Flextech Interactive Limited

Directors' report and financial statements

Registered number 3184754

31 December 2002

Contents

Directors' report

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

Principal activities

The company's principal activity is the operation of interactive services on internet, cable and satellite television systems in the UK.

Results and business review

The results for the year ended 31 December 2002 are set out on page 5 of the financial statements. The directors are unable to recommend payment of a dividend *(2001: £nil)*.

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.

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
C Burdick

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

All of the current directors are also directors of Telewest Communications plc. 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 or any group 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

C Burns
Secretary

Export House
Cawsey Way
Woking
Surrey
GU21 6QX

7 OCTOBER 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 Interactive 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 our 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.

Independent auditors' report to the members of Flextech Interactive Limited
(continued)

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.

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

7 OCTOBER 2003

Profit and loss account

for the year ended 31 December 2002

	Note	2002		2001	
		£000	**£000**	£000	£000
Turnover					
Continuing operations		**3,015**		4,182	
Discontinued operations		**9**		218	
			3,024		4,400
Cost of sales			**(1,390)**		(1,915)
Gross profit			**1,634**		2,485
Distribution costs			**(2,446)**		(2,195)
Administrative expenses			**(5,375)**		(14,662)
Other operating income			**207**		192
Operating loss					
Continuing operations	*4*	**(4,929)**		(5,285)	
Discontinued operations	*4*	**(1,051)**		(8,895)	
			(5,980)		(14,180)
Profit on sale of operation	*6*		**2,795**		-
Other interest receivable and similar income			**114**		-
Amounts written off investments	*11*		**(3,803)**		-
Interest payable and similar charges	*7*		**(27)**		(104)
Loss on ordinary activities before and after taxation	*2-5, 8*		**(6,901)**		(14,284)
Retained loss for the year			**(6,901)**		(14,284)

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

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

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

Balance sheet

at 31 December 2002

	Note	2002		2001	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*10*		**125**		397
Investments	*11*		**1,871**		12,879
			1,996		13,276
Current assets					
Stock	*12*	**507**		80	
Debtors	*13*	**2,827**		159	
Cash		**-**		25	
		3,334		264	
Creditors: amounts falling due within one year	*14*	**(42,080)**		(43,389)	
Net current liabilities			**(38,746)**		(43,125)
Total assets less current liabilities			**(36,750)**		(29,849)
Net liabilities			**(36,750)**		(29,849)
Capital and reserves					
Called up share capital	*15*		**1**		1
Profit and loss account			**(36,751)**		(29,850)
Shareholders' deficit - equity	*16*		**(36,750)**		(29,849)

These financial statements were approved by the board of directors on 7 OCTOBER 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 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.

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, Related Party Transactions, 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 19. There were no other related party transactions.

Notes *(continued)*

1 Accounting policies *(continued)*

Cash flow statement

The company is exempt from the requirement of Financial Reporting Standard 1, Cash flow statements, (revised 1996), to prepare a cash flow statement on the grounds that its ultimate parent undertaking, Telewest Communications plc, includes the company in its own published consolidated financial statements.

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:

Computer equipment	-	4 years

Investments

Investments held as fixed assets are stated at cost less provision for impairment.

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 and 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 represents the total invoice value, excluding value added tax, of goods sold and services rendered during the year. Other operating income consists of revenue derived from the re-sale of excess capacity on the satellite transponders which the company leases.

Pension costs

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

Stock

Stocks are stated at the lower of cost and net realisable value.

Notes *(continued)*

Operating leases

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

2 Loss on ordinary activities before taxation

	2002 **£000**	2001 £000
Loss on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Audit	**6**	10
Depreciation and other amounts written off tangible fixed assets – owned	**421**	1,105
Impairment of fixed assets	**3,803**	3,678
Hire of other assets – operating leases	**530**	531

3 Remuneration of directors

The directors did not receive any remuneration from the company during the year *(2001:£nil)*. These costs are borne by another group undertaking.

4 Analysis of continuing and discontinued operations

	2002			2001		
	Continuing £000	**Discontinued £000**	**Total £000**	Continuing £000	Dis-continued £000	Total £000
Turnover	**3,015**	**9**	**3,024**	4,182	218	4,400
Cost of sales	**(1,312)**	**(78)**	**(1,390)**	(1,072)	(843)	(1,915)
Gross profit/(loss)	**1,703**	**(69)**	**1,634**	3,110	(625)	2,485
Distribution costs	**(1,731)**	**(715)**	**(2,446)**	(803)	(1,392)	(2,195)
Administrative expenses	**(4,901)**	**(474)**	**(5,375)**	(7,592)	(7,070)	(14,662)
Other operating income	**-**	**207**	**207**	-	192	192
Operating loss	**(4,929)**	**(1,051)**	**(5,980)**	(5,285)	(8,895)	(14,180)

Notes *(continued)*

5 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
Management and office staff	**50**	67

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£000	£000
Wages and salaries	**3,154**	3,833
Social security costs	**226**	407
Other pension costs	**81**	142
	3,461	4,382

6 Profit on sale of operation

In June 2002, the company sold its investment in The Way Ahead Group Limited for £10.0m. A profit of £2.8m was made on the transaction.

7 Interest payable and similar charges

	2002	2001
	£000	£000
On loan stock	**27**	104

8 Tax on ordinary activities

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

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

	2002	2001
	£000	£000
Tax on pre tax profits at 30%	**(2,070)**	(4,285)
Effects of:		
Expenses not deductible for tax purposes	**-**	17
Utilisation of tax losses	**-**	-
Deferred tax movement	**2,070**	4,268
Current tax	**-**	-

Notes *(continued)*

9 Deferred taxation

A deferred tax asset of £6,500,000 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.

10 Tangible fixed assets

	Computer equipment £000
Cost	
At start of year	6,135
Additions	149
At end of year	6,284
Depreciation	
At start of year	5,738
Charge for year	421
At end of year	6,159
Net book value	
At end of year	**125**
At start of year	397

Notes *(continued)*

11 Investments

	Shares in subsidiary and associated undertakings £000
Cost	
At beginning of year	12,879
Disposals	(7,205)
At end of year	5,674
Provisions	
At beginning of year	-
Provided in year	3,803
At end of year	3,803
Net book value	
At 31 December 2002	**1,871**
At 31 December 2001	12,879

Associated undertakings	Country of registration or incorporation	Principal activity	Class and percentage of shares held
Multi Media Mapping Limited	England and Wales	Operation of online mapping service	£1 ordinary 25.7%
X refer.com Limited	England and Wales	Operation of a web site	£1 ordinary 25%
Digital Mind Games Limited	England and Wales	Software development	£1 ordinary 31%

Telewest Communications plc ("the Group") undertook a review of the carrying value of investments at a company level during the year. As a result of this review £3,803,000 was provided against the company's equity holdings.

12 Stock

	2002 £000	2001 £000
Work in progress	**492**	45
Finished goods	**15**	35
	507	80

Notes *(continued)*

13 Debtors

	2002 £000	2001 £000
Amount owed by group undertakings	1,904	-
Prepayments and accrued income	923	159
	2,827	159

14 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Loan stock	-	1,000
Trade creditors	166	282
Amounts owed to group undertakings	41,022	40,488
Accruals and deferred income	892	1,619
	42,080	43,389

15 Called up share capital

	2002 £000	2001 £000
Authorised		
2,000 ordinary shares of £1 each	2	2
Allotted, called up and fully paid		
1,000 ordinary shares of £1 each	1	1

Notes *(continued)*

16 Reconciliation of movements in shareholders' deficit - equity

	2002 £000	2001 £000
Opening shareholders' deficit – equity	**(29,849)**	(15,565)
Loss for the financial year	**(6,901)**	(14,284)
Closing shareholders' deficit – equity	**(36,750)**	(29,849)

17 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.

18 Commitments

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

	2002 Other £000	2001 Other £000
Operating leases which expire:		
Within one year	**530**	530
In the second to fifth years inclusive	**2,119**	2,119
Over five years	**1,060**	1,060
	3,709	3,709

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 accounts of Telewest Communications plc may be obtained from 160 Great Portland Street, London W1W 5QA.