UK Living Limited

Directors' report and financial statements

Registered number 2802598

31 December 2002

Contents

Directors' report	1
Statement of directors' responsibilities	2
Independent auditors' report to the members of UK Living Limited	3
Profit and loss account	5
Balance sheet	6
Notes	7

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2002.

Principal activities

The principal activity of the company is to operate "Living", a television channel which broadcasts programmes on cable and satellite television.

Going concern

The company's ultimate shareholder, Telewest Communications plc, is renegotiating its bank facilities and debt financing arrangements. Further details of the financial restructuring are included within Note 1, basis of preparation.

Results and business review

The results for the year ended 31 December 2002 and the financial position of the company at that date are set out on pages 5 and 6 of the financial statements.

The directors do not recommend the payment of a dividend *(2002: £nil)*.

Directors and directors' interests

The directors who held office during the year and to the date of this report were as follows:

SS Cook
MW Luiz
AN Singer (resigned 31 July 2002)
C Burdick

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

All of the current directors were also directors of Telewest Communications plc at the year end. The interests of the directors who held office at the end of the year in the share capital of that company are disclosed in the Telewest Communications plc group financial statements.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Auditor

Pursuant to a shareholders resolution, the company is not obliged to re-appoint its auditors annually and KPMG Audit Plc will therefore continue in office.

By order of the board

C Burns

C Burns
Secretary

Export House
Cawsey Way
Woking, Surrey
GU21 6QX

1 August 2003

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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

KPMG Audit Plc

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Independent auditors' report to the members of UK Living Limited

We have audited the financial statements on pages 5 to 14.

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 any audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

Basis of audit 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.

Fundamental uncertainty – going concern

In forming our opinion, we have considered the adequacies of the disclosures made in note 1 to the financial statements concerning the fundamental uncertainty as to the ability of the company to continue to meet their debts as they fall due. This depends on the successful conclusion of the financial restructuring, which is referred to in note 1.

In view of the significance of this uncertainty we consider that this should be brought to your attention but our opinion is not qualified in this respect.

Independent auditors' report to the members of UK Living Limited *(continued)*

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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

1 August 2003

Profit and loss account

for the year ended 31 December 2002

	Note	2002 £000	2001 £000
Turnover	*1*	**38,236**	37,562
Cost of sales		**(27,641)**	(20,515)
Gross profit		**10,595**	17,047
Distribution costs		**(5,880)**	(5,296)
Administrative expenses		**(2,068)**	(2,964)
Other operating income		**237**	382
Operating profit		**2,883**	9,169
Interest payable and similar charges	*7*	**(1,191)**	(1,414)
Profit on ordinary activities before and after taxation	*2-4*	**1,692**	7,755
Retained profit for the financial year		**1,692**	7,755
Retained deficit brought forward		**3,267**	(4,488)
Retained profit carried forward		**4,959**	3,267

All of the above results are derived from continuing operations.

The company had no recognised gains or losses other than those included in the profit and loss account in either the current or previous year and therefore no separate statement of total recognised gains and losses has been presented.

The historical cost profits in current and prior years are the same as those reported above.

The notes on pages 7 to 14 form part of the financial statements.

Balance sheet

at 31 December 2002

	Note	2002		2001	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	8		-		1
Current assets					
Stock	9	53		50	
Debtors - due within one year	10	7,103		7,645	
- due after more than one year	10	30,642		30,642	
		37,798		38,337	
Creditors: amounts falling due within one year	11	(2,184)		(4,416)	
Net current assets					
- due within one year			4,972		3,279
- due after more than one year			30,642		30,642
			35,614		33,921
Total assets less current liabilities			35,614		33,922
Creditors: amounts falling due after more than one year	12		(30,642)		(30,642)
Net assets			4,972		3,280
Capital and reserves					
Called up share capital	13		1		1
Share premium account	14		12		12
Profit and loss account	14		4,959		3,267
Shareholders' funds – equity	15		4,972		3,280

These financial statements were approved by the board of directors on 1 August 2003 and were signed on its behalf by:

MW Luiz
Director

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

The financial statements are prepared on a going concern basis, which the directors believe to be appropriate for the following reasons.

The company relies on continuing financial support from its ultimate shareholder, Telewest Communications plc ("the Group"), which has continued to provide support since the year-end. The directors have assumed that the Group will continue to provide support for at least twelve months from the date of the financial statements on the basis that there will be a successful conclusion of the Group's financial restructuring negotiations with its senior lenders and bond creditors.

Following the Group's decision on 30 September 2002 not to pay interest on certain of the Group's bonds and other hedging instruments, the Group is now in default of a majority of its bonds and its Senior Secured Facility.

These liabilities are now due for repayment in full and the Group is negotiating with its bondholder creditors ("the Scheme Creditors") and bank facility creditors ("Senior Lenders") to effect a reorganisation of the Group's debt. This will involve, inter alia, the conversion of bond debt to equity and the renegotiation of existing bank facilities. The directors believe the amended facilities will provide the Group with sufficient liquidity to meet the Group's funding needs after completion of the financial restructuring.

In order for the restructuring to be effective, the Scheme Creditors need to approve the plan by the relevant statutory majority. In addition, the Group's shareholders need to approve the proposed share capital reorganisation.

The directors are of the opinion that the status of the renegotiation of the financial restructuring will lead to a successful outcome.

Therefore the directors believe that there are sufficient grounds to continue to use the going concern basis for the preparation of the financial statements. the financial statements do not include any adjustments that would result in the basis of preparation being inappropriate.

In view of the financial restructuring and the general decline in media and telecommunications valuations, the Group is reviewing the carrying value of its goodwill (including a review of the carrying value of investments at a company level) and the recoverability of its intercompany balances.

The Company adopted Financial Reporting Standard 19 (Deferred Tax) during the year.

Cash flow statement

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

Notes *(continued)*

1 Accounting policies *(continued)*

Fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation.

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

Fixtures, fittings and equipment	-	3-5 years

Foreign currencies

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 using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Turnover

Turnover consists of net advertising revenue and subscriber fees excluding value added tax. Advertising revenue is recognised in the period in which the advertising commercials or programmes are broadcast. Subscriber fees are recognised in the period during which the programming is provided. Other operating income consists of revenue derived from the re-sale of excess capacity on the satellite transponders which the company leases.

Notes *(continued)*

1 Accounting policies *(continued)*

Pension costs

The company does not have a pension scheme but contributes to the schemes of the employees' choice.

Leases

Operating lease rental payments are charged to the profit and loss account on a straight line basis over the life of the lease.

Work in progress

Work in progress consists of costs incurred on the production of television programmes during the year not yet completed. When completed the programmes are transferred at net book value to Flextech Rights Limited, a fellow group undertaking.

2 Profit on ordinary activities before taxation

	2002	2001
	£000	£000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Audit	**12**	8
Depreciation on tangible fixed assets	**1**	-
Hire of other assets - operating leases	**605**	605

3 Tax on ordinary activities

	2002	2001
	£000	£000
Tax on ordinary activities	**-**	-

Reconciliation of the company's current tax to the UK statutory rate:

	2002	2001
	£000	£000
Tax on pre tax profits at 30%	**508**	2,327
Effects of:		
Expenses not deductible for tax purposes	**-**	6
Utilisation of tax losses	**(508)**	(2,340)
Deferred tax movement in respect of previous periods	**-**	7
Current tax (see above)	**-**	-

Notes *(continued)*

4 Deferred taxation

A deferred tax asset of £69,000 has not been recognised on timing differences. These assets can only be deducted against certain types of future income. There is currently insufficient evidence that the right type of income will be generated.

5 Remuneration of directors

No director received any remuneration during the year *(2001: £nil)*.

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	
	2002	2001
Production	**15**	15
Administration	**4**	3
Directors	**3**	4
	22	22

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£000	£000
Wages and salaries	**1,070**	682
Social security costs	**103**	71
Other pension costs	**50**	36
	1,223	789

7 Interest payable and similar charges

	2002	2001
	£000	£000
On redeemable unsecured loan stock	**1,191**	1,414

The above amounts were payable to group undertakings.

Notes *(continued)*

8 Tangible fixed assets

	Fixtures, fittings and equipment £000
Cost	
At beginning and end of year	149
Depreciation	
At beginning of year	148
Charge for year	1
At end of year	149
Net book value	
At 31 December 2002	-
At 31 December 2001	1

9 Stock

	2002 £000	2001 £000
Work in progress	**53**	50

10 Debtors

	2002 £000	2001 £000
Amounts due within one year		
Trade debtors	**2**	2
Amounts owed by group undertakings	**4,390**	3,366
Prepayments and accrued income	**2,711**	4,277
	7,103	7,645
Amounts due after more than one year		
Amounts owed by group undertakings	**30,642**	30,642
	37,745	38,287

Notes *(continued)*

11 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Amounts owed to group undertakings	-	3,181
Accruals and deferred income	2,033	1,050
Trade creditors	151	185
	2,184	4,416

12 Creditors: amounts falling due after more than one year

	2002 £000	2001 £000
Redeemable unsecured loan stock	30,642	30,642

£nil *(2001:£nil)* redeemable unsecured loan stock was repaid in the year. Interest of £1,191,000 *(2001: £1,414,000)* accrued in the year. Cumulative accrued interest on the loan stock was £13,396,000 as at 31 December 2002 *(2001: £12,205,000)*. Interest is accrued at a rate of 2% above the base rate of the National Westminster Bank plc. The accrued interest and loan stock may be repaid to group companies on certain dates after 31 December 2002 depending on certain criteria on the liquidity of the company being met.

13 Called up share capital

	2002 £	2001 £
Authorised, allotted, called up and fully paid		
136,000 ordinary shares of 1 pence each	1,360	1,360

14 Share premium and reserves

	Share premium account £000	Profit and loss account £000
At beginning of year	12	3,267
Retained profit for the financial year	-	1,692
At end of year	12	4,959

Notes *(continued)*

15 Reconciliation of movement in shareholders' funds – equity

	2002 £000	2001 £000
At beginning of the year	**3,280**	(4,475)
Retained profit for the financial year	**1,692**	7,755
At end of the year	**4,972**	3,280

16 Contingent liabilities

The company has joint and several liabilities under a group VAT registration.

The company, together with other group companies, has given a guarantee and a fixed and floating charge over certain of its assets to secure borrowings of other group companies. The guaranteed borrowings of those companies was £2,250 million *(2001:£2,250 million)*, of which £2,000 million *(2001:£1,360 million)* was drawn down at the year end.

On 16 March 2001, Telewest Communications plc renegotiated all of the group's bank facility combining those of both Flextech Limited and Telewest Communications plc. The above guarantee and draw down reflects the new facility.

17 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2002 Other £000	2001 Other £000
Operating leases which expire:		
Over five years	**605**	605

Notes *(continued)*

18 Related party transactions

As the company is a wholly owned subsidiary of Telewest Communications plc, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Telewest Communications plc, within which the company is included, can be obtained from the address given in note 19.

19 Ultimate parent company

At the year end the company was a subsidiary undertaking of Telewest Communications plc, incorporated in England and Wales.

The largest and smallest group in which the results of the company were consolidated is that headed by Telewest Communications plc. The consolidated financial statements of Telewest Communications plc may be obtained from 160 Great Portland Street, London W1W 5QA.