

Eurobell (Sussex) Limited

Directors' report and financial statements

31 December 1996

Registered number 2272340



Eurobell (Sussex) Limited

Directors' report and financial statements

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Eurobell (Sussex) Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1996.

Principal activity

The company is engaged in the construction, operation and running of a broadband telecommunications network. The company commenced the provision of telephone and audiovisual services in the Crawley, Horley and Gatwick area in April 1993 and completed the construction of the network in December 1995.

Business review

The loss for the year is set out in the profit and loss account on page 5.

Dividends

The directors do not propose a dividend for the year ended 31 December 1996 (*1995: £nil*).

Proposed transfer to reserves

The loss for the year of £5,206,489 has been transferred to reserves (*1995: £2,417,063*).

Directors and directors' interests

The following were directors of the company during the year and up to the date of this report:

H Ventzki	
H Gellert	(appointed 24 January 1996)
A Cornish	(appointed 24 January 1996)
M Holt	(appointed 24 January 1996)
MJ Ridley	(resigned 17 February 1997)
AGW Jackson	(appointed 24 January 1996, resigned 12 February 1997)
ASM Robinson	(resigned 24 January 1996)
PD Hoole	(resigned 31 January 1996)
D Elias	(resigned 24 January 1996)
GC Markham	(resigned 24 January 1996)

During the year Mr R Linke acted as an alternate director to Mr D Elias, and with effect from 24 January 1996 has acted as alternate to Mr H Gellert. With effect from 24 January 1996 Mr M Laqua has acted as an alternate director to Mr H Ventzki.

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of group companies.

Eurobell (Sussex) Limited

Directors' report *(continued)*

Auditors

Pursuant to sections 366A and 386 of the Companies Act 1985, the company passed elective resolutions on 27 September 1995 dispensing with the requirements to hold Annual General Meetings and to re-appoint its auditors annually. KPMG will continue as the company's auditors.

By order of the board



A Cornish
Director

MultiMedia House
Lloyds Court
Manor Royal
CRAWLEY
West Sussex
RH10 2PT

18 March 1997

Eurobell (Sussex) Limited

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Eurobell (Sussex) Limited

Auditors' report to the members of Eurobell (Sussex) Limited

We have audited the financial statements on pages 5 to 18.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 financial statements give a true and fair view of the state of the company's affairs as at 31 December 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG

Chartered Accountants

Registered Auditors

1 Forest Gate
Brighton Road
Crawley
West Sussex RH11 9PT

18 March 1997

Eurobell (Sussex) Limited

Profit and loss account

for the year ended 31 December 1996

	<i>Note</i>	1996 £	1995 £
Turnover	2	7,647,012	3,928,358
Operating costs	3	(10,654,964)	(6,139,068)
Other operating income		3,490	-
Operating loss		(3,004,462)	(2,210,710)
Interest receivable and similar income		20,762	15,874
Interest payable and similar charges	4	(2,222,789)	(217,814)
Loss on ordinary activities before taxation	5	(5,206,489)	(2,412,650)
Tax on loss on ordinary activities	8	-	(4,413)
Retained loss for the year	17	(5,206,489)	(2,417,063)
		=====	=====

The company has no recognised gains or losses in the current or prior year other than the above losses which were derived from continuing activities.

Eurobell (Sussex) Limited

Balance Sheet

at 31 December 1996

	Note	1996	1995
		£	£
Fixed assets			
Intangible assets	9	112,306	119,182
Tangible assets	10	28,605,336	26,608,431
		<u>28,717,642</u>	<u>26,727,613</u>
Current assets			
Debtors	11	2,624,072	1,717,407
Cash at bank and in hand		695,456	18,027
		<u>3,319,528</u>	<u>1,735,434</u>
Creditors: amounts falling due within one year	12	(9,944,496)	(30,682,602)
Net current liabilities		<u>(6,624,968)</u>	<u>(28,947,168)</u>
Total assets less current liabilities		<u>22,092,674</u>	<u>(2,219,555)</u>
Creditors: amounts falling due after more than one year	13	(30,074,894)	(556,176)
Net liabilities		<u>(7,982,220)</u>	<u>(2,775,731)</u>
		=====	=====
Capital and reserves			
Called up share capital	16	4,363,085	4,363,085
Share premium	17	96,917	96,917
Profit and loss account	17	(12,442,222)	(7,235,733)
Equity shareholders' funds	18	<u>(7,982,220)</u>	<u>(2,775,731)</u>
		=====	=====

These financial statements were approved by the board of directors on 18 March 1997 and were signed on its behalf by:



A Cornish
Director

Eurobell (Sussex) Limited

Notes

(forming part of the financial statements)

1 Principal accounting policies

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

Basis of preparation

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards and on the going concern basis in view of the undertaking from Eurobell (Holdings) PLC to provide or procure the necessary finance to enable the company to meet its obligations to build out its franchises and to provide working capital.

Intangible fixed assets and amortisation

Telecommunications licences

Costs incurred in obtaining telecommunications licences are capitalised and are amortised on a straight line basis over the life of the licences.

Tangible fixed assets and depreciation

Tangible fixed assets are recorded at cost. Cost includes materials, direct labour and overhead expenses directly attributable to the design, construction and installation of the company's telecommunications and cable television network.

Depreciation is provided by the company to write off the cost of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Leasehold improvements	- over the life of the lease
Civil works and installation	- 5%-15% per annum straight line
Computer and office equipment	- 10%-20% per annum straight line
Motor vehicles	- 25% per annum straight line

Deferred taxation

Deferred taxation is provided on all material timing differences to the extent that a liability is likely to crystallise in the foreseeable future.

Eurobell (Sussex) Limited

Notes *(continued)*

1 Principal accounting policies *(continued)*

Pensions costs

The company does not operate a pension scheme. It contributes to certain employees' personal pension schemes on a monthly basis. Contributions are written off to the profit and loss account as incurred.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of services to customers during the year.

Leases

Assets acquired under finance leases are capitalised and the capital element of future repayments is included within creditors. Finance charges in respect of such assets are allocated to the profit and loss account on a straight line basis over the life of the lease. The difference between the amount of finance charges allocated under the straight line basis and that which would produce a constant periodic charge on the remaining balance of the obligation is not material.

Operating lease rentals are charged to the profit and loss account in the period to which they relate.

Foreign currency translation

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date. All exchange gains and losses are included in the profit and loss account.

Cash flow statement

In accordance with FRS 1 the financial statements do not include a cash flow statement on the grounds that the company is a wholly owned subsidiary of a UK parent. A cash flow statement is incorporated in the financial statements of the parent undertaking.

2 Turnover

The turnover and loss before taxation of the company during the year related solely to the provision of telecommunications and cable television services within the United Kingdom.

Eurobell (Sussex) Limited

Notes (continued)

3 Operating costs

	1996 £	1995 £
Telephony and programming expenses	3,329,053	1,978,655
Selling, general and administrative expenses	4,613,577	2,462,314
Depreciation and amortisation	2,712,334	1,698,099
	<u>10,654,964</u>	<u>6,139,068</u>
	=====	=====

The directors believe that the nature of the company's business is such that the analysis of operating costs required by the Companies Act 1985 is not appropriate. As required by paragraph 3(3) of Schedule 4 to the Companies Act 1985, the directors have adapted the prescribed format to the requirements of the company's business.

4 Interest payable and similar charges

	1996 £	1995 £
Interest payable on bank overdraft	10,035	6,217
Interest payable on loans due within five years	23,060	84,592
Interest payable on amounts owed to ultimate parent undertaking	1,775,773	-
Finance costs on debt finance	305,244	-
Finance charges payable in respect of finance leases	67,432	56,518
Interest payable on overdue accounts	41,245	70,487
	<u>2,222,789</u>	<u>217,814</u>
	=====	=====

5 Loss on ordinary activities before taxation

	1996 £	1995 £
<i>Loss on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration	12,000	24,000
Depreciation and other amounts written off tangible and intangible assets:		
Owned assets	2,514,803	1,550,187
Leased assets	190,655	141,036
Telecommunications licences	6,876	6,876
Rentals payable under operating leases and other hire agreements		
Plant and machinery	13,827	104,696
Other	176,474	137,180
Exchange losses	919	24,470
Management fees payable to parent undertaking	1,460,091	-
	=====	=====

Eurobell (Sussex) Limited

Notes (continued)

6 Staff numbers and costs

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

	Number of employees	
	1996	1995
Management	7	7
Sales and marketing	28	21
Administration and finance	7	10
Support and development	44	36
	<u>86</u>	<u>74</u>
	==	==

The aggregate payroll costs of these persons were as follows:

	1996	1995
	£	£
Wages and salaries	1,660,824	1,593,760
Social security costs	165,252	166,166
Other pension costs	12,272	-
	<u>1,838,348</u>	<u>1,759,926</u>
	=====	=====

7 Directors' emoluments

The emoluments of the directors were as follows:

	1996	1995
	£	£
Remuneration	141,333	-
Pension contributions	6,333	-
	<u>147,666</u>	<u>-</u>
	=====	=====

The emoluments of the chairman and highest paid director, excluding pension contributions, were respectively £nil (1995: £nil) and £141,333 (1995: £nil).

The emoluments, excluding pension contributions, of the directors (including the chairman and highest paid director) were within the following ranges:

	1996	1995
£Nil - £5,000	9	6
£140,001 - £145,000	1	-

Eurobell (Sussex) Limited

Notes *(continued)*

8 Tax on loss on ordinary activities

	1996 £	1995 £
Adjustment relating to an earlier year	-	4,413
	=====	=====

9 Intangible assets

Telecommunications licences	1996	1995
	£	£
<i>Cost</i>		
At beginning of year	137,518	137,518
Additions	-	-
	=====	=====
At end of year	137,518	137,518
	=====	=====
<i>Amortisation</i>		
At beginning of year	18,336	11,460
Charged in the year	6,876	6,876
	=====	=====
At end of year	25,212	18,336
	=====	=====
<i>Net book value at end of year</i>	112,306	119,182
	=====	=====

Eurobell (Sussex) Limited

Notes (continued)

10 Tangible assets

	Improvements to leasehold buildings	Civil works and installation	Computer and office equipment	Motor vehicles	Total
<i>Cost</i>	£	£	£	£	£
At beginning of year	209,983	27,586,792	827,611	261,342	28,885,728
Additions	-	4,584,430	110,592	22,941	4,717,963
Disposals	-	(26,000)	-	-	(26,000)
At end of year	209,983	32,145,222	938,203	284,283	33,577,691
	=====	=====	=====	=====	=====
<i>Amortisation</i>					
At beginning of year	31,660	1,913,303	257,374	74,960	2,277,297
Charged in the year	30,500	2,435,159	170,249	69,550	2,705,458
Disposals	-	(10,400)	-	-	(10,400)
At end of year	62,160	4,338,062	427,623	144,510	4,972,355
	=====	=====	=====	=====	=====
<i>Net book value</i>					
At 31 December 1996	147,823	27,807,160	510,580	139,773	28,605,336
	=====	=====	=====	=====	=====
At 31 December 1995	178,323	25,673,489	570,237	186,382	26,608,431
	=====	=====	=====	=====	=====

The net book value of tangible fixed assets includes £518,706 (1995: £678,612) in respect of assets held under finance leases. Depreciation for the year on those assets was £190,655 (1995: £141,036).

Included within civil works and installation are assets in the course of construction with a cost of £507,000 (1995: £237,000) on which no depreciation has been charged. Depreciation on these assets will commence when they are completed and able to generate revenue for the company.

11 Debtors

	1996	1995
	£	£
Trade debtors	1,567,242	795,192
Amounts owed by fellow subsidiary undertakings	174,048	12,356
Other debtors	336,666	587,244
Prepayments and accrued income	546,116	322,615
	2,624,072	1,717,407
	=====	=====

Eurobell (Sussex) Limited

Notes (continued)

12 Creditors: amounts falling due within one year

	1996 £	1995 £
Bank loans and overdrafts	382,312	153,191
Other loans	213,625	427,252
Amounts owed to parent undertaking	6,221,546	23,288,876
Amounts owed to fellow subsidiary undertakings	-	52,197
Trade creditors	1,166,851	4,356,488
Other creditors including taxation and social security	330,149	422,980
Obligations under finance leases (note 13)	291,553	240,256
Accruals and deferred income (note 14)	1,338,460	1,741,362
	<u>9,944,496</u>	<u>30,682,602</u>
	=====	=====

The other loan is secured by a mortgage debenture over the assets of the company.

Included within other creditors are the following amounts relating to taxation and social security:

	1996 £	1995 £
PAYE and NI contributions	-	82,335
Corporation tax	5,348	5,348
Other taxes	14,574	4,750
	<u>19,922</u>	<u>92,433</u>
	=====	=====

Eurobell (Sussex) Limited

Notes (continued)

13 Creditors: amounts falling due after more than one year

	1996 £	1995 £
Other loans due within 5 years	-	213,625
Obligations under finance leases	74,894	342,551
Amounts owed to parent undertaking	30,000,000	-
	<u>30,074,894</u>	<u>556,176</u>
	=====	=====

The amounts owed to parent undertaking are unsecured, repayable in part or in full after one year's written notice and bear interest at 3% above LIBOR.

Finance lease obligations fall due as follows:

	1996 £	1995 £
Within one year	346,677	301,905
Between two and five years	102,007	420,703
	<u>448,684</u>	<u>722,608</u>
Less future finance charges	(82,237)	(139,801)
	<u>366,447</u>	<u>582,807</u>
	=====	=====
Within one year	291,553	240,256
Between two and five years	74,894	342,551
	<u>366,447</u>	<u>582,807</u>
	=====	=====

Eurobell (Sussex) Limited

Notes (continued)

14 Accruals and deferred income

Included within accruals and deferred income are the following government grants:

	1996 £	1995 £
At beginning of year	-	194,123
Receivable during year	-	-
	-	194,123
Credited to trading profit	-	-
Transferred to parent undertaking	-	(194,123)
	-	-
At end of year	-	-
	=====	=====

15 Deferred taxation

The full potential deferred tax liability at 24% (1995: 25%), which has not been provided for in these financial statements, is as follows:

	1996 £	1995 £
Difference between accumulated depreciation and capital allowances	-	1,818,000
Other timing differences	-	(31,000)
Losses carried forward	-	(1,787,000)
	-	-
	=====	=====

In addition to the losses stated above, the company has surplus tax losses of approximately £8.5m (1995: £5.8m) which, subject to agreement with the Inland Revenue, are available for carry forward and offset against future profits.

16 Called up share capital

	1996 £	1995 £
<i>Authorised</i>		
4,444,085 ordinary shares of £1 each	4,444,085	4,444,085
	=====	=====
	1996 £	1995 £
<i>Allotted, called up and fully paid:</i>		
4,363,085 ordinary shares of £1 each	4,363,085	4,363,085
	=====	=====

Eurobell (Sussex) Limited

Notes (continued)

17 Reserves

	Profit and loss account £	Share premium account £
At beginning of year	(7,235,733)	96,917
Loss for the year	(5,206,489)	-
At end of year	(12,442,222)	96,917
	=====	=====

18 Reconciliation of movements in shareholders' funds

	1996 £	1995 £
Opening shareholders' funds	(2,775,731)	(358,668)
Loss for the financial year	(5,206,489)	(2,417,063)
Closing shareholders' funds	(7,982,220)	(2,775,731)
	=====	=====

19 Transactions with related parties

During the year, European Broadband Systems PLC, a company of which Mr ASM Robinson has an interest and Mrs G Markham is a director, has charged £nil (1995: £140,375) in respect of goods and services provided for the company.

During the year, Detecon Deutsche Telepost Consulting GmbH, which holds an interest in the parent undertaking, charged the company £nil (1995: £80,682) in respect of services provided for the company. Charges made to the group are disclosed in the accounts of Eurobell (Holdings) PLC.

The above transactions were entered into in the normal course of business and on an arms' length basis.

There were no balances outstanding with related parties at 31 December 1996.

Eurobell (Sussex) Limited

Notes (continued)

20 Commitments

(i) The company has annual commitments under non-cancellable operating leases as follows:

	1996		1995	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire in the second to fifth years inclusive	93,907	14,567	93,727	4,348
Over five years	83,000	-	83,000	-
	<u>176,907</u>	<u>14,567</u>	<u>176,727</u>	<u>4,348</u>
	=====	=====	=====	=====

(ii) Capital commitments at the end of the financial year for which no provision has been made.

	1996 £	1995 £
Contracted	109,360	3,642,523
Authorised but not contracted	-	1,455,477
	=====	=====

(iii) Pension commitments

The company does not operate a pension scheme for its employees, but contributes to certain personal pension schemes on a monthly basis. Contributions for 1996 totalled £12,272 (1995: £nil). There were no payments outstanding at 31 December 1996.

21 Contingent liabilities

The company has received a claim from Brent Finance Limited in excess of £500,000 regarding agreements entered into in January 1991. These claims have been outstanding since June 1992 and after taking legal advice, the directors are of the opinion that there is no substance to the claims, and therefore no provision has been made.

Eurobell (Sussex) Limited

Notes *(continued)*

22 Ultimate parent undertaking

At the end of the financial year the ultimate parent undertaking of the group of undertakings of which Eurobell (Sussex) Limited is a member, was Eurobell (Holdings) PLC. The parent undertaking is registered in England and Wales.

Copies of group financial statements are available from MultiMedia House, Lloyds Court, Manor Royal, Crawley, West Sussex RH10 2PT.

No other group financial statements include the results of the company.

23 Post balance sheet events

On 6 February 1997 Detecon Deutsche Telepost Consulting GmbH acquired the remaining 50% of the shares of Eurobell (Holdings) PLC from Transon Holdings Limited and became the ultimate parent undertaking of Eurobell (Sussex) Limited.