

**Flextech Family Channel Limited**

**Directors' report and financial  
statements**

**Registered number 2856303**

**31 December 2002**



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## 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 was to hold an investment in Maidstone Broadcasting, operator of 'Challenge TV', and a gameshow television channel, which broadcasts via cable and satellite. On 16 March 2001 a reorganisation of the Telewest group took place. As part of this reorganisation the company disposed of its investment in Maidstone Broadcasting (see note 6). The company does not trade.

### 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

Results for the year are set out on page 5 of the financial statements.

The directors do not recommend the payment of a dividend (2001: £nil).

### Directors and directors' interests

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

C Burdick  
SS Cook  
MW Luiz

None of the directors had any disclosable interest in the shares of the company during the year.

MW Luiz, SS Cook and C Burdick 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 accounts.

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 reappoint its auditor annually and KPMG Audit Plc will therefore continue in office.

By order of the board



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 period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company 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 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.



KPMG Audit Plc

PO Box 695  
8 Salisbury Square  
London  
EC4Y 8BB

## **Independent auditors' report to the members of Flextech Family Channel Limited**

We have audited the financial statements on pages 5 to 12.

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 auditor**

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 it should be brought to your attention but our opinion is not qualified in this respect.

**Independent auditors' report to the members of Flextech Family Channel 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 loss 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*

	<i>Note</i>	<b>2002</b> <b>£000</b>	<b>2001</b> <b>£000</b>
<b>Turnover</b>		-	-
Administrative expenses		<b>(197,959)</b>	(1,175)
<b>Operating loss</b>		<b>(197,959)</b>	(1,175)
Other interest receivable and similar income	5	959	1,175
<b>Loss on ordinary activities before and after taxation</b>	2-4	<b>(197,000)</b>	-

All the above results are derived from continuing operations.

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

The notes on pages 8 to 12 form part of these financial statements.

## Balance sheet

at 31 December 2002

	Note	2002 £000	2001 £000
<b>Fixed assets</b>			
Investments	6	19,186	19,186
<b>Current assets</b>			
Debtors – due after more than one year	7	-	197,000
<b>Net current assets – due after one year</b>		-	197,000
<b>Total assets less current liabilities</b>		19,186	216,186
<b>Creditors: amounts falling due after more than one year</b>	8	(22,423)	(22,423)
<b>Net (liabilities)/assets</b>		(3,237)	193,763
<b>Capital and reserves</b>			
Called up share capital	9	-	-
Profit and loss account	10	(3,237)	-
Other reserves	10	-	193,763
<b>Shareholders' (deficit)/funds – equity</b>	11	(3,237)	193,763

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

MW Luiz  
Director



## Statement of total recognised gains and losses

*for the year ended 31 December 2002*

	2002 £000	2001 £000
Loss for the financial year	(197,000)	-
Unrealised gain on sale of investment (note 6)	-	193,763
<b>Total recognised gains and losses relating to the financial year</b>	<b>(197,000)</b>	<b>193,763</b>

## 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 company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts, as it is a subsidiary of Telewest Communications plc, an UK company producing consolidated financial statements.

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 FRS 19 (Deferred Tax) during the year.

#### ***Investments***

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

## Notes (continued)

### 1 Accounting policies (continued)

#### *Cash flow statement*

The company is exempt from the requirement of Financial Reporting Standard 1 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.

#### *Deferred taxation*

Deferred tax is recognised in respect of all timing differences, which 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 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 statement 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.

### 2 Tax on ordinary activities

	2002 £000	2001 £000
Tax on ordinary activities	-	-
Reconciliation of the company's current tax to the UK statutory rate:		
	2002 £000	2001 £000
Tax on pre tax profits at 30%	(59,100)	-
Effects of:		
Timing differences	59,388	352
Utilisation of tax losses	(288)	(352)
Total current tax charge (see above)	-	-

## Notes (continued)

### 3 Directors' remuneration

No directors received remuneration from the company (2001: £nil). The company did not have any other employees (2001: nil).

### 4 Loss on ordinary activities before tax

The audit fee has been borne by the parent company in this and the previous year.

The operating loss for 2002 includes a bad debt provision of £197,000,000 relating to balances due from group undertakings, due to their likely irrecoverability.

### 5 Other interest receivable and similar income

	2002 £000	2001 £000
Receivable from group undertakings	959	1,175

### 6 Fixed asset investments

	Loans to Subsidiary £000
<i>Cost</i>	
At start and end of year	19,186

On 16 March 2001 a reorganisation of the Telewest group took place. As a result of this reorganisation the company disposed of its shareholding in Maidstone Broadcasting to another group company in exchange for shares in that company. These shares were subsequently sold to another group company with consideration being received via an intercompany account. As a result of these transactions an unrealised gain of £193,763,000 arose (being the difference between the book value and the market value of the investment at the date of disposal) which has been recognised in the Statement of Total Recognised Gains and Losses in 2001.

### 7 Debtors: amounts falling due after one year

	2002 £000	2001 £000
Amounts owed by group undertakings	-	197,000

**Notes (continued)**

**8 Creditors: amounts falling due after more than one year**

	2002 £000	2001 £000
Amounts owed to group undertakings	22,423	22,423

**9 Called up share capital**

	2002 £	2001 £
<i>Authorised</i>		
1,000 Ordinary shares of £1 each	1,000	1,000
<i>Allotted, called up and fully paid</i>		
2 Ordinary shares of £1 each	2	2

**10 Profit and loss account and other reserves**

	Profit and Loss Account £	Other Reserves £
At beginning of year	-	193,763
Loss for the year	(197,000)	-
Reallocation from other reserves	193,763	(193,763)
<b>At end of year</b>	<b>(3,237)</b>	<b>-</b>

At 31 December 2002, Telewest Communications plc ("the Group") has reviewed the recoverability of its Group intercompany balances. As a result of this review, the Company has provided £197,000,000 against amounts owed by group undertakings. To the extent that these balances originally arose as a result of the Group reorganisation of March 2001, the unrealised gains that also arose as a result of that reorganisation have been realised and hence transferred to the profit and loss account via a movement on reserves.

## Notes (continued)

### 11 Reconciliation of movements in shareholders' (deficit)/funds - equity

	2002 £	2001 £
Loss for the year	(197,000)	-
Other recognised gains and losses relating to the year	-	193,763
<b>Net (reduction)/addition to shareholders' funds</b>	<b>(197,000)</b>	<b>193,763</b>
Opening shareholders' funds - equity	193,763	-
<b>Closing shareholders' (deficit)/funds - equity</b>	<b>(3,237)</b>	<b>193,763</b>

### 12 Contingent liabilities

The company, together with other group companies, has given a guarantee and a fixed and a floating charge over certain of its assets to secure borrowings of other group companies. The guaranteed borrowings of these 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.

### 13 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 statements of Telewest Communications plc, within which the company is included, can be obtained from the address given in note 14.

### 14 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 accounts of Telewest Communications plc may be obtained from 160 Great Portland Street, London W1N 5TB.