownership of Octec.

Under IFRS, interest charges are reported under the headings "Investment revenue" and "Finance costs". Net borrowing costs were lower by £0.1m at £0.9m.

Finance costs also include the IAS 19 charge which represents a notional finance charge for the deficit on the Group's pension schemes.

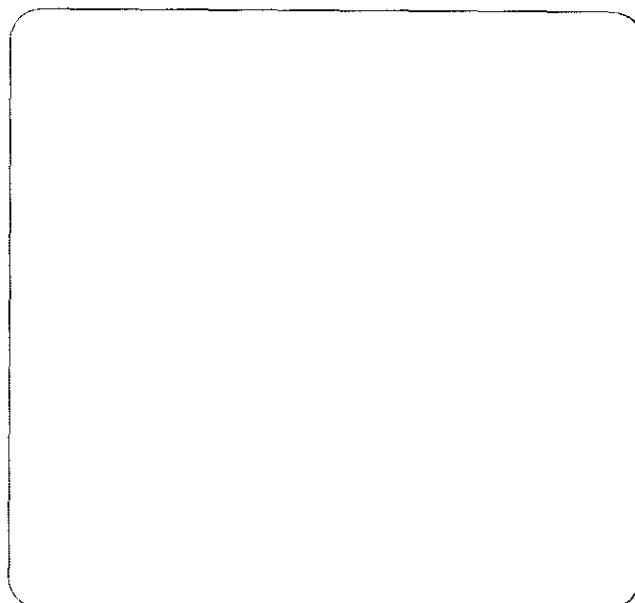
The tax charge of £0.7m is 18% of the pre-tax profit compared to 20% in 2005. This improved percentage reflects the disproportionate effect of R&D tax credits on the lower profit for the year.

Basic earnings per share of 10.91p were 17.06p below last year due to a combination of reduced profits, exceptional profits in the prior year and the movements in the fair values of financial instruments.

The adjusted earnings per share (see calculation in note 13) at 14.68p fell proportionally less than adjusted profit due to the favourable tax charge discussed above.

Cash flow

Net cash flow from operating activities was £1.6m, a drop of £3.6m over the prior year, while EBITDA (see note 31) fell £2.4m to £9.1m reflecting the fall in adjusted profit.



The difference between EBITDA and net cash flow from operating activities is primarily due to a £5.3m increase in working capital, additional payments to the defined benefit pension scheme and a reduction in tax paid. Inventories increased broadly in line with revenues and include components for a major European programme which have been purchased in advance to secure preferential pricing. Receivables increased by £6.6m due to high fourth quarter sales.

After taking into account capital expenditure, the acquisition of Sonoran, dividends, the purchase of own shares for employee incentive schemes and interest received, net debt increased from £16.6m to £18.2m.

Information Technology

In July 2001 we successfully introduced SAP, an enterprise resource planning system, across the Radstone Group. We are now in the process of implementing this within the companies acquired since then. Octec Ltd successfully implemented SAP in December 2005 and ICS Ltd is planning to complete their implementation by September 2006.

Pensions

The Group has two defined benefit pension schemes which were closed to new entrants in March 1997. During the year liabilities as measured under IAS 19 grew by £4.0m while the assets also grew by £4.0m leaving the deficit before tax virtually unchanged at £9.5m. Plans are in place to eliminate this deficit over the next ten years.

In June 2006 we started a process of consultation with the members of the above schemes with the intention of ceasing future service accrual after 31 March 2007 and introducing a defined contribution element.

Dividends

Dividends paid and proposed for the year increased by 17% from 3.6p to 4.2p per share.

▲ VIM2.

▼ V4DSP.

Investment

With the completion of the Towcester facility in the prior year, capital expenditure returned to 2004 levels at £1.6m.

In March we announced the acquisition of the trade and assets of Sonoran Microsystems Inc. of Tucson, Arizona by our Test & Measurement subsidiary, DaqScribe Technology Inc. for a consideration of \$630k

Liquidity

Net debt of £18.2 m equates to gearing of 40.6% compared to 39.3% at the end of the prior year. Interest cover, based on adjusted operating profit was 7.4 times (2005: 9.2). Dividend cover (paid and proposed) based on adjusted earnings was 3.5 times (2005: 5.6).

The Group seeks to reduce financial risk and to ensure sufficient liquidity is available to meet foreseeable needs. Our policy is to maintain a balance between continuity of funding and flexibility through the cost-effective use of borrowings with a range of maturities.

Performance

Adjusted earnings per share, (see calculation in note 13), fell to 14.68p (2005: 20.56p). In constant dollar terms adjusted earnings per share would have been 17.6p.

Treasury

With a substantial percentage of revenue in United States dollars, hedging foreign exchange fluctuations against this currency is recognised by the directors as a key responsibility. While this exposure is naturally hedged by purchases of components in US dollars and the local costs of our US operations, there still remains a net exposure to be hedged. In the year, the net exposure was approximately \$40m.

*Royal Navy Type
23 Frigates.*

Translation exposure arising on the consolidation of the Group's US and Canadian assets is hedged by use of US and Canadian dollar loans in the UK parent company. The net effects of these are taken directly to reserves, ensuring that only trading transaction gains and losses on foreign exchange are represented in the income statement.

The interest rate exposure on the US dollar, Canadian dollar and sterling loans are managed by a number of interest rate swaps.

International Financial Reporting Standards

This is the first year that the Group has reported its results under International Financial Reporting Standards (IFRS). The main variations from UK GAAP are:

Goodwill is no longer amortised. For acquisitions after 1 April 2004, it is necessary to identify separately from goodwill, values for acquired intangible assets that previously under UK GAAP would have been included in goodwill. These intangible items are then amortised to the income statement over their estimated useful lives and reported on the line "Amortisation of intangibles arising from acquisitions". In Radstone's case this applies to the acquisitions of Octec Limited and Sonoran Inc, where the only separable intangible item recognised was technology.

Due to its exposure to the US dollar the Group uses foreign currency derivatives to hedge future cash flows. The Group has decided that the additional costs of meeting the extensive documentation requirements of IAS 39 to apply hedge accounting are not merited. Accordingly we cannot use hedge accounting for our foreign currency derivatives. Gains and losses on marking to market such derivatives at the balance sheet date have to be reflected in the income statement and are disclosed on the line "Loss on fair value movement on financial instruments" within Finance costs. It should be emphasised that this notional reported "loss" will never be realised; it is simply a timing effect. The real worth of the hedging is to fix the value in local currency of foreign currency sales receipts in the future, thus reducing the uncertainty that would otherwise exist as to their realisable value. Under the transitional arrangements for the implementation of IFRS this item was not reported in the prior year.

Pension deficits are now included in the consolidated Balance Sheet whereas formerly they were disclosed as a note.

Dividends are now recorded as a liability when approved and not when proposed as was previously the case.

Kevin Boyd
Group Finance Director

Directors' Report

for the year ended 31 March 2006

Principal activities

The principal activities of the Group are the design of digital electronic equipment for sale, the design and manufacture of real-time data acquisition and analogue to digital conversion products for the embedded sensor processing market, the design and manufacture of image processors and video trackers for the embedded computing market, and the surface-mount assembly of electronic sub-systems.

Business review

A review of the business of the Group, including the principal risks and uncertainties facing the Group, is set out in the Chairman's Statement and Operations and Financial Reviews on pages 6 to 15. Further analysis and key performance information can be found in the Notes to the Financial Statements. Details of the financial risks facing the Group are outlined in note 25.

Results and dividends

The consolidated trading results and year end financial position are shown in the financial statements on pages 34 to 83. The directors recommend a final dividend of 3.15p per share (2005: 2.70p) to be paid on 27 September 2006 to shareholders on the register as at 8 September 2006.

An interim dividend of 1.05p (2005: 0.90p) was paid on 16 January 2006. If the final dividend recommended is approved the total ordinary dividend for the year will amount to 4.20p per share (2005: 3.60p).

Directors

The current directors are listed on page 5. Mr M A W Baggott was appointed as a non-executive director on 1 December 2005 and Sir Alan Thomas resigned as a director on 1 January 2006. All other directors held office throughout the year. Subsequent to the year end, Mr K J Boyd resigned as Group Finance Director effective from 4 August 2006. The interests of the directors in the share capital of the Company are disclosed in the Report to the Shareholders on Directors' Remuneration on pages 18 to 24.

The Company's Articles of Association stipulate that a director appointed to the Board since the last Annual General Meeting may only hold office until the dissolution of the next Annual General Meeting after their appointment, unless they are re-appointed during the meeting. Mr M A W Baggott, having been appointed since the last Annual General Meeting retires and, being eligible, offers himself for re-appointment as a non-executive director. Mr R J Williams retires as a non-executive director and Chairman at the date of the Annual General Meeting and is not seeking re-appointment.

Mr M A W Baggott and Mr R J Williams have the benefit of a contract for services to the Company that requires three and six months' notice of termination by either party respectively.

Substantial interests

At 17 July 2006 the Company had been notified in accordance with sections 198 to 208 of the Companies Act 1985 of the following interests of 3% or more of the Company's ordinary share capital:

Shareholder	Ordinary shares of 12½p each	
	Number	%
Prudential plc and subsidiary companies	3,053,423	10.06
Morley Fund Management Limited	2,581,801	8.51
Insight Investment Management Limited	2,527,540	8.33
Gartmore Investment Management Plc	2,116,380	6.98
Wellington Management Company LLP	1,377,300	4.54
Legal and General Group plc	1,335,679	4.40
New Star Asset Management	1,185,071	3.91
Invesco Perpetual	937,657	3.09

Donations

The Group made charitable donations during the year amounting to £2,076 (2005: £3,285). No political donations were made.

Employment policies

The Group informs and consults regularly with employees on matters affecting their interests with a view to achieving a common awareness of the financial and economic factors affecting its performance. The views expressed by employees have been taken into account when making decisions where appropriate.

A substantial number of employees have shareholding interests in the Company either directly or under Approved and Unapproved Executive Share Option Schemes. Further details of these schemes and options granted during the year are included in note 28 to the financial statements.

The Company has established a Share Incentive Plan (SIP) under which employees can expend up to a maximum of the lower of £125 or 10% of salary per month to purchase shares in the Company. For every two partnership shares that an employee buys the Company contributes a further matching share at no cost to the employee.

All shares purchased are held in trust on behalf of the employee whose interest in the matching shares is forfeited should the partnership shares be withdrawn before the expiry of three years from the date of purchase. Details of transactions in own shares during the year are disclosed in note 30 to the financial statements.

The Group is an equal opportunities employer and its policies for the recruitment, training, career development and promotion of employees are based on the relevant merits and abilities of the individuals concerned. It recognises its responsibilities towards the disabled and gives full and fair consideration to applications for employment from them and, so far as particular disabilities permit, will give continued employment to any existing employee who becomes disabled. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Research and development

The Group recognises the importance of investing in research and development programmes in order to maintain technical and commercial competitiveness. Expenditure in the year to 31 March 2006 on research and development (excluding amortisation of intangibles arising from acquisitions) amounted to £7,662,000 (2005: £6,078,000), of which £nil (2005: nil) was capitalised in accordance with the Group accounting policy (see note 2 to the financial statements).

Supplier payment policy

The Group does not follow a code or standard payment practice. Payment terms are agreed on an individual supplier basis and suppliers are made aware of these terms at the time that contracts or agreements are signed. This policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception.

The Group's average creditor payment period at 31 March 2006 was 73 days (2005: 58 days) and the Company's 24 days (2005: 5 days).

Financial instruments

Notes 2 and 25 of the Notes to the Financial Statements contain disclosures relating to the use of financial instruments.

Annual general meeting

The notice convening the Annual General Meeting is set out on page 85.

An ordinary resolution will be proposed at the Annual General Meeting to authorise the directors for a period ending on the date of the next Annual General Meeting, or 7 December 2007 if earlier, to allot shares pursuant to section 80 of the Companies Act 1985. The number of shares over which the Board will have such authority following the passing of resolution 6 relating to the section 80 amount will represent 33.3% of the ordinary share capital in issue as at 17 July 2006.

The directors have no present intention of exercising this authority.

A special resolution will also be proposed, subject to the passing of the resolution to allot shares pursuant to section 80 of the Companies Act 1985, to empower the directors to allot shares for cash other than on the pre-emptive basis to existing shareholders pro rata to their holdings required by section 89 of the Companies Act 1985. The number of shares which the Board will be able to allot for cash other than on a pre-emptive basis to existing shareholders pro rata to their holdings following the passing at the AGM of resolution 7 relating to the section 89 amount represents 5.0% of the ordinary share capital of the Company in issue on 17 July 2006.

Auditors

In the case of each of the persons who are directors of the Company at that date when this report was approved:

-so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and

-each of the directors has taken all the steps necessary to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Deloitte & Touche LLP has expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting. Deloitte & Touche LLP also currently provide non-audit services to the Company as described in the Corporate Governance section of this report.

By order of the Board



Nov Novakovic
Secretary
17 July 2006

Report to the Shareholders on Directors' Remuneration

for the year ended 31 March 2006

The following report by the Remuneration Committee has been approved by the board of directors for submission to shareholders for approval at the forthcoming Annual General Meeting.

Unaudited information

Remuneration Committee

The Remuneration Committee ('the Committee') comprises R J Williams, S J Day and M A W Baggott. In addition, Sir Alan Thomas was also a member of the Committee during the year, until his resignation as a director on 1 January 2006, when the Committee was considering directors' remuneration for the year ended 31 March 2006. R J Williams and S J Day were non-executive directors of the Company and members of the Committee throughout the year ended 31 March 2006. M A W Baggott was appointed to the Committee on 22 December 2005. The Committee is chaired by R J Williams.

The Committee has access to independent advice on remuneration issues where it considers it appropriate. No such advice was sought during the year ended 31 March 2006.

The Chief Executive and Group Finance Director advise the Committee but are not permitted to participate in discussions or decisions relating to their own remuneration.

The Committee members are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The constitution and operation of the Committee comply with the Best Practice Provisions on Directors' Remuneration contained within the Listing Rules published by the Financial Services Authority.

Remuneration policy

The Committee decides the remuneration policy that applies to executive directors and the Group's other senior management.

In setting the policy it considers a number of factors including:

- (a) The basic salaries and benefits available to executive directors of comparable companies.
- (b) *The need to attract and retain executive directors of an appropriate calibre.*
- (c) The need to ensure executive directors' commitment to the success of the Company by means of incentive schemes.

The Committee considers that the performance related elements of the remuneration packages give the executive directors the potential to receive annual benefits only if significant value has been delivered to shareholders thereby aligning the interests of shareholders and senior executives. In terms of providing motivation to the executive directors to improve shareholder value, the Committee considers that the performance related elements are the most important.

Remuneration of non-executive directors

The non-executive directors each receive a fee for their services. The amount is agreed in advance by the Board following recommendation by the Chief Executive with the assistance of independent advice, where appropriate, concerning comparable organisations and appointments. No such advice was sought during the year ended 31 March 2006.

The non-executive directors do not receive any pension or other benefits from the Company, nor do they participate in any bonus, incentive or share option schemes.

Remuneration policy for executive directors

The Company's remuneration policy for executive directors is to:

- (a) have regard to the directors' experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality;
- (b) link individual remuneration packages to the Group's long-term performance through the award of shares and performance related incentive plans;
- (c) provide post retirement benefits through the Group's pension schemes;
- (d) provide employment-related benefits, including the provision of a company car or allowance and medical insurance.

Report to the Shareholders on Directors' Remuneration

for the year ended 31 March 2006

Components of remuneration

Basic salary

The Committee meets at least once a year in order to consider and set the annual salaries for executive directors.

Performance related incentive plan

An incentive scheme was in operation for the year. Bonuses earned are shown in the directors' detailed emoluments and are dependent upon an improvement in normalised earnings per share as follows:

- (a) a bonus is payable if the adjusted Earnings Per Share ("EPS") is greater than the prior years figure;
- (b) the bonus percentage for each participant is given by the expression:
$$\text{Bonus (\% of salary)} = [(\text{normalised EPS/prior year normalised EPS}) - 1] \times 150;$$
- (c) the bonus is based on the participant's basic salary at the close of the financial year on 31 March 2006. The bonus is paid as 50% in cash and 50% in shares in the Company. These shares are held in trust for three years and if a director leaves the Company during this period the right of ownership is lost except in certain circumstances such as retirement or ill health;
- (d) no payment is made until publication of the Company's audited Report and Accounts for the financial year;
- (e) bonus payments are made through the payroll and are subject to the normal statutory deductions; and
- (f) bonus payments will not exceed 200% of the participants' basic salary at the close of the financial year.

Bonuses for the year ending 31 March 2006 were 0% of base salary (2005: 7.6%).

The performance condition outlined in (b) above aligns the interests of the executive directors with those of the shareholders by linking the bonus directly to growth in adjusted EPS. For example, for a participating director to receive a bonus of 50% of his salary, adjusted EPS would have to rise by 33⅓%.

Details of the part of the bonuses earned by the executive directors and converted into shares are shown on page 22.

Under UK GAAP the cost of the annual bonus paid in shares was taken to the Income Statement in the period to which it related. Under IFRS it is treated as a share-based payment and spread over the 3 years following the year to which it related.

Senior Executive Share Option Schemes

The Committee oversees the operation of the Company's Approved and Unapproved Senior Executive Share Option Schemes and of the Radstone Technology PLC Executive Share Incentive Plan ("ESIP") approved by the shareholders in September 2005. Options are granted to senior management at the discretion of the Committee. The Approved Scheme has now expired and no more options can be granted under it. The Committee does not intend to grant any further options to directors under the Unapproved Scheme.

Under the Unapproved Scheme, options are not exercisable unless the percentage increase in the Company's basic earnings per share is greater than or equal to a specified percentage per annum above the percentage increase in the RPI over the relevant period in which the option may be exercised. The specified percentage for the Approved Scheme is 2% and for the Unapproved Scheme 5%. The RPI is the "All Items" Index of Retail Prices as published by the Central Statistics Office. No options were granted to the executive directors under the Unapproved Scheme during the year.

Executive Share Incentive Plan

The Committee's current policy is for the new ESIP to be the vehicle through which long-term incentives are provided to executive directors. Under the ESIP, a participant may be granted an award over ordinary shares worth up to 50% of gross base salary as at 31 March in the preceding financial year. These shares will be unconditionally awarded only after the satisfaction of the performance criteria, based on the achievement of Total Shareholder Return ("TSR") for Radstone Technology PLC over a fixed three year period measured against the FTSE Small Cap index (excluding investment trusts). In addition, vesting of shares will be conditional on the Committee having satisfied itself that the recorded TSR is a genuine reflection of the Company's underlying financial performance and prospects.

Vesting commences at 30% for median performance, with 31% to 50% on a sliding scale basis between the median and top quartile, and 100% of the award is receivable for top quartile performance.

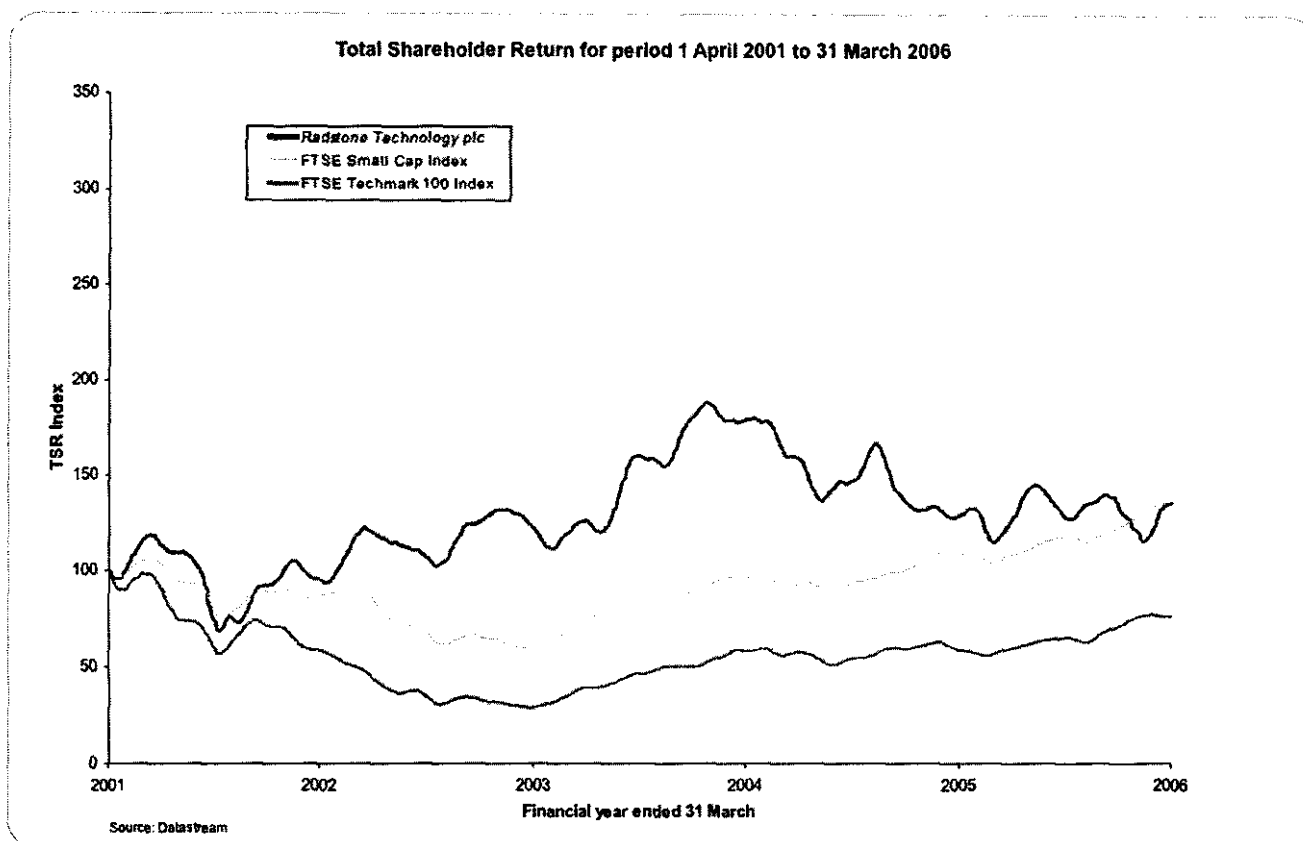
Report to the Shareholders on Directors' Remuneration

for the year ended 31 March 2006

Total Shareholder Return

The following graph shows the Company's performance, measured by Total Shareholder Return, compared with the performance of the FTSE Techmark 100 Index and the FTSE Small Cap Index for the period from 1 April 2001 to 31 March 2006.

TSR measures share price growth, with dividends deemed to be reinvested gross on the ex-dividend date, and the TSR is shown as the one month average on each day.



The Remuneration Committee has selected the above indices as the most relevant for a company of Radstone Technology PLC's size and sector.

Pensions

J L Perrin is currently a member of one of the Group's defined benefit schemes. Subject to Inland Revenue limits he is eligible for a pension of up to two thirds of pensionable (basic) salary upon retirement at the age of 62, provided that the minimum service requirement of 17 years has been met. K J Boyd participated in the Group's defined contribution Stakeholder Pension Plan during the financial year. P J Cavill is not a member of any of the Group's pension schemes.

Report to the Shareholders on Directors' Remuneration

for the year ended 31 March 2006

Service contracts

The executive directors have contracts of service and the non-executive directors have contracts for services to the Company all of which require notice of termination by either party, as detailed in the table below.

	Letter of appointment	Date of contract	Notice period
R J Williams*	19/10/92	-	6 months rolling
J L Perrin	-	30/08/89	12 months rolling
K J Boyd**	-	24/12/02	6 months rolling
P J Cavill	-	21/02/94	6 months rolling
S J Day	20/07/98	-	3 months rolling
M A W Baggott	17/11/05	-	3 months rolling

* R J Williams' letter of appointment terminates by agreement on 7 September 2006 (the date of the Company's Annual General Meeting).

** Subsequent to the Company's year end, K J Boyd resigned as Group Finance Director effective from 4 August 2006.

The Committee's policy is that executive directors' contracts should allow for termination with reasonable notice from the Company, except in circumstances of summary dismissal when no notice is given.

In the event of termination of the contract any payment made will be decided after consideration of the individual circumstances, including the reason for termination, contractual notice period and share scheme rules.

Forward looking statement

The Remuneration Committee will keep the existing remuneration arrangements under review during the year ending 31 March 2007 to ensure that they remain competitive and provide appropriate incentive for performance. No significant changes to reward arrangements for directors are expected outside of normal reviews of base salary or fees.

No significant amendments are proposed to be made to the terms and conditions of any entitlement of a director to entitlements under the Approved or Unapproved Senior Executive Share Option Schemes or the ESIP.

Interests in shares

The interests of the current directors in the ordinary shares of 12½p each of the Company, all of which were beneficial, were as follows:

	As at 31 March 2006 Number	As at 31 March 2005* Number
R J Williams	78,237	78,237
J L Perrin	373,530	370,870
K J Boyd	4,537	959
P J Cavill	101,181	98,421
S J Day	11,538	11,538
M A W Baggott	3,500	-
	572,523	560,025

* Or date of appointment if later.

The interests disclosed above include the following number of partnership shares acquired through participation in the Company's Share Incentive Plan ("SIP"):

	As at 31 March 2006 Number	As at 31 March 2005 Number
J L Perrin	2,870	2,263
K J Boyd	1,494	916
P J Cavill	855	291
	5,219	3,470

Report to the Shareholders on Directors' Remuneration

for the year ended 31 March 2006

In accordance with the SIP rules applicable to all participating employees, for every two shares purchased the Company has contributed a further matching share at no cost which have not been included above.

All shares purchased under the SIP are held in trust and interest in the matching shares is forfeited should the partnership shares be withdrawn before the expiry of three years from the date of purchase.

Part of the bonuses earned by the executive directors are converted into shares in the Company and held in trust on their behalf for a period of 3 years. If they leave the Company during the 3 years, the right to ownership of the shares is lost except in certain circumstances such as retirement or ill health. Details of the number of shares are as follows:

	As at 31 March 2006 Number	As at 31 March 2005 Number
J L Perrin	13,388	14,636
K J Boyd	3,751	2,211
P J Cavill	13,396	15,126
	30,535	31,973

Audited Information

Directors' detailed emoluments

Details of individual directors' emoluments for the year are as follows:

	Salary, fees and other payments £	Bonus £	Benefits £	Pension contributions £	2006 Total £	2005 Total £
Executive						
J L Perrin	181,250	-	9,781	67,762	258,793	211,831
K J Boyd	127,500	-	9,781	5,738	143,019	139,172
P J Cavill	152,500	-	9,625	-	162,125	158,226
Non-executive						
R J Williams	59,250	-	-	-	59,250	56,250
S J Day	25,501	-	-	-	25,501	23,499
M A W Baggott	8,667	-	-	-	8,667	-
Sir Alan Thomas*	10,833	-	-	-	10,833	24,000
	565,501	-	29,187	73,500	668,188	612,978

* Sir Alan Thomas resigned on 1 January 2006.

The fees of R J Williams are payable to a business in which he has a substantial interest.

The criteria for performance related elements of directors' emoluments are detailed in the paragraph entitled "Performance related incentive plan" on page 19.

Report to the Shareholders on Directors' Remuneration

for the year ended 31 March 2006

The following retirement benefits are accruing to directors under the Group's defined benefit schemes:

	Accrued pension at 31 March 2006 £	Increase in accrued pension excluding inflation (A) £	Increase in accrued pension including inflation £	Transfer value of (A) less directors' contributions £	Transfer value of accrued pension at 31 March 2005 £	Transfer value of accrued pension at 31 March 2006 £	Increase in transfer value less directors' contributions £
J L Perrin	74,667	20,615	22,036	277,475	622,197	970,941	266,750

The transfer values disclosed above do not represent a sum paid or payable to the individual director but a potential liability of the pension scheme.

Share options

Approved Senior Executive Share Option Scheme

	As at 1 April 2005	As at 31 March 2006	Option price (p)	Date from which exercisable	Expiry date
K J Boyd	9,740	9,740	308	18/08/06	18/08/13

No approved options were exercised during the year.

Unapproved Senior Executive Share Option Scheme

	As at 1 April 2005	As at 31 March 2006	Option price (p)	Date from which exercisable	Expiry date
J L Perrin	13,500	13,500	308½	19/08/06	19/08/13
J L Perrin	15,400	15,400	347½	14/11/06	14/11/13
J L Perrin	30,000	30,000	297½	19/07/07	19/07/14
J L Perrin	38,800	38,800	307	22/11/07	22/11/14
K J Boyd	6,483	6,483	308½	19/08/06	19/08/13
K J Boyd	18,308	18,308	347½	14/11/06	14/11/13
K J Boyd	24,000	24,000	297½	19/07/07	19/07/14
K J Boyd	27,400	27,400	307	22/11/07	22/11/14
P J Cavill	14,250	14,250	308½	19/08/06	19/08/13
P J Cavill	14,200	14,200	347½	14/11/06	14/11/13
P J Cavill	28,000	28,000	297½	19/07/07	19/07/14
P J Cavill	33,100	33,100	307	22/11/07	22/11/14
	263,441	263,441			

No unapproved options were exercised during the year.

Report to the Shareholders on Directors' Remuneration

for the year ended 31 March 2006

Executive Share Incentive Plan

	As at 1 April 2005	Awarded	As at 31 March 2006	Market price at award date (p)	Date of award	Earliest vesting date
J L Perrin	-	30,249	30,249	281	23/09/05	31/03/08
K J Boyd	-	21,352	21,352	281	23/09/05	31/03/08
P J Cavill	-	25,801	25,801	281	23/09/05	31/03/08
	-	77,402	77,402			

The market price of the Company's shares at the end of the financial year was 282.25p and the range of market prices during the year was 222p to 313p.

Further details of share options are given in note 28 to the financial statements.

Apart from the interests disclosed above, none of the directors had any interests at any time in the year in the share capital of the Company or other Group companies, nor had any interest in contracts of significance in which the Company or any other Group company is or was materially interested. Since the year-end the following changes occurred in the directors' interests in the shares of the Company:

- Purchases of further partnership shares by J L Perrin (175 shares), K J Boyd (176 shares) and P J Cavill (176 shares), through participation in the SIP.
- Purchase of 749 shares by R J Williams.

This report was approved by the board of directors on 17 July 2006 and signed on its behalf by:

Rhys Williams

Remuneration Committee Chairman

Corporate Governance Statement

for the year ended 31 March 2006

The Board is committed to maintaining good standards of corporate governance throughout the Group and therefore to apply, where they are deemed appropriate, the principles of corporate governance set out in the revised Combined Code on Corporate Governance (the Code). The statement below describes how the directors have applied the principles of corporate governance and the extent to which the principles and provisions of the Code have been complied with during the financial year ended 31 March 2006.

The Board currently comprises three executive directors and three independent non-executive directors, including the Chairman. All of the non-executive directors are considered by the Board to be independent notwithstanding the presumption in the Code that a Chairman cannot be considered independent after his appointment. Biographical details of the directors serving as at 31 March 2006 are given on page 5.

Compliance with the Code: The Group has complied, throughout the financial year ended 31 March 2006, with the provisions set out in Section 1 of the Code except as set out below:

- As the Company only has two non-executive directors other than the Chairman, formal meetings without the Chairman present are not considered appropriate. The non-executive directors are, however, able to easily arrange an ad-hoc meeting without the Chairman present if they deem it necessary (Code provision A.1.3).
- No formal annual evaluation of individual non-executive directors (except the Chairman) is undertaken, although the performance of the Chairman, the Board and of the Board Committees is evaluated formally on an annual basis as set out below (Code provision A.6). The appraisal of the Chairman is not conducted by the non-executive directors as the Company considers it appropriate for the whole of the Board to be involved (Code provision A.6.1). The Chairman monitors and reviews the performance of the other non-executive directors throughout the year. The Board believes that this delivers a more valuable evaluation than a formal annual process would.
- R J Williams and S J Day are not appointed for specified fixed terms but have service contracts, which are terminable on a rolling basis as detailed in the Directors Remuneration Report on page 21 (Code Provision A.7.2). M A W Baggott (appointed 1/12/2005) has a contract allowing up to two terms of 3 years and it is intended that any future non-executive directors will also be appointed for a specified maximum fixed term.
- We believe that the division of responsibility between the Chairman and Chief Executive is clearly established and well understood but that to set this out in writing would limit the flexibility of the relationship which the Board believes is of great benefit to the Company (Code provision A.2.1).
- Due to its size, the entire Board serves on the Nomination Committee and as such the Committee does not have a majority of independent non-executives directors (Code provision A.4.1).

Board composition and operation: The Board considers all of its current non-executive directors to be independent in character and judgement. Except as set out below, none of these current non-executive directors:

- has been an employee of the Group within the last five years;
- has a material business relationship with the Group;
- receives remuneration other than a director's fee, participates in the Company's share option schemes or is a member of the Company's pension scheme;
- has close family ties with any of the Group's advisers, directors or senior employees;
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- represents a significant shareholder; or
- has served on the Board for more than nine years from the date of their election.

During the year Sir Alan Thomas stepped down from the Board and M A W Baggott was appointed in his place. In relation to the appointment of Mr Baggott, the Board drew up a job specification for a new non-executive director which evaluated the balance of skills, knowledge and experience that was required. An independent recruitment consultant, who specialises in the recruitment of non-executive directors, was retained and found suitable applicants in accordance with the job specification. From these applicants the Board drew up a "long list" who were seen by the executive directors who reduced this to a "short list" of three who were seen independently by the non-executive directors. The whole Board then re-convened as the Nomination Committee to make the final decision. Mr Baggott was formerly Chief Executive of Vitec Group plc and he has also served as a Non-executive Director of Whessoe, Meyer International, Jarvis Porter and PERA. He is currently Chairman of Innvision Research and Technology plc and a Non-executive Director of Uren Food Group Limited.

While the Chairman has served on the Board for more than nine years, he met the above criteria for independence at the time of his appointment and the Board considers him to be independent in character and judgement as he provides objective and impartial contributions to board meetings and conducts thorough analyses of the information provided on the affairs of the Company. The Chairman will be retiring at the forthcoming Annual General Meeting and it is proposed that M A W Baggott become Chairman from that date. The Company is currently engaged in a search for a replacement for Mr Baggott.

The division of responsibilities between the Chairman of the Board, R J Williams, and the Chief Executive, J L Perrin, is clearly delineated but as stated above is not set out in writing.

Corporate Governance Statement

for the year ended 31 March 2006

The Board appointed S J Day as Senior Independent Non-executive Director in May 1998. He is available to meet shareholders on request. The Group has a policy of maintaining an active dialogue with institutional shareholders. The Chief Executive and Group Finance Director meet with major shareholders at least twice a year and with other shareholders as requested. After these meetings, when relevant, the views of these shareholders are reported to and discussed by the rest of the Board.

The Board undertakes an annual evaluation of the Chairman, the Board and of each of the Board Committees but not of individual directors. This is done by sending questionnaires to each of the directors on their respective performances. The responses to these questionnaires are sent to the Chairman, with the exception of those relating to the Chairman which are sent to the senior non-executive director. The Board carry out an exception-only review of the responses as required other than in the case of the Chairman when the exception-only review is carried out by the other non-executive directors.

All directors must submit themselves for election at the Annual General Meeting following their appointment and, thereafter, for re-election at least once every three years as required by the Code.

There is a formal schedule of matters reserved for the Board, which has been reviewed and updated during the year. The responsibilities of the Board include: setting strategy and approving the annual budget and projections; ensuring that good standards of corporate governance are maintained; monitoring the performance of the Group; approval of financing and significant capital expenditure; reviewing the Group's systems of risk management and financial control; approving appointments to the Board and of the Company Secretary; approving policies relating to directors' remuneration and ensuring that a satisfactory dialogue takes place with shareholders. The Board delegates to management a number of decisions, including the implementation of the strategies and policies of the Company as determined by the Board, monitoring the operating and financial results against budgets and managing and controlling the allocation of capital, human and technical resources. The Board receives detailed financial and operational information in order for it to monitor the performance of the key areas of the business.

The Board has a Nomination Committee, Remuneration Committee and Audit Committee. The terms of reference of each Committee are available for inspection as indicated in the notice of Annual General Meeting accompanying the Annual Report and Accounts and on the Company's website.

The number of scheduled Board meetings and Committee meetings attended by each director during the year was as follows:

	Scheduled Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings	Strategy meetings
R J Williams, Chairman	7 (7)	4 (4)	4 (4)	1 (1)	3 (4)
S J Day	7 (7)	4 (4)	4 (4)	1 (1)	4 (4)
Sir Alan Thomas	5 (5)	3 (3)	4 (4)	1 (1)	2 (3)
M A W Baggott	3 (3)	1 (1)	n/a	- (-)	2 (2)
J L Perrin	7 (7)	n/a	n/a	1 (1)	4 (4)
K J Boyd	7 (7)	n/a	n/a	1 (1)	4 (4)
P J Cavill	7 (7)	n/a	n/a	1 (1)	4 (4)

(The figure in brackets indicates the total number of meetings held in the period during which the individual was a director.)

During the year, the Chairman has held meetings with the non-executive directors without the executive directors present.

There is no formal training programme in place for new directors. However new directors are given a thorough induction into the Company including site visits and one to one meetings with senior managers throughout the organisation. The resources of the Company are available to develop, update and refresh each director's knowledge and capabilities as required.

All directors have access to the advice and services of the Company Secretary and to independent professional advice in furtherance of their duties, at the Company's expense as required. The Company maintained directors' and officers' liability insurance cover throughout the year ended 31 March 2006. This insurance cover was renewed for the year ending 31 March 2007.

Nomination Committee: The Nomination Committee is chaired by R J Williams and all the directors are members. Its main responsibilities are to approve the appointment of any new director and specifically to approve the remuneration and the terms of engagement of any new non-executive directors. Appointments to the Board are made on merit against objective criteria. There is also a formal succession plan in place for the appointment of directors and senior management.

During the year the terms of reference of the Nomination Committee were reviewed, revised and approved by the Board. The revisions to these terms of reference did not fundamentally alter the role and responsibilities of the Committee but were updated to reflect the recommendations of the Code.

Remuneration Committee: The Remuneration Committee is chaired by R J Williams and its other members are S J Day and M A W Baggott. Only non-executive directors serve on the Remuneration Committee.

Corporate Governance Statement

for the year ended 31 March 2006

The Remuneration Committee, which normally meets at least twice a year, has delegated responsibility for making recommendations to the Board on the policy for remuneration of executive directors and other senior executives, for reviewing the performance of executive directors and senior management and for determining, within agreed terms of reference, specific remuneration packages for each of the executive directors and senior management including pension rights, any compensation payments and the implementation of executive incentive schemes.

During the year the terms of reference of the Remuneration Committee were reviewed, revised and approved by the Board. The revisions to *these terms of reference did not fundamentally alter the role and responsibilities of the Committee but were updated to reflect the recommendations of the Code.*

In accordance with the Committee's terms of reference, no director may participate in discussions relating to his or her own terms and conditions of service or remuneration. The Directors' Remuneration Report is set out on pages 18 to 24.

Audit Committee: The Audit Committee is chaired by S J Day. Its other members are R J Williams and M A W Baggott. Only non-executive directors serve on the Audit Committee and members of the Audit Committee have no links with the external auditors. The Board considers that the members of the Audit Committee have sufficient, recent and relevant financial experience to discharge its functions. The Audit Committee normally convenes at least three times per year and meets the external auditors and the executive directors as appropriate on those occasions in order to fulfil their role.

The Audit Committee is responsible for, amongst other things, making recommendations to the Board on the appointment of the external auditors and their remuneration. *The Audit Committee considers the nature, scope and results of the auditors' work and reviews (and reserves the right to approve) any non-audit services that are to be provided by the external auditors.* It receives and reviews reports from management and the Group's auditors relating to the Group's Annual Report and Accounts. The Audit Committee focuses particularly on compliance with legal requirements, accounting standards and the Listing Rules and on ensuring that the auditors have full access to accounting records and personnel to enable them to undertake their work. The ultimate responsibility for reviewing and approving the Annual Report and Accounts remains with the Board.

During the year ended 31 March 2006 and up to the date of approval of the Annual Report and Accounts, the business discussed and considered by the Audit Committee included:

- the review of the Group's preliminary announcement of the financial results for the year ended 31 March 2005 and the 2005 financial statements prior to approval by the Board and reviewing the external auditors' detailed reports;
- the consideration and review of the Group's interim results announcement for the six months ended 30 September 2005 and the interim report for the same period prior to approval by the Board;
- the review and consideration of the Group's preliminary announcement of the financial results for the year ended 31 March 2006 and the 2006 financial statements prior to the approval of these by the Board. In addition, the Committee reviewed the reports received from the external auditors;
- the consideration and review of the appropriateness of the Group's accounting policies;
- the review and discussion of the proposals from the external auditors regarding their audit programmes for the year ending 31 March 2007;
- the approval of the audit fee and reviewing non-audit fees payable to the Group's external auditors;
- reports from management on the Group's main risks and the assessment and management of those risks;
- the review of the Group's internal financial controls against the risk register;
- the review of the reports on the Group's system of internal control and its effectiveness, reporting to the Board on the results of the review;
- the maintenance of a policy by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;
- the review of the performance of the external auditors at the beginning of the year ended 31 March 2006 and at the beginning of the year ending 31 March 2007 which resulted in the Committee recommending that a resolution for the re-appointment of Deloitte & Touche LLP as the Company's external auditors be proposed to shareholders at the Annual General Meeting in September 2005 and in September 2006;
- the review of reports from the internal audit function; and
- a review of the impact on the Group of the adoption of International Financial Reporting Standards (IFRS).

Corporate Governance Statement

for the year ended 31 March 2006

The Committee has discussed with the external auditors their independence and has reviewed the written disclosures received from them as required by the International Auditing Standards Board's Statement of Auditing Standard Number 260 'Communication of Audit Matters to those Charged with Governance'.

The Audit Committee has developed a formal 'Policy on the Use of External Auditors for Non-audit Services' which aims to monitor the non-audit services being provided to the Group by its external auditors. This policy should ensure that non-audit work is only undertaken by the external auditors when they are the most suited to undertake it. Any non-audit work involving expenditure of more than £20,000 requires approval of the Chairman of the Audit Committee. The policy specifically prohibits the external auditors from making management decisions for the Group, being put in the role of advocate for the Group or conducting any other work which is prohibited by ethical guidance. The amounts paid to the external auditors during the year for audit and other services are set out in note 6 to the financial statements on page 46.

The Audit Committee has reviewed the arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. A policy has been implemented and communicated to all staff which details the arrangements which are in place for the proportionate and independent investigation of such matters and for the appropriate follow up actions.

Internal Control: An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place throughout the year ended 31 March 2006 and has remained in place up to the approval date of the Annual Report and Accounts. That process is regularly reviewed by the Board and accords with the Guidance on Internal Control (The Turnbull Guidance) forming part of the Code.

The directors are responsible for the Group's system of internal control and for reviewing its effectiveness. The Board is supplied in a timely manner with information appropriate to enable it to discharge its duties. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group has an established framework covering financial, operational, compliance and risk management controls as detailed below:

- Control environment - the Group's control environment is the responsibility of the Group's directors and managers at all levels. The Group's organisational structure has clear lines of responsibility. Operating and financial responsibility for subsidiary companies is delegated to the local boards.
- Financial reporting - there is a comprehensive budgeting system in place with an annual budget approved by the Board. Monthly actual results are reported against budget and the previous year, together with order intake, order book analysis and a rolling cash flow forecast. A quarterly review of the results to date and latest year-end forecasts is undertaken by the Board. The Company reports to shareholders twice a year. Comments arising from the detailed review of the performance and financial position are included within the Chairman's Statement and the Operations and Financial Reviews on pages 6 to 15. The Board seeks to present a balanced and understandable assessment of the Group's position and prospects. The Directors' responsibilities for the financial statements are described on page 31.
- Delegation of authority - the Company has a Group procedure approved by the Board and reviewed at least once a year, that defines levels of authority before committing the Company to defined actions involving commercial risk.
- Risk identification - executive management has a clear responsibility for the identification of risks facing the business and for putting in place procedures to eliminate, mitigate and monitor risks. The full Board monitors this process through a system of internal control.
- Treasury - the strategy of hedging against foreign exchange and interest rates, levels of borrowing, charges over assets and investment of cash are reviewed and approved by the Board. Insurance of various business risks is reviewed and approved by the Board at least once a year.
- Main control procedures - standard financial control procedures operate throughout the Group to ensure the integrity of its financial statements. The Board has established procedures for authorisation of capital expenditure.
- Monitoring system used by the Board - the Board reviews and approves budgets and monitors the Group's performance against those budgets monthly. Variances from the expected outcome are investigated fully and where lapses in internal control are detected, these are rectified. The Group's cash flow is also monitored monthly compared to forecast.

The Board continuously reviews the effectiveness of the system of internal control on the basis of the criteria set out in the Guidance for Directors "Internal Control and Financial Reporting". It has considered the major business and financial risks, the control environment and information on and arising from control procedures. Action has been taken to develop further the Company's internal control and risk management and to implement improvements where appropriate.

Annually, the Board performs a formal review of internal controls operating within the Group. The Board will continue to monitor internal controls and risk management and introduce additional or enhanced procedures where areas for improvement are determined.

Corporate Governance Statement

for the year ended 31 March 2006

Internal audit: The Company continuously reviews the need for an internal audit function and the effectiveness of internal controls. Currently, there is no dedicated internal audit function and instead internal audits are conducted on Group subsidiaries by financial professionals from other parts of the Group.

Relations with shareholders: The Company encourages two way communications with both institutional and private shareholders. The Board welcomes the opportunity to meet shareholders at general meetings and to respond directly to their questions. The Company also responds to letters and electronic mail from shareholders throughout the year, actively encouraging this through its web site at www.radstone.co.uk where there is a specific section for investor relations.

Corporate Social Responsibility

Principles - we acknowledge our responsibilities to our stakeholders, the community and the environment and seek to operate responsibly and ethically in all areas of our business.

The core tenet of our approach as with all other areas of corporate governance is strong leadership from the Board and financial probity.

Employees - we believe that our employees are key to the success of the business. We aim to maintain low rates of staff turnover through the provision of a good working environment, competitive remuneration levels and stimulating challenges.

In the last year staff turnover (measured as the number of employees leaving for alternative employment divided by the average number of employees) was 2.72%.

The majority of UK employees are members of the Radstone Sports and Social Club which is subsidised by the Company and organises events throughout the year for employees and their families.

We encourage employee share ownership in the Group through the use, in the UK, of an all employee share ownership scheme and this year implemented a similar scheme in our Canadian subsidiary. Further details of our employee policies can be seen in the employment policy section of the Directors' Report.

Health & Safety - safety is a major consideration not only in our manufacturing facilities but also in our office environments. We promote safe working practice and provide protective equipment where necessary. During the last 5 years there have been 4 incidents that have required notification under Health and Safety regulations. If an incident occurs it is investigated and is subject to root cause analysis to prevent it happening again.

In 2004, we implemented a rolling programme of health and safety audits conducted by independent consultants. The aim of these audits is to highlight deficiencies in our policies and procedures and to rectify them.

Environment - Radstone's policy is to adhere to all environmental legislation and regulations before they become mandatory. Currently Radstone is working to comply with the 2 major E.U. directives that specifically affect the electronics industry and its environmental impact.

The Restriction of Use of Certain Hazardous Substances (RoHS) directive severely restricts the use of six hazardous materials in electronic product and its manufacture. One of the most significant is lead, which has been a major constituent in the solder used for attachment of components to printed circuit boards. Radstone is working to replace lead based solders and will have compliant processes in place by July 2006.

The Waste Electrical and Electronic Equipment (WEEE) directive aims to reduce the waste arising from electronic equipment and improve the environmental performance of all those involved (manufacturers, sellers, distributors and disposers) in the product life cycle.

To this end Radstone is recycling and recovering much of its computer equipment, products and materials through authorised reprocessing channels and will continue to maximise these services as they become available.

In the construction of our new facility in Towcester, where possible, we incorporated the latest energy and water saving techniques both in the design of the building and in the fixtures and fittings used. The design sought to minimise all forms of pollution including noise and the environmental impact on the surrounding countryside.

Communication - we encourage communication with all our stakeholders.

Good customer relations are important to any business, but they are particularly key to the Radstone business model which is founded on high levels of service and an in-depth understanding of the customer's requirement. As such we work hard to maintain such relationships, meeting our customers regularly to discuss current and future requirements.

As a low volume specialist supplier, the ability to source key components is critical to our business and as a result we form relationships with suppliers who will support us through the economic cycles of the semi-conductor industry. We meet with our major suppliers frequently and work with them to see where they can add value to our supply chain.

Corporate Governance Statement

for the year ended 31 March 2006

The Group has Joint Consultative Committees consisting of staff and management who meet regularly to discuss changes in the Group or working practices. The Directors regularly present to the entire workforce on the Group's progress and there is a Group intranet to facilitate information flows.

The Group encourages dialogue with shareholders and regularly meets with investors. In addition to meeting our large investors we have put in place a programme of meetings with smaller regional investors and we host a number of investor visits during the year.

Community - the Group has forged close links over many years with the community surrounding its Headquarters and main facility in Towcester. We are one of the largest private sector employers in the area and as a result are an important factor in its economic prosperity. Where competitive, we encourage the use of local suppliers and are involved in projects with local schools.

With the growth in the Group, both in the UK and North America, we will seek to form similar links with those new communities in which we become involved.

Our policy with relation to charitable donations is to only support causes in the communities local to our facilities.

Ethical Business Practices - all employees are expected to behave ethically when working for the Group and this is reflected in our policies detailed in our staff handbook.

Going concern: After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the Group's financial statements.

Stephen Day

Audit Committee Chairman

17 July 2006

Statement of Directors' Responsibilities

for the year ended 31 March 2006

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRSs) and have also elected to prepare financial statements for the Company in accordance with IFRSs. Company law requires the directors to prepare such financial statements in accordance with IFRSs, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- prepare the accounts on a going concern basis unless, having assessed the ability of the Company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report, directors' remuneration report, operations review and financial review which comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Nov Novakovic
Secretary
17 July 2006

Independent Auditors' Report

to the members of Radstone Technology PLC

We have audited the Group and individual Company financial statements (the "financial statements") of Radstone Technology PLC for the year ended 31 March 2006 which comprise the consolidated income statement, the consolidated and individual Company balance sheets, the consolidated and individual Company cash flow statements, the consolidated and individual Company statements of recognised income and expenses and the related notes 1 to 36. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom 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 in accordance with the relevant financial reporting framework and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion, the information given in the directors' report is consistent with the financial statements. We also 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 also report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report including the unaudited part of the directors' remuneration report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 and the part of the directors' remuneration report described as having been audited. 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 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 and the part of the directors' remuneration report described as having been audited 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 and the part of the directors' remuneration report described as having been audited.

Independent Auditors' Report

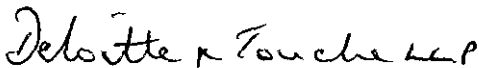
to the members of Radstone Technology PLC

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 31 March 2006 and of its profit for the year then ended;
- the individual Company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the requirements of the Companies Act 1985, of the state of the individual Company's affairs as at 31 March 2006; and
- the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

As explained in note 2 to the financial statements, the Group, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 March 2006 and of its profit for the year then ended.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Nottingham

17 July 2006

Consolidated Income Statement

for the year ended 31 March 2006

	Notes	2006 £'000	2005 £'000
Continuing operations			
Revenue	4	54,926	49,887
Cost of sales		(29,564)	(24,338)
Gross profit		25,362	25,549
Distribution costs		(6,745)	(6,346)
Development costs			
- Product development		(7,662)	(6,078)
- Amortisation of intangibles arising from acquisitions		(1,050)	(757)
		(8,712)	(6,835)
Administrative expenses		(3,991)	(3,652)
Other operating income		-	2,912
Operating profit*	6	5,914	11,628
Investment revenue	9	138	160
Finance costs			
- Borrowing costs		(1,079)	(1,195)
- Loss on fair value movement on financial instruments		(565)	-
- Retirement benefit scheme finance charges		(424)	(301)
	10	(2,068)	(1,496)
Profit before tax**		3,984	10,292
Tax	11	(699)	(2,045)
Profit for the year from continuing operations attributable to equity holders of the parent		3,285	8,247
Ordinary dividends	12	1,137	954
Earnings per share (pence) from continuing operations			
Basic	13	10.91p	27.97p
Diluted	13	10.89p	27.81p
Adjusted	13	14.68p	20.56p
* Adjusted operating profit	8	6,964	9,473
** Adjusted profit before tax	8	5,599	8,137

Balance Sheets

at 31 March 2006

		Group		Company	
	Notes	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Non-current assets					
Goodwill	14	24,741	24,733	-	-
Intangible assets arising from acquisitions	15	6,233	6,917	-	-
Other intangible assets	15	22	46	22	42
Property, plant and equipment	16	16,315	16,761	10,758	10,950
Investment in subsidiaries	17	-	-	37,550	37,550
Amounts owed by subsidiaries		-	-	151	151
Deferred tax assets	26	2,844	2,869	-	-
		50,155	51,326	48,481	48,693
Current assets					
Inventories	18	12,284	11,219	-	-
Trade and other receivables	20	24,229	17,872	4,299	1,208
Derivative financial instruments	25	213	-	-	-
Cash and cash equivalents	21	2,188	4,304	11,878	10,774
		38,914	33,395	16,177	11,982
Total assets		89,069	84,721	64,658	60,675
Current liabilities					
Trade and other payables	22	10,470	8,562	4,679	2,840
Tax liabilities		1,103	1,161	-	-
Obligations under finance leases	23	192	259	-	-
Derivative financial instruments	25	547	-	-	-
Bank overdrafts and loans	24	4,812	3,500	4,007	2,703
		17,124	13,482	8,686	5,543
Non-current liabilities					
Bank loans	24	15,189	16,693	14,966	16,475
Retirement benefit obligations	34	9,479	9,564	-	-
Deferred tax liabilities	26	2,179	2,433	713	550
Obligations under finance leases	23	219	406	-	-
		27,066	29,096	15,679	17,025
Total liabilities		44,190	42,578	24,365	22,568
Net assets		44,879	42,143	40,293	38,107
Equity					
Share capital	27	3,792	3,787	3,792	3,787
Share premium account	29	25,152	25,059	25,152	25,059
Own shares	29	(753)	(431)	(753)	(431)
Other reserve	29	1,388	1,388	1,388	1,388
Hedging and translation reserves	29	673	139	-	-
Retained earnings	29	14,627	12,201	10,714	8,304
Total equity		44,879	42,143	40,293	38,107

The financial statements on pages 34 to 83 were approved by the board of directors on 17 July 2006 and were signed on its behalf by:

J L Perrin
Director



K J Boyd
Director



Cash Flow Statements

for the year ended 31 March 2006

	Notes	Group		Company	
		2006 £'000	2005 £'000	2006 £'000	2005 £'000
Net cash from operating activities	31	1,601	5,234	1,841	2,045
Investing activities					
Interest received		138	159	724	136
Proceeds on disposal of SensorCom Inc.		-	832	-	-
Proceeds on disposal of property, plant and equipment		1	3,908	-	3,906
Net cash disposed of with sale of SensorCom Inc.		-	(251)	-	-
Purchases of property, plant and equipment		(1,566)	(4,701)	(2)	(2,277)
Purchase of other intangible assets		-	(5)	-	(5)
Purchases of trade and assets	32	(381)	(92)	-	(108)
Deferred consideration on acquisition of ICS Limited		-	(3,254)	-	(3,254)
Increase in cost of investment in ICS Limited		-	(28)	-	(28)
Net cash acquired with Octec Limited		-	1,979	-	-
Dividend received from Octec Limited from pre-acquisition profits		-	-	-	1,101
Acquisition of Octec Limited		-	(12,501)	-	(12,501)
Net cash (used in)/from investing activities		(1,808)	(13,954)	722	(13,031)
Financing activities					
Dividends paid	12	(1,137)	(954)	(1,137)	(954)
Issue of share capital		87	6,170	87	6,170
Purchase of own shares under Employee Incentive Schemes		(409)	(152)	(409)	(152)
Repayments of borrowings		(877)	(2,493)	-	(1,400)
Repayments of obligations under finance leases		(259)	(289)	-	-
New bank loans raised		1,358	1,118	-	1,000
Net cash (used in)/from financing activities		(1,237)	3,400	(1,459)	4,664
Net (decrease)/increase in cash and bank overdrafts		(1,444)	(5,320)	1,104	(6,322)
Cash and bank overdrafts at start of year		3,766	9,150	10,774	17,096
Effect of foreign exchange rate changes		(134)	(64)	-	-
Cash and bank overdrafts at end of year	21	2,188	3,766	11,878	10,774

Statements of Recognised Income and Expense

for the year ended 31 March 2006

	Notes	Group		Company	
		2006 £'000	2005 £'000	2006 £'000	2005 £'000
Adoption of IAS 32/39: Fair value of financial instruments at 1 April 2005	25	957	-	-	-
Exchange differences on translation of foreign operations		464	505	-	-
Actuarial losses on defined benefit pension schemes	34	(197)	(2,391)	-	-
Tax on items taken directly to equity	11	(78)	717	-	-
Net income/(expense) recognised directly in equity		1,146	(1,169)	-	-
Transferred to profit or loss on cash flow hedges	25	(726)	-	-	-
Tax on items transferred from equity	11	218	-	-	-
Profit for the period		3,285	8,247	3,502	8,952
Total recognised income and expense for the period attributable to equity holders of the parent	29	3,923	7,078	3,502	8,952

Notes to the Financial Statements

for the year ended 31 March 2006

1. General information

Radstone Technology PLC is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 5. The nature of the Group's operations and its principal activities are set out in note 5 and in the Directors' Report.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- | | |
|---------|--|
| IFRS 6 | Exploration for and Evaluation of Mineral Resources. |
| IFRS 7 | Financial Instruments: Disclosures, and the related amendments to IAS 1 on capital disclosures. |
| IFRIC 4 | Determining Whether an Arrangement Contains a Lease. |
| IFRIC 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds. |
| IFRIC 6 | Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment. |
| IFRIC 7 | Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies. |
| IFRIC 8 | Scope of IFRS 2. |
| IFRIC 9 | Reassessment of Embedded Derivatives. |

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

2. Significant accounting policies

(a) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the first time. The disclosures required by IFRS 1 ('First-time Adoption of International Financial Reporting Standards') concerning the transition from UK GAAP to IFRSs are given in note 36. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulations.

The Group's transition date for IFRS is 1 April 2004. Comparative data for the year ending 31 March 2005 has been restated to conform to the new accounting policies set out below. These new policies reflect exemptions from restating certain financial information as permitted under IFRS 1. The exemptions taken by the Group are stated below:

- Under IAS 21 ('The Effects of Changes in Foreign Exchange Rates') cumulative translation differences arising on the consolidation of foreign subsidiaries are required to be held in a separate reserve within equity. The cumulative translation differences at 1 April 2004 have been deemed to be nil.
- IAS 32 ('Financial Instruments: Disclosure and Presentation') and IAS 39 ('Financial Instruments: Recognition and Measurement') have been applied with effect from 1 April 2005 and not to comparative data. The comparative results for 31 March 2005, in so far as they relate to financial instruments, have been stated in accordance with UK GAAP as allowed by IFRS 1.
- IFRS 2 ('Share-based Payment') has been applied to all the awards after 7 November 2002 that remained unvested at 1 April 2005. Earlier awards have not been restated.
- IFRS 3 ('Business Combinations') has been applied prospectively to acquisitions after 1 April 2004. Earlier acquisitions have not been adjusted.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. The principal accounting policies adopted are set out below.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Radstone Technology PLC ('the Company') and its subsidiary undertakings (together 'the Group'). A subsidiary is a company controlled directly or indirectly by the Group. Control is achieved where the Company has the power to govern the financial and operating policies of the investee entity so as to obtain benefits from its activities.

2. Significant accounting policies continued

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency in the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the profit and loss account in the period of acquisition.

The results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill arising on acquisitions is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable. Any impairments are recognised immediately in the income statement and are not subsequently reversed.

Goodwill arising on acquisitions prior to 1 April 2004 (the date of transition to IFRSs) has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Sales are recognised when the significant risk and rewards of ownership of goods are transferred to the customer.

Revenue from long-term contracts is recognised in accordance with the Group's accounting policy (see below).

(e) Long-term contracts

Where the outcome of a long-term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

(f) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in proportion to the reducing capital element outstanding.

Operating lease rentals are charged to income on a straight-line basis over the term of the relevant lease.

(g) Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

Notes to the Financial Statements

for the year ended 31 March 2006

2. Significant accounting policies continued

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation, the assets and liabilities of the Group's overseas operations are translated into sterling, which is the functional currency of the Company and the presentation currency for the consolidated financial statements, at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly in which case the weighted average exchange rate is used. Exchange differences arising from the re-translation of the opening balance sheets and results are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling-denominated assets and liabilities.

(h) Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit (final salary) schemes, the defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation less the fair value of scheme assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. Actuarial gains and losses are recognised in equity as an item within the statement of recognised income and expense.

(i) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2. Significant accounting policies continued

(j) Property, plant and equipment

Property, plant and equipment are stated at original historical cost, net of depreciation and any provision for impairment.

Depreciation is charged so as to write off the cost of assets, less estimated residual value, on a straight-line basis over their estimated useful lives in accordance with the table below:

	Estimated useful economic life
Freehold buildings	45 – 50 years
Plant and machinery	3 – 10 years
Fixtures, fittings and equipment	3 – 10 years

Freehold land is not depreciated.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

(k) Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development activities is recognised only if an asset is created that can be identified, it is probable that the asset created will generate future economic benefit and the development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

(l) Intangible assets

(i) Intangible assets arising from acquisitions

For acquisitions of businesses after 1 April 2004, the Group recognises separately from goodwill intangible assets provided they are separate or arise from contractual or other legal rights and their fair value can be measured reliably. The intangible assets are recognised at fair value and amortised on a straight-line basis over their remaining useful lives, being 5 to 10 years.

(ii) Other intangible assets

Other intangible assets, representing manufacturing licences, are amortised over 3 years, estimated to be the period in which the individual products to which they relate are to be sold. Where, in the directors' opinion, there has been an impairment in the value of intangible assets, this is charged to the income statement in the period in which the impairment occurs.

(m) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(n) Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out basis and includes transport and handling costs) and net realisable value, less payments on account. Net realisable value represents the estimated selling price after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state into a finished condition. Provision is made where necessary for obsolete, slow moving or defective inventories.

Notes to the Financial Statements

for the year ended 31 March 2006

2. Significant accounting policies continued

(c) Financial Instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost less provision for impairment. *Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the estimated future cash flows discounted where appropriate.*

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash in-hand, call deposits and bank overdrafts, where there is right of set off. Bank overdrafts are presented as current liabilities to the extent there is no right of offset with cash balances.

(iii) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

(iv) Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct costs of issue. Finance charges, including premiums payable on settlement or redemption and direct costs of issue, are accounted for, on an accruals basis, in the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(v) Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(vi) Derivative financial instruments and hedge accounting

As permitted by IFRS 1 ('First-time Adoption of International Financial Reporting Standards'), the Group has elected to apply IAS 32 ('Financial Instruments: Disclosure and Presentation') and IAS 39 ('Financial Instruments: Recognition and Measurement') prospectively from 1 April 2005. As a result, the relevant comparative information for the year ended 31 March 2005 does not reflect the impact of these standards and is accounted for in accordance with UK GAAP.

The Group uses derivative financial instruments to hedge its exposure to foreign currency and interest rate risk. Details of the financial risks faced by the Group and the use of financial instruments to mitigate them are outlined in note 25. The Group does not use derivative financial instruments for speculative purposes.

From 1 April 2005, derivative financial instruments are recognised as assets and liabilities at fair value on the date the derivative contract is entered into and are subsequently re-measured at fair value at each balance sheet date. Changes in the fair values of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecast transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. *For hedges that do not result in the recognition of a non-financial asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.*

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

The Group recognises an instrument as a hedging instrument by documenting, at the inception of the instrument, the relationship between the instrument and the hedged item and the objectives and strategy for undertaking the hedging transaction. To be designated as a hedging instrument, an instrument must also be assessed, at inception and on an ongoing basis, to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group has determined that the additional costs of meeting the extensive documentation requirements for the Group's large number of foreign currency forward contracts and interest rate swaps are not merited. Accordingly gains and losses arising from measuring the contracts at fair value are recorded immediately in the income statement.

2. Significant accounting policies continued

(p) Share-based payments

The Group has applied the requirements of IFRS 2 'Share-based Payment'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 April 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the expected vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of the Black-Scholes option pricing model.

3. Critical accounting estimates and judgement

In applying the Group's accounting policies as set out in note 2, management is required to make certain estimates and judgements concerning the future. These estimates and judgements are regularly reviewed and updated as necessary. The estimates and judgements that have the most significant effect on the amounts included in these consolidated financial statements are as follows:

(a) Goodwill

Each year the Group carries out impairment tests of its goodwill balances which requires estimates to be made of the value in use of its cash generating units (CGU's). These value in use calculations are dependent on estimates of the future cash flows and long term growth rates of the CGU's. Further details are provided in note 14.

(b) Taxation

In determining the Group provisions for income tax and deferred tax it is necessary to consider transactions in a small number of key tax jurisdictions for which the ultimate tax determination is uncertain. Where the final outcome of these matters is different from the amounts initially recorded, such differences will impact the current tax provision, deferred tax provisions and income statement in the period in which such determination is made.

4. Revenue

	2006 £'000	2005 £'000
An analysis of the Group's revenue is as follows:		
Sale of goods	51,907	49,887
Revenue from long-term contracts	3,019	-
	54,926	49,887
Other operating income	-	2,912
Investment income	138	160
Total revenue	55,064	52,959

Notes to the Financial Statements

for the year ended 31 March 2006

5. Segmental information

Business segments

For management purposes, the Group is organised into two divisions, Embedded Computing and Electronic Manufacturing Services. These divisions are the basis on which the Group reports its primary segment information.

Segmental information about these businesses is presented below.

	Embedded Computing		Electronic Manufacturing Services		Total	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Revenue						
Total revenue	46,032	41,822	9,589	8,800	55,621	50,622
Inter-segment sales	-	-	(695)	(735)	(695)	(735)
External revenue	46,032	41,822	8,894	8,065	54,926	49,887
Cost of sales	(22,942)	(18,146)	(6,622)	(6,192)	(29,564)	(24,338)
Gross profit	23,090	23,676	2,272	1,873	25,362	25,549

Inter-segment sales are charged at prevailing market prices.

Result

Result before amortisation and unallocated costs	8,849	11,481	2,106	1,644	10,955	13,125
Amortisation of intellectual property arising through acquisition	(1,050)	(757)	-	-	(1,050)	(757)
Gain on disposal of SensorCom Inc.	-	641	-	-	-	641
Segment result	7,799	11,365	2,106	1,644	9,905	13,009

Unallocated corporate expenses					(3,991)	(3,652)
Profit on disposal of freehold land and buildings					-	2,271
Operating profit					5,914	11,628
Investment revenue					138	160
Finance costs					(2,068)	(1,496)
Profit before tax					3,984	10,292
Tax					(699)	(2,045)
Profit after tax					3,285	8,247

Notes to the Financial Statements

for the year ended 31 March 2006

5. Segmental information continued

Capital expenditure, additions to intangibles, depreciation and amortisation

	Embedded Computing		Electronic Manufacturing Services		Total	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Capital expenditure and additions to intangibles (excluding goodwill)	1,272	4,515	294	191	1,566	4,706
Depreciation and amortisation	2,871	2,430	345	339	3,216	2,769

Total assets by segment

	Embedded Computing		Electronic Manufacturing Services		Total	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Segment assets	78,765	73,904	4,208	3,644	82,973	77,548
Unallocated					6,096	7,173
Total assets					89,069	84,721

Unallocated assets represent tax recoverable, deferred tax assets, derivatives at fair value and cash and cash equivalents.

Total liabilities by segment

	Embedded Computing		Electronic Manufacturing Services		Total	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Segment liabilities	8,477	6,776	2,402	2,451	10,879	9,227
Unallocated					33,311	33,351
Total liabilities					44,190	42,578

Unallocated liabilities represent derivatives at fair value, tax payable, deferred tax liabilities, retirement benefit obligations and bank loans and overdrafts.

Geographical segments

	2006 £'000	2005 £'000
External Revenue		
United Kingdom	13,358	10,931
Rest of Europe	6,265	6,399
North America	28,795	28,960
Rest of World	6,508	3,597
	54,926	49,887

Revenues are based on the location of the customer.

Notes to the Financial Statements

for the year ended 31 March 2006

5. Segmental information continued

Other Information	Total Assets		Additions to property, plant and equipment and intangible assets	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
United Kingdom	47,226	45,538	1,337	4,530
North America	35,745	32,006	229	176
Rest of Europe	2	4	-	-
Segment assets	82,973	77,548	1,566	4,706
Unallocated	6,096	7,173	-	-
	89,069	84,721	1,566	4,706

Total assets are based on the location of the assets. Unallocated assets represent taxation, derivatives at fair value and cash and cash equivalents. Additions to property, plant and equipment and intangible assets are based on the location of the assets.

6. Operating profit

	2006 £'000	2005 £'000
Operating profit is stated after charging /(crediting):		
Net foreign exchange losses	294	51
Research and development costs:		
- Product development	7,662	6,078
- Amortisation of intangibles arising from acquisition	1,050	757
Depreciation and amounts written off property, plant and equipment	2,142	1,972
Loss on disposal of property, plant and equipment	3	4
Amortisation of intangible assets	24	40
Materials cost of goods sold	17,579	15,607
Increase/(release) in inventory provisions and amounts written off inventories	692	278
Operating lease rentals:		
- land and buildings	339	308
- plant, equipment and vehicles	200	210
Staff costs (see note 7)	19,368	17,410
Auditors' remuneration		
- audit services	141	120
- non-audit services	82	111

Fees paid to Deloitte & Touche LLP in respect of non-audit services represent:

Tax services		
- compliance	26	29
- advisory	14	39
	40	68
Further assurance services		
- IFRS implementation work	40	-
- acquisition of Octec Ltd	-	21
- other	-	1
	40	22
Other services		
- US 401k plan fees	-	13
- consulting	-	7
- other	2	1
	2	21
Total	82	111

Notes to the Financial Statements

for the year ended 31 March 2006

6. Operating profit continued

Auditors' remuneration for audit services provided to the Company amounted to £15,000 (2005: £15,000).

A description of the work of the audit committee is set out in the Corporate Governance Statement on pages 25 to 30, and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

Pursuant to section 230 of the Companies Act 1985, a separate income statement dealing with the results of the Company only has not been presented. The profit after taxation for the financial year (before dividends paid) included in the accounts of the Company amounted to £3,502,000 (2005: £8,952,000).

7. Staff costs

The average weekly number of employees (including executive directors) was:

	Group		Company	
	2006 Number	2005 Number	2006 Number	2005 Number
Operations	381	350	-	-
Selling and distribution	50	50	-	-
Administration	32	30	32	30
	463	430	32	30

The aggregate remuneration comprised:

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Wages and salaries	16,379	14,757	1,396	1,195
Social security costs	1,938	1,598	157	134
Pension costs (see note 34)				
- defined contribution schemes	370	280	15	15
- defined benefit schemes	506	588	106	67
Share based payment	175	187	45	47
	19,368	17,410	1,719	1,458

Information on Directors' remuneration is given in the section of the Remuneration Report described as having been audited, and those elements required by the Companies Act 1985 and the Financial Services Authority form part of these accounts.

Notes to the Financial Statements

for the year ended 31 March 2006

8.Reconciliations between profit and adjusted profit

Additional performance indicators have been used based upon adjustments to operating profit to exclude exceptional non-trading income and amortisation of intangible assets. These are calculated as follows:

	Notes	2006 £'000	2005 £'000
Operating profit		5,914	11,628
Amortisation of intangibles arising from acquisitions	(a)	1,050	757
Profit on disposal of freehold land and buildings		-	(2,271)
Gain on disposal of SensorCom Inc.		-	(641)
Adjustments to operating profit		1,050	(2,155)
Adjusted operating profit		6,964	9,473
Profit before tax		3,984	10,292
Financial instruments	(b)	565	-
Adjustments to operating profit (above)		1,050	(2,155)
Adjustments to profit before tax		1,615	(2,155)
Adjusted profit before tax		5,599	8,137
Profit for the year		3,285	8,247
Adjustments to profit before tax (above)		1,615	(2,155)
Tax effect of adjustments to profit		(479)	(30)
Adjusted profit for the year	(c)	4,421	6,062

(a) Amortisation of intangibles arising on acquisitions relates to acquired intellectual property. Under UK GAAP this charge would have formed part of the amortisation of goodwill, which was also excluded from the adjusted operating profit.

(b) IAS 39 ("Financial Instruments: Recognition and Measurement") was adopted with effect from 1 April 2005. IAS 39 requires the Group to fair value the financial instruments used to manage Radstone's foreign exchange exposures. This creates volatility on profit over the full term of the outstanding instruments as exchange rates move over time. This will have minimal impact on profit over the full term of the instruments, but can cause significant volatility on particular balance sheet dates. The Group is therefore stating profit before tax and profit for the year before changes in the valuation of these instruments so that the underlying performance of the Group can more clearly be seen.

	2006 £'000	2005 £'000
Movement in fair value of financial instruments:		
Fair value at 31 March 2006	(334)	-
less: initial fair value recognised on 1 April 2005	(957)	-
	(1,291)	-
Recycled gains to income statement from initial fair value	726	-
Financial instruments	(565)	-

(c) The adjusted profit for the year forms the basis of the earnings used in the calculation of adjusted earnings per share, as set out in note 13.

Notes to the Financial Statements

for the year ended 31 March 2006

9. Investment revenue

	2006 £'000	2005 £'000
Interest income	138	160

10. Finance costs

	2006 £'000	2005 £'000
Interest payable on bank loans and overdrafts	1,034	1,071
Interest payable under SWAP arrangements	-	64
Interest payable on finance leases	45	60
Total borrowing costs	1,079	1,195
Loss on fair value movement on financial instruments (see note 25)	565	-
Retirement benefit scheme finance charges (see note 34)	424	301
	2,068	1,496

11. Tax

	2006 £'000	2005 £'000
UK Corporation tax		
- Current	1,090	1,531
- Prior years	(435)	(150)
	655	1,381
Overseas taxes		
- Current	296	908
- Prior years	-	-
	296	908
Total current tax	951	2,289
Deferred tax		
UK	(244)	(248)
Overseas	(8)	4
Total deferred tax	(252)	(244)
Total tax charge	699	2,045

Corporation tax in the UK is calculated at 30% (2005: 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Notes to the Financial Statements

for the year ended 31 March 2006

11. Tax continued

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2006 £'000	2005 £'000
Group profit before tax	3,984	10,292
Tax at the UK corporation tax rate of 30% (2005: 30%)	1,195	3,088
Effects of:		
- Tax effect of income/expenses that are not taxable/allowable in determining taxable profit	74	3
- Tax effect of items giving rise to temporary differences	(6)	(97)
- Tax effect of property disposals	-	(780)
- Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(129)	211
- Tax effects of adjustments made in respect of prior periods	(435)	(376)
- Tax effect of UK corporation tax at lower rates	-	(4)
Tax expense for the year	699	2,045

The amount of tax credited/(charged) to equity is as follows:

	2006 £'000	2005 £'000
Tax taken directly to equity:		
Current tax		
- Foreign exchange	150	-
Deferred tax		
- Defined benefit pension schemes	59	717
- Financial instruments	(287)	-
	(78)	717
Tax on items transferred from equity:		
- Financial instruments	218	-
	140	717

12. Dividends

Amounts recognised as distributions to equity holders in the year:

	2006 £'000	2005 £'000
Final dividend for the year ended 31 March 2005 of 2.70p (31 March 2004: 2.25p) per ordinary share	819	681
Interim dividend for the year ended 31 March 2006 of 1.05p (31 March 2005: 0.90p) per ordinary share	318	273
	1,137	954
Proposed final dividend for the year ended 31 March 2006 of 3.15p (31 March 2005: 2.70p) per share	956	819

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Notes to the Financial Statements

for the year ended 31 March 2006

13. Earnings per share

	2006 pence per share	2005 pence per share
Earnings per share from continuing operations		
Basic	10.91	27.97
Diluted	10.89	27.81
Adjusted	14.68	20.56

The calculation of the basic, diluted and adjusted earnings per share is based on the following data:

	2006 £'000	2005 £'000
Earnings		
Earnings for the purposes of basic earnings per share being profit for the period from continuing operations	3,285	8,247
Profit for the period from continuing operations	3,285	8,247
Adjustment to exclude amortisation of intangibles arising from acquisitions (net of tax)	741	525
Adjustment to include financial instruments (net of tax)	395	-
Adjustment to exclude profit on disposal of freehold land and buildings (net of tax)	-	(2,334)
Adjustment to exclude gain on disposal of SensorCom Inc. (net of tax)	-	(376)
Earnings for the purposes of adjusted earnings per share	4,421	6,062

	2006 '000	2005 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and adjusted earnings per share	30,109	29,488
Effect of dilutive potential ordinary shares:		
Share options	61	170
Weighted average number of ordinary shares for the purposes of diluted earnings per share	30,170	29,658

At 31 March 2006, 1,181,040 (2005: nil) share options had an exercise price in excess of the fair value of the shares in the period. As a result they were excluded from the calculation of diluted earnings per share.

Notes to the Financial Statements

for the year ended 31 March 2006

14. Goodwill

	Total £'000
At 1 April 2004	20,613
Adjustment to contingent consideration	(878)
Recognised on acquisitions in year	5,042
De-recognised on disposals in year	(44)
At 1 April 2005	24,733
Exchange differences	8
At 31 March 2006	24,741

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill was allocated as follows:

	2006 £'000	2005 £'000
Embedded Computing		
Sensor processing (ICS Ltd)	19,720	19,720
Image processing (Octec Ltd)	4,923	4,923
Test and Measurement (DaqScribe Inc.)	98	90
	24,741	24,733

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in-use calculations. The key assumptions for the value in-use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts for the next five years extrapolated from the most recent financial budgets approved by management, based on an estimated revenue growth rate of 8%.

The rate used to discount the forecast cash flows is 8%.

A detailed review of the carrying value of goodwill at 31 March 2006 has been performed and the Directors consider that no adjustment is required.

Notes to the Financial Statements

for the year ended 31 March 2006

15.Intangible assets

	Group		Company	
	Arising from acquisitions: Intellectual Property £'000	Other £'000	Total £'000	Other £'000
Cost				
At 1 April 2004	-	423	423	423
Acquisitions	7,674	5	7,679	-
Additions	-	5	5	5
At 1 April 2005	7,674	433	8,107	428
Acquisitions	366	-	366	-
At 31 March 2006	8,040	433	8,473	428
Amortisation				
At 1 April 2004	-	347	347	347
Charge	757	40	797	39
At 1 April 2005	757	387	1,144	386
Charge	1,050	24	1,074	20
At 31 March 2006	1,807	411	2,218	406
Carrying amount				
At 31 March 2006	6,233	22	6,255	22
At 31 March 2005	6,917	46	6,963	42

Other represents manufacturing licences.

Notes to the Financial Statements

for the year ended 31 March 2006

16. Property, plant and equipment

	Group				Company
	Land and buildings £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Total £'000	Land and buildings £'000
Cost					
At 1 April 2004	11,361	12,852	1,819	26,032	10,559
Additions	2,277	2,148	276	4,701	2,277
Acquisition of subsidiary	-	157	326	483	-
Exchange differences	46	(5)	17	58	-
Disposal of subsidiary	-	-	(35)	(35)	-
Disposals	(1,727)	(472)	(985)	(3,184)	(1,727)
At 1 April 2005	11,957	14,680	1,418	28,055	11,109
Additions	2	1,365	199	1,566	2
Acquisition of subsidiary	-	-	7	7	-
Exchange differences	113	19	84	216	-
Reclassified as inventory	-	-	(2)	(2)	-
Disposals	-	(138)	-	(138)	-
At 31 March 2006	12,072	15,926	1,706	29,704	11,111
Accumulated depreciation					
At 1 April 2004	335	9,079	1,268	10,682	222
Charge for the year	234	1,601	137	1,972	163
Acquisition of subsidiary	-	69	115	184	-
Exchange differences	7	(4)	13	16	-
Disposal of subsidiary	-	-	(17)	(17)	-
Eliminated on disposals	(226)	(440)	(877)	(1,543)	(226)
At 1 April 2005	350	10,305	639	11,294	159
Charge for the year	211	1,702	229	2,142	194
Exchange differences	25	16	46	87	-
Reclassification	(62)	-	62	-	-
Eliminated on disposals	-	(134)	-	(134)	-
At 31 March 2006	524	11,889	976	13,389	353
Carrying amount					
At 31 March 2006	11,548	4,037	730	16,315	10,758
At 31 March 2005	11,607	4,375	779	16,761	10,950

The carrying amount of tangible fixed assets held under finance leases at 31 March 2006 was £344,000 (2005: £527,000) which all relates to plant and machinery.

The Group has pledged land and buildings, together with associated fixtures, fittings and equipment with a carrying amount of approximately £11,741,000 (2005: £11,844,000) to secure banking facilities granted to the Group.

Notes to the Financial Statements

for the year ended 31 March 2006

17. Investments

Company

	Interests in Group undertakings £'000
Cost	
At 1 April 2004	29,992
Additions	11,936
Adjustment to contingent consideration	(878)
At 1 April 2005 and 31 March 2006	41,050

Impairment

At 1 April 2004, 1 April 2005 and 31 March 2006	3,500
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Carrying value

At 31 March 2005 and 31 March 2006	37,550
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The principal operating subsidiaries of the Group and Company at 31 March 2006 are as follows:

Name of undertaking	Country of incorporation or registration	Proportion of nominal value of issued shares held	Principal activity
Foundation Technology Limited	England and Wales	100%))	Surface-mount assembly of electronic sub-systems
Radstone Limited	England and Wales	100%))	Design and manufacture of digital electronic equipment
Radstone Technology Corporation	USA	100%)))	Marketing and selling of digital electronic equipment
Radstone Technology (France) SARL	France	100%))	
Octec Limited	England and Wales	100%)))	Design and manufacture of image processors and video trackers for the embedded computing market
Interactive Circuits and Systems Limited	Canada	100%)))	Design and manufacture of real-time data acquisition and analogue to digital conversion products for the embedded sensor processing market
DaqScribe Technology Inc.	USA	100%)	

All of the above companies operated principally in their country of incorporation or registration.

The directors have applied section 231 of the Companies Act 1985 and therefore list only significant subsidiary companies.

Notes to the Financial Statements

for the year ended 31 March 2006

18. Inventories

Group	2006 £'000	2005 £'000
Raw materials and consumables	3,526	2,067
Work in progress	7,581	8,432
Finished goods	1,177	720
	12,284	11,219

The directors believe that there is no significant difference between the replacement cost and the fair value of the inventories shown.

19. Long-term contract balances

Group	2006 £'000	2005 £'000
Contracts in progress at the balance sheet date: Amounts due from contract customers included in trade and other receivables	2,691	-
Contract costs incurred plus recognised profits less recognised losses to date	2,474	-
Less: progress billings	(2,777)	-
Amounts due to contract customers	(303)	-

At 31 March 2006, retentions held by customers for contract work amounted to £nil (2005: £nil). Advances received from customers for contract work amounted to £nil (2005: £nil).

20. Trade and other receivables

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Amounts receivable for the sale of goods	21,283	15,438	-	1
Amounts owed by subsidiaries	-	-	4,013	915
Other receivables, prepayments and accrued income	2,484	1,905	286	292
Loan notes	462	529	-	-
	24,229	17,872	4,299	1,208

The loan notes were issued to the acquirer of SensorCom Inc., a subsidiary sold in March 2005, as settlement of inter-Group indebtedness at the date of acquisition and are denominated in US dollars. They are repayable in five equal annual instalments from the date of issue being 31 March 2005.

The average credit period taken on sales of goods/services is 71 days (2005: 65 days). An allowance has been made for estimated irrecoverable amounts from the sale of goods of £42,000 (2005: £184,000). This allowance has been determined by reference to past default experience.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Notes to the Financial Statements

for the year ended 31 March 2006

21. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Cash at bank and in hand	2,188	4,304	11,878	10,774
Cash and cash equivalents	2,188	4,304	11,878	10,774

Cash and bank overdrafts as shown in the consolidated cash flow statement comprise:

Cash and cash equivalents	2,188	4,304	11,878	10,774
Bank overdrafts (included within current liabilities)	-	(538)	-	-
Cash and bank overdrafts	2,188	3,766	11,878	10,774

22. Trade and other payables

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Trade payables	6,176	4,770	111	103
Amounts due to contract customers	303	-	-	-
Amounts owed to subsidiaries	-	-	3,311	1,601
Other payables	1,796	617	805	492
Accruals and deferred income	2,195	3,175	452	644
	10,470	8,562	4,679	2,840

The directors consider that the carrying amount of trade payables approximates to their fair value.

Group

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 73 days (2005: 58 days).

Company

Trade and other payables principally comprise amounts owed to subsidiaries on current accounts arising from cash pooling arrangements. The average credit period taken for trade purchases is 24 days (2005: 5 days).

Notes to the Financial Statements

for the year ended 31 March 2006

23. Obligations under finance leases

Group	Minimum lease payments		Present value of minimum lease payments	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Amounts payable under finance leases:				
Within one year	215	297	192	259
In the second to fifth years inclusive	230	440	219	406
	445	737	411	665
Less: future finance charges	(34)	(72)	-	-
Present value of lease obligations	411	665	411	665
Less: amount due for settlement within one year (shown under current liabilities)			192	259
Amount due for settlement after one year			219	406

It is the Group's policy to lease certain of its plant and machinery under finance leases, the obligations for which are secured by the lessors' charges over the leased assets. The average lease term is 7 years. For the year ended 31 March 2006 the average implicit borrowing rate was 6.78% (2005: 6.81%). Interest rates are fixed at the contract date. All lease obligations are denominated in sterling or euros, are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The directors consider that the carrying amount of lease obligations approximates to their fair value.

Company

The Company held no finance leases at 31 March 2006 (2005: nil).

24. Bank overdrafts and loans

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Bank overdrafts	-	538	-	-
Loan notes	-	238	-	-
Bank loans	20,001	19,417	18,973	19,178
	20,001	20,193	18,973	19,178

The borrowings are repayable as follows:

On demand or within one year	4,812	3,500	4,007	2,703
In the second year	3,268	3,160	3,242	3,138
In the third to fifth years inclusive	6,649	7,641	6,563	7,569
After five years	5,272	5,892	5,161	5,768
	20,001	20,193	18,973	19,178
Less: amount due for settlement within 12 months (shown under current liabilities)	(4,812)	(3,500)	(4,007)	(2,703)
Amount due for settlement after 12 months	15,189	16,693	14,966	16,475

The loan notes were in favour of a former co-owner of Interactive Circuits and Systems Limited, denominated in Canadian dollars, and were repaid during the year.

The directors consider that the carrying amount of bank overdrafts and loans approximate to their fair value.

Notes to the Financial Statements

for the year ended 31 March 2006

24. Bank overdrafts and loans continued

Group

Analysis of borrowings by currency:

	Total £'000	Sterling £'000	Canadian dollars £'000	US dollars £'000
31 March 2006				
Bank loans	20,001	14,396	3,590	2,015
31 March 2005				
Bank overdrafts	538	-	538	-
Loan notes	238	-	238	-
Bank loans	19,417	15,100	2,751	1,566
	20,193	15,100	3,527	1,566

At 31 March 2006 there were undrawn committed borrowing facilities in various currencies amounting to £9,859,000 (2005: £12,362,000), of these, £5,154,000 were committed (2005: £7,812,000) of which £2,954,000 (2005: £3,412,000) are renewable within one year.

The weighted average interest rates paid were as follows:

	2006 %	2005 %
Bank loans:		
Sterling	5.92	5.88
US dollar	5.73	3.64
Canadian dollar	4.18	3.77
Bank overdrafts	5.84	5.84

All bank loans were arranged at floating interest rates with regular repricing dates of less than six months and expose the Group to cash flow interest rate risk. As detailed in note 25, to manage the risk the Group entered into interest rate and cross-currency swaps.

Bank overdrafts are repayable on demand and carry interest at between 0.75% and 1.25% above base and prime rate (2005: 0.75% and 1.25%). Bank loans carry interest linked to LIBOR plus a commercial margin.

The Group has principal bank loans as follows:

- (a) a loan of £8.2m (2005: £8.5m). The loan was taken out in March 2004. Repayments commenced in October 2005 and continue until July 2019. The loan is secured by a charge over certain of the Group's properties dated September 2003.
- (b) a loan of £4.2m (2005: £5.6m). The loan was taken out in September 2003. Repayments commenced in April 2004 and continue until October 2008. The loan is secured by a debenture dated September 2003.
- (c) a loan of C\$ 6.8m (2005: C\$ 6.8m). The loan was taken out in September 2003. Repayment is due in August 2008. The loan is secured by a debenture dated September 2003.
- (d) In July 2004 a £6m revolving credit facility was entered into. The amount available under the facility reduces by £0.6m on six monthly intervals which commenced in December 2004 and ends in June 2009. The loan is secured by a debenture dated September 2004. As at 31 March 2006, £2m had been drawn on this facility (2005: £1m).

Notes to the Financial Statements

for the year ended 31 March 2006

24. Bank overdrafts and loans continued

Company

Analysis of borrowings by currency:

	Total £'000	Sterling £'000	Canadian dollars £'000	US dollars £'000
31 March 2006				
Bank loans	18,973	14,396	3,342	1,235
31 March 2005				
Bank loans	19,178	15,100	2,947	1,131

At 31 March 2006 there were undrawn committed borrowing facilities amounting to £6,440,000 (2005: £8,465,000), of these, £4,200,000 were committed (2005: £6,225,000) of which £2,000,000 (2005: £1,825,000) are renewable within one year.

The weighted average interest rates paid were as follows:

	2006 %	2005 %
Bank loans:		
Sterling	5.92	5.88
US dollar	5.07	3.15
Canadian dollar	4.15	3.77

All bank loans were arranged at floating interest rates with regular repricing dates of less than six months and expose the Company to cash flow interest rate risk.

As detailed in note 25, to manage the risk the Company entered into interest rate and cross-currency swaps.

The Company has principal bank loans as outlined in the Group figures (a) to (d) above.

25. Derivative financial instruments

The Group's operations expose it to a number of financial risks including foreign currency risk, credit risk, interest rate risk and liquidity risk. The risks are managed in accordance with Board approved objectives, policies and authorities.

Foreign exchange risk

The Group operates internationally and is subject to foreign exchange risks on future commercial transactions and net investments in foreign subsidiaries. The principal exposures arise with respect to the US dollar / Pound sterling exchange rate.

To mitigate risks associated with future commercial transactions, the Group policy is to hedge known and certain forecast transaction exposures based on historical experience and projections. The Group hedges at least 80% of the next six months anticipated exposure and can hedge up to eighteen months ahead.

The Group uses borrowings denominated in the relevant currencies to hedge its investment in its US and Canadian companies.

Credit risk

The Group's principal financial assets are bank balances, cash and trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowance for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

Policies are maintained to ensure the Group makes sales to customers with an appropriate credit history. Letters of credit or other appropriate instruments are put in place to reduce credit risk where considered necessary.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

25. Derivative financial instruments continued

Interest rate risk

The Group has borrowings issued at floating rates of interest, exposing the Group to cash flow interest rate risk.

The Group mitigates interest rate risks through the use of interest rate swaps which have the economic effect of converting the floating rate borrowings into fixed rate borrowings.

Surplus funds are placed on short term deposit. These deposits have floating rates of interest and thus there is some modest exposure to interest rates.

Liquidity risk

The Group has a strong cash flow and where practicable the funds generated by operating companies are managed on a regional basis. For short-term working capital purposes, most operating companies utilise local banking facilities within an overall Group arrangement.

The Group utilises where necessary overdraft facilities for short-term flexibility and a revolving credit facility. The Group's policy is to maintain undrawn committed borrowing facilities in order to provide flexibility in the management of the Group's liquidity; details are provided in note 24.

Financial instruments

For cash, receivables and short term borrowings the fair value of the financial instruments approximates to their book value due to the short maturity periods of these financial instruments. On receivables allowances are made within the book value for credit risk. For medium and long term borrowings and other financial liabilities the fair value is based on market values or, where not available, on discounting future cash flows at prevailing market rates. The fair values of the Group's currency and interest rate derivatives are established using valuation techniques, primarily discounting cash flows, based on assumptions that are supported by observable market prices or rates.

Currency Derivatives

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group is party to a variety of foreign currency forward contracts and options in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

At the balance sheet date, total gross notional amount of outstanding forward foreign exchange contracts that the Group has committed are as below.

	2006	2005
US Dollar	US \$30.7m	US \$14.3m
Euro	-	€2.0m

In addition, the Group had options to sell US dollars equivalent to an amount of approximately US \$16.8m (2005: US \$16.8m) as a hedge against exchange losses on future sales of goods.

These arrangements are typically designed to address significant exchange exposures over the eighteen months to 30 September 2007 and are renewed on a revolving basis as required.

At 31 March 2006 the fair value of the Group's currency derivatives is estimated to be a liability of approximately £521,000 (1 April 2005: £705,000 asset). These amounts are based on market values of equivalent instruments at the balance sheet date comprising current assets of £21,000 and current liabilities of £542,000. The loss in fair value on the currency derivatives for the period was £1,226,000.

The fair value of currency derivatives initially taken to reserves on 1 April 2005 and still deferred in equity at 31 March 2006 was £24,000, reflecting hedges of transactions that are still expected but have not yet occurred. Currency derivatives are not accounted for using IFRS hedge accounting and so any movement in fair values following initial recognition are reflected in the income Statement.

Interest rate swaps

The Group uses a combination of bullet and amortising interest rate and cross-currency swaps to manage its exposure to interest rate movements on its bank borrowings. The swaps, denominated in sterling, US dollars and Canadian dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure and will mature over the next eight years. Fixed swap rates range from 3.66% to 5.68% and floating rates are sterling, US dollar and Canadian dollar LIBOR.

The notional amounts of the interest rate swaps are £4.0m and US \$2.0m. The notional amounts of the cross-currency swaps are £5.0m / US \$8.3m and C \$6.8m / US \$5.0m.

Notes to the Financial Statements

for the year ended 31 March 2006

25. Derivative financial instruments continued

As at 31 March 2006 the fair value of the Group's swaps is estimated to be an asset of £187,000 (1 April 2005: £252,000). These amounts are based on market values of equivalent instruments at the balance sheet date, comprising current assets of £192,000 and current liabilities of £5,000. The loss in fair value on swaps for the period was £65,000.

The fair value of swaps, initially taken to reserves on 1 April 2005 and still deferred in equity at 31 March 2006 was £207,000, comprising the unamortised portion of the initial fair value. Interest rate swaps are not accounted for using IFRS hedge accounting and so any movement in fair values following initial recognition are reflected in the income statement.

Movement in fair values:

	Derivative type		
	Currency £'000	Swap £'000	Total £'000
Initial application of IAS 32 and 39:			
Fair values recognised at 1 April 2005 - asset	705	252	957
Amounts released to income statement	(681)	(45)	(726)
Initial fair value remaining in equity at 31 March 2006	24	207	231
Fair value loss in period through income statement	(545)	(20)	(565)
Fair values at 31 March 2006 - (liability)/asset	(521)	187	(334)

Balance sheet analysis:

	Derivative type		
	Currency £'000	Swap £'000	Total £'000
Current assets	21	192	213
Current liabilities	(542)	(5)	(547)
Fair values at 31 March 2006	(521)	187	(334)

The Group has applied the transitional provisions of IAS 39 ('Financial Instruments: Recognition and Measurement') and accordingly has not recorded fair values for any derivatives held at 31 March 2005. At that date, in accordance with SSAP 20 ('Foreign Currency Translation'), certain transaction balances were recorded at rates implicit in the matching forward foreign currency contracts. Other derivative contracts were not recognised on the balance sheet.

Effect of initial application of IAS 32 and 39:

	Derivative type		
	Currency £'000	Swap £'000	Total £'000
Initial application of IAS 32 and 39 - recognition	705	252	957
Deferred tax impact	(211)	(76)	(287)
Net impact for total equity at 1 April 2005	494	176	670

Notes to the Financial Statements

for the year ended 31 March 2006

26. Deferred tax

Group

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting periods.

	Accelerated tax depreciation £'000	Employee share options costs £'000	Derivatives £'000	Retirement benefit obligations £'000	Intangibles £'000	Other £'000	Total £'000
At 1 April 2004	(198)	34	-	2,008	-	(33)	1,811
Exchange adjustment	(5)	-	-	-	-	-	(5)
Acquisition of subsidiary	(29)	-	-	-	(2,302)	-	(2,331)
Credit/(charge) to income	(97)	3	-	144	232	(38)	244
Credit to equity	-	-	-	717	-	-	717
At 1 April 2005	(329)	37	-	2,869	(2,070)	(71)	436
Exchange adjustment	-	-	-	-	-	(13)	(13)
Credit/(charge) to income	(217)	26	169	(84)	309	49	252
(Charge)/credit to equity	-	-	(69)	59	-	-	(10)
At 31 March 2006	(546)	63	100	2,844	(1,761)	(35)	665

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2006 £'000	2005 £'000
Deferred tax assets	2,844	2,869
Deferred tax liabilities	(2,179)	(2,433)
	665	436

No provision has been made for the potential liability of £432,000 arising from the disposal of the Group's former premises at Water Lane as the sales proceeds have been re-invested in new facilities at Tove Valley Business Park for continuing use in the business and a claim for rollover relief has been submitted.

There are no aggregate temporary differences associated with investments in subsidiaries due to available foreign tax credits.

Notes to the Financial Statements

for the year ended 31 March 2006

26. Deferred tax continued

Company

The following are the major deferred tax assets and liabilities recognised by the Company and movements thereon during the current and prior reporting periods.

	Accelerated tax depreciation £'000	Employee share options costs £'000	Total £'000
At 1 April 2004	(464)	8	(456)
(Charge)/credit to income	(96)	2	(94)
At 1 April 2005	(560)	10	(550)
(Charge)/credit to income	(181)	18	(163)
At 31 March 2006	(741)	28	(713)

No provision has been made for the potential liability of £432,000 arising from the disposal of the Company's former premises at Water Lane as the sales proceeds have been re-invested in new facilities at Tove Valley Business Park for continuing use in the business and a claim for rollover relief has been submitted.

27. Share capital

	2006 Number	2005 Number	2006 £'000	2005 £'000
Authorised Ordinary shares of 12½p each	44,000,000	44,000,000	5,500	5,500
Allotted, issued and fully paid Ordinary shares of 12½p each at 1 April	30,299,640	28,021,660	3,787	3,503
Allotted on acquisition of subsidiary undertaking	-	2,259,980	-	282
Allotted under share option schemes	37,000	18,000	5	2
At 31 March	30,336,640	30,299,640	3,792	3,787

28. Share-based payments

(a) Approved Executive Share Option Scheme

The Company operates an Executive Share Option Scheme which was approved by the Board of the Inland Revenue on 31 March 1994 (the Approval Date). Under the scheme rules no further options will be granted following the tenth anniversary of the Approval Date.

The Scheme is performance related. Options are not exercisable unless the percentage increase in the Company's basic earnings per share is greater than or equal to 2% per annum above the percentage increase in the RPI over the relevant period in which the option may be exercised. The RPI is the "All Items" Index of Retail Prices as published by the Central Statistics Office.

The Board of the Company administers the Scheme, which has been delegated to the Remuneration Committee, who have authority to offer options to selected employees.

Notes to the Financial Statements

for the year ended 31 March 2006

28.Share-based payments continued

Details of the options outstanding during the year are as follows:

Group	2006		2005	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of period	415,930	235	436,930	233
Forfeited during the period	-	-	(3,000)	234
Exercised during the period	(37,000)	234	(18,000)	202
Outstanding at the end of the period	378,930	235	415,930	235
Exercisable at the end of the period	359,450	231	366,600	229

The weighted average share price at the date of exercise for share options exercised during the period was 286p. The options outstanding at 31 March 2006 had a weighted average exercise price of 235p and a weighted average remaining contractual life of 5 years 4 months. No options were granted during the year ended 31 March 2006 (2005: nil).

Company	2006		2005	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of period	53,740	247	53,740	247
Exercised during the period	(19,000)	234	-	-
Outstanding at the end of the period	34,740	255	53,740	247
Exercisable at the end of the period	25,000	234	44,000	234

The weighted average share price at the date of exercise for share options exercised during the period was 282p. The options outstanding at 31 March 2006 had a weighted average exercise price of 255p and a weighted average remaining contractual life of 5 years 9 months. No options were granted during the year ended 31 March 2006 (2005: nil).

(b) Unapproved Executive Share Option Scheme

The Company also operates an Unapproved Executive Share Option Scheme. The Scheme is performance related. Options are not exercisable unless the percentage increase in the Company's basic earnings per share is greater than or equal to 5% per annum above the percentage increase in the RPI over the relevant period in which the option may be exercised. The RPI is the "All Items" Index of Retail Prices as published by the Central Statistics Office.

The Board of the Company administers the Scheme, which has been delegated to the Remuneration Committee, who have authority to offer options to selected employees.

Notes to the Financial Statements

for the year ended 31 March 2006

28.Share-based payments continued

Details of the options outstanding during the year are as follows:

Group	2006		2005	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of period	1,208,560	315	538,460	330
Granted during the period	-	-	680,750	303
Forfeited during the period	(47,000)	320	(10,650)	325
Outstanding at the end of the period	1,161,560	314	1,208,560	315
Exercisable at the end of the period	-	-	-	-

The options outstanding at 31 March 2006 had a weighted average exercise price of 314p and a weighted average remaining contractual life of 8 years 1 month. In the year ended 31 March 2006 no options were granted. In the year ended 31 March 2005, options were granted on 19 July 2004 and 22 November 2004. The aggregate of the estimated fair values of the options granted on these dates is £484,000.

Company	2006		2005	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of period	261,241	314	104,541	332
Granted during the period	-	-	156,700	303
Forfeited during the period	(47,000)	320	-	-
Outstanding at the end of the period	214,241	313	261,241	314
Exercisable at the end of the period	-	-	-	-

The options outstanding at 31 March 2006 had a weighted average exercise price of 313p and a weighted average remaining contractual life of 8 years 1 month. In the year ended 31 March 2006 no options were granted. In the year ended 31 March 2005, options were granted on 19 July 2004 and 22 November 2004. The aggregate of the estimated fair values of the options granted on these dates is £112,000.

(c) Executive Share Incentive Plan ("ESIP")

Details in relation to the ESIP are included in the Directors' Remuneration Report on page 19.

Details of options outstanding during the year are as follows:

Group	2006		2005	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of period	-	-	-	-
Granted during the period	77,402	-	-	-
Outstanding at the end of the period	77,402	-	-	-
Exercisable at the end of the period	-	-	-	-

Notes to the Financial Statements

for the year ended 31 March 2006

28.Share-based payments continued

The options outstanding at 31 March 2006 had a weighted average remaining contractual life of 2 years. In the year ending 31 March 2006 options were granted on 23 September 2005. The aggregate of the estimated fair values of the options granted is £207,000.

Company	2006		2005	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of period	-	-	-	-
Granted during the period	51,601	-	-	-
<i>Outstanding at the end of the period</i>	<i>51,601</i>	<i>-</i>	<i>-</i>	<i>-</i>
Exercisable at the end of the period	-	-	-	-

The options outstanding at 31 March 2006 had a weighted average remaining contractual life of 2 years. In the year ended 31 March 2006 options were granted on 23 September 2005. The aggregate of the estimated fair values of the options granted is £138,000.

Group and Company

From 7 November 2002 the Group's equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the expected vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black-Scholes option pricing model using the following assumptions for both 2005 and 2006.

	Approved Option Scheme	Unapproved Option Scheme	ESIP
Weighted average share price at grant (p)	308	315	281
Weighted average exercise price (p)	308	315	-
Expected volatility (%)	23.5	23.5	23.5
Expected option life (years)	4.2	4.2	3.0
Weighted average risk free interest rate (%)	4.3	4.6	4.6
Expected dividends (%)	1.5	1.5	1.5

The data given for the ESIP plan includes the data used for valuing annual bonus shares (see the Directors' Remuneration Report on page 19).

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 18 months. The expected option life used in the model has been adjusted based on management's best estimate, for the effects of exercise reductions and behavioural considerations.

Group

The Group recognised total charges of £175,000 (2005: £187,000) related to equity settled share-based payment transactions.

Company

The Company recognised total charges of £45,000 (2005: £47,000) related to equity settled share-based payment transactions.

Notes to the Financial Statements

for the year ended 31 March 2006

29. Reserves

Group	Share premium account £'000	Revaluation reserve £'000	Other reserve £'000	Retained earnings £'000	Hedging and translation reserve £'000	Reserve for own shares £'000	Total reserves £'000
At 1 April 2004	19,962	218	199	5,810	-	(354)	25,835
Total recognised income and expense	-	-	-	6,939	139	-	7,078
Dividends paid	-	-	-	(954)	-	-	(954)
New share capital subscribed	5,924	-	-	-	-	-	5,924
Issue costs connected with placing	(105)	-	-	-	-	-	(105)
Reserve transfers	(722)	(218)	722	218	-	-	-
Equity settled employee share scheme	-	-	-	188	-	-	188
Arising on acquisition of subsidiary undertaking	-	-	467	-	-	-	467
Purchase of own shares	-	-	-	-	-	(152)	(152)
Disposal of own shares	-	-	-	-	-	75	75
At 1 April 2005	25,059	-	1,388	12,201	139	(431)	38,356
Total recognised income and expense	-	-	-	3,389	534	-	3,923
Dividends paid	-	-	-	(1,137)	-	-	(1,137)
New share capital subscribed	82	-	-	-	-	-	82
Adjustment to issue costs connected with placing	11	-	-	-	-	-	11
Equity settled employee share scheme	-	-	-	174	-	-	174
Purchase of own shares	-	-	-	-	-	(409)	(409)
Disposal of own shares	-	-	-	-	-	87	87
At 31 March 2006	25,152	-	1,388	14,627	673	(753)	41,087
Company							
At 1 April 2004	19,962	218	199	41	-	(354)	20,066
Total recognised income and expense	-	-	-	8,952	-	-	8,952
Dividends paid	-	-	-	(954)	-	-	(954)
New share capital subscribed	5,924	-	-	-	-	-	5,924
Issue costs connected with placing	(105)	-	-	-	-	-	(105)
Reserve transfers	(722)	(218)	722	218	-	-	-
Equity settled employee share scheme	-	-	-	47	-	-	47
Arising on acquisition of subsidiary undertaking	-	-	467	-	-	-	467
Purchase of own shares	-	-	-	-	-	(152)	(152)
Disposal of own shares	-	-	-	-	-	75	75
At 1 April 2005	25,059	-	1,388	8,304	-	(431)	34,320
Total recognised income and expense	-	-	-	3,502	-	-	3,502
Dividends paid	-	-	-	(1,137)	-	-	(1,137)
New share capital subscribed	82	-	-	-	-	-	82
Adjustment to issue costs connected with placing	11	-	-	-	-	-	11
Equity settled employee share scheme	-	-	-	45	-	-	45
Purchase of own shares	-	-	-	-	-	(409)	(409)
Disposal of own shares	-	-	-	-	-	87	87
At 31 March 2006	25,152	-	1,388	10,714	-	(753)	36,501

Notes to the Financial Statements

for the year ended 31 March 2006

29. Reserves continued

The cumulative amount of goodwill written off directly to reserves is £31,000 (2005: £31,000).

The Other reserve arose from section 131 merger relief under the Companies Act 1985. It represents the difference between the market value and the nominal value of shares issued as part-consideration for the acquisitions of ICS Limited and Octec Limited.

30. Own shares

Group and Company

	Number	Cost £'000	Nominal value £'000	Called up share capital %
Radstone Technology Employee Trust				
At 1 April 2005	104,992	298	13	0.35
Additions	129,148	363	16	0.42
Disposals	(27,353)	(72)	(3)	(0.09)
At 31 March 2006	206,787	589	26	0.68
Radstone Technology PLC All Employee Share Ownership Plan				
At 1 April 2005	48,851	133	6	0.16
Additions	16,964	46	2	0.06
Disposals	(5,802)	(15)	(1)	(0.02)
At 31 March 2006	60,013	164	7	0.20
Total				
At 31 March 2006	266,800	753	33	0.88
At 31 March 2005	153,843	431	19	0.51

The Radstone Technology Employee Trust was formed to purchase shares used to meet the Company's future obligations in respect of employee share schemes as described in the Directors' Remuneration Report on page 19. At 31 March 2006, the Trust held 206,787 ordinary shares (2005: 104,992) of which 101,417 (2005: 104,992) were allocated to bonuses earned under the performance related incentive plan, 77,402 (2005: nil) were allocated to the Executive Share Incentive Plan and 27,968 were unallocated (2005: nil) being retained by the Trust for future use.

Shares purchased by the Radstone Technology PLC All Employee Share Ownership Plan represent matching shares under the Company's Share Incentive Plan (SIP) under which employees can subscribe up to a maximum of the lower of £125 or 10% of salary per month to purchase shares in the Company. For every two partnership shares that the employee buys the Company contributes a further matching share at no cost to the employee. All shares purchased are held in trust on behalf of the employee whose interest in the matching shares is forfeited should the partnership shares be withdrawn before the expiry of three years from the date of purchase.

The number and market value of all shares held on 31 March 2006 was 266,800 (2005: 153,843) and £753,000 (2005: £432,000).

Notes to the Financial Statements

for the year ended 31 March 2006

31. Notes to the cash flow statement

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Profit from operations	5,914	11,628	3,695	9,326
Adjustments for:				
Profit on disposal of freehold land and buildings	-	(2,271)	-	(2,271)
Gain on disposal of SensorCom Inc.	-	(641)	-	-
Depreciation of property, plant and equipment	2,142	1,972	194	163
Amortisation of intangible assets	1,074	797	20	39
EBITDA	9,130	11,485	3,909	7,257
Loss/(profit) on disposal of property, plant and equipment	3	4	-	(132)
Cost of equity settled employee share schemes	175	187	45	121
Decrease in post employment benefit obligation	(25)	(46)	-	-
Cash payments to the pension scheme in excess of the charge to the income statement	(710)	-	-	-
Decrease in provisions	-	(216)	-	-
Operating cash flows before movements in working capital	8,573	11,414	3,954	7,246
Increase in inventories	(1,054)	(1,576)	-	-
(Increase)/decrease in receivables	(6,631)	(3,131)	(3,142)	389
Increase/(decrease) in payables	2,386	1,707	1,792	(4,183)
Cash generated by operations	3,274	8,414	2,604	3,452
Income taxes (paid)/recovered	(524)	(2,136)	399	(480)
Interest paid	(1,149)	(1,044)	(1,162)	(927)
Net cash from operating activities	1,601	5,234	1,841	2,045
Reconciliation of cash and bank overdrafts to net debt				
(Decrease)/increase in cash and bank overdrafts	(1,444)	(5,320)	1,104	(6,322)
Effect of foreign exchange rate changes on cash and bank overdrafts	(134)	(64)	-	-
	(1,578)	(5,384)	1,104	(6,322)
Cash outflow from decrease in debt and lease financing	1,136	2,782	-	1,400
Cash inflow from increase in debt and lease financing	(1,358)	(1,118)	-	(1,000)
Change in net debt arising from cash flows	(1,800)	(3,720)	1,104	(5,922)
Effect of foreign exchange rate changes on borrowings	130	(117)	205	(127)
Movement in net debt in the period	(1,670)	(3,837)	1,309	(6,049)
Net debt at start of the year	(16,554)	(12,717)	(8,404)	(2,355)
Net debt at end of the year	(18,224)	(16,554)	(7,095)	(8,404)

Notes to the Financial Statements

for the year ended 31 March 2006

32.Acquisitions

Acquisitions made in 2006

On 28 February 2006, the Company acquired through its wholly owned subsidiary DaqScribe Technology Inc., the trade and assets of Sonoran Microsystems Inc. for a total consideration (including costs) of US\$659,000 (£381,000).

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's book value £'000	Fair value £'000
Intellectual property	-	366
Property, plant and equipment	7	7
Inventories	8	8
Total consideration satisfied in cash (including costs)		381
Cash outflow arising on acquisition		381

The business of Sonoran contributed revenue of £10,000 and a loss before tax of £1,000 to the Group's results for the year. If the acquisition of Sonoran had been completed on the first day of the financial year, the acquired business would have contributed an additional £270,000 of revenues and £60,000 of net operating losses.

Acquisitions in 2005 - amendment to provisional fair values

In July 2004 the Group acquired the whole of the issued share capital of Octec Limited. At 31 March 2005 the Group had allocated provisional fair values to the net assets acquired. The Group finalised these fair values during the year following the acquisition date and, in accordance with IFRS 3, these amendments have been recorded as though they were made in 2005. The impact on net assets was:

	£'000
Goodwill	84
Property, plant and equipment	(82)
Trade and other receivables	(2)
Net assets	-

The principal adjustment relates to the carrying values of plant and equipment following a full review of the assets acquired.

33.Guarantees and other financial commitments

(a) Capital commitments

	2006 £'000	2005 £'000
Group		
Expenditure contracted for but not provided	158	316
Company		
Expenditure contracted for but not provided	-	-

Notes to the Financial Statements

for the year ended 31 March 2006

33. Guarantees and other financial commitments continued

(b) Operating lease commitments

Group

At the balance sheet date, the Group had outstanding commitments for minimum lease payments under non-cancellable operating leases which expire as follows:

	2006 £'000	2005 £'000
Within one year	546	468
Between two and five years	1,232	1,011
After five years	236	155
	2,014	1,634

The expenditure on operating leases is charged to the income statement as incurred and is disclosed in note 6.

Operating lease payments represent rentals payable by the Group for various office properties and various items of plant and machinery. The property leases have various lease periods, escalation clauses and renewal rights.

Company

At the balance sheet date, the Company had outstanding commitments for minimum lease payments under non-cancellable operating leases which expire as follows:

	2006 £'000	2005 £'000
Within one year	25	25
Between two and five years	75	75
After five years	-	25
	100	125

Operating lease payments represent rentals for various items of plant and machinery.

34. Retirement Benefit Schemes

In the UK, the Group operates two funded defined benefit pension schemes; the Radstone Pension Fund and the Radstone Executive Pension Fund, and three defined contribution schemes.

The Group also operates defined contribution pension schemes for overseas employees.

(a) Defined contribution schemes

Group

The UK defined contribution schemes are separate Group Personal Pension Plans provided by The Equitable Life Assurance Company Ltd and Scottish Widows plc, and a Grouped Stakeholder Pension Plan with Bank of Scotland Investment Service. All three schemes are voluntary and the Group Personal Pension Plan with Equitable Life was closed to new entrants on introduction of the Stakeholder arrangement in April 2002. In recognition of a minimum contribution of 3% of annual salary by the employee, the Company contributes a further 3% or 4½% dependent upon the scheme.

Overseas, the Group operates defined contribution pension schemes for certain of its overseas subsidiaries. The assets of the schemes are held separately from those of the companies in independently administered funds.

The total expense recognised in the income statement of £370,000 (2005: £280,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

Notes to the Financial Statements

for the year ended 31 March 2006

34. Retirement Benefit Schemes continued

Company

The total expense recognised in the income statement of £15,000 (2005: £15,000) represents contributions payable to the schemes at rates specified in the rules of the schemes.

(b) Defined benefit schemes

Group

The UK defined benefit (final salary) schemes are funded by contributions from the Group companies and the employees. Contributions are paid to the trustees on the basis of advice from independent professionally qualified actuaries who carry out a valuation of each scheme every three years. Both of the defined benefit schemes were closed to new members in 1997.

Employees are entitled to start drawing a pension, based on their membership of a scheme, on their normal retirement date. If employees choose to retire early and draw their pension, then the amount they receive is scaled down accordingly.

A full actuarial valuation of both schemes was carried out by a qualified actuary at 31 March 2004 and updated to 31 March 2006 using the project unit valuation method. The major assumptions used by the actuary were, in nominal terms, for both the Radstone Pension Fund and the Radstone Executive Pension Fund:

	At 31 March 2006 %	At 31 March 2005 %
Discount rate	5.00	5.40
Expected rate of increase in salaries	4.75	4.70
Future pension increases	2.75	2.70
Inflation rate	2.75	2.70

Amounts recognised in operating profit in respect of these defined benefit schemes are as follows:

	2006 £'000	2005 £'000
Current service cost	506	588

Of the charge for the year, £122,000 (2005: £142,000) has been included in cost of sales, £224,000 (2005: £261,000) has been included in development costs, £50,000 (2005: £59,000) has been included in distribution costs and £110,000 (2005: £126,000) has been included in administrative expenses.

Amounts charged to finance costs are as follows:

	2006 £'000	2005 £'000
Interest on pension scheme liabilities	1,366	1,167
Expected return on pension scheme assets	(942)	(866)
Net cost	424	301

Amounts recognised in the consolidated statement of recognised income and expense (SORIE):

	2006 £'000	2005 £'000
Actual return less expected return on pension scheme assets	2,471	387
Changes in assumptions underlying present value of scheme liabilities	(2,668)	(2,778)
Actuarial losses recognised in SORIE	(197)	(2,391)

The cumulative amount of actuarial losses recognised in the consolidated statement of recognised income and expense is £2,588,000 (2005: £2,391,000).

The actual return on scheme assets was £3,413,000 (2005: £1,253,000).

Notes to the Financial Statements

for the year ended 31 March 2006

34. Retirement Benefit Schemes continued

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement schemes is as follows:

	2006 £'000	2005 £'000
Fair value of scheme assets	19,798	15,760
Present value of scheme liabilities	(29,277)	(25,324)
Scheme deficit	(9,479)	(9,564)
Related deferred tax asset	2,844	2,869
Net pension liability	(6,635)	(6,695)

Movements in the present value of defined benefit obligations during the year were as follows:

	2006 £'000	2005 £'000
Present value of obligation at 1 April	25,324	21,074
Service cost	506	588
Interest cost	1,366	1,167
Contributions from scheme members	220	232
Actuarial gains and losses	2,668	2,778
Benefits paid	(807)	(515)
Present value of obligation at 31 March	29,277	25,324

Movements in the fair value of scheme assets during the year were as follows:

	2006 £'000	2005 £'000
Fair value at 1 April	15,760	14,377
Expected return on scheme assets	942	866
Actuarial gains and losses	2,471	387
Employer contributions	1,212	413
Employee contributions	220	232
Benefits paid	(807)	(515)
Fair value at 31 March	19,798	15,760

The analysis of the scheme assets and the expected rate of return at the balance sheet date were as follows:

	Expected return		Fair value of assets	
	2006 %	2005 %	2006 %	2005 %
Equities	6.25	6.70	55.0	58.4
Bonds	4.25	4.70	44.2	40.4
Other assets	4.75	4.75	0.8	1.2
			100.0	100.0

Notes to the Financial Statements

for the year ended 31 March 2006

34. Retirement Benefit Schemes continued

The five year history of experience adjustments is as follows:

	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Present value of defined benefit obligations	(29,277)	(25,324)	(21,074)	(18,993)	(16,291)
Fair value of scheme assets	19,798	15,760	14,413	12,145	14,947
Scheme (deficit)/surplus	(9,479)	(9,564)	(6,661)	(6,848)	(1,344)
Experience adjustments on scheme liabilities					
Amount (£'000)	27	(2,767)	(228)	92	46
Percentage of scheme liabilities (%)	0.1%	(10.9%)	(1.1%)	0.5%	0.3%
Experience adjustments on scheme assets					
Amount (£'000)	2,471	387	1,761	(4,123)	(918)
Percentage of scheme assets (%)	12.5%	2.5%	12.2%	(33.9%)	(6.1%)

Historical data for 2002, 2003 and 2004 is as stated under UK GAAP, FRS 17 (Retirement Benefits).

The estimated amounts of employer contributions expected to be paid to the schemes during the current financial year is £2.4m.

Company

As the Company is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis, the Company has accounted for the schemes as though they were defined contribution schemes. Accordingly, the amount charged to the income statement is the contribution payable in the year. The total expense recognised in the income statement was £106,000 (2005: £67,000).

35. Related party transactions

The Group has a related party relationship with its subsidiaries and with its directors. Transactions between the Group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed below. In addition, the remuneration and the details of interests in the share capital of the Company, of the directors who are the key management personnel of the Group, are provided in the audited part of the report to the shareholders on directors' remuneration on pages 22 to 24.

The Company undertakes the following transactions with its active subsidiaries:

- providing day-to-day funding from its UK banking facilities;
- levying an annual management charge to cover services provided to members of the Group of £4.6m (2005: £4.8m);
- receiving annual dividends totalling £3.9m (2005: £5.9m).

There have been no related party transactions with directors.

Notes to the Financial Statements

for the year ended 31 March 2006

36. Transition to IFRS

This is the first year that the Group and Company have presented financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 March 2005 and the date of transition to IFRSs was therefore 1 April 2004.

The main areas of impact to the Group and Company of IFRS are:

(a) Business combinations and goodwill

The Group has taken advantage of the exemption to apply IFRS 3 ('Business Combinations') with effect from 1 April 2004. The effects of IFRS 3 for the Group are:

- (i) Goodwill is no longer amortised. Accordingly amortisation previously recorded in the year ended 31 March 2005 under UK GAAP has been reversed.
- (ii) For acquisitions after 1 April 2004 the Group now identifies, separately from goodwill, the fair value of intangible assets that meet the IFRS 3 criteria to be recognised including intellectual property. These intangible assets are amortised over their useful lives to the income statement. Previously these intangibles were not recognised separately from goodwill. Accordingly it is necessary to record the amortisation in the income statement.

IFRS 1 ('First-time adoption of IFRS') requires that an impairment review of goodwill be conducted in accordance with IAS 36 'Impairment of Assets' at the date of transition irrespective of whether an indication exists that goodwill may be impaired.

(b) Share-based payments

Under UK GAAP no profit and loss charge in respect of employee share option schemes was recognised as the exercise prices for such schemes were set at the market price prevailing on the date of issue.

Under IFRS 2 ('Share-based payment') the cost of employee option and performance share scheme awards are based on their fair value at the date of grant. IFRS 2 has only been applied to options awarded after 7 November 2002. The fair value has been calculated using the Black-Scholes option pricing model. The expense is recognised over the expected vesting period of the award.

(c) Post-employment benefits

Under UK GAAP post-employment benefits were accounted for under SSAP 24 'Accounting for pension costs', whereby the cost of providing defined benefit pensions was charged against operating profit on a systematic basis with surpluses and deficits arising being amortised over the expected average remaining service lives of participating employees.

Under IAS 19 ('Employee benefits') current and past service costs of the Group's pension schemes, the expected return on the scheme's assets and any interest costs relating to the present value of the scheme's liabilities are charged to the income statement. Any actuarial gains or losses are recognised through the statement of recognised income and expense (SORIE). Any surplus in the fair value of the pension scheme assets over the present value of the liabilities is recorded as an asset in the balance sheet, and any deficit as a liability. Accordingly the income statement needs to be adjusted to include these costs and eliminate any costs previously recognized under UK GAAP.

(d) Proposed dividends

Under UK GAAP, proposed dividends were recognised as a liability in the period to which they related.

Under IAS 10 ('Events after the Balance Sheet date'), dividends are recognised as a liability in the period in which they are declared. Accordingly it is necessary to eliminate final dividends that were previously recognised as a liability under UK GAAP but for which shareholder approval had not been received.

Notes to the Financial Statements

for the year ended 31 March 2006

36. Transition to IFRS continued

Group

Reconciliation of equity

	1 April 2004			31 March 2005		
	UK GAAP IFRS format £'000	Effect of transition to IFRS £'000	IFRS £'000	UK GAAP IFRS format £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current assets						
Goodwill	20,613	-	20,613	28,662	(3,929)	24,733
Intangible assets arising from acquisitions	-	-	-	-	6,917	6,917
Other intangible assets	76	-	76	46	-	46
Property, plant and equipment	15,350	-	15,350	16,843	(82)	16,761
Deferred tax assets	-	2,009	2,009	-	2,869	2,869
	36,039	2,009	38,048	45,551	5,775	51,326
Current assets						
Inventories	9,266	-	9,266	11,219	-	11,219
Trade and other receivables	13,870	-	13,870	17,874	(2)	17,872
Cash and cash equivalents	9,150	-	9,150	4,304	-	4,304
	32,286	-	32,286	33,397	(2)	33,395
Total assets	68,325	2,009	70,334	78,948	5,773	84,721
Current liabilities						
Trade and other payables	12,361	(1,159)	11,202	10,205	(1,643)	8,562
Tax liabilities	817	-	817	1,161	-	1,161
Obligations under finance leases	284	-	284	259	-	259
Bank overdraft and loans	2,449	-	2,449	3,500	-	3,500
Short-term provisions	216	-	216	-	-	-
	16,127	(1,159)	14,968	15,125	(1,643)	13,482
Non-current liabilities						
Bank loans	18,487	-	18,487	16,693	-	16,693
Retirement benefit obligations	-	6,697	6,697	-	9,564	9,564
Deferred tax liabilities	150	46	196	252	2,181	2,433
Obligations under finance leases	647	-	647	406	-	406
	19,284	6,743	26,027	17,351	11,745	29,096
Total liabilities	35,411	5,584	40,995	32,476	10,102	42,578
Net assets	32,914	(3,575)	29,339	46,472	(4,329)	42,143
Equity						
Share capital	3,503	-	3,503	3,787	-	3,787
Share premium account	19,962	-	19,962	25,059	-	25,059
Own shares	(354)	-	(354)	(431)	-	(431)
Revaluation reserve	218	-	218	-	-	-
Other reserve	199	-	199	1,388	-	1,388
Hedging and translation reserves	-	-	-	-	139	139
Retained earnings	9,386	(3,575)	5,811	16,669	(4,468)	12,201
Total equity	32,914	(3,575)	29,339	46,472	(4,329)	42,143

Notes to the Financial Statements

for the year ended 31 March 2006

36. Transition to IFRS continued

The most significant adjustments to equity are the result of:

(a) Business combinations and goodwill

The UK GAAP goodwill balance at 1 April 2004 (£20,600,000) has been included in the opening IFRS consolidated balance sheet and will no longer be amortised.

For the year ended 31 March 2005 the adjustments to the carrying value of goodwill were as follows:

	£'000
Carrying value of goodwill under UK GAAP as at 31 March 2005	28,662
Reversal of amortisation charge under UK GAAP in period	1,359
Acquisitions	
- allocated to acquired intangible assets	(7,674)
- goodwill arising from deferred tax liability on intangible assets	2,302
Updating of preliminary fair values in accordance with IFRS 3	84
Carrying value of goodwill under IFRS as at 31 March 2005	24,733

Under IFRS £7,674,000 has been allocated to identifiable intangible assets, being acquired intellectual property. Amortisation of £757,000 was charged in the year.

(b) Share-based payments

The reversal of accruals for performance share scheme awards under UK GAAP at 1 April 2004 of £256,000 and at 31 March 2005 of £331,000. Charge to income statement for the cost of employee option and performance share scheme awards with corresponding credit to reserves of £56,000 and £243,000 at 1 April 2004 and 31 March 2005 respectively.

(c) Post-employment benefits

	£'000
At 1 April 2004:	
Recognition of IAS 19 pension liability	6,697
Recognition of related deferred tax asset	(2,009)
	4,688
Reversal of SSAP 24 (UK GAAP) accrual	(273)
Deferred tax on reversal of SSAP 24 accrual	82
Decrease in net assets	4,497

	£'000
At 31 March 2005:	
Recognition of IAS 19 pension liability	9,564
Recognition of related deferred tax asset	(2,869)
	6,695
Reversal of SSAP 24 (UK GAAP) accrual	(494)
Deferred tax on reversal of SSAP 24 accrual	148
Decrease in net assets	6,349

(d) Proposed dividends

The reversal of an accrual for the final ordinary dividend proposed in respect of the year ended 31 March 2004, increasing net assets at 1 April 2004 by £630,000.

The reversal of an accrual for the final ordinary dividend proposed in respect of the year ended 31 March 2005, increasing net assets at 31 March 2005 by £818,000.

Notes to the Financial Statements

for the year ended 31 March 2006

36. Transition to IFRS continued

Reconciliation of profit for the year ended 31 March 2005

	UK GAAP IFRS Format £'000	Effect of transition to IFRS £'000	IFRS £'000
Continuing operations			
Revenue	49,887	-	49,887
Cost of sales	(24,351)	13	(24,338)
Gross profit	25,536	13	25,549
Distribution costs	(6,351)	5	(6,346)
Development costs			
- product development	(6,107)	29	(6,078)
- amortisation of intangibles arising from acquisitions	(1,359)	602	(757)
	(7,466)	631	(6,835)
Administrative expenses	(3,539)	(113)	(3,652)
Other operating income	2,912	-	2,912
Operating profit	11,092	536	11,628
Investment revenue	160	-	160
Finance costs			
- Borrowing costs	(1,195)	-	(1,195)
- Retirement benefit scheme finance charges	-	(301)	(301)
	(1,195)	(301)	(1,496)
Profit before tax	10,057	235	10,292
Tax	(2,355)	310	(2,045)
Profit for the period from continuing operations attributable to equity holders of the parent	7,702	545	8,247

The most significant adjustments to profit are the result of:

(a) Business combinations and goodwill

	£'000
Reversal of amortisation charge under UK GAAP	1,359
Amortisation of intangibles arising from acquisitions	(757)
	602
Deferred tax on amortisation of intangibles	232
	834

Notes to the Financial Statements

for the year ended 31 March 2006

36. Transition to IFRS continued

(b) Share-based payments

	£'000
Recognition of a charge under IFRS 2	187
Reversal of accruals for performance share scheme awards under UK GAAP	(75)
	112
Related deferred tax credit	(3)
	109

(c) Post-employment benefits

	£'000
Recognition of charge under IAS 19:	
- operating profit	175
- finance costs	301
Reversal of SSAP 24 charge under UK GAAP	(221)
	255
Related deferred tax credit	(77)
	178

(d) Proposed dividends

The UK GAAP numbers exclude dividends which under IFRS are shown as a movement in equity rather than on the face of the income statement.

Cash flow statement

There were no material differences to amounts recognised in the cash flow statement on transition to IFRS.

Notes to the Financial Statements

for the year ended 31 March 2006

36. Transition to IFRS (continued)

Company Reconciliation of equity

	1 April 2004			31 March 2005		
	UK GAAP IFRS format £'000	Effect of transition to IFRS £'000	IFRS £'000	UK GAAP IFRS format £'000	Effect of transition to IFRS £'000	IFRS £'000
Non-current assets						
Intangible assets	76	-	76	42	-	42
Property, plant and equipment	10,337	-	10,337	10,950	-	10,950
Investment in subsidiaries	26,492	-	26,492	38,651	(1,101)	37,550
Amounts owed by subsidiaries	151	-	151	151	-	151
	37,056	-	37,056	49,794	(1,101)	48,693
Current assets						
Trade and other receivables	6,158	(5,040)	1,118	5,063	(3,855)	1,208
Cash and cash equivalents	17,096	-	17,096	10,774	-	10,774
	23,254	(5,040)	18,214	15,837	(3,855)	11,982
Total assets	60,310	(5,040)	55,270	65,631	(4,956)	60,675
Current liabilities						
Trade and other payables	6,746	(710)	6,036	3,756	(916)	2,840
Bank loans and overdrafts	1,400	-	1,400	2,703	-	2,703
	8,146	(710)	7,436	6,459	(916)	5,543
Non-current liabilities						
Bank loans	18,051	-	18,051	16,475	-	16,475
Deferred tax liabilities	464	(8)	456	561	(11)	550
Long term provisions	5,758	-	5,758	-	-	-
	24,273	(8)	24,265	17,036	(11)	17,025
Total liabilities	32,419	(718)	31,701	23,495	(927)	22,568
Net assets	27,891	(4,322)	23,569	42,136	(4,029)	38,107
Equity						
Share capital	3,503	-	3,503	3,787	-	3,787
Share premium account	19,962	-	19,962	25,059	-	25,059
Own shares	(354)	-	(354)	(431)	-	(431)
Revaluation reserve	218	-	218	-	-	-
Other reserve	199	-	199	1,388	-	1,388
Retained earnings	4,363	(4,322)	41	12,333	(4,029)	8,304
Total equity	27,891	(4,322)	23,569	42,136	(4,029)	38,107

Notes to the Financial Statements

for the year ended 31 March 2006

36. Transition to IFRS continued

The most significant adjustments to equity are the result of:

(a) Investment in subsidiaries

Restatement of investment in subsidiary at 31 March 2005 of £1,101,000 for dividend received by the Company out of pre-acquisition reserves of the subsidiary acquired in the year.

(b) Share-based payments

The reversal of accruals for performance share scheme awards under UK GAAP at 1 April 2004 of £80,000 and at 31 March 2005 of £99,000. Charge to income statement for the cost of employee option and performance share scheme awards with corresponding credit to reserves of £14,000 and £61,000 at 1 April 2004 and 31 March 2005 respectively.

(c) Proposed dividends

The reversal of an accrual for the final ordinary dividend proposed in respect of the year ended 31 March 2004, increasing net assets at 1 April 2004 by £630,000.

The reversal of an accrual for the final ordinary dividend proposed in respect of the year ended 31 March 2005, increasing net assets at 31 March 2005 by £818,000.

Reconciliation of profit for the year ended 31 March 2005

	UK GAAP IFRS Format £'000	Effect of transition to IFRS £'000	IFRS £'000
Revenue:			
Management charges	4,817	-	4,817
Dividend income from subsidiaries	5,855	85	5,940
	10,672	85	10,757
Operating profit	9,268	58	9,326
Investment income	136	-	136
Finance costs	(413)	-	(413)
Profit before tax	8,991	58	9,049
Tax	(97)	-	(97)
Net Profit	8,894	58	8,952

The most significant adjustments to profit are the result of:

(a) Share-based payments

	£'000
Recognition of a charge under IFRS 2	47
Reversal of accruals for performance share scheme awards under UK GAAP	(20)
	27
Related deferred tax credit	(2)
	25

Notes to the Financial Statements

for the year ended 31 March 2006

36. Transition to IFRS continued

(b) Dividends

Revenue includes the following adjustments in respect of dividend income from subsidiaries:

	£'000
Dividends not received at year end	(3,855)
Dividends received from prior year end	5,041
Adjustment for dividends received in year from acquired subsidiary out of pre-acquisition reserves	(1,101)
	<hr/>
	85

The UK GAAP numbers exclude dividends payable which under IFRS are shown as a movement in equity rather than on the face of the income statement.

Cash flow statement

There were no material differences to the amounts recognised in the cash flow statement on transition to IFRS.

Shareholder Information

Financial Diary

Annual General Meeting

7 September 2006

Results

Announcement of interim results to 30 September 2006

November 2006

Announcement of annual results to 31 March 2007

June 2007

Proposed Dividend

Ex-dividend date

6 September 2006

Payable to shareholders on the register on

8 September 2006

Payable

27 September 2006

Company Information

Information on Radstone Technology PLC is available via the internet at www.radstone.co.uk (Investor Relations)

Share price listing (EPIC code: RST)

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Eighteenth Annual General Meeting of Radstone Technology PLC will be held at Tove Valley Business Park, Towcester, Northants NN12 6PF on Thursday 7 September 2006 at 11.00 am to consider the following business:-

Ordinary business

To consider and, if thought fit, pass the following resolutions, all of which will be proposed as Ordinary Resolutions:

Resolution 1

To receive and consider the accounts for the year ended 31 March 2006, together with the reports of the directors and auditors thereon.

Resolution 2

To declare a final dividend of 3.15p per ordinary share to be paid on 27 September 2006 to all ordinary shareholders on the register as at 8 September 2006.

Resolution 3

To approve the Report to the Shareholders on Directors' Remuneration for the year ended 31 March 2006 and the auditors' report thereon.

Resolution 4

To re-appoint as a director Mr M A Baggott as required by Article 69 of the Company's Articles of Association.

Resolution 5

To re-appoint Deloitte & Touche LLP as auditors and to authorise the directors to determine their remuneration.

Special business

To consider and, if thought fit, pass the following resolutions which will be proposed, as to Resolution 6 as an Ordinary Resolution and as to Resolution 7 as a Special Resolution:

Resolution 6

That the authority conferred on the directors by Article 4 of the Company's Articles of Association be renewed for the period ending on the date of the next Annual General Meeting in 2007 or 7 December 2007, whichever is earlier, and for such period the Section 80 Amount shall be £1,264,152.

Resolution 7

That, subject to the passing of Resolution 6, the power conferred on the directors by Article 4 of the Company's Articles of Association be renewed for the period ending on the date of the next Annual General Meeting in 2007 or 7 December 2007, whichever is earlier, and for such period the Section 89 Amount shall be £189,623.

By order of the Board

Nov Novakovic

Secretary

17 July 2006

Notes:

1. Any member entitled to attend and vote at the Meeting may appoint a proxy or proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company. A form of proxy is enclosed for use if desired.
2. The register of directors' shareholdings will be available for inspection during the meeting. Copies of all directors' service contracts and contracts for services, together with the terms of reference of each of the Audit, Remuneration and Nomination Committees, will be available for inspection at the registered office of the Company during normal business hours and at the place of the Meeting at least 15 minutes prior to and during the Meeting.
3. To be effective, forms of proxy together with any power of attorney or authority (if any) under which they are signed (or a duly certified copy of the power or authority) must be deposited with the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4BR not less than 48 hours before the time for holding the Meeting. Completion and return of a form of proxy will not prevent the holder from attending the Meeting and voting in person should he/she wish to do so.

Radstone Technology PLC Form of Proxy

Annual General Meeting to be held
on Thursday 7 September 2006 at 11.00 am

I/We.....of.....

.....being a member of Radstone Technology

PLC, hereby appoint or failing him/her, the Chairman of the Meeting, as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company and at any adjournment thereof.

Please indicate how you wish your votes to be cast by placing an "X" in the spaces provided below. The resolutions are as indicated in the Notice of Meeting contained in the Report and Accounts of the Company. If this Form of Proxy is signed and returned without any indication as to how the Proxy shall vote, he/she will exercise his/her discretion both as to how he/she votes and whether or not to abstain from voting on all resolutions at the Meeting.

		For	Against
Resolution 1	(Report and Accounts)	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	(Declaration of final dividend)	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	(Report to the Shareholders on Directors' Remuneration)	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	(Re-appointment of M A W Baggott)	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	(Re-appointment of the auditors)	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	(Authority to allot shares)	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	(Power to allot shares for cash other than on a pro-rata basis to shareholders)	<input type="checkbox"/>	<input type="checkbox"/>

Signature(s) or Common Seal
(see notes 3 and 4 below)

Dated:

Notes:

1. You are entitled to appoint one or more Proxies of your own choice, who need not be a member of the Company, by inserting the name and address of such proxy in the space provided. Should the space be left blank, the Proxy will be exercised by the Chairman of the meeting.
2. In the case of a Company, this Form of Proxy must be executed under its common seal or in accordance with Section 36A of the Companies Act 1985 or under the hand of a duly authorised officer or attorney or other person authorised to sign.
3. In the case of joint holders, only one need sign but the vote of the senior who tenders the vote, whether in person or by Proxy, shall be accepted to the exclusion of the votes of the other joint holders, and seniority is determined by the order in which the names of the holders stand in the register of members. If the person signing is not the first named holder, it will be helpful to give the name of the first named.
4. To be valid, forms of proxy together with any power of attorney or other authority under which it is signed, or a copy of such authority notarialy certified, must be lodged with the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4BR not later than 48 hours before the time fixed for the Meeting. Completion and return of a form of proxy will not prevent the holder from attending the Meeting and voting in person should he/she wish to do so.

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