

Registered No 2151516

**Radstone Technology PLC**

**Report and Accounts**

**For the nine months ended 31 December 2006**



# **Radstone Technology PLC**

## **Annual Report and Accounts For the nine months ended 31 December 2006**

	<b>Pages</b>
<b>Directors Report</b>	<b>3-6</b>
<b>Independent Auditors' Report</b>	<b>7</b>
<b>Consolidated Income Statement</b>	<b>8</b>
<b>Balance Sheets</b>	<b>9</b>
<b>Cash Flow Statements</b>	<b>10</b>
<b>Statements of Recognised Income and Expense</b>	<b>11</b>
<b>Notes to the Financial Statements</b>	<b>12-51</b>

# Radstone Technology PLC

## Directors' Report for the nine months ended 31 December 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) Overview

On 28 November 2006, Radstone Technology PLC was acquired by GE Fanuc Embedded Systems, Inc. In order to have a continuous financial year-end with GE Fanuc Embedded Systems, the Group year-end has been changed from 31 March to 31 December, and consequently these financial statements are for a nine month reporting period

#### (b) Current Markets

This has been a busy period for the Group with new orders received totalling £61.4m (year ended March 2006: £62.1m), and a closing order book for future delivery of £124.1m (March 2006: £94.1m)

#### (c) Operational Performance

Revenue for the nine month period amounted to £31.7m, compared to £54.9m for the previous twelve month accounting period, while the operating loss for the nine month period amounted to £8.2m, compared to an operating profit of £5.9m for the previous twelve month accounting period. As in previous years, Group revenue is heavily weighted towards the first quarter of the calendar year. Therefore, the results for the nine month period are not therefore directly comparable with the results for the previous twelve month period

#### (d) Key Performance Indicators

As noted in Operational Performance above, Group revenue is heavily weighted towards the first quarter of a calendar year resulting in a 42.3% fall in reported turnover for the nine month period compared to last year. Costs, however, are less affected by seasonality and more fixed in nature, which has resulted in a 30.8% reduction in line with the shorter accounting period. The impact on gross profit margin is a reduction to 35.4% compared to 46.2% last year

#### (e) Future Prospects

The worldwide military market continues to provide a solid and growing base for the strategic development of the Group

Furthermore, the future prospects for the company have been assured following the takeover by GE Fanuc Embedded Systems, Inc, which will not only provide new markets but also provide long term funding for the Group

#### (f) Principal Risks and Uncertainties

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 policy during the period was to hedge at least 80% of the next six months anticipated exposure and can hedge up to eighteen months ahead

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

Following its acquisition by GE Fanuc Embedded Systems, Inc, the Group is reviewing its hedging policies. Since the period end, the foreign currency loans have been repaid and the bulk of the currency derivative portfolio has been sold back to the counterparty banks

# Radstone Technology PLC

## Directors' Report for the nine months ended 31 December 2006

### Business Review (continued)

#### (f) Principal Risks and Uncertainties (continued)

##### *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.

##### *Interest rate risk*

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

The Group mitigated interest rate risks through the use of interest rate swaps which had 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.

##### *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 has utilised currency derivatives to hedge significant future transactions and cash flows. The Group is a 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.

##### *Interest rate swaps*

The Group has used 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.

### Results and dividends

The consolidated trading results and year end financial position are shown in the financial statements on pages 8 to 51. The directors do not recommend payment of a dividend for the period (March 2006 interim dividend of 1.05p and final dividend of 3.15p).

# **Radstone Technology PLC**

## **Directors' Report for the nine months ended 31 December 2006**

### **Directors**

The directors of the company were as follows

Mr J L Perrin  
Mr P J Cavill

Mr M S W Lee was appointed on 18 September 2006  
Mr M Hardt was appointed on 28 November 2006  
Mr M Whittenburg was appointed on 28 November 2006  
Mrs M Sylvester was appointed on 28 November 2006  
Mr R McKeel was appointed on 28 November 2006

Mr K J Boyd resigned effective from 4 August 2006  
Mr R J Williams retired effective from 7 September 2006, was reappointed on 7 September 2006 and resigned effective from 5 December 2006  
Mr M A W Baggott resigned effective from 5 December 2006  
Mr S J Day resigned effective from 5 December 2006

Mr J L Perrin retires by rotation and being eligible offers himself for re-election

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 S W Lee, Mr M Hardt, Mr M Whittenburg, Mrs M Sylvester and Mr R McKeel having been appointed since the last Annual General Meeting retire and, being eligible, offer themselves for re-appointment as directors.

### **Donations**

The Group made charitable donations during the period amounting to £2,799 (March 2006 £2,076). 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.

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 nine months ended 31 December 2006 on research and development (excluding amortisation of intangibles arising from acquisitions) amounted to £7,825,000 (March 2006 £7,662,000), of which £nil (March 2006 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 December 2006 was 104 days (March 2006 73 days) and the Company's 41 days (March 2006 24 days).

### **Financial instruments**

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

# Radstone Technology PLC

## Directors' Report for the nine months ended 31 December 2006

### Statement of Directors' Responsibilities

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 period 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 consistently 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 as adopted by the EU 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 financial statements which comply with the requirements of the Companies Act 1985.

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

### Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant information and to establish that the company's auditors are aware of that information.

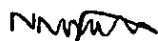
### Auditors

In the case of each of the persons who are directors of the Group and 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 Group and 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 Group and the Company's auditors are aware of that information.

On 1 February 2007 Deloitte, Chartered Accountants, resigned as auditors of the company and KPMG Audit Plc were appointed to fill the vacancy. A resolution to re-appoint KPMG Audit Plc will be proposed at the forthcoming Annual General Meeting.

By order of the Board



Nov Novakovic  
Secretary  
12 June 2007

## KPMG Audit Plc

Alnus House  
One North Fourth Street  
Milton Keynes  
MK9 1NE  
United Kingdom

## Report of the independent auditors' to the members of Radstone Technology PLC

We have audited the group and parent company financial statements (the 'financial statements') of Radstone Technology PLC for the period ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated and parent company Balance Sheets, the Consolidated and parent company Cash Flow Statement, the Consolidated and parent company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 6.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

### Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2006 and of its loss for the period then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

*KPMG Audit Plc*

12 June 2007

# Radstone Technology PLC

## Consolidated Income Statement for the nine month period ended 31 December 2006

	Notes	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
<b>Continuing operations</b>			
Revenue	4	31,670	54,926
Cost of sales		(20,466)	(29,564)
<b>Gross profit</b>		<b>11,204</b>	<b>25,362</b>
Distribution costs		(3,966)	(6,745)
Development costs			
- Product development		(7,825)	(7,662)
- Amortisation of intangibles arising from acquisitions		(851)	(1,050)
		(8,676)	(8,712)
Administrative expenses		(6,719)	(3,991)
<b>Operating (loss)/profit before costs of bid defence</b>		<b>(4,340)</b>	<b>5,914</b>
Costs of bid defence		(3,817)	-
<b>Operating (loss)/profit</b>	6	<b>(8,157)</b>	<b>5,914</b>
Investment revenue	10	131	138
Finance income			
- Gains on fair value movement on financial instruments		2,177	-
Finance costs			
- Borrowing costs		(850)	(1,079)
- Losses on fair value movement on financial instruments		-	(565)
- Retirement benefit scheme finance charges		(299)	(424)
	11	(1,149)	(2,068)
<b>(Loss)/profit before tax</b>		<b>(6,998)</b>	<b>3,984</b>
Tax	12	1,243	(699)
<b>(Loss)/profit for the period from continuing operations attributable to equity holders of the parent</b>		<b>(5,755)</b>	<b>3,285</b>

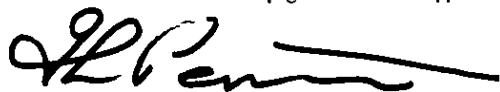


# Radstone Technology PLC

## Balance Sheets at 31 December 2006

		Group		Company	
	Notes	31 December 2006 £'000	31 March 2006 £'000	31 December 2006 £'000	31 March 2006 £'000
<b>Non-current assets</b>					
Goodwill	14	24,728	24,741	-	-
Intangible assets arising from acquisitions	15	5,345	6,233	-	-
Other intangible assets	15	7	22	7	22
Property, plant and equipment	16	16,034	16,315	10,613	10,758
Investment in subsidiaries	17	-	-	37,550	37,550
Amounts owed by subsidiaries		-	-	151	151
Deferred tax assets	26	2,894	2,844	-	-
		<b>49,008</b>	<b>50,155</b>	<b>48,321</b>	<b>48,481</b>
<b>Current assets</b>					
Inventories	18	16,735	12,284	-	-
Trade and other receivables	20	12,350	23,380	17,792	4,299
Tax receivable		1,837	849	-	-
Derivative financial instruments	25	1,777	213	-	-
Cash and cash equivalents	21	3,826	2,188	1,882	11,878
		<b>36,525</b>	<b>38,914</b>	<b>19,674</b>	<b>16,177</b>
<b>Total assets</b>		<b>85,533</b>	<b>89,069</b>	<b>67,995</b>	<b>64,658</b>
<b>Current liabilities</b>					
Trade and other payables	22	12,229	10,470	3,621	4,679
Tax liabilities		534	1,103	-	-
Obligations under finance leases	23	173	192	-	-
Derivative financial instruments	25	-	547	-	-
Bank overdrafts and loans	24	6,777	4,812	12,068	4,007
		<b>19,713</b>	<b>17,124</b>	<b>15,689</b>	<b>8,686</b>
<b>Non-current liabilities</b>					
Bank loans	24	11,702	15,189	11,520	14,966
Retirement benefit obligations	33	9,647	9,479	-	-
Deferred tax liabilities	26	1,911	2,179	653	713
Obligations under finance leases	23	79	219	-	-
		<b>23,339</b>	<b>27,066</b>	<b>12,173</b>	<b>15,679</b>
<b>Total liabilities</b>		<b>43,052</b>	<b>44,190</b>	<b>27,862</b>	<b>24,365</b>
<b>Net assets</b>		<b>42,481</b>	<b>44,879</b>	<b>40,133</b>	<b>40,293</b>
<b>Equity</b>					
Share capital	27	3,960	3,792	3,960	3,792
Share premium account	29	28,911	25,152	28,911	25,152
Own shares	29	-	(753)	-	(753)
Other reserve	29	1,388	1,388	1,388	1,388
Hedging and translation reserves	29	283	673	-	-
Retained earnings	29	7,939	14,627	5,874	10,714
<b>Total equity</b>		<b>42,481</b>	<b>44,879</b>	<b>40,133</b>	<b>40,293</b>

The financial statements on pages 8 to 51 were approved by the board of directors on 12 June 2007 and were signed on its behalf by



J L Perrin  
Director



M S W Lee  
Director

# Radstone Technology PLC

## Cash Flow Statements for the nine month period ended 31 December 2006

		Group		Company	
	Notes	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
<b>Net cash from operating activities</b>	31	<b>945</b>	<b>1,601</b>	<b>(19,350)</b>	<b>1,841</b>
<b>Investing activities</b>					
Interest received		131	138	58	724
Proceeds on disposal of property plant and equipment		37	1	-	-
Purchases of property, plant and equipment		(1,433)	(1,566)	-	(2)
Purchases of trade and assets		-	(381)	-	-
<b>Net cash (used in)/from investing activities</b>		<b>(1,265)</b>	<b>(1,808)</b>	<b>58</b>	<b>722</b>
<b>Financing activities</b>					
Dividends paid	13	(956)	(1,137)	-	(1,137)
Issue of share capital	27	3,928	87	3,928	87
Purchase of own shares under Employee Incentive Schemes	30	(71)	(409)	(71)	(409)
Disposal of own shares under Employee Incentive Schemes	30	824	-	824	-
Repayments of borrowings	24	(1,523)	(877)	-	-
Repayments of obligations under finance leases	23	(159)	(259)	-	-
New bank loans raised	24	-	1,358	4,615	-
<b>Net cash from/(used in) financing activities</b>		<b>2,043</b>	<b>(1,237)</b>	<b>9,296</b>	<b>(1,459)</b>
<b>Net increase/(decrease) in cash and bank overdrafts</b>		<b>1,723</b>	<b>(1,444)</b>	<b>(9,996)</b>	<b>1,104</b>
<b>Cash and bank overdrafts at start of period</b>		<b>2,188</b>	<b>3,766</b>	<b>11,878</b>	<b>10,774</b>
<b>Effect of foreign exchange rate changes</b>		<b>(85)</b>	<b>(134)</b>	<b>-</b>	<b>-</b>
<b>Cash and bank overdrafts at end of period</b>	21	<b>3,826</b>	<b>2,188</b>	<b>1,882</b>	<b>11,878</b>

# Radstone Technology PLC

## Statements of Recognised Income and Expense for the nine month period ended 31 December 2006

		Group		Company	
	Notes	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
Adoption of IAS 32/39 Fair value of financial instruments at 1 April 2005	25	-	957	-	-
Exchange differences on translation of foreign operations		(348)	464	-	-
Actuarial losses on defined benefit pension schemes	33	(449)	(197)	-	-
<u>Tax on items taken directly to equity</u>	<u>12</u>	<u>(15)</u>	<u>(78)</u>	<u>-</u>	<u>-</u>
Net income/(expense) recognised directly in equity		(812)	1,146	-	-
Transferred to profit or loss on cash flow hedges	25	(66)	(726)	-	-
Tax on items transferred from equity	12	20	218	-	-
<u>(Loss)/profit for the period</u>		<u>(5,755)</u>	<u>3,285</u>	<u>(4,142)</u>	<u>3,502</u>
Total recognised income and expense for the period attributable to equity holders of the parent	29	(6,613)	3,923	(4,142)	3,502

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 1 General information

Radstone Technology PLC is a company incorporated in the United Kingdom under the Companies Act 1985. 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 7	Financial Instruments – Disclosures, and the related amendments to IAS 1 on capital disclosures
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11 / IFRS 2	Group and treasury share transactions
IAS 1	Amendment to original IAS – Capital Disclosures

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). 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 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 Company. 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.

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 nine month period 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.

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 2 Significant accounting policies (continued)

#### (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 as incurred during 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.

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).

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 2 Significant accounting policies (continued)

#### (g) Foreign currencies (continued)

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 recoverable is based on taxable loss for the nine month period. Taxable loss differs from net loss 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.

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 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

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 2 Significant accounting policies (continued)

#### (m) Impairment of tangible and intangible assets excluding goodwill (continued)

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 including 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.

#### (o) 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

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.



# **Radstone Technology PLC**

## **Notes to the Financial Statements for the nine month period ended 31 December 2006**

### **2 Significant accounting policies**

#### **(o) Financial Instruments (continued)**

##### **(vi) Derivative financial instruments and hedge accounting (continued)**

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.

#### **(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.

Following the acquisition of Radstone Technology PLC by GE Fanuc Embedded Systems, Inc. on 28 November 2006, the outstanding share options in the parent company Radstone Technology PLC became exercisable in accordance with rules of the respective share schemes.

### **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:

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 3 Critical accounting estimates and judgement (continued)

#### (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

	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
An analysis of the Group's revenue is as follows		
Sale of goods	31,049	51,907
Revenue from long-term contracts	621	3,019
	31,670	54,926
Investment income	131	138
Total revenue	31,801	55,064

### 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	
	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
<b>Revenue</b>						
Total revenue	23,565	46,032	8,495	9,589	32,060	55,621
Inter-segment sales	-	-	(390)	(695)	(390)	(695)
External revenue	23,565	46,032	8,105	8,894	31,670	54,926
Cost of sales	(14,391)	(22,942)	(6,075)	(6,622)	(20,466)	(29,564)
Gross profit	9,174	23,090	2,030	2,272	11,204	25,362

Inter-segment sales are charged at prevailing market prices.

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 5 Segmental information (continued)

	Embedded Computing		Electronic Manufacturing Services		Total	
	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
<b>Result</b>						
Result before amortisation and unallocated costs	(2,474)	8,849	1,887	2,106	(587)	10,955
Amortisation of intellectual property arising through acquisition	(851)	(1,050)	-	-	(851)	(1,050)
<b>Segment result</b>	<b>(3,325)</b>	<b>7,799</b>	<b>1,887</b>	<b>2,106</b>	<b>(1,438)</b>	<b>9,905</b>
Unallocated corporate expenses					(2,902)	(3,991)
Costs of bid defence					(3,817)	-
<b>Operating (loss)/profit</b>					<b>(8,157)</b>	<b>5,914</b>
Investment revenue					131	138
Finance income					2,177	-
Finance costs					(1,149)	(2,068)
<b>(Loss)/profit before tax</b>					<b>(6,998)</b>	<b>3,984</b>
Tax					1,243	(699)
<b>(Loss)/profit after tax</b>					<b>(5,755)</b>	<b>3,285</b>

#### Capital expenditure, additions to intangibles, depreciation and amortisation

	Embedded Computing		Electronic Manufacturing Services		Total	
	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
Capital expenditure and additions to intangibles (excluding goodwill)	1,011	1,272	422	294	1,433	1,566
Depreciation and amortisation	1,339	2,871	246	345	1,585	3,216

#### Total assets by segment

	Embedded Computing		Electronic Manufacturing Services		Total	
	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
Segment assets	68,737	78,765	6,461	4,208	75,198	82,973
Unallocated					10,335	6,096
<b>Total assets</b>					<b>85,533</b>	<b>89,069</b>

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

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 5 Segmental information (continued)

#### Total liabilities by segment

	Embedded Computing		Electronic Manufacturing Services		Total	
	9 months ended 31 December 2006	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 March 2006	9 months ended 31 December 2006	12 months ended 31 March 2006
	£'000	£'000	£'000	£'000	£'000	£'000
Segment liabilities	10,204	8,477	2,277	2,402	12,481	10,879
Unallocated					30,571	33,311
<b>Total liabilities</b>					<b>43,052</b>	<b>44,190</b>

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

#### Geographical segments

	9 months ended 31 December 2006	12 months ended 31 March 2006
	£'000	£'000
<b>External Revenue</b>		
United Kingdom	9,845	13,358
Rest of Europe	2,249	6,265
North America	18,305	28,795
Rest of World	1,271	6,508
	<b>31,670</b>	<b>54,926</b>

Revenues are based on the location of the customer

Other Information	Total Assets		Additions to property, plant and equipment and intangible assets	
	31 December 2006	31 March 2006	31 December 2006	31 March 2006
	£'000	£'000	£'000	£'000
United Kingdom	44,372	47,226	1,088	1,337
North America	30,787	35,745	345	229
Rest of Europe	39	2	-	-
Segment assets	75,198	82,973	1,433	1,566
Unallocated	10,335	6,096	-	-
	<b>85,533</b>	<b>89,069</b>	<b>1,433</b>	<b>1,566</b>

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

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 6 Operating profit

	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
Operating profit is stated after charging /(crediting)		
Net foreign exchange (profits)/losses	(325)	294
Research and development costs		
- Product development	7,825	7,662
- Amortisation of intangibles arising from acquisition	836	1,050
Depreciation and amounts written off property, plant and equipment	1,585	2,142
(Profit)/Loss on disposal of property, plant and equipment	(35)	3
Amortisation of intangible assets	15	24
Materials cost of goods sold	14,826	17,579
Increase in inventory provisions and amounts written off inventories	322	692
Operating lease rentals		
- land and buildings	254	339
- plant, equipment and vehicles	131	200
Staff costs (see note 8)	16,046	19,368
Auditors' remuneration		
- audit services	137	141
- non-audit services	5	82
Fees payable to the auditors in respect of non-audit services represent		
Tax services		
- compliance	-	26
- advisory	-	14
	-	40
Further assurance services		
- IFRS implementation work	-	40
Other services		
- Other	5	2
<b>Total</b>	<b>5</b>	<b>82</b>

Auditors' remuneration for audit services provided to the Company amounted to £15,000 (March 2006 £15,000)

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 loss after taxation for the financial period (before dividends paid) included in the accounts of the Company amounted to £4,142,000 (March 2006 Profit £3,502,000)

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 7 Directors' emoluments

	9 months ended 31 December 2006 £	12 months ended 31 March 2006 £
Emoluments	462,117	535,438
Compensation for loss of office	25,000	-
Sums paid to third parties for directors' services	67,385	59,250
Directors' pension contributions to defined contribution schemes	3,570	5,738
Directors' pension contributions to defined benefit schemes	-	67,762
<b>Aggregate emoluments</b>	<b>558,072</b>	<b>668,188</b>

	9 months ended 31 December 2006	12 months ended 31 March 2006
Remuneration of the highest paid director		
Emoluments	£150,711	£258,793
Number of share options exercised	97,700	-
Number of shares received under long term incentive scheme	32,772	30,249
Share options exercised – exercise value	£303,528	-
Shares received under long term incentive scheme – market value at award date	£84,060	£85,000

	9 months ended 31 December 2006	12 months ended 31 March 2006
The number of directors who exercised share options during the period		
Number	3	-

The number of directors receiving qualifying service shares under a long term incentive scheme during the period		
Number	3	3

The number of directors to whom retirement benefits were accruing at the end of the period		
Number	1	1

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

	Accrued pension at 31 December 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 2006 £	Transfer value of accrued pension at 31 December 2006 £	Increase in transfer value less directors' contributions £
J L Perrin	87,171	10,413	12,504	141,106	970,941	1,139,338	132,596

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

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 8 Staff costs

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

	Group		Company	
	9 months ended 31 December 2006 Number	12 months ended 31 March 2006 Number	9 months ended 31 December 2006 Number	12 months ended 31 March 2006 Number
Operations	405	381	-	-
Selling and distribution	51	50	-	-
Administration	32	32	32	32
	<b>488</b>	<b>463</b>	<b>32</b>	<b>32</b>

The aggregate remuneration comprised

	Group		Company	
	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
Wages and salaries	13,115	16,379	824	1,396
Social security costs	1,528	1,938	102	157
Pension costs (see note 33)				
- defined contribution schemes	234	370	12	15
- defined benefit schemes	378	506	86	106
Share based payment	791	175	175	45
	<b>16,046</b>	<b>19,368</b>	<b>1,199</b>	<b>1,719</b>

### 9 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

		9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
	Notes		
Operating (loss)/profit		(8,157)	5,914
Amortisation of intangibles arising from acquisitions	(a)	851	1,050
Costs of bid defence		3,817	-
Adjustments to operating (loss)/profit		4,668	1,050
<b>Adjusted operating (loss)/profit</b>		<b>(3,489)</b>	<b>6,964</b>

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 9 Reconciliations between profit and adjusted profit (continued)

		9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
	Notes		
(Loss)/profit before tax		(6,998)	3,984
Financial instruments	(b)	(2,177)	565
<u>Adjustments to operating (loss)/profit (above)</u>		<u>4,668</u>	<u>1,050</u>
<u>Adjustments to (loss)/profit before tax</u>		<u>2,491</u>	<u>1,615</u>
<u>Adjusted (loss)/profit before tax</u>		<u>(4,507)</u>	<u>5,599</u>
(Loss)/profit for the period		(5,755)	3,285
Adjustments to (loss)/profit before tax (above)		2,491	1,615
<u>Tax effect of adjustments to (loss)/profit</u>		<u>397</u>	<u>(479)</u>
<u>Adjusted (loss)/profit for the period</u>		<u>(2,867)</u>	<u>4,421</u>

(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 period before changes in the valuation of these instruments so that the underlying performance of the Group can more clearly be seen.

	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
Movement in fair value of financial instruments		
Fair value at 31 December 2006 (31 March 2006)	1,777	(334)
<u>Add/(deduct): Fair value recognised on 1 April 2006 (1 April 2005)</u>	<u>334</u>	<u>(957)</u>
	2,111	(1,291)
<u>Recycled gains to income statement from initial fair value</u>	<u>66</u>	<u>726</u>
<u>Movement in fair value of Financial Instruments in the period</u>	<u>2,177</u>	<u>(565)</u>

### 10 Investment revenue

	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
<u>Interest income</u>	<u>131</u>	<u>138</u>



# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 11 Finance costs

	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
Interest payable on bank loans and overdrafts	833	1,034
Interest payable on finance leases	17	45
Total borrowing costs	850	1,079
Loss on fair value movement of financial instruments (see note 25)	-	565
Retirement benefit scheme finance charges (see note 33)	299	424
	<u>1,149</u>	<u>2,068</u>

### 12 Tax

	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
UK Corporation tax		
- Current	(357)	1,090
- Prior years	(285)	(435)
	<u>(642)</u>	<u>655</u>
Overseas taxes		
- Current	(426)	296
<b>Total current tax</b>	<u>(1,068)</u>	<u>951</u>
Deferred tax		
UK	(48)	(244)
Overseas	(127)	(8)
<b>Total deferred tax</b>	<u>(175)</u>	<u>(252)</u>
<b>Total tax (credit)/charge</b>	<u>(1,243)</u>	<u>699</u>

Corporation tax in the UK is calculated at 30% (March 2006 30%) of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 12 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

	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
Group (loss)/profit before tax	(6,998)	3,984
Tax at the UK corporation tax rate of 30% (2006 30%)	(2,099)	1,195
Effects of		
- Tax effect of income/expenses that are not taxable/allowable in determining taxable profit	(353)	74
- Tax effect of items giving rise to temporary differences	443	(6)
- Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(70)	(129)
- Tax effects of adjustments made in respect of prior periods	(285)	(435)
- Tax effect of losses carried forward	1,121	-
Tax expense for the period	(1,243)	699

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

	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
Tax taken directly to equity		
Current tax		
- Foreign exchange	(149)	150
Deferred tax		
- Defined benefit pension schemes	134	59
- Financial instruments	-	(287)
	(15)	(78)
Tax on items transferred from equity		
- Financial instruments	20	218
	5	140

### 13 Dividends

Amounts recognised as distributions to equity holders in the period

	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
Final dividend for the year ended 31 March 2006 of 3.15p (31 March 2005 2.70p) per ordinary share	956	819
Interim dividend for the 9 months ended 31 December 2006 of £Nil (31 March 2006 1.05p) per ordinary share	-	318
	956	1,137
Proposed final dividend for the 9 months ended 31 December 2006 of £Nil (31 March 2006 2.70p) per share	-	956

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 14 Goodwill

Group	Total £'000
At 1 April 2006	24,741
Exchange differences	(13)
At 31 December 2006	24,728

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:

	31 December 2006 £'000	31 March 2006 £'000
<b>Embedded Computing</b>		
Sensor processing (ICS Ltd)	19,720	19,720
Image processing (Octec Ltd)	4,923	4,923
Test and Measurement (DaqScribe Inc.)	85	98
	<b>24,728</b>	<b>24,741</b>

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 10%.

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

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

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 15 Intangible assets

	Group			Company
	Arising from acquisitions Intellectual Property £'000	Other £'000	Total £'000	Other £'000
<b>Cost</b>				
At 1 April 2006	8,040	433	8,473	428
Exchange differences	(43)	-	(43)	-
<b>At 31 December 2006</b>	<b>7,997</b>	<b>433</b>	<b>8,430</b>	<b>428</b>
<b>Amortisation</b>				
At 1 April 2006	1,807	411	2,218	406
Charge	836	15	851	15
Exchange differences	9	-	9	-
<b>At 31 December 2006</b>	<b>2,652</b>	<b>426</b>	<b>3,078</b>	<b>421</b>
<b>Carrying amount</b>				
<b>At 31 December 2006</b>	<b>5,345</b>	<b>7</b>	<b>5,352</b>	<b>7</b>
<b>At 31 March 2006</b>	<b>6,233</b>	<b>22</b>	<b>6,255</b>	<b>22</b>

Other represents manufacturing licences

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 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
<b>Cost</b>					
At 1 April 2006	12,072	15,926	1,706	29,704	11,111
Additions	108	1,147	178	1,433	-
Exchange differences	(103)	(39)	(95)	(237)	-
Disposals	-	(2,172)	(5)	(2,177)	-
<b>At 31 December 2006</b>	<b>12,077</b>	<b>14,862</b>	<b>1,784</b>	<b>28,723</b>	<b>11,111</b>
<b>Accumulated depreciation</b>					
At 1 April 2006	524	11,889	976	13,389	353
Charge for the period	178	1,212	195	1,585	145
Exchange differences	(16)	(31)	(63)	(110)	-
Eliminated on disposals	-	(2,170)	(5)	(2,175)	-
<b>At 31 December 2006</b>	<b>686</b>	<b>10,900</b>	<b>1,103</b>	<b>12,689</b>	<b>498</b>
<b>Carrying amount</b>					
<b>At 31 December 2006</b>	<b>11,391</b>	<b>3,962</b>	<b>681</b>	<b>16,034</b>	<b>10,613</b>
<b>At 31 March 2006</b>	<b>11,548</b>	<b>4,037</b>	<b>730</b>	<b>16,315</b>	<b>10,758</b>

The carrying amount of tangible fixed assets held under finance leases at 31 December 2006 was £174,000 (March 2006 £344,000) 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 £11,391,000 (March 2006 £11,741,000) to secure banking facilities granted to the Group

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 17 Investments

Company	Interests in Group undertakings £'000
Cost	
<u>At 1 April 2006 and 31 December 2006</u>	<u>41,050</u>
Impairment	
<u>At 1 April 2006 and 31 December 2006</u>	<u>3,500</u>
Carrying value	
<u>At 31 March 2006 and 31 December 2006</u>	<u>37,550</u>

The principal operating subsidiaries of the Group and Company at 31 December 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% ) ) )	Design, 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

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 18 Inventories

Group	31 December 2006 £'000	31 March 2006 £'000
Raw materials and consumables	4,241	3,526
Work in progress	10,749	7,581
Finished goods	1,745	1,177
	<u>16,735</u>	<u>12,284</u>

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	31 December 2006 £'000	31 March 2006 £'000
Contracts in progress at the balance sheet date		
<u>Amounts due from contract customers included in trade and other receivables</u>	<u>493</u>	<u>2,691</u>
Contract costs incurred plus recognised profits less recognised losses to date	2,492	2,474
<u>Less progress billings</u>	<u>(5,350)</u>	<u>(2,777)</u>
<u>Amounts due to contract customers</u>	<u>(2,858)</u>	<u>(303)</u>

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

### 20 Trade and other receivables

	Group		Company	
	31 December 2006 £'000	31 March 2006 £'000	31 December 2006 £'000	31 March 2006 £'000
Amounts receivable for the sale of goods	9,698	21,283	-	-
Amounts owed by subsidiaries	-	-	17,422	4,013
Other receivables, prepayments and accrued income	2,243	1,635	370	286
<u>Loan notes</u>	<u>409</u>	<u>462</u>	<u>-</u>	<u>-</u>
	<u>12,350</u>	<u>23,380</u>	<u>17,792</u>	<u>4,299</u>

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 63 days (March 2006 71 days) An allowance has been made for estimated irrecoverable amounts from the sale of goods of £46,000 (March 2006 £42,000) 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

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 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	
	31 December 2006 £'000	31 March 2006 £'000	31 December 2006 £'000	31 March 2006 £'000
Cash at bank and in hand	3,826	2,188	1,882	11,878
<b>Cash and cash equivalents</b>	<b>3,826</b>	<b>2,188</b>	<b>1,882</b>	<b>11,878</b>

### 22 Trade and other payables

	Group		Company	
	31 December 2006 £'000	31 March 2006 £'000	31 December 2006 £'000	31 March 2006 £'000
Trade payables	5,145	6,176	50	111
Amounts due to contract customers	2,858	303	-	-
Amounts owed to subsidiaries	-	-	2,291	3,311
Other payables	2,028	1,796	927	805
Accruals and deferred income	2,198	2,195	353	452
	<b>12,229</b>	<b>10,470</b>	<b>3,621</b>	<b>4,679</b>

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 104 days (March 2006: 73 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 41 days (March 2006: 24 days).



# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 23 Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2006 £'000	31 March 2006 £'000	31 December 2006 £'000	31 March 2006 £'000
<b>Group</b>				
Amounts payable under finance leases				
Within one year	173	215	173	192
In the second to fifth years inclusive	79	230	79	219
	252	445	252	411
Less: future finance charges	(23)	(34)	-	-
Present value of lease obligations	229	411	252	411
Less: amount due for settlement within one year (shown under current liabilities)			173	192
Amount due for settlement after one year			79	219

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 9 months ended 31 December 2006 the average implicit borrowing rate was 6.74% (March 2006: 6.78%). 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 December 2006 (March 2006: nil).

### 24 Bank overdrafts and loans

	Group		Company	
	31 December 2006 £'000	31 March 2006 £'000	31 December 2006 £'000	31 March 2006 £'000
Bank overdrafts	132	-	6,468	-
Bank loans	18,347	20,001	17,120	18,973
	18,479	20,001	23,588	18,973

The borrowings are repayable as follows:

On demand or within one year	6,777	4,812	12,068	4,007
In the second year	2,031	3,268	2,007	3,242
In the third to fifth years inclusive	4,887	6,649	4,807	6,563
After five years	4,784	5,272	4,706	5,161
	18,479	20,001	23,588	18,973
Less: amount due for settlement within 12 months (shown under current liabilities)	(6,777)	(4,812)	(12,068)	(4,007)
Amount due for settlement after 12 months	11,702	15,189	11,520	14,966

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

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 24 Bank overdrafts and loans (continued)

#### Group

#### Analysis of borrowings by currency

	Total £'000	Sterling £'000	Canadian dollars £'000	US dollars £'000
<b>31 December 2006</b>				
Bank loans	18,479	13,173	3,192	2,114
<b>31 March 2006</b>				
Bank Loans	20,001	14,396	3,590	2,015

At 31 December 2006 there were undrawn borrowing facilities in various currencies amounting to £7,415,000 (March 2006 £9,859,000), of these, £2,868,000 were committed (March 2006 £5,154,000) of which £868,000 (March 2006 £2,954,000) are renewable within one year

The weighted average interest rates paid were as follows

	31 December 2006 %	31 March 2006 %
Bank loans		
Sterling	5.96	5.92
US dollar	6.52	5.73
Canadian dollar	5.52	4.18
Bank overdrafts	5.94	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 (March 2006 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 loan of £7.7m (March 2006 £8.2m). 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
- a loan of £2.8m (March 2006 £4.2m). 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
- a loan of C\$ 6.7m (March 2006 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
- In July 2004 a £6.0m 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 December 2006, £1.0m had been drawn on this facility (March 2006 £2.0m)

All external bank loans were repaid subsequent to the period end

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 24 Bank overdrafts and loans (continued)

#### Company

#### Analysis of borrowing by currency

	Total £'000	Sterling £'000	Canadian dollars £'000	US dollars £'000
<b>31 December 2006</b>				
Bank loans	23,588	19,509	2,986	1,093
<b>31 March 2006</b>				
Bank loans	18,973	14,396	3,342	1,235

At 31 December 2006 there were undrawn borrowing facilities amounting to £4,597,000 (March 2006 £6,440,000), of these, £2,357,000 were committed (March 2006 £4,200,000) of which £357,000 (March 2006 £2,000,000) are renewable within one year

The weighted average interest rates paid were as follows

	31 December 2006 %	31 March 2006 %
Bank loans		
Sterling	5.96	5.92
US dollar	6.52	5.07
Canadian dollar	5.52	4.15

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, the Company has entered into interest rate and cross-currency swap to manage the risk

The Company had principal bank loans as outlined in the Group figures (a) to (d) above. All external bank loans were repaid subsequent to the period end

### 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 policy during the period was to hedge at least 80% of the next six months anticipated exposure and can hedge up to eighteen months ahead

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

Following its acquisition by GE Fanuc Embedded Systems, Inc., the Group is reviewing its hedging policies. Since the period end, the foreign currency loans have been repaid and the bulk of the currency derivative portfolio has been sold back to the counterparty banks

#### 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

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 25 Derivative financial instruments (continued)

#### Credit risk (continued)

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.

#### Interest rate risk

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

The Group has mitigated 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 has utilised currency derivatives to hedge significant future transactions and cash flows. The Group is a 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:

	31 December 2006 US \$	31 March 2006 US \$
Forward foreign exchange contracts	20.8m	30.7m

In addition, the Group had options to sell US dollars equivalent to an amount of approximately US \$11.0m (March 2006 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.

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 25 Derivative financial instruments (continued)

#### Currency Derivatives (continued)

At 31 December 2006 the fair value of the Group's currency derivatives is estimated to be an asset of approximately £1,457,000 (31 March 2006 £521,000 liability). These amounts are based on market values of equivalent instruments at the balance sheet date comprising current assets. The gain in fair value on the currency derivatives for the period was £1,978,000 (March 2006 £1,226,000 loss).

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 has used 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 3.655% to 5.6825% 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 \$6.7m / US \$5.0m.

As at 31 December 2006 the fair value of the Group's swaps is estimated to be an asset of £320,000 (31 March 2006 £187,000). These amounts are based on market values of equivalent instruments at the balance sheet date, comprising current assets. The gain in fair value on swaps for the period was £133,000.

#### Movement in fair values

	Derivative Type		Total £'000
	Currency £'000	Swap £'000	
Fair values at 1 April 2006 – (liability)/asset	(521)	187	(334)
Recycled gains to income statement from initial fair value	(24)	(42)	(66)
Fair value gain in period through income statement	2,002	175	2,177
<b>Fair values at 31 December 2006 – asset</b>	<b>1,457</b>	<b>320</b>	<b>1,777</b>

#### Balance sheet analysis (both periods)

	Derivative Type		Total £'000
	Currency £'000	Swap £'000	
<b>Current assets</b>	<b>1,457</b>	<b>320</b>	<b>1,777</b>
<b>Fair values at 31 December 2006</b>	<b>1,457</b>	<b>320</b>	<b>1,777</b>
Current assets	21	192	213
Current liabilities	(542)	(5)	(547)
<b>Fair values at 31 March 2006</b>	<b>(521)</b>	<b>187</b>	<b>(334)</b>

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 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	Losses Carried Forward £'000	Employee Share Options Costs £'000	Derivatives £'000	Retirement Benefit Obligations £'000	Other Intangibles £'000	Costs £'000	Total £'000
At 1 April 2006	(546)	-	63	100	2,844	(1,761)	(35)	665
Exchange adjustment	-	-	-	-	-	-	(12)	(12)
Credit/(charge) to income	214	810	(63)	(634)	(84)	236	(303)	176
Credit/(charge) to equity	-	-	-	20	134	-	-	154
At 31 December 2006	(332)	810	-	(514)	2,894	(1,525)	(350)	983

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

	31 December 2006 £'000	31 March 2006 £'000
Deferred tax assets	2,894	2,844
Deferred tax liabilities	(1,911)	(2,179)
	983	665

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

In the 2007 Budget, the Chancellor of the Exchequer announced a reduction in the rate of corporation tax from 30% to 28%. The impact of this change will be to reduce the net Deferred Tax asset on the Consolidated Balance Sheet from £983,000 to £917,000

#### 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 2006	(741)	28	(713)
(Charge)/credit to income	88	(28)	60
At 31 December 2006	(653)	-	(653)

In the 2007 Budget, the Chancellor of the Exchequer announced a reduction in the rate of corporation tax from 30% to 28%. The impact of this change will be to reduce the net Deferred Tax liability on the Company's Balance Sheet from £653,000 to £609,000

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 27 Share capital

	31 December 2006 Number	31 March 2006 Number	31 December 2006 £'000	31 March 2006 £'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	30,336,640	30,299,640	3,792	3,787
Allotted under share option schemes	1,342,969	37,000	168	5
At 31 December	31,679,609	30,336,640	3,960	3,792

### 28 Share-based payments

#### (a) Approved Executive Share Option Scheme

Until 28 November 2006, the Company operated 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 would be granted following the tenth anniversary of the Approval Date.

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

On 28 November 2006, Radstone Technology PLC was acquired by GE Fanuc Embedded Systems Inc., and the outstanding share options became exercisable. Following the exercise of all options, the scheme has been terminated.

The Board of the Company administered the Scheme, which had been delegated to the remuneration committee, who had authority to offer options to selected employees.

Details of the existing options outstanding during the nine month period are as follows:

Group	9 months ended 31 December 2006		12 months ended 31 March 2006	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of period	378,930	235	415,930	235
Forfeited during the period	(32,480)	270	-	-
Exercised during the period	(346,450)	231	(37,000)	234
Outstanding at the end of the period	-	-	378,930	235
Exercisable at the end of the period	-	-	359,450	231

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 28 Share-based payments

#### (a) Approved Executive Share Option Scheme (continued)

The weighted average share price at the date of exercise for share options exercised during the period was 410p. No options were granted during the nine month period ended 31 December 2006 (March 2006: nil).

Company	9 months ended 31 December 2006		12 months ended 31 March 2006	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of period	34,740	255	53,740	247
Forfeited during the period	(3,740)	308	-	-
Exercised during the period	(31,000)	231	(19,000)	234
Outstanding at the end of the period	-	-	34,740	255
Exercisable at the end of the period	-	-	25,000	234

The weighted average share price at the date of exercise for share options exercised during the period was 410p. No options were granted during the nine month period ended 31 December 2006 (March 2006: nil).

#### (b) Unapproved Executive Share Option Scheme

Until 28 November 2006, the Company also operated an Unapproved Executive Share Option Scheme. The Scheme was performance related. Options were not exercisable unless the percentage increase in the Company's basic earnings per share was greater than or equal to 5% per annum above the percentage increase in the RPI over the relevant period in which the option could be exercised. The RPI is the "All Items" Index of Retail Prices as published by the Central Statistics Office.

The Board of the Company administered the Scheme, which had been delegated to the remuneration committee, who had authority to offer options to selected employees.

On 28 November 2006, Radstone Technology PLC was acquired by GE Fanuc Embedded Systems Inc., and the outstanding share options became exercisable. Following the exercise of all options, the scheme has been terminated.

Details of the options outstanding during the nine month period are as follows:

Group	9 months ended 31 December 2006		12 months ended 31 March 2006	
	Number of shares	Weighted average exercise price (p)	Number of shares	Weighted average exercise price (p)
Outstanding at beginning of period	1,161,560	314	1,208,560	315
Granted during the period	30,000	256	-	-
Forfeited during the period	(146,241)	310	-	-
Exercised during the period	(996,519)	314	(47,000)	320
Outstanding at the end of the period	48,800	307	1,161,560	314
Exercisable at the end of the period	-	-	-	-



# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 28 Share-based payments (continued)

#### (b) Unapproved Executive Share Option Scheme (continued)

The weighted average share price at the date of exercise for share options exercised during the period was 410p. The options outstanding at 31 December 2006 had a weighted average exercise price of 307p, with a weighted average remaining contractual life of 1 month. No options were granted during the nine month period ended 31 December 2006 (March 2006: nil).

Company	9 months ended 31 December 2006		12 months ended 31 March 2006	
	Number of share options	Weighted average exercise price (p)	Number of share options	Weighted average exercise price (p)
Outstanding at beginning of period	214,241	313	261,241	314
Forfeited during the period	(68,691)	314	-	-
Exercised during the period	(145,550)	310	(47,000)	320
Outstanding at the end of the period	-	-	214,241	313
Exercisable at the end of the period	-	-	-	-

The weighted average share price at the date of exercise for share options exercised during the period was 410p. No options were granted during the nine month period ended 31 December 2006 (March 2006: nil).

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

Under the ESIP, a participant could be granted an award of ordinary shares worth up to 50% of gross base salary as at 31 March in the preceding financial year. These shares would be unconditionally awarded only after the satisfaction of certain performance criteria measured over a fixed three year period. Vesting commenced at 30% for a median performance, with 31% to 50% on a sliding scale basis between the median and top quartile, and 100% of the award being receivable for the top quartile performance.

Details of the maximum potential performance dependent awards outstanding during the nine month period are as follows:

Group	9 months ended 31 December 2006	12 months ended 31 March 2006
	Number of share options	Number of share options
Outstanding at beginning of period	77,402	-
Forfeited during the period	(106,279)	-
Granted during the period	73,584	77,402
Exercised during the period	(44,707)	-
Outstanding at the end of the period	-	77,402
Exercisable at the end of the period	-	-

All shares were converted to cash at 31 December 2006, but the cash was not distributed until after the period end.

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 28 Share-based payments (continued)

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

The potential awards outstanding at 31 December 2006 would have had a weighted average remaining contractual life of 1 year and three months. However, these awards became payable upon the takeover by GE Fanuc Embedded Systems Inc. subject to the satisfaction of the vesting criteria. In the nine month period ending 31 December 2006 performance conditional awards were granted on 14 August 2006. The aggregate of the estimated fair values of the awards granted is £302,000.

Company	9 months ended 31 December 2006	12 months ended 31 March 2006
	Number of share options	Number of share options
Outstanding at beginning of period	51,601	-
Forfeited during the period	(21,352)	-
Granted during the period	46,126	51,601
Exercised during the period	(76,375)	-
Outstanding at the end of the period	-	51,601
Exercisable at the end of the period	-	-

The options outstanding at 31 December 2006 would have had a weighted average remaining contractual life of 1 year and three months. However, these awards became payable upon the takeover by GE Fanuc Embedded Systems Inc., subject to the satisfaction of the vesting criteria. In the nine month period ended 31 December 2006, options were granted on 14 August 2006. The aggregate of the estimated fair values of the options granted is £189,000.

#### Group and Company

Until 28 November 2006, the Group's equity settled share-based payments were measured at fair value at the date of grant. The fair value determined at the grant date was expensed on a straight line basis over the expected vesting period, based on the Group's estimate of shares that would eventually vest. Fair value was measured by use of the Black-Scholes option pricing model using the following assumptions for both the year ended 31 March 2006 and the nine month period ended 31 December 2006. On 28 November 2006, Radstone Technology PLC was purchased by GE Fanuc Embedded Systems Inc. The scheme therefore terminated on that date.

	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

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 £775,000 (March 2006: £175,000) related to equity settled share-based payment transactions.

#### Company

The Company recognised total charges of £175,000 (March 2006: £45,000) related to equity settled share-based payment transactions.

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 29 Reserves

Group	Share Premium Account £'000	Other Reserve £'000	Retained Earnings £'000	Hedging and Translation Reserve £'000	Reserve for own Shares £'000	Total Reserves £'000
At 31 March 2006	25,152	1,388	14,627	673	(753)	41,087
Total recognised income and expense	-	-	(6,223)	(390)	-	(6,613)
Dividends paid	-	-	(956)	-	-	(956)
New share capital subscribed	3,759	-	-	-	-	3,759
Profit on disposal of surplus shares held by ESOT	-	-	154	-	-	154
Equity settled employee share scheme	-	-	337	-	-	337
Disposal of own shares	-	-	-	-	753	753
<b>At 31 December 2006</b>	<b>28,911</b>	<b>1,388</b>	<b>7,939</b>	<b>283</b>	<b>-</b>	<b>38,521</b>

Company						
At 31 March 2006	25,152	1,388	10,714	-	(753)	36,501
Total recognised income and expense	-	-	(4,142)	-	-	(4,142)
Dividends paid	-	-	(956)	-	-	(956)
New share capital subscribed	3,759	-	-	-	-	3,759
Profit on disposal of surplus shares held by ESOT	-	-	155	-	-	155
Equity settled employee share scheme	-	-	103	-	-	103
Disposal of own shares	-	-	-	-	753	753
<b>At 31 December 2006</b>	<b>28,911</b>	<b>1,388</b>	<b>5,874</b>	<b>-</b>	<b>-</b>	<b>36,173</b>

The cumulative amount of goodwill written off directly to reserves is £31,000 (March 2006 £31,000)

The Other reserve arose from S 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.

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 30 Own shares

Group and Company	Number	Cost £'000	Nominal value £'000	Called up share capital %
<b>Radstone Technology Employee Trust</b>				
At 1 April 2006	206,787	589	26	0.68
Additions	17,878	47	2	0.06
Disposals	(224,665)	(636)	(28)	(0.74)
<b>At 31 December 2006</b>	-	-	-	-
<b>Radstone Technology PLC All Employee Share Ownership Plan</b>				
At 1 April 2006	60,013	164	7	0.20
Additions	7,299	24	1	0.02
Disposals	(67,312)	(188)	(8)	(0.22)
<b>At 31 December 2006</b>	-	-	-	-
<b>Total</b>				
<b>At 31 December 2006</b>	-	-	-	-
<b>At 31 March 2006</b>	266,800	753	33	0.88

The Radstone Technology Employee Trust was formed to purchase shares used to meet the Company's future obligations in respect of the share incentive schemes. A performance related incentive plan was in operation, for which bonuses were based upon the participant's basic salary. Bonuses were paid as 50% in cash and 50% in shares in the Company. These shares were held in trust for three years, and if the participant left the Company during this period, the right of ownership was forfeited except in certain circumstances such as retirement or ill health.

Shares purchased by the Radstone Technology PLC All Employee Share Ownership Plan represented matching shares under the Company's Share Incentive Plan (SIP) under which employees could 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 bought, the Company contributed a further matching share at no cost to the employee. All shares purchased were held in trust on behalf of the employee, whose interest in the matching shares was forfeited should the partnership shares be withdrawn before the expiry of three years from the date of purchase.

On 28 November 2006, Radstone Technology PLC was acquired by GE Fanuc Embedded Systems Inc. The employee share schemes operated by Radstone Technology PLC terminated on that date. As a result, at 31 December 2006 the trust had sold all the shares in the scheme to the acquirer.

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 31 Notes to the cash flow statement

	Group		Company	
	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
(Loss)/profit from operations	(8,157)	5,914	(3,547)	3,695
Adjustments for				
Depreciation of property, plant and equipment	1,585	2,142	145	194
Amortisation of intangible assets	851	1,074	15	20
<b>EBITDA</b>	<b>(5,721)</b>	<b>9,130</b>	<b>(3,387)</b>	<b>3,909</b>
(Profit)/loss on disposal of property, plant and equipment	(35)	3	-	-
Cost of equity settled employee share schemes	791	175	175	45
Increase/(decrease) in post employment benefit obligation	168	(25)	-	-
Cash payments to the pension scheme in excess of the charge to the income statement	(657)	(710)	-	-
Operating cash flows before movements in working capital	(5,454)	8,573	(3,212)	3,954
Increase in inventories	(4,451)	(1,054)	-	-
Decrease/(increase) in receivables	11,030	(6,631)	(13,493)	(3,142)
Increase/(decrease) in payables	1,520	2,386	(1,931)	1,792
Cash generated by operations	2,645	3,274	(18,636)	2,604
Income taxes (paid)/recovered	(518)	(524)	-	399
Interest paid	(1,182)	(1,149)	(714)	(1,162)
<b>Net cash from operating activities</b>	<b>945</b>	<b>1,601</b>	<b>(19,350)</b>	<b>1,841</b>

### Reconciliation of cash and bank overdrafts to net debt

Increase/(decrease) in cash and bank overdrafts	1,723	(1,444)	(9,996)	1,104
Effect of foreign exchange rate changes on cash and bank overdrafts	(85)	(134)	-	-
	1,638	(1,578)	(9,996)	1,104
Cash outflow from decrease in debt and lease financing	3,900	1,136	3,446	-
Cash inflow from increase in debt and lease financing	(1,965)	(1,358)	(8,060)	-
Change in net debt arising from cash flows	3,573	(1,800)	(14,610)	1,104
Effect of foreign exchange rate changes on borrowings	(254)	130	-	205
Movement in net debt in the period	3,319	(1,670)	(14,610)	1,309
Net debt at start of the period	(18,224)	(16,554)	(7,095)	(8,404)
Net debt at end of the period	(14,905)	(18,224)	(21,705)	(7,095)

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 32 Guarantees and other financial commitments

#### (a) Capital commitments

	31 December 2006 £'000	31 March 2006 £'000
<b>Group</b>		
<u>Expenditure contracted for but not provided</u>	<u>129</u>	<u>158</u>
<b>Company</b>		
<u>Expenditure contracted for but not provided</u>	<u>-</u>	<u>-</u>

#### (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

	31 December 2006 £'000	31 March 2006 £'000
Within one year	370	546
Between two and five years	1,040	1,232
<u>After five years</u>	<u>247</u>	<u>236</u>
	<u>1,657</u>	<u>2,014</u>

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

	31 December 2006 £'000	31 March 2006 £'000
Within one year	25	25
Between two and five years	50	75
<u>After five years</u>	<u>-</u>	<u>-</u>
	<u>75</u>	<u>100</u>

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

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 33 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

#### 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 £234,000 (March 2006: £370,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

##### Company

The total expense recognised in the income statement of £12,000 (March 2006: £15,000) represents contributions payable to the schemes at rates specified in the rules of the schemes.

#### 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 December 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 December 2006 %	At 31 March 2006 %
Discount rate	5.20	5.00
Expected rate of increase in salaries	5.00	4.75
Future pension increases	3.00	2.75
Inflation rate	3.00	2.75

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 33 Retirement Benefit Schemes (continued)

#### Defined benefit schemes (Continued)

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

	31 December 2006 £'000	31 March 2006 £'000
<u>Current service cost</u>	<u>378</u>	<u>506</u>

Of the charge for the period, £91,000 (March 2006 £122,000) has been included in cost of sales, £166,000 (March 2006 £224,000) has been included in development costs, £38,000 (March 2006 £50,000) has been included in distribution costs and £83,000 (March 2006 £110,000) has been included in administrative expenses

Amounts charged to finance costs are as follows

	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
- Interest on pension scheme liabilities	1,106	1,366
- Expected return on pension scheme assets	(807)	(942)
<u>Net cost</u>	<u>299</u>	<u>424</u>

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

	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
Actual return less expected return on pension scheme assets	(93)	2,471
<u>Changes in assumptions underlying present value of scheme liabilities</u>	<u>(356)</u>	<u>(2,668)</u>
<u>Actuarial losses recognised in SORIE</u>	<u>(449)</u>	<u>(197)</u>

The expected return on assets has been derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of financial markets (as suggested by yields available) and the views of investments organisations.

The cumulative amount of actuarial losses recognised in the consolidated statement of recognised income and expense is £3,037,000 (March 2006 £2,588,000).

The actual return on scheme assets was £4,156,000 (March 2006 £3,413,000).

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

	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
Fair value of scheme assets	20,789	19,798
<u>Present value of scheme liabilities</u>	<u>(30,436)</u>	<u>(29,277)</u>
Scheme deficit	(9,647)	(9,479)
<u>Related deferred tax asset</u>	<u>2,894</u>	<u>2,844</u>
<u>Net pension liability</u>	<u>(6,753)</u>	<u>(6,635)</u>



# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 33 Retirement Benefit Schemes (continued)

#### Defined benefit schemes (continued)

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

	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
Present value of obligation at 1 April	29,277	25,324
Service cost	378	506
Interest cost	1,106	1,366
Contributions from scheme members	156	220
Actuarial gains and losses	356	2,668
Benefits paid	(837)	(807)
<b>Present value of obligation at 31 December / 31 March</b>	<b>30,436</b>	<b>29,277</b>

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

	9 months ended 31 December 2006 £'000	12 months ended 31 March 2006 £'000
Fair value at 1 April	19,798	15,760
Expected return on scheme assets	807	942
Actuarial gains and losses	(64)	2,471
Employer contributions	929	1,212
Employee contributions	156	220
Benefits paid	(837)	(807)
<b>Fair value at 31 December / 31 March</b>	<b>20,789</b>	<b>19,798</b>

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	
	31 December 2006 %	31 March 2006 %	31 December 2006 %	31 March 2006 %
Equities	6.50	6.25	55.5	55.0
Bonds	4.50	4.25	44.0	44.2
Other assets	5.00	4.75	0.5	0.8
			<b>100.0</b>	<b>100.0</b>

# Radstone Technology PLC

## Notes to the Financial Statements for the nine month period ended 31 December 2006

### 33 Retirement Benefit Schemes (continued)

#### Defined benefit schemes

The history of experience adjustments over the past five financial periods is as follows

	31 December 2006 £'000	31 March 2006 £'000	31 March 2005 £'000	31 March 2004 £'000	31 March 2003 £'000
Present value of defined benefit obligations	(30,436)	(29,277)	(25,324)	(21,074)	(18,993)
Fair value of scheme assets	20,789	19,798	15,760	14,413	12,145
<b>Scheme deficit</b>	<b>(9,647)</b>	<b>(9,479)</b>	<b>(9,564)</b>	<b>(6,661)</b>	<b>(6,848)</b>
Experience adjustments on scheme liabilities					
Amount (£'000)	317	27	(2,767)	(228)	92
Percentage of scheme liabilities (%)	1.0%	0.19%	(10.9%)	(1.1)%	0.5%
Experience adjustments on scheme assets					
Amount (£'000)	(425)	2,471	387	1,761	(4,123)
Percentage of scheme assets (%)	(2.0%)	12.5%	2.5%	12.2%	(33.9%)

Historical data for 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 £1.5m

#### 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 period. The total expense recognised in the income statement was £86,000 (March 2006: £106,000).

### 34 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.

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 £2.6m (March 2006: £4.6m),
- receiving annual dividends totalling £3.3m (March 2006: £3.9m)

There have been no related party transactions with directors.

# **Radstone Technology PLC**

## **Notes to the Financial Statements for the nine month period ended 31 December 2006**

### **35 Ultimate Holding Company**

With effect from 28 November 2006, the directors consider the ultimate holding company to be the General Electric Company, following the acquisition of Radstone Technology PLC by GE Fanuc Embedded Systems, Inc, a subsidiary of the General Electric Company

GE Fanuc Embedded Systems, Inc, incorporated in the USA, is the immediate parent undertaking of Radstone Technology PLC and the smallest group to consolidate these financial statements. The General Electric Company, also incorporated in the USA, is the largest group to consolidate these financial statements.

Copies of the General Electric Company's accounts are available from its registered office at 3135 Easton Turnpike, Fairfield, CT 06828, USA.