Merlin Communications International Limited

Directors' report and financial statements

Registered number 3196204

31 March 2002

Contents

Directors and advisers

Directors

CJ Cundy
SE Tarrant

Secretary and registered office

PG Dawes
Victoria Road
Woolston
Southampton
SO19 9RR

Registered auditors

KPMG
8 Salisbury Square
London
EC4Y 8BB

Solicitors

Dibb Lupton Alsop
125 London Wall
London
EC2Y 5AE

Bankers

HSBC Bank plc
26 Broad Street
Reading
Berkshire
RG1 2BU

Directors' report

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

Principal activities

The principal activities of the company are and will continue to be the operation and maintenance of radio broadcast and satellite distribution facilities, the design and building of those facilities as well as the transmission and digitalisation services incorporated therein.

Business review

The profit and loss account for the year is set out on page 6.

The directors consider the year's trading to be satisfactory and expect the current levels of growth to be sustained for the foreseeable future.

On 4 December 2001 the company's immediate parent, Merlin Communications Group Limited was acquired by Vosper Thornycroft Holdings plc.

Proposed dividend

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

Directors and directors' interests

The directors who held office during the year were as follows:

F Lowry	(resigned 4 December 2001)
K Cawood	(resigned 4 December 2001)
CJ Cundy	(appointed 4 December 2001)
SE Tarrant	(appointed 4 December 2001)

The directors did not hold any interests in the share capital of the company at any time during the year.

The interests of the directors who held office at the year end in the shares of the parent company are disclosed in the accounts of Vosper Thornycroft Holdings plc.

Creditor payment policy

It is the company's policy to make payment to its suppliers within their stated payment terms. Where invoices for properly incurred expenses are correctly submitted the company remains successful in meeting this aim for the vast majority of transactions processed in the year. The company takes 13 days on average to pay its trade creditors (2001: 16 days).

Directors' report *(continued)*

Employment of disabled persons

It is the policy of the group that disabled people, whether registered or not, will receive full and fair consideration for all job vacancies. Employees who become disabled during their working life will be given the support and retraining they need to enable them to continue working. The group will actively modify procedures or equipment and adjust their environment to allow them to maximise their potential.

Employee involvement

The group involves employees in all issues through a range of communications initiatives including regular employee forums, informal events, formal briefing sessions and the company intranet system. The company offers through a continuous development process an incentivised pay system and focused training to enable staff to perform well and to develop their full potential.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

PG Dawes
Secretary

Victoria Road
Woolston
Southampton
SO19 9RR

5 July 2002

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 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

8 Salisbury Square
London EC4Y 8BB
United Kingdom

Independent auditor's report to the members of Merlin Communications International Limited

We have audited the financial statements on pages 6 to 20.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 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

12 December 2002

Profit and loss account

for the year ended 31 March 2002

	Note	2002 £000	2002 £000	2001 £000	2001 £000
Turnover	1				
Continuing operations		67,692		74,641	
Discontinued operations		1,495		1,205	
			69,187		75,846
Cost of sales			(61,950)		(63,818)
Gross profit			7,237		12,028
Distribution costs			(1,353)		(864)
Administrative expenses			(5,396)		(6,034)
Exceptional items	2		(3,319)		285
Operating (loss)/profit	3				
Continuing operations		4,368		7,456	
Discontinued operations		(7,199)		(2,041)	
			(2,831)		5,415
Other interest receivable and similar income	6		289		211
Interest payable and similar charges	7		(837)		(1,616)
Share of operating loss in joint venture			(80)		-
(Loss)/profit on ordinary activities before taxation	3		(3,459)		4,010
Tax on (loss)/profit on ordinary activities	8		6		(1,591)
Retained (loss)/profit for the financial year	18		(3,453)		2,419

Balance sheet
at 31 March 2002

	Note	2002 £000	2002 £000	2001 £000	2001 £000
Fixed assets					
Intangible assets	*9*		**1,740**		1,850
Tangible assets	*10*		**12,867**		13,236
Investments	*11*		**635**		1,069
			15,242		16,155
Current assets					
Stocks	*12*	**3,458**		2,773	
Debtors: amounts falling due within one year	*13*	**12,336**		9,487	
Debtors: amounts falling due after more than one year	*13*	**1,955**		1,955	
Cash at bank and in hand		**5,637**		9,895	
		23,386		24,110	
Creditors: amounts falling due within one year	*14*	**(22,111)**		(20,295)	
Net current assets			**1,275**		3,815
Total assets less current liabilities			**16,517**		19,970
Creditors: amounts falling due after more than one year	*15*		**(10,100)**		(10,100)
Net assets			**6,417**		9,870
Capital and reserves					
Called up share capital	*17*		**1,000**		1,000
Share premium account	*18*		**9,204**		9,204
Profit and loss account	*18*		**(3,787)**		(334)
Equity shareholders' funds			**6,417**		9,870

These financial statements were approved by the board of directors on 5 July 2002 and were signed on its behalf by:

CJ Cundy
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 March 2002

	2002 £000	2001 £000
(Loss)/profit for the financial year	(3,453)	2,419
Dividends	-	-
Net (reduction in)/addition to shareholders' funds	(3,453)	2,419
Opening shareholders' funds	9,870	7,451
Closing shareholders' funds	6,417	9,870

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 except as noted below.

Basis of preparation

The financial statements have been prepared in accordance with applicable 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.

Cash flow statement

In accordance with exemptions given in Financial Reporting Standard 1 (revised) the company has not prepared a cash flow statement since it is a wholly owned subsidiary of a parent undertaking whose consolidated financial statements are publicly available.

Intangible fixed assets - goodwill

Goodwill arising on the acquisition of a business represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on acquisitions is capitalised and then eliminated by amortisation through the profit and loss account over its estimated useful economic life of, generally, 20 years.

Fixed assets and depreciation

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

Freehold buildings	-	4% per annum
Plant and equipment	-	4% to 8%
Motor vehicles	-	25%
Office fixtures and fittings	-	10%
Computer equipment	-	20%
Leasehold property	-	Over the term of the lease

No depreciation is provided on freehold land.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. 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.

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the estimated useful economic lives of the assets to which they relate.

Notes *(continued)*

1 Accounting policies *(continued)*

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pension costs and other post-retirement benefits

The company operates a defined benefit pension scheme, which is contracted out of the state scheme. The funds are valued by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. It is the intention of the company to perform a similar review every three years. In the intervening years the actuary will review the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. Full provision is made for deferred taxation on timing differences arising from the provision of employee pensions and other post-retirement benefits.

Turnover

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

Related party transaction

Financial Reporting Standard 8 'related party transactions' required the disclosure of the detail of material transactions between the reporting entity and related parties. The company has taken advantage of exemption under this standard not to disclose transactions with group companies.

Stock

Stock is made up of Work In Progress, Raw Materials and Consumables. Work In Progress is valued in accordance with long term contracts detailed above. Raw Materials and Consumables are stated at the lower of cost and net realisable value.

Notes *(continued)*

2 Exceptional items

Exceptional items of £3,319,000 relate both to bonuses paid to staff under the terms of their contracts and transaction costs incurred by the company as a result of its acquisition by Vosper Thornycroft Holdings plc.

Exceptional credit of £285,000 represents the net of the impairment of assets purchased during the prior year and the write back of the depreciation charged on assets of the Satellite Services business in the prior year.

3 (Loss)/profit on ordinary activities before taxation

	2002	2001
	£000	£000
(Loss)/profit on ordinary activities before taxation is stated after (crediting)/charging:		
Auditors' remuneration:		
Audit	**36**	40
Other services	**-**	965
Depreciation and other amounts written off tangible fixed assets:		
Owned	**1,162**	1,556
Leased	**-**	41
Amortisation of goodwill	**110**	116
Exchange losses/(gains)	**115**	(4)
(Profit)/loss on disposal of fixed assets	**(63)**	607
Hire of other assets - operating leases	**595**	1,267

Notes *(continued)*

4 Remuneration of directors

	2002 **£000**	2001 £000
Directors' emoluments	206	234
Company contributions to money purchase pension schemes	15	21
	221	255

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £109,000 *(2001: £126,000)*. The highest paid director has accrued a pension during the year of £5,000 *(2001:* £7,000). The highest paid director in the year was a director until 4 December 2 at which point they resigned. Their emoluments for this year are for the period they were a director only ie 8 months (2001: 12 months).

	Number of directors	
	2002	2001
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	**2**	2

Since 4 December 2001, the remuneration of the directors has been borne by a fellow subsidiary, Vosper Thornycroft (UK) Limited. The Directors' emoluments are disclosed in the Vosper Thornycroft Holdings plc accounts.

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 administration	**59**	50
Operations	**344**	314
Sales and marketing	**11**	11
	414	375

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£000	£000
Wages and salaries	**12,853**	9,854
Social security costs	**848**	702
Other pension costs	**954**	855
	14,655	11,411

6 Other interest receivable and similar income

	2002	2001
	£000	£000
Amounts receivable on bank deposits	**289**	211

7 Interest payable and similar charges

	2002	2001
	£000	£000
Amounts payable on bank loans and overdrafts	**29**	-
Amounts payable on inter group loans	**808**	1,616
	837	1,616

Notes *(continued)*

8 Taxation

	2002	2001
	£000	£000
UK corporation tax charge at 30% *(2001: 30%)* on the profit for the year on ordinary activities	-	1,591
Overseas tax credit	(6)	-
	(6)	1,591

	2002	2001
	£000	£000
(Loss)/profit on ordinary activities before tax	**(3,459)**	4,010
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	**(1,038)**	1,203
Unrecognised increase in deferred tax asset	**1,038**	-
Disallowable expenditure	-	97
Revaluation of deferred tax asset	-	291
Overseas tax credit	(6)	-
	(6)	1,591

9 Intangible fixed assets

	Goodwill
	£000
Cost	
At 1 April 2001 and 31 March 2002	2,314
Aggregate amortisation	
At 1 April 2001	464
Charge for the year	110
At 31 March 2002	574
Net book value	
At 31 March 2002	**1,740**
At 31 March 2001	1,850

Notes *(continued)*

10 Tangible fixed assets

	Freehold land and buildings £000	Vehicles, plant and equipment £000	Office fixtures and fittings £000	Computer equipment £000	Total £000
Cost					
At beginning of year	4,245	11,690	147	1,318	17,400
Additions	96	251	8	542	897
Disposals	(57)	(23)	-	(33)	(113)
At end of year	4,284	11,918	155	1,827	18,184
Depreciation					
At beginning of year	(401)	(3,012)	(41)	(710)	(4,164)
Charged in year	(123)	(761)	(15)	(263)	(1,162)
On disposals	1	4	-	4	9
At end of year	(523)	(3,769)	(56)	(969)	(5,317)
Net book value					
At 31 March 2002	**3,761**	**8,149**	**99**	**858**	**12,867**
At 31 March 2001	3,844	8,678	106	608	13,236

Included under freehold land and buildings is land of £2,445,000 which is not depreciated.

Notes *(continued)*

11 Fixed asset investments

The company holds an investment in a joint venture, Iris Gateway Satellite Services Limited which is incorporated in Cyprus and provides satellite services between Europe and Asia. The company holds 50% of the ordinary shares.

	Shares and acquisition cost
	£000
At 1 April 2001	1,069
Impairment of investment value	(354)
Additional provision for impairment charged in the year	(80)
At 31 March 2002	**635**

12 Stocks

	2002	2001
	£000	£000
Raw materials and consumables	**3,306**	2,735
Work in progress	**152**	38
	3,458	2,773

The directors estimate the replacement cost of certain specialist raw materials and consumables to exceed their balance sheet value by approximately £1.6 million.

13 Debtors

	2002	2001
	£000	£000
Amounts falling due after more than one year		
Deferred taxation (note 16)	**1,955**	1,955
Amounts falling due within one year		
Trade debtors	**3,259**	6,758
Amounts owed by group undertaking	**8,528**	-
Prepayments and accrued income	**549**	2,729
	12,336	9,487
Total debtors	**14,291**	11,442

Notes *(continued)*

14 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Trade creditors	**1,843**	2,876
Payments received on account	**-**	4,655
Amounts owed to group undertakings	**3,671**	540
Taxation and social security	**746**	1,062
Accruals and deferred income	**15,851**	11,162
	22,111	20,295

15 Creditors: amounts falling due after more than one year

	2002 £000	2001 £000
Amounts owed to group undertakings	**10,100**	10,100

Interest was paid on the above amount at 8% (2001: 16%) and there is no fixed term of repayment. The parent company has indicated that repayment of this amount will not be made within 12 months from the approval of these accounts.

16 Deferred taxation

	2002 £000	2001 £000
Difference between accumulated depreciation and amortisation and capital allowances	**1,955**	1,955

There are no unprovided deferred tax liabilities.

17 Called up share capital

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

Notes *(continued)*

18 Share premium and reserves

	Share premium account £000	Profit and loss account £000
At beginning of year	9,204	(334)
Retained loss for the year	-	(3,453)
At end of year	9,204	(3,787)

19 Contingent liabilities

There were no contingent liabilities which in the opinion of the directors might have a material impact on the company at 31 March 2002.

20 Financial commitments

(a) There were no capital commitments at the end of the financial year for which no provision had been made.

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

	2002		2001	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	**68**	**20**	-	35
In the second to fifth years inclusive	**84**	**41**	752	100
Over five years	**381**	**-**	381	-
	533	**61**	1,133	135

At the year end the company had four bonds issued as follows:

	From	**To**	**£000**
Non construction performance bond	7 February 2000	28 February 2004	3,083
Ministry of Technical Affairs Oman bond	16 February 2000	15 August 2002	34
Advanced payment bond	17 February 2000	30 June 2003	552
Non construction performance bond	24 May 2000	30 June 2004	4,000
			7,669

The company has a bank guarantee of £114,713 for Sembcorp Power PTE Limited Singapore from 25 September 2001 to 25 September 2002.

Notes *(continued)*

21 Pension scheme

The group operates a defined benefit pension scheme. The scheme is subject to triennial valuation by professionally qualified and independent actuaries. The last formal valuation was carried out at 31 July 2001, using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The principle assumption in this valuation was that investment returns would be 2% higher than the rate of annual pay increases. The market value of the scheme's assets was £6,700,000, and the actuarial value of those assets represented 97% of the liability for benefits after allowing for expected future increases in earnings. Company contributions were increased with effect from 1 August 2001 to remove this deficit.

The latest scheme valuations have been updated by the actuaries on an FRS17 basis as at 31 March 2002. The major assumptions used in these valuations were:

Latest valuation date	31 July 2000
Rate of increase in salaries	4.25%
Rate of increase in pension payments	2.75% or 3.00%
Discount Rate	6.25%
Inflation assumption	2.75%
Long term return on equities	8.0%
Long term return on fixed interest gilts	5.0%

The assumptions used by the actuaries are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the scheme assets, which are not intended to be realised in the short term and may be subject to significant changes before they are realised, and the present value of the scheme liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain were:

	£000
Equities	7,342
Fixed interest gilts	816
Value of scheme assets	8,158
Value of liabilities	(9,961)
Deficit	(1,803)
Related deferred tax asset	541
Net pension liability	(1,262)

The amount of this net pension liability would have a consequential effect on reserves.

Notes *(continued)*

22 Related party transactions

During the year £464,862 (2001: £832,846) was paid to Shreeveport Management Consultancy, a company of which P Newport, a director of Merlin Communications Group Limited during the year, is also a director, for advice relating to strategic issues, marketing and other ad hoc advice. In addition £11,250 (2001: £15,000) was paid to Newport and Partners, a firm in which P Newport has an interest, for services as a Non-Executive Director.

Merlin Communications International Limited's fellow subsidiary, Costpool Limited, has a 20% interest in Alert Communications (Holdings) Limited. Alert Communications (Holdings) Limited wholly owns both Alert Communications International Limited and Alert Communications Limited.

During the year Merlin Communications International Limited invoiced Alert Communications International Limited £12,348,372 (2001 £23,763,646) in connection with the project build, reimbursed bid costs and project management fees. The company charged Alert Communications Limited an annual administration fee of £50,000 (2001: £50,000). The outstanding credit balance at the year end was £434,446 (2001: £1,209,601).

The company invoiced £29,500 (2001: 60,000) in respect of marketing and satellite services to its Joint Venture, Iris Gateway Satellite Services Limited and was charged £128,527 (2001:91,027) in respect of satellite distribution services received during the year ended 31 March 2002. The company has also provided an invoicing service for Iris Gateway Satellite Services Limited. At 31 March 2002, the amounts owing to Iris Gateway Satellite Services Limited amounted to £186,414 (2001: £38,536 was due from Iris Gateway Satellite Services Limited).

23 Ultimate parent company

Up until 4 December 2001 the company's immediate and ultimate parent was Merlin Communications Group Ltd. On 4 December 2001 Vosper Thornycroft Holdings plc acquired the entire share capital of Merlin Communications Group Ltd. As such at the year end the company's immediate parent remains Merlin Communications Group Ltd and its ultimate parent is Vosper Thornycroft Holdings plc. The smallest and largest company in which the company's results are consolidated is Vosper Thornycroft Holdings plc. Copies of their consolidated financial statements may be obtained from the Secretary, Victoria Road, Woolston, Southampton, SO19 9RR.