VT Merlin Communications Limited

(formerly Merlin Communications International Limited)

Directors' report and financial statements

Registered number 3196204

31 March 2003

VT Merlin Communications Limited
***(formerly* Merlin Communications International Limited)**
Directors' report and financial statements

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2003.

Principal activity

The principal activities of the company are and will continue to be the operation and maintenance of radio broadcast, 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 5.

The company changed its name from Merlin Communications International Limited on the 29 July 2002.

Directors and directors' interests

The directors of the company during the year were as follows:

CJ Cundy
SE Tarrant

CJ Cundy and SE Tarrant are directors of VT Group plc and their interests in the shares of that company and their rights to subscribe for shares of that company are shown in its directors' report.

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 37 days on average to pay its trade creditors *(2002: 13 days).*

Employment of disabled persons

Full and fair consideration is given to employment applications from disabled persons having regard to their particular aptitude and abilities. If an appropriate vacancy is available then, where practicable, arrangements will be made to continue the employment of an employee who becomes disabled. Disabled employees are given fair consideration for training, career development and promotion.

Employment policies

The development of employee involvement in the company's business is kept under regular review and the directors are committed to encouraging greater involvement of all employees. Formal and informal briefing of employees takes place as appropriate.

The company takes all reasonable steps to ensure that all employment conditions are applied regardless of sex, race, colour, ethnic background, religion or disability.

Directors' report *(continued)*

Auditors

In accordance with section 384 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

19 May 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; and
- 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 maintaining 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 fraud and other irregularities.

kpmg

KPMG Audit Plc
Dukes Keep
Marsh Lane
Southampton
Hampshire SO14 3EX

Report of the independent auditors to the members of VT Merlin Communications Limited *(formerly Merlin Communications International Limited)*

We have audited the financial statements on pages 5 to 18.

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 auditors

The directors are responsible for preparing the directors' report and, as described on page 3, 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 2003 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

19 May 2003

Profit and loss account

for the year ended 31 March 2003

	Notes	2003 £000	2002 £000
Turnover			
Continuing operations		**58,459**	67,692
Discontinued operations		**-**	1,495
		58,459	69,187
Cost of sales		**(42,668)**	(61,950)
Gross profit		**15,791**	7,237
Distribution costs		**(1,196)**	(1,353)
Administrative expenses		**(7,325)**	(5,396)
Exceptional items	*2*	**-**	(3,319)
Operating profit/(loss)			
Continuing operations		**7,270**	4,368
Discontinued operations		**-**	(7,199)
		7,270	(2,831)
Other interest receivable and similar income	*5*	**104**	289
Interest payable and similar charges	*6*	**(15)**	(837)
Share of operating loss in joint venture		**-**	(80)
Profit/(Loss) on ordinary activities before taxation	*7*	**7,359**	(3,459)
Tax on profit/(loss) on ordinary activities	*8*	**(2,298)**	6
Retained profit/(loss) for the financial year	*18*	**5,061**	(3,453)

There are no recognised gains or losses other than the profit for the year reported above. There is also no difference between the profit on ordinary activities before taxation and the retained profit for the financial year stated above, and their historical cost equivalents.

All current year amounts relate to continuing activities.

Balance sheet
at 31 March 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Intangible assets	9	**1,624**	1,740
Tangible assets	10	**13,455**	12,867
Investments	11	**-**	635
		15,079	15,242
Current assets			
Stocks	12	**2,357**	3,458
Debtors - due within one year	13	**23,579**	12,336
- due after more than one year	13	**583**	1,955
		24,162	14,291
Cash at bank and in hand		**3,515**	5,637
		30,034	23,386
Creditors: amounts falling due within one year	14	**(23,535)**	(22,111)
Net current assets		**6,499**	1,275
Total assets less current liabilities		**21,578**	16,517
Creditors: amounts falling due within one year	15	**(10,100)**	(10,100)
Net assets		**11,478**	6,417
Capital and reserves			
Called up share capital	17	**1,000**	1,000
Share premium reserve	18	**9,204**	9,204
Profit and loss account	18	**1,274**	(3,787)
Equity shareholder's funds	19	**11,478**	6,417

These financial statements were approved by the board of directors on 19 May 2003 and were signed on its behalf by:

CJ Cundy
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 under the historical cost convention. The company is exempt by virtue of S228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 (1996 Revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking. In addition advantage has been taken of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions with VT Group plc or other group undertakings as the consolidated financial statements of VT Group plc in which the company is included 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
Freehold land	-	nil
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

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.

Costs incurred in preparing bids are expensed to the profit and loss account in accordance with UITF 34.

Deferred taxation

Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain tax items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

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

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

The prior year exceptional items of £3,319,000 relates both to bonuses paid to staff under the terms of their contracts and transaction costs incurred by the company as a result of its acquisitions by VT Group plc.

3 Remuneration of directors

	2003	2002
	£000	£000
Directors' emoluments	-	206
Company contribution to money purchase pension scheme	-	15
	-	221

Since the company was acquired on the 4 December 2001 the emoluments of the directors have been borne by a fellow group company, Vosper Thornycroft (UK) Limited.

Retirement benefits are accruing to the following number of directors under:

	2003	2002
	£000	£000
Defined benefit schemes	-	2

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was as follows:

	Number of employees	
	2003	2002
Management and administration	62	59
Operations	366	344
Sales and marketing	8	11
	436	414

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£000	£000
Wages and salaries	13,327	12,853
Social security costs	822	848
Other pension costs	923	954
	15,072	14,655

Notes *(continued)*

5 Other interest receivable and similar income

	2003 £000	2002 £000
Bank interest receivable	104	289

6 Interest payable and similar charges

	2003 £000	2002 £000
Interest on bank borrowings	2	29
Interest on inter group loans	-	808
Interest on finance leases	13	-
	15	837

7 Profit/(Loss) on ordinary activities before taxation

Profit/(Loss) on ordinary activities before taxation is stated after charging/(crediting):

	2003 £000	2002 £000
Auditor's remuneration	47	36
Depreciation of owned tangible fixed assets	1,295	1,162
Amortisation of goodwill	116	110
Exchange loss	219	115
Profit on disposal of fixed assets	(77)	(63)
Hire of other assets – operating leases	569	595

8 Taxation

	2003 £000	2002 £000
Current tax		
UK corporation tax on profits/(losses) of the year	926	-
Overseas tax credit	-	(6)
Total current tax charge	926	(6)
Deferred taxation	1,372	-
Tax on profit/(loss) on ordinary activities	2,298	(6)

Notes *(continued)*

8 Taxation *(continued)*

Factors affecting the tax charge for the current period

The current tax charge for the year is higher *(2002: higher)* than the standard rate of corporation tax in the UK 30% *(2002: 30%)*. The differences are explained below:

	2003 £000	2002 £000
Profit/(Loss)on ordinary activities before tax	**7,359**	(3,459)
Profit/(Loss) on ordinary activities multiplied by standard rate in UK of 30% *(2002: 30%)*	**2,208**	(1,038)
Effects of:		
Expenses not deductible for tax purposes	**16**	-
Capital allowances in excess of depreciation	**39**	-
Goodwill amortisation	**35**	-
Utilisation of deferred tax asset	**(1,372)**	-
Unrecognised increase in deferred tax asset	-	1,038
Overseas tax credit	-	(6)
Current tax charge	**926**	(6)

9 Intangible fixed assets

	Goodwill £000
Cost	
At beginning and end of year	2,314
Depreciation	
At beginning of year	574
Charge for year	116
At end of year	690
Net book value	
At 31 March 2003	**1,624**
At 31 March 2002	1,740

Notes *(continued)*

10 Tangible fixed assets

	Freehold land and buildings £000	Vehicles, plant and equipment £000	Office equipment £000	Assets under construction £000	Total £000
Cost					
At beginning of year	4,284	11,918	1,982	-	18,184
Additions	81	742	359	701	1,883
At end of year	4,365	12,660	2,341	701	20,067
Depreciation					
At beginning of year	523	3,769	1,025	-	5,317
Charge for year	130	828	337	-	1,295
At end of year	653	4,597	1,362	-	6,612
Net book value					
At 31 March 2003	**3,712**	**8,063**	**979**	**701**	**13,455**
At 31 March 2002	3,761	8,149	957	-	12,867

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

11 Fixed asset investments

	Shares and acquisition costs £000
At beginning of year	635
Disposal	(635)
At end of year	-

During the year the company sold its investment in Iris Gateway Satellite Services Limited for £712,000.

12 Stocks

	2003 £000	2002 £000
Raw materials and consumables	**2,345**	3,306
Work in progress	**12**	152
	2,357	3,458

The directors estimate the replacement cost of certain specialist raw materials and consumables to exceed their balance sheet value by approximately £0.9 million.

Notes *(continued)*

13 Debtors

	2003 £000	2002 £000
Amounts falling due within one year		
Trade debtors	**3,394**	3,259
Amounts owed by group undertakings	**17,435**	8,528
Prepayments and accrued income	**2,750**	549
	23,579	12,336
Amounts falling due after more than one year		
Deferred taxation (see note 16)	**583**	1,955
	24,162	14,291

14 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Trade creditors	**3,643**	1,843
Amounts owed to group undertakings	**-**	3,671
Taxation and social security	**1,759**	746
Accruals and deferred income	**18,133**	15,851
	23,535	22,111

15 Creditors: amounts falling due after more than one year

	2003 £000	2002 £000
Amounts owed to group undertakings	**10,100**	10,100

No interest was charged on the above amount *(2002: 8%)* 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

	Deferred taxation £000
At beginning of year	1,955
Utilised in the year	(1,372)
At end of year	**583**

Notes *(continued)*

16 Deferred taxation *(continued)*

	2003 £000	2002 £000
Accelerated capital allowances	**583**	1,955

17 Called up share capital

	2003 £000	2002 £000
Authorised		
1,000,000 ordinary shares of £1 each	**1,000**	1,000
Allotted, called up and fully paid		
1,000,000 ordinary shares of £1 each	**1,000**	1,000

18 Reserves

	Share premium account £000	**Profit and loss account £000**
At beginning of year	9,204	(3,787)
Retained profit for the financial year	-	5,061
At end of year	**9,204**	**1,274**

19 Reconciliation of movement in shareholder's funds

	2003 £000	2002 £000
Profit/(Loss) for the financial year	**5,061**	(3,453)
Net addition to shareholders' funds	**5,061**	(3,453)
Opening shareholders' funds	**6,417**	9,870
Closing shareholders' funds	**11,478**	6,417

Notes *(continued)*

20 Financial commitments

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

	2003		2002	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire				
Within one year	**108**	**1**	68	20
Within two to five years	**44**	**7**	84	41
Over five years	**331**	**-**	381	-
	483	**8**	533	61

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

Bond	**From**	**To**	**£000**
Non construction performance	7 February 2000	28 February 2004	3,083
Advance payment	2 April 2002	31 July 2006	481
Non construction performance	24 May 2000	30 June 2004	4,000
			7,564

The company has a bank guarantee of £114,713 for Sembcorp Power PTE Limited Singapore from 25 September 2001 to 24 September 2003.

21 Pension arrangements

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 2000, 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 2003. The major assumptions used in these valuations were:

	2003	2002
Rate of increase in salaries	**4.0%**	4.25%
Rate of increase in pension payments	**2.5%**	2.75% or 3.0%
Discount Rate	**5.5%**	6.25%
Inflation assumption	**2.5%**	2.75%
Long term return on equities	**8.5%**	8.0%
Long term return on fixed interest gilts	**4.5%**	5.0%

Notes *(continued)*

21 Pension arrangements *(continued)*

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:

	2003 £000	2002 £000
Equities	**6,540**	7,342
Fixed interest gilts	**727**	816
Value of scheme assets	**7,267**	8,158
Value of liabilities	**(15,485)**	(9,961)
Deficit	**(8,218)**	(1,803)
Related deferred tax asset	**2,465**	541
Net pension liability	**(5,753)**	(1,262)

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

An analysis of the amount which would have been charged to operating profit is as follows:

	£000
Current service cost	1,207
Past service cost	-
Total operating charge	1,207

An analysis of the amount which would have been credited to other financing income is as follows:

	£000
Expected return on pension scheme assets	674
Interest on pension scheme liabilities	(668)
Net return	6

Notes *(continued)*

21 Pension arrangements *(continued)*

An analysis of the amount which would have been recognised in the statement of total recognised gains and losses (STRGL) is as follows:

	£000
Actual return less expected return on pension scheme assets	(2,765)
Experience gains and losses arising on pension scheme liabilities	(1,237)
Changes in assumption underlying the present value of the scheme liabilities	(2,102)
Actuarial loss recognised in STRGL	(6,104)

An analysis of the movement in surplus during the year to 31 March 2003 would have been is as follows:

	£000
Deficit in scheme at beginning of the year	(1,803)
Movement in year:	
Current service cost	(1,207)
Contributions	890
Other financing income	6
Actuarial loss	(6,104)
Deficit in scheme at end of the year	(8,218)

A history of experience gains and losses at 31 March 2003 would have been as follows:

	£000
Difference between the expected and actual return on scheme assets:	
Amount	(2,765)
Percentage of scheme assets	(38.1%)
Experience gains and losses on scheme liabilities:	
Amount	(1,237)
Percentage of present value of scheme liabilities	(8.0%)
Total amount recognised in statement of total recognised gains and losses:	
Amount	(6,104)
Percentage pf present value of scheme liabilities	(39.4%)

On the 1 April 2003 the pension scheme was transferred into the main Group pension scheme.

22 Related party transactions

The company'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.

Notes *(continued)*

22 Related party transactions *(continued)*

During the year the company invoiced Alert Communications International Limited £6,518,532 *(2002: £12,348,372)* 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 *(2002: £50,000)*. The outstanding credit balance at the year end was £162,157 *(2002: £434,446)*.

The company invoiced £21,729 *(2002: 29,500)* in respect of marketing and satellite services to its Joint Venture, Iris Gateway Satellite Services Limited and was charged £117,762 *(2002: £128,527)* in respect of satellite distribution services received during the year ended 31 March 2003. The company has also provided an invoicing service for Iris Gateway Satellite Services Limited. At 31 March 2003, the amounts owing to Iris Gateway Satellite Services Limited amounted to £29,133 *(2002: £186,414)*.

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

23 Ultimate holding company

The company is a subsidiary undertaking of Merlin Communication Group Limited, a company incorporated in Great Britain and registered in England and Wales.

The largest group in which the results of the company are reported is that headed by VT Group plc. The consolidated financial statements are available to the public at that company's registered office of Grange Drive, Hedge End, Southampton. No other financial statements include the results of the company.