VIDEOTRON HOLDINGS Plc

Report and Financial Statements

31 August 1996

Registered in England under No. 2719474

REPORT AND FINANCIAL STATEMENTS 1996

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REPORT AND FINANCIAL STATEMENTS 1996

DIRECTORS AND CORPORATE INFORMATION

BOARD OF DIRECTORS

Sir George Jefferson * + (Chairman) (Non-executive)
Sir David Berriman * (Non-executive and Chairman of the Audit Committee)
William Anderson * + (Non-executive)
Derek Burney (Non-executive)
Jacques Drouin (Non-executive)
Lord Haskel of Higher Broughton * (Non-executive)
Louis Tanguay (Non-executive)

* Member of the Audit Committee
\+ Member of the Remuneration Committee

SECRETARY

Bradley Herrmann

REGISTERED OFFICE

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London W14 8UD
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ADR DEPOSITARY

Citibank N.A.
111 Wall Street
5th Floor
New York 10043

NASDAQ SYMBOL

"VRONY"

DIRECTORS' REPORT
Year ended 31 August 1996

The Directors are pleased to present their annual report and the audited financial statements for the year ended 31 August 1996.

PRINCIPAL ACTIVITIES AND REVIEW OF DEVELOPMENTS

Videotron Holdings Plc is London's largest integrated cable television and telecommunications operator and holds licences from the Department of Trade and Industry and the Independent Television Commission to construct and operate broadband cable networks providing a range of cable television and telecommunications services within certain franchise and licence areas in London and Hampshire.

The Group's licences cover approximately 275 square miles and include over 1.3 million potential homes and approximately 138,000 potential businesses. The Group offers cable television, residential telephone and business telecommunication services in areas of West and South London and in Hampshire on the South Coast of England. The Group's operations include telecommunications services in the City of London and the City of Westminster, the geographical, commercial and financial centre of Greater London. In September 1995 the Group was awarded the cable franchise for Totton & Hythe, covering approximately 25,000 homes adjoining the existing Southampton & Eastleigh franchise.

The Group's shares are quoted on the Nasdaq National Market in the United States of America under the symbol "VRONY".

During the year the Group extended its integrated cable television and telecommunications networks to cover an additional 89,612 premises and overlaid 20,919 cable only homes for residential telephone. At 31 August 1996, the Group had 134, 975 households subscribing to its cable television service. There were 123,133 residential telephony customers and 18,654 business exchange lines connected.

The cumulative number of premises, residential telephone lines installed and cable television customers at 31 August 1996 are listed below:

	Licence build obligations (1)	Number of potential homes (2)	Number of potential businesses (3)	Number of premises passed (4)	Number of residential telephone lines	Number of residential cable TV customers
South London (5)	472,000	533,774	41,805	276,601	47,872	55,661
West London (6)	539,430	563,868	45,080	293,469	39,609	59,005
Hampshire (7)	132,699	163,552	8,048	107,869	35,652	20,309
	1,144,129	1,261,194	94,933	677,939	123,133	134,975
City & Westminster (9)	-	103,765	42,658		-	-
	1,144,129	1,364,959	137,591	677,939	123,133	134,975

(1) Based on 1981 census data
(2) Based on 1991 census data
(3) Based on 1992 business rates data and Group estimates
(4) At 31 August 1996 the number of homes passed for cable television services was 651,168. The number of homes passed for residential telephone service was 595,703. The number of business premises passed for business telecommunications services was 26,771.
(5) London Boroughs of Wandsworth, Greenwich, Lewisham, Lambeth, Southwark, Thamesmead
(6) London Boroughs of Kensington & Chelsea, Hammersmith & Fulham, Brent, Barnet, Ealing, Harrow
(7) Southampton & Eastleigh, Winchester, Totton & Hythe
(8) Under the terms of its licence the Group may provide telecommunications services other than residential cable television services in the City & Westminster
(9) The Group does not report premises passed in these license areas due to the difficulty in collating data

RESULTS AND DIVIDENDS

The Group made a loss for the year of £16,288,000 (1995 - loss of £13,161,000) which has been transferred from reserves. The Directors have not recommended the payment of a dividend (1995 - £nil).

DIRECTORS' REPORT
Year ended 31 August 1996

FUTURE PROSPECTS

The Directors are optimistic about the long term prospects of the Group. At 31 August 1996, the Group's networks had passed over 58% of the aggregate premises that it is required to pass in its franchise areas required by its licence obligations. The Directors continue to expect significant growth in revenues.

SHARE CAPITAL

A statement of changes in share capital of the Company appears in note 19 to the financial statements.

ULTIMATE PARENT COMPANY AND CHANGE OF CONTROL

Until 17 December 1996 Le Groupe Vidéotron Ltée ("GVL"), a public company registered in Canada, had an indirect holding of 56% of the share capital of the Company and Bell Cablemedia plc ("BCM"), a public company registered in England, held 26% of the share capital. No other Company or person held more than 5% of the equity of the Company.

On 22 October 1996 Bell Cablemedia plc ("BCM") announced that it had entered into a conditional agreement with GVL to acquire GVL's shareholdings in Videotron Holdings Plc. This agreement was conditional upon receipt of certain consents from lenders and noteholders of BCM and the receipt of certain regulatory approvals.

These conditions were satisfied by 17 December 1996 and the offer became unconditional on that date. As a result BCM acquired control of the 56% of Videotron Holdings Plc previously owned indirectly by GVL. BCM intends to make an unconditional offer to acquire all of the public and employee held shares (including outstanding share options) of the Company in the near future.

FIXED ASSETS

The Group has invested substantially in the expansion of its cable television and telecommunications network during the year and in total tangible fixed asset additions (including capitalised interest) amounted to £132.5 million. Details of movements in fixed assets during the financial year are given in notes 11, 12 and 13 to the financial statements.

EMPLOYMENT POLICIES

The Group does not discriminate between employees or potential employees on the grounds of colour, race, ethnic or national origin, sex, marital status or religious beliefs. Full and fair consideration is given to applications for employment made by disabled persons, to continue wherever possible the employment of members of staff who may become disabled and to ensure that suitable training, career development and promotions are afforded to such persons. The Group places great emphasis on developing communications throughout the Group to ensure that all its employees are made aware of, and consulted on, a regular basis regarding the Group's policies, programmes and progress and other matters of concern to its employees.

DIRECTORS' REPORT
Year ended 31 August 1996

DIRECTORS AND DIRECTORS' INTERESTS

The present membership of the Board is as set out on page 1.

Changes in the Board during the year and to the date of this report were as follows:

	Appointed	Resigned
Jacques Drouin	25 September 1995	-
Daniel Somers	1 January 1996	21 October 1996
Louis Tanguay	1 January 1996	-
William Anderson	21 October 1996*	1 January 1996
Robert Kearney	-	1 January 1996
The Rt. Hon. Kenneth Baker MP	-	21 October 1996
Serge Gouin		30 October 1996
Andre Chagnon		13 December 1996
Louis Brunel	-	17 December 1996

* William Anderson was reappointed as a director at this date.

The Directors who had interests in the shares of the Group at 31 August 1996 and at 1 September 1995 had the following interests:

	At 31 August 1996		At 1 September 1995	
	Ordinary shares	Ordinary share options	Ordinary Shares	Ordinary share options
Sir George Jefferson	50,000	50,000	50,000	50,000
Sir David Berriman	20,000	20,000	20,000	20,000
The Rt. Hon. Kenneth Baker MP	40,000	20,000	40,000	20,000

Directors' and officers' liability insurance was purchased by the Group during the year.

AUDITORS

During the year the Group's auditors changed the name under which they practise to Deloitte & Touche. A resolution proposing the re-appointment of Deloitte & Touche will be put to the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board

B L HERRMANN

Company Secretary

17 December 1996

REPORT ON CORPORATE GOVERNANCE
Year ended 31 August 1996

Compliance with best practise

The Directors have complied throughout the year in all significant respects with the provisions of the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance (the "Cadbury Code") save in relation to paragraph 2.2 of the Cadbury Code in that the majority of the non-executive Directors have been appointed by the ultimate parent company. The Directors have established Remuneration and Audit Committees with formally delegated duties and responsibilities. Sir George Jefferson is Chairman of the Remuneration Committee and Sir David Berriman is chairman of the Audit Committee. Members of both committees are nominated by the ultimate parent company with the exception of one member of each who is nominated by the other principal shareholder.

Board of Directors ("the Board")

The Board meets regularly throughout the year. It retains full and effective control over the Company and monitors the executive management. Board meetings follow a formal agenda of matters specifically reserved for decision by the Board including the approval of major capital expenditure. The Board is responsible for overall Group strategy and approving all Group budgets and plans. The roles of the Chairman and Chief Executive Officer are separate. The Board of Directors comprises one executive Director and ten non-executive Directors. The Audit Committee assists the Board in its duties regarding the Group's financial statements and meets with the external auditors. All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures and applicable rules and regulations are observed.

Remuneration Committee

The Remuneration Committee consists of three Directors under the chairmanship of Sir George Jefferson. The Committee determines the remuneration of senior executives of the Group, the granting of options under the Company's share option schemes and makes recommendations to the Board for the remuneration of the non-executive Directors.

Audit Committee

The Audit Committee is comprised solely of non-executive Directors. It meets at least twice a year and has written terms of reference which include reviewing and monitoring the accounting policies and the financial reporting of the Group. This includes the external audit and annual financial statements, earnings announcements, internal control procedures, accounting policies, compliance with generally accepted accounting principles, the appointment of external auditors and such related functions as the Board may require. Representatives of the external auditors attend meetings and have direct access to the members of the Audit Committee at all times. Meetings of the Committee are normally attended by the Chief Financial Officer and a representative of the external auditors.

The Committee is satisfied with the policies applied during the year and with the measurement and presentation of financial information contained in this Annual Report.

Independent non-executive Directors

Three members of the Board are non-executive Directors not affiliated to either of the principal shareholders who provide a wide range of business expertise for the benefit of the Group. These Directors provide a valuable source of experienced decision making and also play a vital role in maintaining the system of controls necessary to protect the shareholders' interests. They approve the overall strategic direction of the Group, actively reviewing and challenging, where necessary, the direction taken by executive management and the other Directors. Their fees reflect the time which they commit to the Company.

REPORT ON CORPORATE GOVERNANCE
Year ended 31 August 1996

Internal Control

The Board has overall responsibility for the Group's system of internal control. Responsibility for operating the Group is delegated to executive management. The Audit Committee has reviewed the Group's financial statements and the scope of work undertaken by the external auditors.

Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's system is designed to provide reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The principal features of the Group's internal control structures are summarised below:

- *Management Structure*

  There is a clearly defined organisational structure with lines of responsibility and delegation of authority to management, who are accountable for the conduct and performance of the business within the agreed business strategy and subject to the reserved powers and sanctioning limits laid down by the Board. Management responsibility is supplemented by accounting, purchasing, and capital expenditure policies and practices applicable across the Group.

- *Financial Reporting*

  The annual budget is prepared on a timely basis and is submitted to the Board for approval. There is frequent reporting of results to each level of management as appropriate, including monthly reporting of actual against budget and revised forecasts to executive management and quarterly and annual external reporting in accordance with the requirements of the Securities and Exchange Commission and the Companies Act 1985. Key issues on financial management and treasury are also reported regularly to the Audit Committee and the Board.

- *Detailed Financial Controls*

  These include internal controls and procedures which are designed to ensure completeness and accuracy of the recording of all transactions and the safeguarding of assets. In particular there are clearly defined policies for capital expenditure including appropriate authorisation levels. Significant transactions, contracts and capital projects require Board approval.

- The Audit Committee, on behalf of the Board, is notified of any significant weaknesses in the control structure of the business found by the external auditors as a result of their audit procedures. The Audit Committee reviews reports by the external auditors on at least an annual basis.

The Group's control systems address key business and financial risks. The Group's Finance Department focuses on key internal control systems and areas of greatest risk.

Going Concern basis

After making careful enquiries the Directors have a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future. For this reason they continue to adopt the going concern basis in the financial statements.

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 the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to: select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; state whether applicable accounting standards have been followed; prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF VIDEOTRON HOLDINGS Plc

We have audited the financial statements on pages 8 to 27 which have been prepared under the accounting policies set out on pages 12 to 14.

Respective responsibilities of Directors and auditors

As described on pages 4, 5 and 6 the Company's Directors are responsible for the preparation of 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 circumstances of the Company and the Group, 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 affairs of the Company and the Group as at 31 August 1996 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Hill House
1 Little New Street
London EC4A 3TR
18 December 1996

CONSOLIDATED PROFIT AND LOSS ACCOUNT (£'000)
Year ended 31 August 1996

	1996	1995
TURNOVER *(note 2)*	81,757	57,490
Cost of sales	(33,874)	(27,506)
Gross profit	47,883	29,984
Administrative expenses	(30,882)	(23,041)
EBITDA *(note 4)*	17,001	6,943
Non cash technical assistance fees *(note 5)*	(2,815)	(1,833)
Depreciation and amortisation	(16,435)	(12,485)
OPERATING LOSS	(2,249)	(7,375)
Net interest expense *(note 6)*	(14,181)	(5,833)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION *(note 7)*	(16,430)	(13,208)
Tax credit on loss on ordinary activities *(note 8)*	142	47
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION *(note 21)*	(16,288)	(13,161)
Net loss per Ordinary Share *(note 9)*	£(0.06)	£(0.05)
Net loss per ADS *(note 9)*	£(0.30)	£(0.26)
Weighted average number of Ordinary Shares	274,263,621	252,209,352
Weighted average number of ADSs	54,852,724	50,441,870

A statement of total recognised gains and losses has not been presented because there are no recognised gains or losses other than the loss for the year.

All activities derive from continuing operations.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£'000
Shareholders' funds at 1 September 1995	205,869
Loss for the year	(16,288)
Capital subscribed	3,181
Shareholders' funds at 31 August 1996	192,762

CONSOLIDATED BALANCE SHEET (£'000)
31 August 1996

		1996		1995
FIXED ASSETS				
Intangible assets *(note 11)*	6,849		7,370	
Tangible assets *(note 12)*	505,431		390,218	
Investments *(note 13)*	754		979	
		513,034		398,567
CURRENT ASSETS				
Debtors due after more than one year *(note 14)*	8,478		13,941	
Debtors due within one year *(note 14)*	26,070		18,405	
Investments *(note 15)*	16,240		9,278	
Cash and deposits	-		55,061	
	50,788		96,685	
CREDITORS: amounts falling due within one year *(note 16)*	53,423		43,568	
NET CURRENT (LIABILITIES)/ASSETS		(2,635)		53,117
TOTAL ASSETS LESS CURRENT LIABILITIES		510,399		451,684
CREDITORS: amounts falling due after more than one year *(note 17)*		(317,637)		(245,815)
NET ASSETS		192,762		205,869
CAPITAL AND RESERVES				
Called up share capital *(note 19)*		13,795		13,699
Share premium account *(note 21)*		239,827		236,742
Goodwill reserve *(note 21)*		(20,222)		(20,222)
Profit and loss account *(note 21)*		(40,638)		(24,350)
EQUITY SHAREHOLDERS' FUNDS		192,762		205,869

These financial statements were approved by the Board of Directors on 17 December 1996 and signed on its behalf by:

William D. Anderson

W D ANDERSON

Director

COMPANY BALANCE SHEET (£'000)
31 August 1996

		1996		1995
FIXED ASSETS				
Investments *(note 13)*		269,762		269,762
CURRENT ASSETS				
Debtors due after more than one year *(note 14)*	300,325		269,778	
Debtors due within one year *(note 14)*	58,509		55,542	
	358,834		325,320	
CREDITORS: amounts falling due within one year *(note 16)*	104,767		105,112	
NET CURRENT ASSETS		254,067		220,208
TOTAL ASSETS LESS CURRENT LIABILITIES		523,829		489,970
CREDITORS: amounts falling due after more than one year *(note 17)*		(270,207)		(239,529)
NET ASSETS		253,622		250,441
CAPITAL AND RESERVES				
Called up share capital *(note 19)*		13,795		13,699
Share premium account *(note 21)*		239,827		236,742
EQUITY SHAREHOLDERS' FUNDS		253,622		250,441

These financial statements were approved by the Board of Directors on 17 December 1996 and signed on its behalf by:

Walter D. Anderson

W D ANDERSON

Director

CONSOLIDATED CASH FLOW STATEMENT (£'000)
Year ended 31 August 1996

		1996		1995
Net cash inflow from operating activities *(note 23)*		35,424		7,406
Returns on investments and servicing of finance				
Interest and similar income received	1,625		3,970	
Interest and similar charges paid	(1,440)		(381)	
Interest element of finance lease rentals	(996)		(4,828)	
Net cash outflow from returns on investments and servicing of finance		(811)		(1,239)
Taxation				
UK consortium relief received		-		7
Investing activities				
Purchase of tangible fixed assets excluding capitalised interest	(109,988)		(104,014)	
Purchase of intangible fixed assets	-		(563)	
Purchase of investments	-		(113)	
Disposal of tangible fixed assets	457		210	
Net cash outflow from investing activities		(109,531)		(104,480)
Net cash outflow before financing		(74,918)		(98,306)
Financing				
Proceeds from share issues *(note 26)*	189		80,447	
Redemption of redeemable preference shares	-		(51,130)	
Drawdowns under Senior Loan Facility (note 26)	46,000		-	
Net proceeds from issue of Senior Discount Notes due 2005	-		91,939	
Foreign exchange option premium	-		(13,248)	
Capital element of finance lease rentals and mortgage	(1,947)		(3,277)	
Termination payment in respect of finance lease	(18,277)		(34,558)	
Expenses in connection with financing activities	(980)		(3,720)	
Cash balance charged as security *(note 15)*	(6,962)		(9,278)	
Net cash inflow from financing		18,023		57,175
Decrease in cash and cash equivalents ***(notes 24,25)***		(56,895)		(41,131)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The principal accounting policies which have been applied consistently in the preparation of the financial statements are as follows:

Accounting convention

The financial statements are prepared under the historical cost convention.

Consolidation

The Group financial statements consolidate the financial statements of the Company and all subsidiaries ("the Group") for the financial year ended 31 August 1996.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Financial Instruments

Foreign exchange forward contracts are legal agreements between two parties to purchase and sell a foreign currency for a price specified at the contract date, with delivery and settlement in the future. The Group uses such contracts to hedge risks of changes in foreign currency exchange rates associated with certain obligations denominated in foreign currency. The "contract premium", being the difference between the spot rate at the inception of the contract and the forward rate, is amortised over the life of the contract as interest expense.

Currency Options

The Group has purchased foreign exchange options which permit, but do not require, the Group to exchange foreign currencies at a future date with other parties at a contracted exchange rate. The Group uses such contracts to hedge risk of changes in foreign currency exchange rates associated with certain obligations denominated in foreign currency. The time value of premiums paid for the purchase of options designated to hedge exchange movements is amortised on a straight-line basis over the life of the options and classified as interest. The market rate, represented by the intrinsic value of the options, is measured by comparing the movements in the forward exchange rate at the inception of the options to the forward exchange rate at the expiry of the options, at the balance sheet date. Overall gains in the intrinsic value are recognised in the profit and loss account. Overall losses in the intrinsic value are not recognised as the cost of the options cannot exceed the premiums paid.

The Group hedges certain exposures to interest rate fluctuations through *interest rate swaps*. Gains and losses related to such swaps are recognised in the profit and loss account when the hedged transaction occurs.

Foreign exchange

Unhedged transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Translation differences are dealt with in the profit and loss account.

Goodwill

Goodwill represents the amount by which the consideration paid on acquisition of subsidiaries exceeds the aggregate of the fair value of the underlying net assets at the date of their acquisition.

Goodwill is written off to a goodwill reserve in the year in which it arises.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

1 ACCOUNTING POLICIES (continued)

Intangible fixed assets

(i) Franchise application costs

Franchise application costs represent the acquisition cost of exclusive rights to operate a telecommunications network in a given territory. The Group amortises these costs on a straight line basis over the life of these rights, being a maximum of 23 years.

(ii) Deferred development expenditure

During the early years of the business, expenditure was incurred which was attributable to the development of the business. An appropriate proportion of these costs was treated as deferred development expenditure within intangible fixed assets and is being amortised over the life of the Group's franchise rights, being a maximum of 23 years.

Interconnection with other operators

When telephony traffic is carried by other operators the Group incurs interconnect costs. Interconnect costs payable to British Telecommunications plc ("BT") are subject to regulation in the form of a determination by the Office of Telecommunications ("OFTEL"). A determination may give rise to amendments, most often in the form of reductions, to interconnect costs relating to prior periods. Interconnect costs payable to operators other than BT are based on commercially negotiated contracts but in some cases are subject to adjustments for prior periods from time to time based on the rates determined by OFTEL for BT.

The Group reviews its interconnect costs on a regular basis and adjusts the rate at which these costs are charged in the profit and loss account in accordance with estimated interconnect costs for the current period. Amendments to costs relating to prior periods are made in the current period, but only when recovery or payment of these amounts is probable.

Investments

Investments held as fixed assets are stated at cost less provision for permanent diminution in value, if required.

Pension costs

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the insurance company.

Tangible fixed assets

Fixed assets are recorded at cost which includes materials, direct labour, related overhead and interest applicable to the construction and connection of the telecommunications networks. Depreciation is provided on fixed assets at rates which are intended to write off the cost of the assets over their estimated useful lives.

The depreciation rates used, all of which are applied on a straight line basis, are:

Buildings and leasehold improvements	20 to 25 years
Plant and machinery	7 to 15 years
Motor vehicles, fixtures and fittings	4 to 10 years
Subscriber electronics and head end equipment	4 to 10 years
Telecommunications network:	
Infrastructure	40 years
Electronics	25 years

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

1 ACCOUNTING POLICIES (continued)

Tangible fixed assets (continued)

Depreciation of the telecommunications network does not commence until identifiable segments, defined as hubs, are fully operational. The majority of the Group's hubs are combined cable television and telecommunications hubs and these are not treated as complete operational units until the total number of cable television and telecommunications customers exceeds 45% of the total homes in the hub, or three years have elapsed from the commencement of construction, whichever comes sooner. For this purpose each home is treated as having the potential of two customers, being one for a cable television customer and one for a telephone customer.

Turnover

Turnover represents the invoiced value, excluding value added tax, of services provided by the Group. Cable television charges and telecommunications line charges are billed in advance and recognised when earned. Residential and business installation revenue is recognised in full upon installation to the extent of direct selling costs incurred.

2. TURNOVER AND SEGMENTAL INFORMATION

Turnover is attributable principally to the provision of cable television and telephony services in the United Kingdom which the Directors consider to be the same class of business and, accordingly, no segmental analysis of operating loss or net assets is shown. Turnover comprised the following:

	1996 £'000	1995 £'000
Cable television	32,443	24,498
Residential telecommunications	39,226	27,277
Business telecommunications	10,088	5,715
	81,757	57,490

Included in the above figures is installation revenue of £3.8 million (1995 - £2.2 million).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The total emoluments of the Directors of the Company inclusive of pension contributions, were:	1996 £'000	1995 £'000
Directors' emoluments:		
Fees	114	48
Other emoluments	-	177
	114	225

The emoluments of the chairman and the highest paid director, excluding pension contributions were:

Chairman	35	35
Highest paid director	35	135

In 1995, £172,000 was paid as compensation to a director for loss of office.

The gross emoluments of other Directors, excluding pension contributions, were in the following bands:	1996 Number	1995 Number
Scale of Directors' remuneration:		
£0 to £ 5,000	8	9
£10,001 to £15,000	2	2
£15,001 to £20,000	1	1
£30,001 to £35,000	1	-

Employees:

The aggregate remuneration of all employees comprised:	£'000	£'000
Wages and salaries	23,231	17,902
Social security costs	2,279	1,775
Other pension costs	492	359
	26,002	20,036

The average number of employees was:	Number	Number
Customer operations	312	251
Marketing and sales	267	209
Technical services	150	136
Construction	123	118
Management and administration	113	89
	965	803

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

4. EBITDA

EBITDA represents earnings before net interest expense, taxation, depreciation, amortisation and non cash technical assistance fees. The Directors consider that EBITDA is a standard measure commonly reported and widely used by analysts, investors and other interested parties in the cable television and telecommunications industry. Accordingly, this information has been disclosed herein to permit a more complete comparative analysis of the Group's operating performance relative to other companies in its industry.

5. NON CASH TECHNICAL ASSISTANCE FEES

The Group pays technical assistance fees to its principal shareholders. The consideration for the technical assistance services provided is satisfied in the form of the issue of ordinary shares in the Company.

6. NET INTEREST EXPENSE

	1996 £'000	1995 £'000
Interest payable and similar charges:		
Guarantee fees payable to the principal shareholders	208	678
Interest on Senior Discount Notes	31,719	19,034
Interest on Senior Loan	1,732	-
Finance leases	996	4,828
Other interest payable	308	77
Amortisation of foreign exchange option	2,649	-
Exchange losses on foreign currency translation	-	1,818
	37,612	26,435
Interest receivable and similar income:		
Bank interest receivable	(767)	(3,921)
Other interest receivable	(858)	(49)
Exchange gains on foreign currency translation	(910)	-
	(2,535)	(3,970)
	35,077	22,465
Capitalised in fixed assets	(20,896)	(16,632)
Net interest expense	14,181	5,833

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

6. NET INTEREST EXPENSE (continued)

The gain (1995 - loss) on foreign currency translation relates to the retranslation of the Group's obligations under the Senior Discount Notes due 2005 (which are denominated in US Dollars) at the balance sheet date. Whilst the Group has hedged against the depreciation of Sterling relative to the US Dollar the Group is subject to the inclusion of gains and losses in its profit and loss account to the extent that the Dollar/Sterling exchange rate is greater than the hedged strike rate.

7. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The loss on ordinary activities before taxation is shown after charging:

	1996 £'000	1995 £'000
Rentals under operating leases:		
Plant and machinery	219	97
Land and buildings	966	1,205
Other	150	-
Depreciation of tangible fixed assets:		
Own assets	14,240	7,098
Assets held under finance leases	1,512	4,865
Amortisation of intangible fixed assets	453	522
Provision against investment	230	-
Auditors' remuneration		
Audit fees	75	60
Other services	109	575

8. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

	1996 £'000	1995 £'000
Consortium relief:		
Current year	182	47
Adjustment in respect of prior years	(40)	-
	142	47

No provision for taxation has been made in view of the losses available. The Group has accumulated tax losses to be carried forward of approximately £308 million (1995 – £184 million).

The tax benefits of £182,000 (1995 - £47,000) arising from losses incurred have been transferred to the principal shareholders in exchange for payments of the same amount.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

8. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES (continued)

The potential amount of deferred taxation not provided in these financial statements is approximately:

	1996 £'000	1995 £'000
Group		
Capital allowances in excess of depreciation	62,717	43,458
Other	13,203	8,263
	75,920	51,721
Less trading losses	(74,932)	(51,418)
	988	303

9. NET LOSS PER ORDINARY SHARE/ADS

The Company's American Depositary Shares ("ADS") are listed on the Nasdaq National Market in the United States of America under the symbol "VRONY". One ADS represents five Ordinary Shares.

Net loss per ordinary share is calculated using the weighted average number of Ordinary Shares in issue for the year presented. Net loss per ADS is equivalent to five times net loss per Ordinary Share.

10. RESULT OF PARENT COMPANY

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented in these financial statements. The parent company's result for the financial year amounted to £nil (1995 - £nil).

11. INTANGIBLE FIXED ASSETS

Group	Franchise application costs £'000	Deferred development expenditure £'000	Total £'000
Cost:			
At 1 September 1995	1,478	6,797	8,275
Disposals	-	(70)	(70)
At 31 August 1996	1,478	6,727	8,205
Amortisation:			
At 1 September 1995	424	481	905
Charge for the year	94	359	453
Disposals	-	(2)	(2)
At 31 August 1996	518	838	1,356
Net book value:			
At 31 August 1996	960	5,889	6,849
At 31 August 1995	1,054	6,316	7,370

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

12. TANGIBLE FIXED ASSETS

Group	Land, buildings and leasehold improvements £'000	Plant and machinery £'000	Motor vehicles, fixtures and fittings £'000	Subscriber electronics and head end equipment £'000	Telecommunications Network: Excluding City & Westminster £'000	Telecommunications Network: City & Westminster £'000	Telecommunications Network: Capital-ised interest £'000	Total £'000
Cost:								
At 1 September 1995	8,961	24,663	3,618	42,285	294,378	9,965	32,967	416,837
Additions	1,002	13,145	1,471	9,069	84,785	2,133	20,896	132,501
Disposals	(8)	(908)	(524)	(389)	-	-	-	(1,829)
At 31 August 1996	9,955	36,900	4,565	50,965	379,163	12,098	53,863	547,509
Accumulated depreciation:								
At 1 September 1995	920	5,742	1,211	9,933	8,599	-	214	26,619
Charge for the year	414	3,303	938	3,302	7,289	25	481	15,752
Transfer of provision	-	-	-	1,214	-	-	-	1,214
Disposals	(1)	(929)	(379)	(198)	-	-	-	(1,507)
At 31 August 1996	1,333	8,116	1,770	14,251	15,888	25	695	42,078
Net book value:								
At 31 August 1996	8,622	28,784	2,795	36,714	363,275	12,073	53,168	505,431
At 31 August 1995	8,041	18,921	2,407	32,352	285,779	9,965	32,753	390,218

The net book value of land and buildings comprises freehold properties of £3,085,072 and leasehold improvements on short leasehold property of £6,869,578. The net book value of leased assets included above was £7,132,646 (1995 £5,708,485). Depreciation charged during the year on leased assets was £1,511,484 (1995 £4,864,620).

The transfer of provision represents the reclassification of a provision against lost or damaged equipment which was previously disclosed under Accruals.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

13. INVESTMENTS HELD AS FIXED ASSETS

	Group 1996 £'000	Group 1995 £'000	Company 1996 £'000	Company 1995 £'000
Shares in Group undertakings	-	-	269,762	269,762
Other unlisted investments				
At 1 September	979	488	-	-
Additions	5	491	-	-
Provision for diminution in value	(230)	-	-	-
At 31 August	754	979	269,762	269,762

14. DEBTORS

	Group 1996 £'000	Group 1995 £'000	Company 1996 £'000	Company 1995 £'000
Due within one year:				
Trade debtors	15,009	9,432	-	-
Amounts owed by subsidiary undertakings	-	-	58,509	55,542
Amounts owed by principal shareholders	327	-	-	-
Other debtors	5,799	5,880	-	-
Prepayments and accrued income	4,935	3,093	-	-
	26,070	18,405	58,509	55,542
Due after more than one year:				
Amounts owed by subsidiary undertakings	-	-	300,325	269,778
Other debtors	-	3,343	-	-
Prepayments and accrued income	8,478	10,598	-	-
	8,478	13,941	300,325	269,778

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

15. CURRENT ASSET INVESTMENT

The current asset investment represents a cash balance which has been charged as security in respect of certain forward foreign exchange contracts in connection with the 2004 Notes entered into by the Group (see note 18). As a result of the change of control referred to in note 29 to these financial statements this charge is expected to be released in the near future.

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Property loan	88	88	-	-
Bank overdrafts	1,834	-	-	-
Finance lease obligations	2,618	1,929	-	-
Trade creditors	28,371	8,359	-	
Amounts owed to subsidiary companies	-	-	103,414	103,628
Amounts owed to principal shareholders	278	-	-	-
Taxation and social security	844	13	-	-
Other creditors	722	19,281	-	-
Accruals and deferred income	18,668	13,898	1,353	1,484
	53,423	43,568	104,767	105,112

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

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Senior loan	42,074	-	-	-
Property loan	1,408	1,496	-	-
Finance lease obligations	3,948	4,790	-	-
Senior Discount Notes due 2004	166,088	145,460	166,088	145,460
Senior Discount Notes due 2005	104,119	94,069	104,119	94,069
	317,637	245,815	270,207	239,529

	Group		Company	
Analysis of loan and finance lease repayments:	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Repayable otherwise than by instalments:				
After five years	270,207	239,529	270,207	239,529
Repayable by instalments:				
Between one and two years	1,672	1,801	-	-
Between two and five years	43,959	2,099	-	-
After five years	1,799	2,386	-	-
	317,637	245,815	270,207	239,529

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

Senior loan facility

The Group is party to a revolving credit facility with a syndicate of financial institutions which will provide, subject to the satisfaction of certain financial and operating tests, access to up to £210 million to finance the construction of the cable network. Borrowings under the facility are secured by the assets and shares of the Group. The facility is in the form of revolving loans which require interest only payments based upon the London InterBank Offered Rate (LIBOR) plus a margin, which was 2% at 31 August 1996. The revolving loans are executed to convert into a reducing term loan on 31 August 1999, requiring quarterly repayments of interest thereafter and repayments of interest and capital from 31 May 2000. These repayments will end on 30 April 2004.

Swap facility

The Group is party to a revolving credit facility of up to £40 million with the counterparty to certain of its forward exchange contracts in order to meet the Group's obligations to that counterparty in the event of termination of those contracts. Borrowings under the facility are secured by charges over the assets and shares of the Group ranking *parri passu* with those charges in respect of the senior loan facility described above. The facility is in the form of a letter of credit which, if drawn upon, requires interest only payments based upon the London InterBank Offered Rate (LIBOR) plus a margin and requires quarterly repayments of interest and capital from 31 May 2000. There were no amounts drawn under this facility as of the date of these financial statements.

Property loan

The property loan represents amounts advanced under a first mortgage on the Group's freehold property. The loan bears interest at 1.75% above LIBOR.

Finance lease obligations

During the year ended 31 August 1995 the Group terminated certain finance lease obligations relating to the sale and leaseback of parts of the Group's telecommunications network carried out in previous years. Termination payments under two separate finance lease facilities were made in August and September 1995. (At 31 August 1995 the outstanding termination payment was disclosed under other creditors and amounted to £18,277,000).

Senior Discount Notes due 2004

In July 1994 the Group issued $342,935,000 principal amount at maturity of Senior Discount Notes due 2004 (the "2004 Notes") with a yield to maturity of 11 1/8%. The 2004 Notes mature on 1 July 2004 and interest accretes semi annually. Cash interest will not be paid on the 2004 Notes prior to 1 July 1999, and is thereafter payable in arrears on 1 January and 1 July of each year at a rate of 11 1/8% per annum. The 2004 Notes are redeemable, in whole or in part, at the option of the Group at any time, subject to a redemption penalty.

Senior Discount Notes due 2005

In August 1995 the Group issued $256,225,000 principal amount at maturity of Senior Discount Notes due 2005 (the "2005 Notes") with a yield to maturity of 11 %. The 2005 Notes will mature on 15 August 2005 and interest accretes semi annually. Cash interest will not be paid on the 2005 Notes prior to 15 August 2000, and is thereafter payable in arrears on 1 January and 1 July of each year at a rate of 11% per annum. The 2005 Notes are redeemable, in whole or in part, at the option of the Group at any time, subject to a redeemable penalty.

Both the 2004 Notes and the 2005 Notes represent unsecured liabilities of the Group.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

18. FINANCIAL INSTRUMENTS

The Group uses financial instruments only in order to manage well defined currency or interest rate exposures and not for trading purposes.

The Group has entered into forward exchange contracts which expire on 1 July 1999 to hedge its exposure to adverse fluctuations in exchange rates of the 2004 Notes. Under these contracts, a premium of £12,769,000 has been computed on the issue price of the 2004 Notes, being the difference between the contracted amounts translated at the forward rate (of £1 = $1.3958) and the spot rate at the inception of the contracts. This premium is being amortised over the period of the contract.

The forward exchange contracts are revalued annually and the Group is required to place on deposit with the counterparty to the contracts the amount (if any) by which the contracts are "out of the money" at that date. Access to the funds on deposit is restricted and the deposit is secured in favour of the counterparty and is included in these financial statements under current asset investments.

The Group has purchased a five year Dollar call option to purchase $256,231,000 to hedge its exposure to adverse fluctuations in exchange rates on the principal amount at maturity of the 2005 Notes. The option has a strike price at expiration in August 2000 of £1 = $1.4395. The option premium has been recognised on the balance sheet as a prepayment and is being amortised on a straight line basis over the period to expiration.

The Group has entered into several interest rate swaps to reduce potential exposure to interest rate risks inherent in its senior loan facility. Under the interest rate swaps the Group has agreed with several third party financial institutions to exchange, on a monthly basis, the difference between fixed rate and floating rate amounts calculated by reference to an agreed notional accreting principal amount. The net effect of the interest rate swaps is to fix interest rate payments on approximately 50% of the Group's borrowings under the Senior Loan Facility at an interest rate of 71/5% (before inclusion of the applicable margin).

19. CALLED UP SHARE CAPITAL

	1996 Number	1996 £'000	1995 Number	1995 £'000
Authorised:				
Ordinary shares of £0.05 each	436,974,580	21,849	436,974,580	21,849
Undesignated shares of £0.05 each	123,025,420	6,151	123,025,420	6,151
	560,000,000	28,000	560,000,000	28,000
Allotted, called up and fully paid:				
Ordinary shares of £0.05 each	275,905,933	13,795	273,992,648	13,699

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

19. CALLED UP SHARE CAPITAL (continued)

Movements in the Ordinary Shares of the Company during the year were as follows:

	Number of shares	Ordinary shares £'000	Premium Received £'000	Total Amount £'000
At 1 September 1995	273,992,648	13,699	236,742	250,441
Issued during the year	1,913,285	96	3,085	3,181
At 31 August 1996	275,905,933	13,795	239,827	253,622

The principal reasons for the issuance of shares by the Company was (i) the issuance of 1,509,565 Ordinary Shares in satisfaction of the non cash technical assistance fees and lease guarantee fees referred to in note 5 and (ii) the exercise of options to acquire 403,720 Ordinary Shares.

At 31 August 1996 the following options to purchase Ordinary Shares in the Company were outstanding:

Date/period option granted	Option price per share £	Number of shares under option	Exercise period
6 November 1991 - 18 April 1994	0.75	1,216,440	1 December 1992 -1 November 2001
16 January 1996	1.70	20,000	17 September 1992 - 31 August 1999
21 February 1994 - 21 February 1995	1.50	854,000	1 December 1994 -1 November 2003
7 November 1995	1.73	1,476,947	7 November 1997 - 6 November 2002
14 December 1995	1.76	1,003,916	14 December 1997 - 13 December 2002
Total options outstanding at 31 August 1996		4,571,303	

20. FINANCIAL COMMITMENTS

As at 31 August 1996 and 1995 the Group had no material capital commitments authorised but not yet contracted for.

The Group is committed to the following payments for leases which expire:	Land and buildings £'000	Other £'000
Within one year	-	-
Within two to five years	39	77
After five years	1,231	-

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

21. RESERVES

Group	Share premium account £'000	Goodwill reserve £'000	Profit and loss account £'000
At 1 September 1995	236,742	(20,222)	(24,350)
Loss retained for the year	-	-	(16,288)
Share premium on shares issued during the year	3,085	-	-
At 31 August 1996	239,827	(20,222)	(40,638)

Company	£'000
At 1 September 1995	236,742
Share premium on shares issued during the year	3,085
At 31 August 1996	239,827

22. PRINCIPAL SUBSIDIARIES

The Company's principal subsidiaries (all of which are wholly owned, registered in England and Wales and incorporated in Great Britain) are Videotron Corporation Limited, Videotron Hampshire Limited, Videotron West London Limited and Videotron South London Limited.

Videotron Corporation Limited is engaged in the provision of administrative services to other Group companies. The other principal subsidiaries are engaged in the provision of cable television and telecommunications services.

23. RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1996 £'000	1995 £'000
Operating loss	(2,249)	(7,375)
Amortisation of intangible assets	683	522
Depreciation of tangible assets	15,752	11,963
Profit on sale of fixed assets	(6)	(71)
Increase in debtors	(8,553)	(4,273)
Increase in creditors	27,817	5,193
Technical assistance fees paid by issue of shares	1,980	1,447
NET CASH INFLOW FROM OPERATING ACTIVITIES	35,424	7,406

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

24. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	£'000
Balance at 1 September 1995	55,061
Net cash outflow	(56,895)
Balance at 31 August 1996	(1,834)

25. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE BALANCE SHEET

	1996 £'000	Change in year £'000	1995 £'000	Change in year £'000	1994 £'000
Cash at bank and in hand	(1,834)	(56,895)	55,061	(41,131)	96,192

26. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital (including premium) £'000	Loans, finance lease obligations & Senior Discount Notes £'000
Balance at 1 September 1995	250,441	247,832
Cash inflow from financing	189	43,073
Issue of ordinary shares for non-cash consideration	2,992	-
Accrued interest on 2004 and 2005 Notes	-	31,719
Foreign exchange gain on 2005 Notes	-	(910)
Accrued expenses of 2005 Notes	-	231
Senior facility expenses	-	(3,307)
Inception of finance leases	-	1,705
Balance at 31 August 1996	253,622	320,343

27. RELATED PARTY TRANSACTIONS

The Group undertakes various transactions with certain affiliated companies in the normal course of business. Such transactions typically take place on commercially available terms.

The Group pays royalties to certain affiliated companies for the provision of interactive programming services to its customers. In addition, the Group purchases Videoway converters from an affiliated company. Certain costs, incurred by affiliated companies on behalf of the Group, are recharged to the Group at cost.

In addition to the above transactions, the Group pays certain Technical Assistance fees (the "non-cash technical assistance fees") to its principal shareholders which are satisfied by issue of ordinary shares in the Company and the Group pays guarantee fees to affiliated companies in consideration for certain guarantees given in respect of certain leasing obligations.

The Group is a party to consortium relief arrangements with its principal shareholders under which it is able to sell a proportion of its taxable losses to those companies.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 August 1996

Amounts paid by the Group:	1996 £'000	1995 £'000
Royalties	1,193	952
Purchase of converters	6,604	6,162
Recharged costs	148	391
Non cash technical assistance fees	2,815	1,833
Guarantee fees	207	678
Sale of tax losses	(142)	(40)
	10,825	9,976

28. DIVIDEND POLICY

The Company has never paid a dividend and does not anticipate paying any dividends in the foreseeable future. In addition, the ability of subsidiaries to make payments to the Company for the payment of dividends is effectively prohibited by the terms of certain financing arrangements. The Company expects to retain any earnings generated from its operations for use in the business.

29. ULTIMATE PARENT COMPANY AND POTENTIAL CHANGE OF CONTROL

The immediate parent company of the Group is Cable Road (UK) Limited ("CRUK"), a company registered in England. Copies of the financial statements of CRUK may be obtained from Companies House, Cardiff.

Until 17 December 1996 CRUK was owned by Le Groupe Vidéotron Ltée ("GVL"), a public company registered in Canada. The financial statements of Le Groupe Vidéotron Ltée are available from the secretary, 300, Avenue Viger Est, Montréal, Québec, H2X 3W4, Canada.

On 22 October 1996 Bell Cablemedia plc ("BCM") announced that it had entered into a conditional agreement with GVL to acquire CRUK. This agreement was conditional upon receipt of certain consents from lenders and noteholders of BCM and the receipt of certain regulatory approvals. These conditions were satisfied by 17 December 1996 and BCM acquired control of CRUK on that date.

BCM has a 31 December financial year end. Copies of the financial statements of BCM are available from the secretary, Bell Cablemedia House, Upton Road, Watford, Hertfordshire, WD1 7EL, England.

ADDITIONAL INFORMATION FOR US INVESTORS
Year ended 31 August 1996

The consolidated financial statements included earlier in this document are prepared in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP), which differ in certain material respects from those generally accepted in the United States of America (US GAAP). Differences relevant to the Group are discussed below. While this is not a comprehensive summary of all differences between UK GAAP and US GAAP, other differences are considered not likely to have a material effect on the consolidated net income and shareholders' equity of the Group.

Goodwill

Under UK GAAP, costs of acquisition in excess of the fair value of the attributable net assets of acquired businesses at the date of acquisition (goodwill) may be capitalised or may be written off against shareholders' equity. The Group writes off goodwill arising on consolidation against shareholders' equity in the consolidated balance sheet in fiscal year in which the results of the acquired company are first incorporated in the Group's results. Under US GAAP, goodwill is capitalised and amortised against income over the estimated period during which benefits will be derived, but not in excess of forty years. For US GAAP purposes, the Group has amortised goodwill over the average life of franchises held by the acquired companies, being 23 years. The gross amount of goodwill subject to amortisation in the years ended 31 August 1996 and 1995 was £20,222,000.

Intangible assets - deferred development expenditure and financing costs

Under UK GAAP, costs which are not associated with the construction of the telecommunications network but are attributable to the business as a whole may be deferred to future periods. Under US GAAP, these costs are expensed as incurred.

In addition, under UK GAAP, long-term debt is shown net of costs incurred during financing which are then amortised over the life of the debt. Under US GAAP, these costs are presented as an intangible asset.

Capitalisation and depreciation of cable television/telecommunications network costs

In the UK GAAP financial statements, certain costs incurred during the installation period of a telecommunications network may be capitalised in proportion to the level of construction activity.

Under US GAAP, in accordance with SFAS No 51. "Financial Reporting by Cable Television Companies", ("SFAS 51") only those costs that can be specifically associated with the construction of the telecommunications network, such as the cable television plant, including materials, direct labour, and construction overhead, are capitalised. All other costs are expensed as period costs.

The majority of the Group's hubs are combined cable television and telecommunications hubs. Under UK GAAP, the Group follows a policy under which depreciation does not commence for a combined cable television and telecommunications hub until the total number of cable television and telecommunications customers exceeds 45% of the total homes in the hub or three years have elapsed from the commencement of construction, whichever comes sooner. For this purpose each home is treated as having the potential of two customers, being one for a cable television customer and one for a telephone customer.

Under SFAS 51, during the period while a portion of the telecommunications network is partially under construction and partially in service (the "prematurity period"), monthly depreciation is based on a proportion of actual or projected subscribers to the total number of customers expected at the end of the prematurity period. Prematurity periods for the Group have been determined to be two years for purposes of applying SFAS 51.

ADDITIONAL INFORMATION FOR US INVESTORS
Year ended 31 August 1996

Deferred taxation

Under UK GAAP, no provision is made for potential deferred tax liabilities which are not expected to crystallise in the foreseeable future. Deferred tax assets in respect of operating losses are generally not recognised unless realisation is assured beyond a reasonable doubt. Under US GAAP, in accordance with SFAS No. 109 "Accounting for Income Taxes" ("SFAS 109") a full provision is made for all deferred tax liabilities. Deferred tax assets are recognised for deductible temporary differences and net operating tax losses, reduced by a valuation allowance, if it is more likely than not that some portion or all of the benefit will not be realised.

The net unrecognised deferred tax asset in respect of tax losses at 31 August 1996 was approximately £77 million (1995 - £28.0 million). Under SFAS 109, a valuation allowance equal to these amounts would be required.

Consolidated statements of cash flows

The Consolidated Statements of Cash Flows prepared under UK GAAP differs in certain presentational respects from the format required under SFAS No. 95, "Statement of Cash Flows" ("SFAS 95"). Under UK GAAP, a reconciliation of loss from operations to cash flows from operating activities is presented in a footnote, and cash paid for interest and income taxes are presented separately from cash flows from operating activities. Under SFAS 95, cash flows from operating activities are based on net loss, include interest and income taxes, and are presented on the face of the statement. UK GAAP requires cash and cash equivalents to be presented net of overdrafts; SFAS 95 treats overdrafts within financing activities.

The effects on net income of the differences between UK GAAP and US GAAP are as follows:

	1996 £'000	1995 £'000
Loss in accordance with UK GAAP	(16,288)	(13,161)
Amortisation of goodwill	(876)	(881)
Capitalisation of telecommunications network costs and deferred development expenditure	(5,918)	(5,647)
Accelerated depreciation	(1,304)	(2,065)
Loss in accordance with US GAAP	(24,386)	(21,754)

The effects on shareholders' equity of differences between UK GAAP and US GAAP are as follows:

	1996 £'000	1995 £'000
Shareholders' equity in accordance with UK GAAP	192,762	205,869
Goodwill, net of amortisation	14,133	15,009
Capitalisation of telecommunications network costs and deferred development expenditure	(36,686)	(30,768)
Accelerated depreciation	(12,081)	(10,777)
Shareholders' equity in accordance with US GAAP	158,128	179,333

ADDITIONAL INFORMATION FOR US INVESTORS
Year ended 31 August 1996

CONSOLIDATED STATEMENT OF OPERATIONS IN ACCORDANCE WITH US GAAP (£'000)

	1996	1995
Revenues	81,757	57,490
Operating expenses	(70,674)	(54,075)
Non cash technical assistance fees	(2,815)	(1,833)
Depreciation and amortisation	(18,615)	(15,431)
Loss from operations	(10,347)	(13,849)
Net interest expense	(14,181)	(7,952)
Loss from operations before income taxes	(24,528)	(21,801)
Income tax credit	142	47
Net loss	(24,386)	(21,754)
Net loss per ordinary share	£(0.09)	£(0.09)
Net loss per ADS	£(0.44)	£(0.43)

CONSOLIDATED BALANCE SHEET IN ACCORDANCE WITH US GAAP (£'000)

	1996	1995
ASSETS		
Total current assets	43,064	83,723
Other assets	8,478	13,941
Property, plant and equipment - net	463,395	355,404
Intangible assets - net	12,014	9,157
Goodwill - net	14,133	15,009
TOTAL ASSETS	541,084	477,234
LIABILITIES, REDEEMABLE PREFERENCE SHARES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	50,717	41,551
Current portion of long-term debt	2,706	2,017
Total current liabilities	53,423	43,568
Long-term debt	329,533	254,333
Total Liabilities	382,956	297,901
Shareholders' Equity:		
Common stock and additional paid in capital	253,622	250,441
Deficit	(95,494)	(71,108)
Total Shareholders' Equity	158,128	179,333
TOTAL LIABILITIES, REDEEMABLE PREFERENCE SHARES AND SHAREHOLDERS' EQUITY	541,084	477,234

ADDITIONAL INFORMATION FOR US INVESTORS
Year ended 31 August 1996

CONSOLIDATED STATEMENT OF CASH FLOWS (£'000)

	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(24,386)	(21,754)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortisation	18,615	15,431
Loss on sale of property, plant and equipment	(6)	(71)
Increase in accounts receivable	(12,782)	(13,591)
Increase in accounts payable and accrued liabilities	27,472	4,944
Accrued interest on 2004 and 2005 Notes	31,041	19,034
Foreign exchange (gain)/loss on 2005 Notes	(910)	1,818
Debt issuance costs	316	(3,491)
Purchase of option premium	-	(13,248)
Payment of Senior Loan Facility arrangement fees	(212)	(3,309)
Technical assistance fees paid by issue of shares	1,980	1,447
Administrative expenses paid by issue of shares	521	622
Net cash provided by/(used in) operations	41,649	(12,168)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment including capitalised interest	(124,966)	(115,435)
Purchase of intangible assets	-	(127)
Purchase of investments	-	(113)
Disposal of property, plant and equipment	457	210
Net cash used in investing activities	(124,509)	(115,465)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	189	80,448
Senior loan facility	46,000	-
Gross proceeds of 2005 Notes	-	95,019
Redemption of redeemable preference shares	-	(51,130)
Principal payments on finance lease obligations and mortgage	(1,947)	(3,277)
Repayment of finance lease	(18,277)	(34,558)
Net cash provided by financing activities	25,965	86,502
NET DECREASE IN CASH	(56,895)	(41,131)
Cash at beginning	55,061	96,192
(Overdraft)/Cash at end	(1,834)	55,061

Cash interest paid amounted to £5,209,000 for the year ended 31 August 1996 (£3,964,000) for the year ended 31 August 1995.

FINANCIAL & OPERATIONAL HIGHLIGHTS
Year ended 31 August 1996

	1996	1995
Cable television		
Average monthly revenue per customer	£22.69	£21.29
No of customers	134,975	103,361
No of customers gained in year (net)	31,614	15,980
No of homes passed	651,168	561,556
Penetration based upon homes passed	20.7%	18.4%
Churn (annualised)	25.4%	29.6%
Pay to basic ratio	154.4%	159.2%
Residential telephone		
Average monthly revenue per customer	£31.19	£31.18
No of customers	123,133	86,506
No of customers gained in year (net)	36,627	25,729
No of homes passed	595,703	485,172
Penetration based upon homes passed	20.7%	17.8%
Churn (annualised)	22.1%	17.4%
Residential Market Penetration	27.7%	24.3%
Business telecommunications		
Average monthly revenue per Business Exchange Line ("BEL") (£)	£54.06	£53.58
No of BELs	18,654	12,448
Average monthly revenue per business customer (£)	£202.86	£169.47
No of business customers	4,624	3,664
No of BELs per customer	4.0	3.4
Businesses passed	26,771	23,532
Penetration based upon business passed	17.3%	15.6%